



Audit findings report

Issued to Latchmere Academy Trust – year ended 31 August 2023

30 November 2023

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Executive summary

Status and overview of the audit

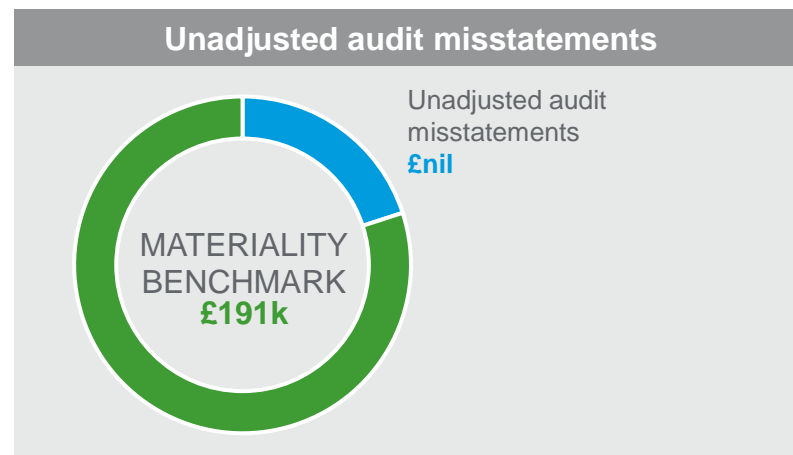
Our audit progressed as planned and is complete.

Final materiality

Materiality has been calculated as a percentage of expenditure as detailed in our audit plan and has been calculated as £191,000.

Unadjusted misstatements

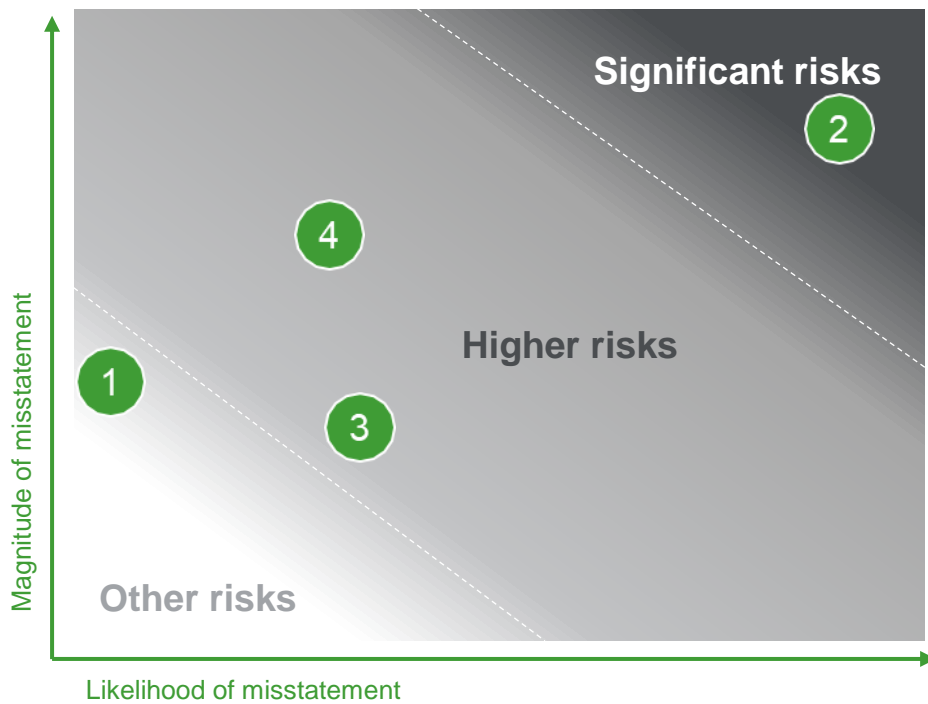
We have not identified any material misstatements in our audit work.



Risk findings

(See Appendix for risk description and planned work)

We have set out below details of those areas that we considered to be the key risks arising when we presented our audit plan. There have been no changes to the risks identified.



Audit risks summary

Risk item	Risk identified
1	Income recognition
2	Management override of controls
3	Defined benefit pension liability
4	Going concern

Audit risks - Management override of controls

Significant risk

Findings

We have performed our work as planned and no significant issues were noted as a result of our review of journals. We used data analytics software to review the entire general ledger which then enables us to focus our detailed testing on areas of higher risk and towards unusual transactions or trends.

We have reviewed accounting estimates including those in relation to the LGPS pension scheme and did not note any indication of management bias which could result in a material misstatement.

No significant or unusual transactions that are outside the academy's normal course of business have been identified.

There are no other matters that we would like to bring to your attention in this area.

