

Post Audit Management Report

Monk's Walk School

Year ended 31 August 2020

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Executive summary

Purpose of the external audit

Our work was performed with a view to expressing a reasonable assurance opinion on the financial statements of Monk's Walk School (the Academy), including its subsidiary Monk's Walk School Enterprises Limited, for the year ended 31 August 2020 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 Tracie Smith (Business Manager) for comment prior to finalisation.

Audit progress

We are pleased to report that the audit, from our perspective, ran smoothly and that the timetable for the overall completion of the audit has been met. This was particularly positive this year given the increased challenges created by the necessity of remote working. 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 Tracie Smith.

Expected opinions

Financial statements opinion:

We expect to express that in our opinion the financial statements of both Monk's Walk School and Monk's Walk School Enterprises Limited give a true and fair view and have been properly prepared in accordance with Companies Act requirements and, for Monk's Walk School, the Academies Accounts Direction 2019 to 2020 issued by the ESFA.

There is no significant change to the form or content of our audit reports. In making this assessment we have also considered compliance with the supplementary bulletin issued by the ESFA in July 2020.

Regularity assurance conclusion:

We intend to state that in the course of our work nothing has come to our attention which suggests that in all material aspects the expenditure disbursed and income received during the year ended 31 August 2020 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 outcome of our audit work in relation to those areas.

Area	Issue and response
Impact of COVID-19	<p>Risk: The coronavirus pandemic has presented the Academy a unique challenge, both operationally and financially. All schools have had periods of closure for many pupils in the year, while being required to continue to provide support to vulnerable children and children of key workers.</p> <p>COVID-19 has had an impact on the Academy's income and expenditure budgets for 2019/20. Although there have been some cost savings on areas including utilities and agency costs, there have been other COVID-19 related costs and an impact on income such as lettings and trips where insurance has not paid up.</p> <p>COVID-19 has also impacted the way that certain ring fenced funds are utilised, such as Pupil Premium funding.</p> <p>Results: We have taken account of the impact of COVID-19 on the financial results as part of our analytical work on the Academy's income and expenditure. There have been major reductions in income from catering and school trips; due to their self-funding nature the associated costs have fallen similarly, so the net impact on the Academy's funds is not significant. Lettings and miscellaneous income also decreased due to the pandemic, but cost savings were made on classroom resources, examination fees and in particular supply staff costs.</p> <p>We have reviewed the Academy's records of the utilisation of restricted funds; no significant issues arose from our work.</p> <p>The trustees' report sets out the impact of COVID-19 on the Academy, including the detail set out under the "achievements and performance", "financial review" and "risk management" sections of the report.</p> <p>We have reviewed the trustees' report together with the disclosures made by the Academy in connection with COVID-19 and confirm that these have been made in accordance with the ESFA's supplementary bulletin.</p>

Area	Issue and response
Capital project	<p data-bbox="654 325 2107 472">Risk: During the year, the Academy commenced a major project to develop the new C block. Given the significant financial value attached to the project, it is important that the costs are correctly capitalised or expensed as appropriate. It was envisaged that the project would be completed by 14 August therefore making it possible to capture all relevant costs in 2019/20.</p> <p data-bbox="654 517 2096 584">It is also important for the Academy to consider whether component accounting should be applied, particularly for assets which are deemed to have different useful economic lives for depreciation purposes.</p> <p data-bbox="654 628 1767 655">There is a further risk that a disposal is not correctly recognised in relation to the old building.</p> <p data-bbox="654 700 2069 847">Results: Management have capitalised £3,513,000 in relation to the new C block during the 2019/20 financial year. We have agreed this valuation to documentation provided by the Department for Education. As the project was completed immediately prior to the balance sheet date, management have not provided any depreciation against the asset in 2019/20.</p> <p data-bbox="654 892 2069 991">We also reviewed the repairs and maintenance expenditure for the year to identify potential costs expended on the project which may have been incorrectly written off. This review did not reveal any additional costs which should have been capitalised.</p> <p data-bbox="654 1015 2063 1082">A disposal has been recognised in relation to the old C Block building. We have reviewed the workings associated with this and are satisfied that it has been correctly treated within the financial statements.</p>

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. If these restricted funds are not correctly reported, there is a risk that the Academy'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>Results: The Academy had £25,000 of unspent capital funds as at 31 August 2020 and therefore the amount held within the fixed asset fund is greater than the net book value of tangible fixed assets by this amount.</p> <p>Restricted revenue funds including ESFA GAG funding are shown within the notes to the financial statements; there was £nil of unspent restricted revenue funds as at 31 August 2020.</p> <p>As part of the responses to our regularity questionnaire, the Academy has detailed how the use of restricted funds has been monitored.</p>

Area	Issue and response
Financial climate and reserves policy	<p data-bbox="651 328 2107 515">Risk: The current financial climate is challenging for the sector, particularly in the context of COVID-19, which is increasing the importance of carefully managing reserves and financial forecasting. The Academies Financial Handbook requires the Academy to prepare a 'balanced budget' (which can draw on unspent funds brought forward from previous years). The ESFA further asks to be notified within 14 days where an in-year deficit revenue budget is set (if this cannot be addressed through brought forward reserves). The Academy may feel therefore feel pressure to present a more favourable outturn.</p> <p data-bbox="651 560 2107 746">The results of the Trustees' assessment of the going concern status of the Academy is provided in both the Trustees' report and within the principal accounting policies. This confirms that the Trustees have given due consideration to the going concern status of the Academy and that they conclude that the Academy is a going concern (for at least 12 months from the approval of the financial statements). The Trustees will be asked to confirm the same in the written letter of representations to us as auditors.</p> <p data-bbox="651 791 2107 935">Results: The balance sheet and year end reserves position was considered in conjunction with available budgets/forecasts, our knowledge of the Academy's future plans and the reserves policy determined by the Trustees. We are satisfied that the Trustees have given due consideration to the going concern status of the Academy and we are in agreement with the conclusion made in light of the evidence provided.</p> <p data-bbox="651 979 2107 1043">Further information on the Academy Trust's finances is provided in the 'financial position and performance' section below as well as in Appendix 1.</p>

Area	Issue and response
Income recognition	<p data-bbox="651 328 2112 395">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 data-bbox="651 440 2112 584">Results: We carried out detailed analytical review against expectations based on our understanding of the Academy 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> <p data-bbox="651 628 2112 815">The Academy has made a claim of £27,000 of funding in relation to financial support packages for COVID-19, however this has not been recognised within the financial statements, as management are not certain that this amount will be received. It is possible that some or all of this amount will be received prior to signature of the financial statements. However, given that there is some uncertainty in connection with this amount and it is not material to the financial statements, no further disclosure is proposed.</p>

Area	Issue and response
Regularity	<p data-bbox="656 328 2107 549">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 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 data-bbox="674 600 2069 788" 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 data-bbox="656 834 2096 975">Results: The regularity self-assessment was provided for audit, which was completed by the Academy’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 in relation to the above areas and the other requirements set out in the Academies Financial Handbook.</p> <p data-bbox="656 1026 2096 1166">The Academy 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.</p>

Area	Issue and response
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 requires transparent disclosure of all transactions and balances arising between the Academy and its related parties. In addition, the ESFA Academies Handbook places restrictions on the permissibility of certain related party transactions.</p> <p>Academy trusts must report all new agreements and other transactions with related parties to ESFA in advance of the transaction taking place. Academy trusts must also obtain ESFA approval for contracts for the supply of goods or services to the trust by a related party where certain limits apply (typically £20,000). A disclosure must be made confirming that all transactions are conducted in accordance with the requirements of the Academies Financial Handbook (AFH), including notifying the ESFA of all transactions made and obtaining their approval where required as well as the existing requirement of obtaining a statement of assurance that supplies from related parties in excess of £2,500 were made at cost.</p> <p>Results: The Academy’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 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.</p> <p>We will obtain written representations from you also, asking the Board and management to confirm their satisfaction with the completeness of the disclosures made.</p>
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: 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. No suspense accounts were noted as being used during the year.</p>

Area	Issue and response
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's financial statements include the estimate of the useful economic life of tangible fixed assets (and hence the depreciation charges), the basis of allocating costs between the various categories of expenditure, and the estimation of the pension liability made by the actuaries in respect to the Local Government Pension Scheme.</p> <p>Results: We are satisfied with the estimation techniques utilised. Testing of depreciation was satisfactory with all items tested being depreciated in accordance at the approved rate.</p> <p>The Academy Trust has been unable to ascertain the costs of the different assets within the C-block building. There may be components within the £3,513,000 addition that may have different useful economic lives. Given that the asset was finalised just prior to year end, depreciation has not been charged and therefore component accounting has no impact on the 2019/20 financial statements. However, we understand that management will review the requirement to depreciate each component separately over its useful economic life in 2020/21, which may require a degree of estimation of no further information can be provided by the DfE.</p> <p>We have reviewed the basis of allocating support costs between raising funds and educational operations, and deemed this to be reasonable and appropriate.</p> <p>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.</p>

Accounts format and compliance

The financial statements follow the principles and format prescribed by the ESFA in the Academies Accounts Direction 2019 to 2020 (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 have been only a small number of changes introduced by the 2019/20 revision of the Accounts Direction. The notable changes of relevance to the Academy were as follows:

- **Governance statement:** Within the value for money statement, academy trusts should consider the impact of the procurement policy notes (PPN) issued in March, April and June 2020 when considering their value for money review in the governance statements, explaining any situations where COVID-19 has adversely impacted on value for money. Also within the governance statement, academy trusts are required to explain how their audit arrangements are affected by the newly revised FRC Ethical Standard, specifically those points in relation to internal scrutiny.
- **Impact of coronavirus:** Additional disclosure is required within the **Error! Reference source not found.**' report under several sections of the report, including activities during the year, financial review, use of volunteers, fundraising, the impact on staff and beneficiaries, financial and operational effects, reserves policy and future plans.
- **Cash flow statement:** The changes in cash and cash equivalents is now shown as changes in net debt.
- **Support costs note:** Legal costs are now shown separately and split by type of legal costs.
- **Pensions note:** The narrative in relation to the Teachers' Pension Scheme has been updated to reflect the impact of the most recent valuation of the scheme.