Audit risks - Defined benefit pension assets/liability

Higher risk

Findings

During the audited period, the actuarial valuation of the Trust's Local Government Pension Scheme ("LGPS") shows a net asset totalling £87,000 at 31 August 2023. (2022: deficit £1,028,000). The Latchmere School share is a liability of £69,000 (2022: £915,000 liability) and Nelson Primary School an asset of £156,000 (2022: £113,000 liability).

We have considered whether the Nelson School's asset should be recognised on the balance sheet. We note the asset should only be recognised if the Trust is entitled to a reduction or refund of contributions or some other future benefit. The Actuary was requested to carry out a review of the minimum funding requirement which commits an employer to paying a minimum level of future contributions that cannot be recovered, thereby limiting the economic benefits which could be available through future contribution reductions. The conclusion of this report is that the Trust is not entitled to any future contribution reductions so the asset should not be recognised. Therefore, the final financial statements have been updated to remove the asset and show a £69,000 liability position and reduce the actuarial gains in the year by £156,000.

We have reviewed the pension disclosure in the financial statements to ensure it is in line with the information provided in the actuary's report.

The actuarial assumptions have also been reviewed against other actuarial assumptions from similar organisations particularly that in relation to inflation to ensure they appear reasonable. We have specifically reviewed the assumptions regarding CPI increases in this period of high inflation. The Accounting Standard prescribes quite narrowly how the inflation assumption should be derived from market information at the year-end date.

Given the high period of inflation we are experiencing, allowance has been made for inflation experienced to the accounting date. The allowance involved applying the CPI change that has occurred between September 2022 to 31 August 2023.

Audit risks - Going concern

Higher risk

Findings

We have reviewed the budgets and forecasts for the period to 31 August 2026 and note that a surplus is forecast for each year on a Trust wide basis. A small deficit of less than £1,000 is forecast for Nelson Primary School 2023/24 year which will be covered by brought forward reserves.

We have reviewed the ESFA allocation for 2023/24 and have agreed this to the forecast.

On the basis of the above forecasts and reserves in place, management consider that the going concern basis is appropriate and we concur with this assessment.

Other audit risks

Risk	Findings
Income Recognition	<p>Income recognition has been considered in line with the Charity SORP criteria of entitlement, certainty and measurement. No misstatements were noted in this area.</p> <p>Grant funding agreements for key ESFA and other grants have been obtained and we have agreed that the income recognised in the financial statements is in line with the agreements.</p> <p>We have completed tests of detail agreeing a sample of items back to source documentation to ensure income is recognised in the correct period and appropriately classified in the financial statements.</p> <p>We have not identified any unexpected one-off sources of income through our work.</p>
Regularity Conclusion	<p>We carried out our planned testing and we have no matters to report to you in respect of our findings.</p>

Qualitative aspects of accounting

Management judgements and accounting estimates

The following areas are considered to be the principal management judgements and estimates. The graphic below visually represents the impact (lower or higher) on the financial statements of a change in management's estimate. In overview, a reasonably possible change in estimate that has a low impact means that such a change will have limited impact on the financial statements.

We have indicated for each area our views on the level of prudence or optimism applied by management in forming these judgements and estimates.

Areas of judgement / estimate	Low impact	High impact
Going concern	●	
Value of the Local Government pension schemes		●
Useful economic lives of intangible assets	●	




Recommendations on controls

We have set out below recommendations on internal controls which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all internal control matters or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

Control observation	Recommendations and response
<p>Password control</p> <p>We noted that staff passwords (other than for the finance system) are not required to be updated on a regular basis. This leaves the Trust vulnerable to breaches in cyber security.</p>	<p>Recommendations</p> <p>Whilst we understand that passwords are required to be complex in nature it is good practice to require passwords to be updated on a regular basis, say every 60 days.</p> <p>Management response</p> <p>We accept this finding. We enforce a strict password policy for staff but currently our systems do not force users to change passwords regularly. We plan to increase security by enforcing a history policy and forcing password changes once a year. Additionally, staff will be forced to use Multi-Factor Authentication (MFA) on all systems that can be accessed remotely. Staff training and guidance will be provided in advance of implementation, and we plan to have this actioned by the end of the summer holidays 2024.</p>