In all respects, the Academy'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. We believe that the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the Academy and in compliance with the Accounts Direction.

Accounts preparation

As is required by Ethical Standards governing the audit profession, if we believe there are any actual or perceived threats to our objectivity and independence, for example through the provision of non-audit services, we are required to introduce appropriate safeguards to mitigate the perceived threat.

You have requested that we provide you with financial statement preparation services, which are in addition to our function as auditor:

These services were provided by separate teams within Buzzacott, not involved in the audit. These services were provided in order to support the academy trust to be able to provide a draft set of financial statements to our audit team. We agreed that Tracie Smith would receive these services from us and make independent decisions based on information and options which we provided.

Our safeguards include quality control reviews of a sample of our files where non-audit services are provided.

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

Other than presentational amendments which have no impact on the reported results for the year, there were no adjustments made to the figures presented to us for audit.

Unadjusted misstatements

Other than clearly trivial misstatements, we are pleased to report that no misstatements were identified during our audit. Earlier in this report, we have also highlighted the judgements around whether to recognise the £27,000 of exceptional Covid-19 related funding.

Materiality

Materiality threshold £117,000

Reporting threshold: £5,850

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 typically based on an average of 1% of operational income and 1% of operational expenditure. 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

We are pleased to report that we found no significant deficiencies in the accounting and internal control systems during our audit.

We have no further observations or recommendations to make in respect to the accounting and internal control systems or in respect to regularity and propriety. As noted in the prior year, we wish to bring the following matters to your attention:

Members vs trustees

Per AFH 2019 section 1.5, there should be significant separation between the individuals who are members and those who are trustees. Currently the Academy Trust's members are all also trustees and therefore we **recommend** that the present members and trustees of the Trust should consider these ESFA recommendations.

The thinking behind this is that the members provide a different role to the trustees – often summed up as being “eyes on but hands off”. However, in the event that there are issues at Board level, the members have the power to appoint and remove trustees. In this scenario, there would be a conflict if the majority of members are trustees.

Many academy trusts have changed their arrangements as a result of this, with some doing it promptly and others over a period of time in order to prevent disruption.

Staff trustees

Per AFH 2019 section 1.15, the members can decide whether to appoint the trust's senior executive leader as a trustee. However, the Department's strong preference is for no other employees to serve as trustees in order to retain clear lines of accountability. We **recommend** that the present trustees of the Trust should consider these ESFA recommendations.

The thinking behind this change is to create separation between management and the trustees. Within the charity sector, for example, employees are not appointed as trustees and can only do so with special dispensation from the Charity Commission. Accountability is a key consideration here. Part of the trustees' role is to scrutinise and challenge, which might create a conflict if management are part of the Board. Staff being voting members of the audit committee (or the committee that covers audit) is particularly discouraged for these reasons.

Financial performance and position

Audited results

The results reported within an academy trust set of financial statements include a number of non-cash movements including Local Government Pension Scheme adjustments and depreciation charges, which do not usually appear within the management accounts. The analysis below shows the financial performance reported in the financial statements excluding these items so that the results can be more easily related to figures that are being reported in-year. Excluding movements on tangible fixed assets and the defined benefit pension liability, the Academy's "operational" deficit for the year was £37,000 (2019: surplus of £43,000), as reconciled below.

	2020 £'000	2019 £'000
Overall net movement in funds	3,321	(2,374)
Less: net income attributable to the fixed assets fund (note 1)	(3,343)	1,398
Less: LGPS actuarial gain (note 2)	(312)	834
Add: LGPS service cost adjustment (note 2)	251	122
Add: LGPS McCloud service cost adjustment (note 2)	7	5
Add: LGPS interest cost adjustment (note 2)	51	50
Operational (deficit) surplus for the year excluding fixed asset purchases	(25)	35
Less: fixed asset purchases from revenue funds (note 3)	(12)	8
Operational deficit for the year	(37)	43

	2020 £'000	2019 £'000
Reconciliation of revenue reserves		
Revenue reserves brought forward (note 4)	999	956
Operational deficit for the year (as referred to above)	(37)	43
Revenue reserves carried forward	962	999

Note 1: Movement on fixed assets fund

For the purposes of determining the “operational” deficit, 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. The main component of this figure is the £3,513,000 value of the new C Block building.

Note 2: LGPS (Local Government Pension Scheme) adjustments

The Academy is one of several employing bodies included within the Hertfordshire County Council Pension Fund. The scheme’s actuaries, Hymans Robertson, have prepared a valuation of the assets and liabilities which are specific to Monk’s Walk School so that the net liability may be included on the balance sheet. For the purposes of determining the “operational” deficit, the non-cash adjustments necessary in accounting for the change in the liability since 1 September 2019 have been excluded.

The McCloud adjustment has been required due to a legal case which concluded in 2018/19. In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judges and firefighters schemes, as part of the reforms, amounted to unlawful discrimination. The principle established in this scheme extends to academy Local Government Pension Schemes.

As a result of this there has been an adjustment to the pension liability of academy trusts within Local Government Pension Schemes. Trusts will also be required to disclose details of any McCloud adjustment within the Academies Annual Return.

Note 3: 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 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 received.

Note 4: Revenue reserves

The revenue reserves of the Academy 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.

Comparison of key financial ratios

For your information, we have included at Appendix 1 to this report a comparison of the Academy's key financial ratios for 2018, 2019 and 2020 and also against the sector averages for 2018 and 2019.

Note that the ratios presented in the Appendix may differ from your own ratios where a slightly different formula is used. In addition, the sector averages are 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 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 management and the Trustees to sign at the same time as the approval and signature of the annual report and financial statements. We have also included a letter of representation for the subsidiary company.

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 wish to bring the following matters to your attention in relation to our integrity, objectivity and independence as auditors:

- Internal assurance services

For 2019/20, we carried out a programme of internal scrutiny for the academy trust. This is permitted under the Academies Financial Handbook 2019, however the Revised Ethical Standard 2019 does not permit internal audit to be carried out by the external auditor. Although internal scrutiny does not involve signing an opinion, we consider that it is not appropriate to continue this work and informed that client that we plan to resign from 2020/21. For 2019/20, we have continued under the transitional arrangements of the Revised Ethical Standard 2019. We believe that this is appropriate due to the fact that we are not issuing an internal audit opinion, the staff carrying out the fieldwork are separate from the audit team and the scope of work is limited in the context of the Trust and therefore there is limited risk of self-review or management threat.

For the external audit, we have not placed reliance on any of the judgements or conclusions reached through the internal scrutiny programme.

Revision to the going concern auditing standard

The revised UK auditing standard for Going Concern (ISA 570) was published by the Financial Reporting Council (FRC) in September 2019 and is applicable for accounting periods commencing on or after 15 December 2019, and will therefore impact the year ending 31 August 2021.

The standard enhances the level of scrutiny that auditors are required to apply when assessing the **Error! Reference source not found.**' assessment of going concern.

The key changes are detailed below.

Auditor's report

- Auditors are now required to provide a positive statement to confirm that the **Error! Reference source not found.**' use of the going concern basis is appropriate and that material uncertainty with respect to going concern has not been identified.

Audit procedures

- Additional risk assessment procedures are required. This includes assessment over internal control processes with respect to going concern.
- In instances where events or conditions which may cast significant doubt on the ability to continue as a going concern are not disclosed, additional audit procedures are required to determine why these events were not disclosed and perform additional evaluation on the going concern assessment in light of these events.
- Auditors are required to perform detailed substantive procedures each year with a focus on going concern. Previously, such testing was only required if no events or conditions had been identified that cast significant doubt on the entity's going concern status.
- There is now a requirement for material uncertainties to be reported to regulatory authorities.

Academy processes

In light of these changes, we recommend that the Academy review their existing processes in these areas over the course of the next year to ensure that appropriate information will be available for the audit in the year ending 31 August 2021. This includes:

- Documenting processes in place to ensure that the going concern status is regularly monitored by **Error! Reference source not found.** and that this is formally documented at the year end and in advance of signature of the financial statements.

- Considering the need to increase the level of scrutiny of budgets, in particular sensitivity of key areas such as GAG income, staff costs or capital expenditure, to downside scenarios such as a reduction in pupil numbers or government support, changes to pension contribution rates or project overruns.
- Reviewing forecasting performed within the Trust to ensure that reports which assist in making this assessment (such as budgets, management reports and cash flow forecasts) are accurate.

Other work undertaken as part of the 2019/20 audit cycle

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

- **Teachers' Pension End of Year Certificate (EOYC) assurance**
We can confirm that we have concluded our work on this area. Our assurance report was issued to Teachers' Pensions along with the final End of Year Certificate. Our work did not raise any significant concerns which need to be drawn to your attention.
- **ESFA Accounts Return assurance**
Our work on the Accounts Return assurance will begin in December. 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 23 February 2020 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.