Control recommendation



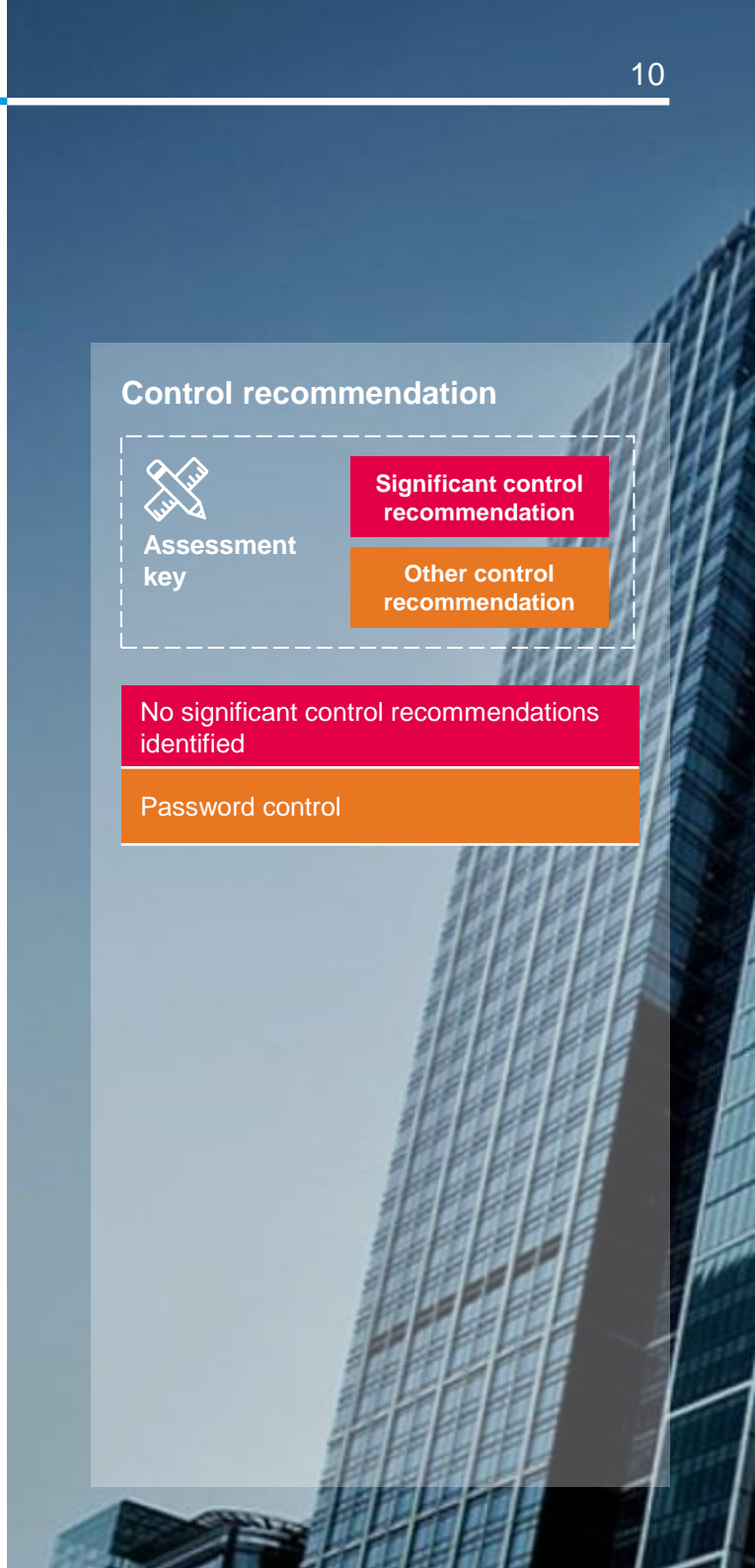
Assessment
key

Significant control recommendation

Other control recommendation

No significant control recommendations identified

Password control



Appendix



Summary of unadjusted misstatements

We are pleased to report that we have not identified any unadjusted misstatements during the course of our work.

Financial statement disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the Companies Act 2006, Charities Statement of Recommended Practice 2019 and Academies Accounts Direction 2022 -2023.

The following disclosure matters were brought to your attention and subsequently adjusted / not adjusted in the revised financial statements.

Unadjusted disclosures

There were no significant unadjusted disclosure matters to note

Adjusted disclosures

Update to Teachers' Pension Scheme disclosure following publication of the updated 2020 valuation on 26 October 2023

Other matters to be reported

Representations requested

In addition to those representation which we request on all audit assignments (<http://www.rsmuk.com/standard-representations>) we are not proposing that we will be seeking any further specific representations from the Board.

Significant difficulties encountered during the audit and impact on fees

We are pleased to report that no difficulties were encountered during the audit and would like to thank Marianne for her help during the audit.

Independence

In accordance with the International Standard on Auditing (UK) 260 “communication with those charged with governance”, there are no changes to the details of relationships between RSM UK Audit LLP including its related entities and persons in a position to influence the conduct or outcome of the audit and Latchmere Academy Trust and its connected parties that may reasonably be thought to bear on our independence, integrity and objectivity and the related safeguards from those disclosed in the audit plan **[or provide details of changes]**.