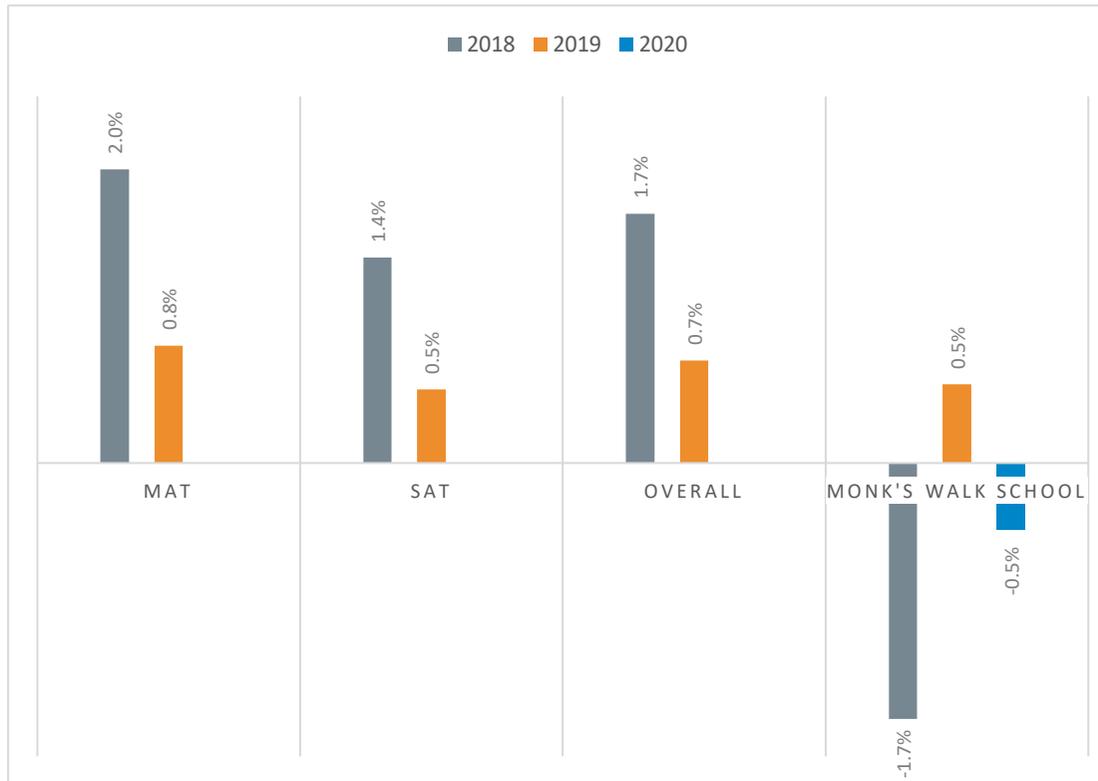
A handwritten signature in black ink that reads "Buzzacott LLP". The signature is written in a cursive, slightly slanted style.

Buzzacott LLP

Date: 23.11.2020

Appendix 1: Comparison of financial ratios

Operational margin



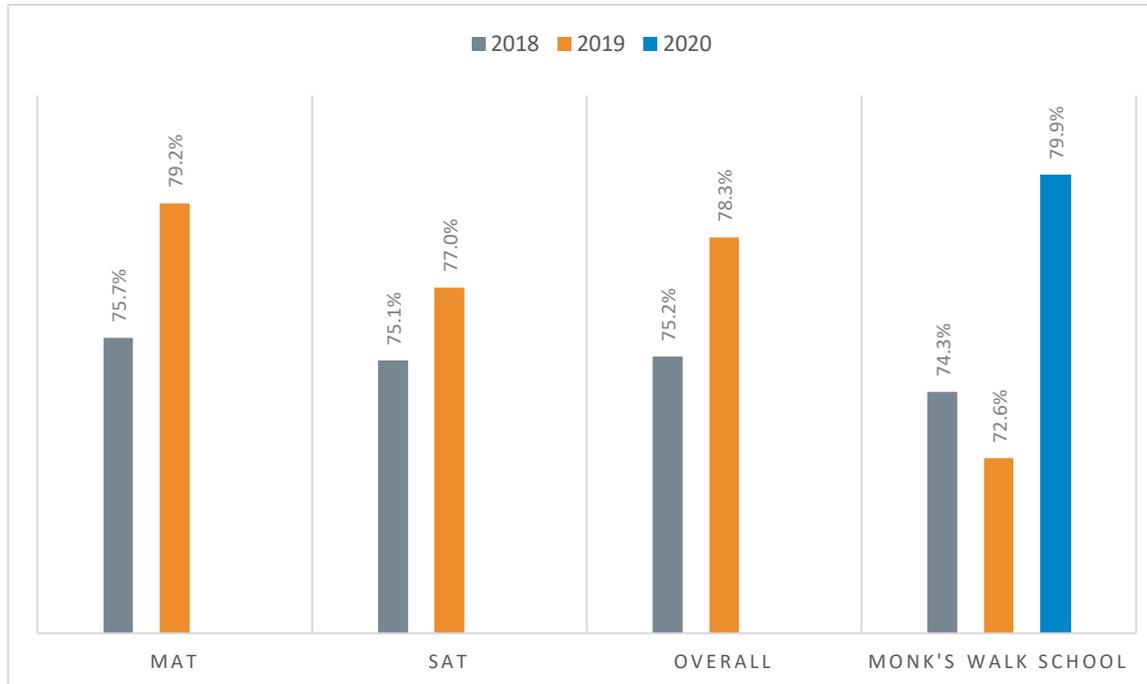
Formula: Surplus (deficit) for the year excluding fixed asset fund, LGPS adjustments and amounts donated on conversion ÷ Total income excluding fixed asset fund income and amounts donated on conversion.