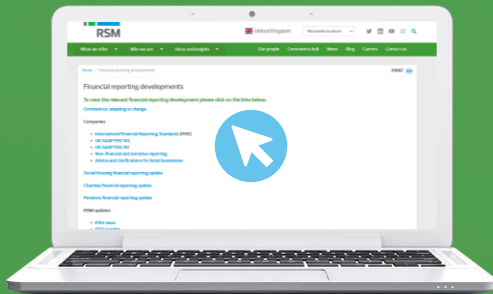


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Financial reporting updates

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Audit risk summary

taken from the audit plan



Audit risk summary

Risk	Description	Response
Management override	<p>Systems of internal control are designed to mitigate inherent risks of error within the core control systems to an acceptable level. By nature, a management override or by-pass of controls cannot be eliminated by the implementation of controls and therefore as part of our audit we will perform additional tests of detail to address the risk.</p>	<p>We will test the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, tracing selected entries back to source documentation.</p> <p>We will review significant accounting estimates and policies which could involve bias resulting in a material misstatement.</p> <p>We will discuss the basis and business rationale for any significant non-routine or contentious transactions which came to our attention during the course of our audit and will fully report the outcomes of our testing in our audit findings report.</p>
Income recognition	<p>The Academy Trust receives significant levels of grant funding under the Academy Funding Agreement in the form of GAG funding agreement for that funding.</p> <p>This should be recognised in accordance with the Charities SORP recognition criteria and per the underlying funding agreement.</p>	<p>The accounting policies adopted by the Academy Trust will be reviewed, considering the guidance available in Charities SORP and the recognition criteria of entitlement, certainty and measurement.</p> <p>A review of grant funding agreements will be performed to determine whether the associated income has been recognised when appropriate.</p> <p>Through discussion with management and review of minutes we will identify any unexpected one-off sources of income, and ensure the associated treatment is appropriate.</p>

Audit risk summary

Risk	Description	Response
<p>Pension scheme asset/ liability</p>	<p>The asset/liability that is required to be recognised under FRS 102 in respect of the Trust's share of the Local Government Pension Scheme surplus/deficit is expected to be significant.</p> <p>Where the actuary's accounting valuation of the Trust's share of the Local Government Pension Scheme is a surplus the amount to be recognised as an asset will require consideration of whether the trust can obtain future economic benefit as a result of an unconditional right to reduced contributions or an unconditional right to a refund.</p> <p>Its measurement will depend on this outcome and may require further actuarial calculations.</p> <p>There is a risk that an asset should not be recognised or that its value is materially misstated.</p> <p>The underlying actuarial accounting valuation is based on trust data and a number of key actuarial assumptions.</p> <p>There is a risk that the amount may be materially misstated where the data and/or assumptions used are not appropriate.</p>	<p>We will review and evaluate:</p> <ul style="list-style-type: none"> management's conclusion of whether an asset should be recognised in accordance with the scheme rules and whether it is appropriately measured. the key data and underlying assumptions used by the actuary to calculate the balance, to ensure that these appear reasonable. We will particularly focus on the discount rate and inflation (CPI) given the recent economic turmoil. <p>We will also review the related disclosure in the financial statements to ensure that this is appropriate.</p>
<p>Going concern</p>	<p>The Trustees are responsible for assessing whether adopting the going concern basis of accounting for the financial statements remains appropriate for the foreseeable future. Consideration in this regard must be given to a period of at least one year from the expected date of approval of the financial statements.</p> <p>Guidance, released by the FRC, which may be helpful in management forming their assessment, can be found here.</p> <p>In addition, the implementation of ISA 570 (UK) Revised Going Concern has resulted in enhanced risk assessment and greater challenge and work effort to be performed by us, when evaluating management's assessment in relation to going concern. Further details of the changes to the standard can be found here.</p>	<p>We will review and challenge the Trustees' and management's going concern assessment, including but not limited to consideration of the financial plans, budgets and forecasts prepared on behalf of the Trustees.</p> <p>We will consider whether the forecast position and management's sensitivity analysis including the key underlying assumptions, appear reasonable and whether a material uncertainty exists.</p> <p>We will also consider whether the related disclosure in the financial statements is clear and appropriate. As part of this we will consider supporting evidence provided by management and challenge where necessary.</p> <p>We may seek written representations from management about their plans for the future and the feasibility of their plans.</p>

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Our report is prepared solely for the confidential use of Latchmere Academy Trust and solely for the purpose of explaining the scope and timing of the audit, and to highlight the significant risks and other audit areas that we will be focusing our audit work upon. This forms part of the ongoing communications we are required to make under the International Standard on Auditing (UK) 260 – Communication with those charged with governance.

For the avoidance of doubt, the auditor is not required to design audit procedures for the specific purpose of identifying matters of governance interest, nor does the audit relieve management or those charged with governance of their responsibilities. Throughout this document the terms partner and principal are interchangeable.

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