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.

This impact of increasing payroll costs (as shown in the following graph) was a reduction in the average operating margin between 2019 and 2020.

Payroll as a % of operational income



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

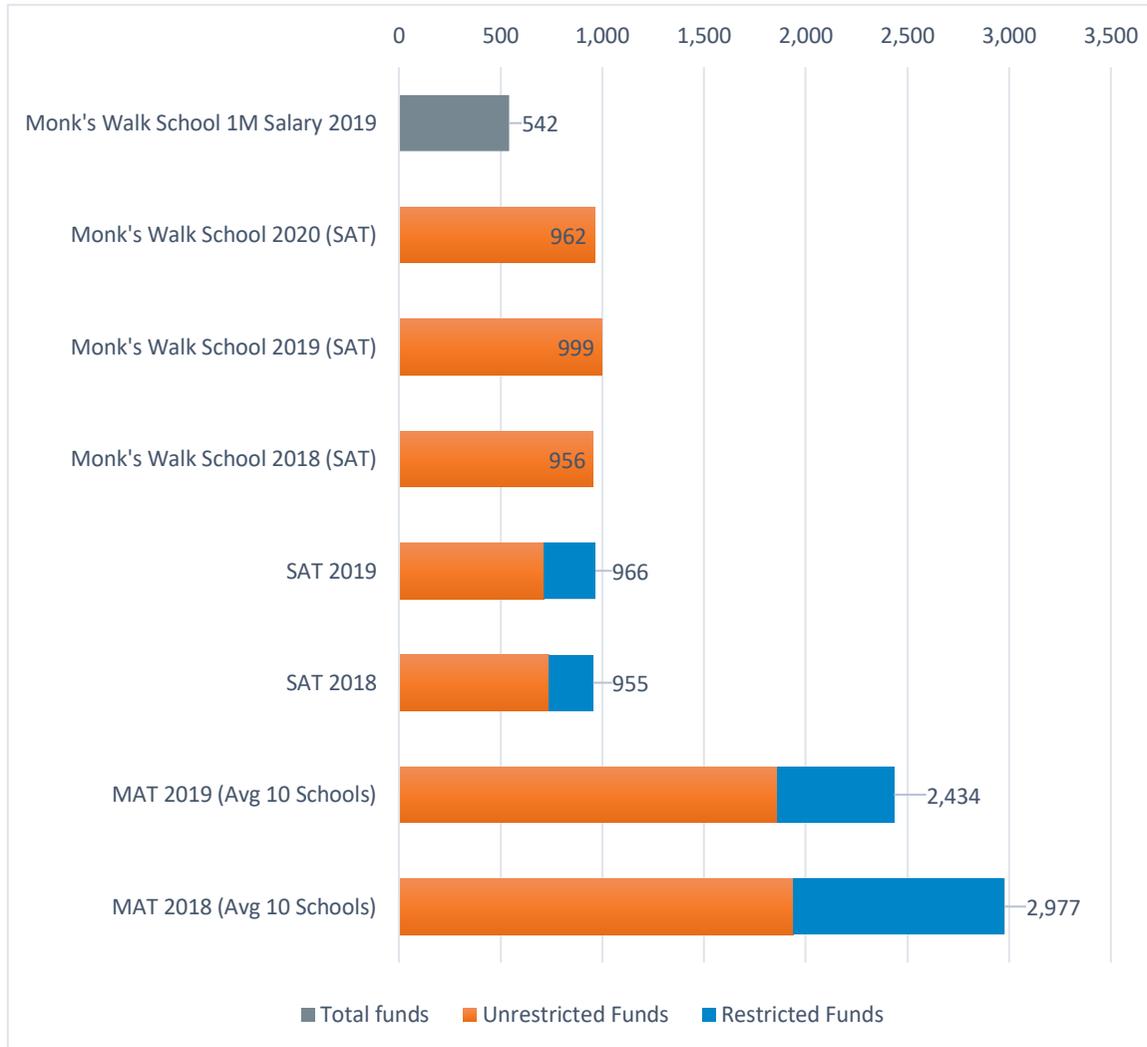
Staff costs represent the most significant area of expenditure for all academies and are viewed by third parties as a critical indicator of financial and operational efficiency. Typically, staff costs make up 65% - 80% of both total costs and total income. As an average, across most Academy Trust we have seen an increase in payroll costs. In 2019, the average ratio excluding defined benefit pension scheme adjustments was 76.3% for a MAT and 74.3% for a SAT (75.4% overall).

A significant driver for the increased payroll ratio in 2019/20 is the increased pension costs.

Using the data for 2018/19, we also considered the average number of higher paid employees per school (i.e. those earning in excess of £60,000 per annum) by type of academy trust.

Type of Trust	Average no. HPEs per school
Large MAT (15+ schools)	4.9
Medium MAT (5-14 schools)	3.4
Small MAT (2-4 schools)	5.2
Secondary	10.0
Primary	2.8

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).

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.

LGPS liability as a percentage of GAG income

As for all academy trusts, Monk's Walk School'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 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's 2019/20 LGPS retirement benefit assumptions against those of other educational organisations.

	Sector Average %	Monk's Walk School %
Assumptions		
Price increases	TBC	2.2%
Salary increases	TBC	2.6%
Pension increases	TBC	2.2%
Discount rate	TBC	1.7%
Decrease in LGPS liability from 01/09/19 to 31/08/20	TBC	-0.1%
Value of LGPS liability at 31 August 2020	N/A	£2,724,000
LGPS liability as a percentage of GAG income	TBC	41.5%

Appendix 2: Performance Assessment

Following the introduction of the Academies Financial Handbook 2020, the audit committee (or equivalent) is expected to produce an annual report to the Board/Members on its activities during the year including the appraisal of the external auditors. To assist the audit committee in their annual appraisal of the external auditor, we have assessed our performance against the following ESFA performance indicators:

Performance Indicator	Target	Result
An external audit plan to be produced for consideration by the Error! Reference source not found. in advance of the external audit addressing the key risks specific to the Academy	100% Delivery	Achieved
To ensure consistency within the audit team at partner and manager level	Only periodic rotation of personnel	Achieved
Annual audit to be performed in line with agreed timetables	100% Delivery	Achieved
Post Audit Report to be produced detailing audit findings for consideration by the Error! Reference source not found. with comments and recommendations discussed with management in advance of this meeting	100% Delivery	Achieved
Buzzacott attendance at Audit Committee / Board meetings	Attendance at meetings when requested	Achieved
Audit of the financial statements to be performed in accordance with the Academies Accounts Direction 2019 to 2020 issued by the ESFA and Companies Act requirements	To conform to standards	Achieved

Appendix 3: Sector developments

Coronavirus

The Department for Education (DfE) continues to publish guidance about COVID-19 in educational settings for staff, parents and carers, pupils and students online.

The guidance is available at <https://www.gov.uk/government/collections/coronavirus-covid-19-guidance-for-schools-and-other-educational-settings> and includes information on topics such as:

- educational provision for vulnerable children and children of key workers;
- the closure of educational settings;
- free school meals arrangements;
- the cancellation of GCSEs, AS and A levels;
- travel guidance for educational settings;
- social distancing in education and childcare settings;
- financial support for schools;
- online education resources;
- school and college performance measures; and
- school admission appeals.

Additional information is also available through the Buzzacott website at <https://www.buzzacott.co.uk/news/responding-to-the-impact-of-covid-19> Details are provided on a range of best practice and how to access available support, including:

- accessing support through the Coronavirus Job Retention Scheme;
- employment updates;
- regulatory and governance updates.

The situation continues to evolve and relevant information will also be shared through our email distribution lists. We also recommend that the Trust reviews the weekly ESFA update for academy trusts which is published at <https://www.gov.uk/government/collections/esfa-update> .

Compliance

Compliance deadlines during 2020 and 2021

On 26 August, Eileen Milner, the ESFA's Chief Executive, wrote to all accounting officers to explain that the deadlines for the submission of various statutory documents and returns by academy trusts were each being extended by approximately one month as a result of the challenges presented by the ongoing Coronavirus pandemic. These submissions include the audited statutory financial statements (including the management letter and internal scrutiny annual summary), annual accounts return (AAR), completed Land and Buildings Collection Tool, Budget Forecast Return Outturn (BFRO) and Budget Forecast Return Three-Year (BFR3Y). The letter encourages Trusts to aim for the usual deadline and explains that the normal

deadlines will be restored for the year ended 31 August 2021. The full letter is available here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/911960/ESFA_letter_to_academy_trust_accounting_officers_august_2020.pdf

Academies Financial Handbook 2020

The ESFA published the latest update to the Academies Financial Handbook (AFH 2020) on 23 June 2020. All Academy Trusts must comply with the handbook as part of the conditions of their funding agreements. The major changes in AFH 2020 relate to:

- **Audit Committee:** References throughout the AFH to the 'audit committee' of a trust are replaced in AFH 2020 by the 'audit and risk committee'. There is a new requirement for this Committee to produce an annual report of their conclusions for the board of trustees and members, including recommendations on the reappointment or dismissal or retendering of the external auditor, and their remuneration.
- **Internal scrutiny:** A raft of clarifications are included in respect of risk management and the responsibilities of the Board and the 'audit and risk committee' (previously the 'audit committee'). The audit and risk committee must: direct the trust's programme of internal scrutiny, ensure that risks are being addressed appropriately through internal scrutiny and report to the board on the adequacy of the

trust's internal control framework, including financial and non-financial controls and management of risks.

- **Revised FRC Ethical standard for auditors and impact on internal scrutiny:** AFH 2020 removes the option for internal audit to be performed by the external auditor, as expected and in line with the FRC Ethical Standard and Accounts Direction. It does note transitional arrangements in the Standard which permit existing audit engagements at 15 March 2020 to conclude. The Handbook clarifies that the term 'internal scrutiny' should be viewed in the same as the term 'internal audit'
- **Clerking:** The AFH 2020 makes the appointment of a clerk a 'must' requirement as opposed to a 'should' requirement, meaning that all trusts must now have appointed a clerk.
- **Chief Financial Officers (CFOs):** The AFH 2020 clarifies that the CFO must be appropriately qualified. It introduces the new requirement that trusts must assess whether the CFO, and others holding key financial posts, should have a business or accountancy qualification and hold membership of a relevant professional body, dependent on the risk, scale and complexity of financial operations. The Handbook encourages larger trusts (defined as having over 3,000 pupils) to consider the range of accountancy qualifications available from professional bodies such as the ICAEW, ACCA, CIMA or CIPFA and take this into account when filling CFO vacancies. There is also a new clarification that CFOs should maintain

continuing professional development and undertake relevant ongoing training.

- **Executive pay:** New requirement that the trust must publish on its website the number of employees whose benefits exceeded £100k, in £10k bandings, as an extract from the disclosure in its financial statements. In the case of employees who are trustees, this would be in bands of £5k.
- **Data Collection:** The new requirement that trusts complete the school resource management self-assessment tool using the ESFA's online form is reinforced in the AFH2020.

The full list of changes in AFH 2020 can be found on page 9 of the document, which is available in pdf format here:

<https://www.gov.uk/guidance/academies-financial-handbook/academies-financial-handbook-2020-to-print>

Financial management good practice guides

In March 2019, the ESFA began publishing a series of short “good practice” guides to assist academy trusts in topical areas of financial management. In addition to updating the ten guides initially published during 2019/20 for ongoing developments, the ESFA has published a new guide during 2019/20 on Streamlined Energy and Carbon Reporting (SECR) for Trusts which qualify as large companies.

The ESFA's good practice guides can be found here:

<https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides>

Academy Accounts Direction 2020/21

The Academy Accounts Direction (AAD) 2020/21 is likely to be published early in 2021. As a result of the Coronavirus pandemic, a number of more significant changes to the statutory reporting requirements which were planned for the 2019/20 AAD have been delayed until 2020/21.

Keeping Children Safe in Education update

On 17 June 2020, the Government published the latest iteration of the Keeping Children Safe in Education (KCSIE) guidance, applicable from 1 September 2020.

As in previous versions, the guidance notes that safeguarding is the responsibility of everybody who comes into contact with children and all staff at academy trusts must therefore read Section 1 of the document at the very least.

In addition to general clarifications, the main changes relate to:

- Statutory changes, for example the inclusion of requirements regarding mandatory Relationship Education, Relationship

and Sex Education and Health Education from September 2020.

- Clarifications regarding the importance of mental health (in addition to physical wellbeing) in relation to safeguarding.
- Additional information regarding behaviours which may indicate that an individual is not suitable to work with children, specifically in relation to situation where such individuals have been involved in incidents which do not involve children but could indicate that they would exhibit similarly inappropriate reactions if working with children in schools.
- Further clarifications relating to domestic abuse, including information on how witnessing or suffering domestic abuse can impact children.
- A link to the non-statutory supplementary Covid-19 guidance which was released during 2019/20 to assist schools during the lockdown period.
- Additional clarifications regarding GDPR.

The full document can be downloaded from the Government's website here:

<https://www.gov.uk/government/publications/keeping-children-safe-in-education--2>

Assurance themes

On 15 September 2020, the ESFA published its briefing report on the key assurance themes arising from work undertaken during its 2019/20 year (covering the accounting period ended 31 August 2019). The report notes that the 98% of accounts were submitted by the deadline and that just 0.7% of the statutory audit reports were modified (a decrease from 1.2% the prior year). The majority of delays and modifications continue to relate to issues around trust closure and going concern.

The percentage of modified regularity reports rose from 5.9% in 2017/18 to 7.1% in 2018/19, with the increase attributable to modifications in respect of the new requirements prohibiting the purchase of any alcohol.

The ESFA's report also noted that some trusts' internal scrutiny submissions contained very little information regarding the detail of the work undertaken or the findings arising and encourages trusts to refer to the good practice guide on 'internal scrutiny in academy trusts' (please see above for a link to the good practice guides).

The full report is available to read here:

<https://www.gov.uk/government/publications/academy-trusts-themes-arising-from-esfas-assurance-work>

Funding and finance

National funding formula for 2020/21 and beyond

The Minister of State for Schools Standards announced on 9 September 2019 that the Government would continue to use the National Funding Formula to calculate notional allocations for academy revenue funding for 2020/21 and future years. The announcement covered various changes which would apply to the National Funding Formula for 2020/21, including the setting of minimum per pupil funding levels at £3,750 for primary schools and £5,000 secondary schools.

In the same bulletin, it was announced that funding for 2021/22 across all schools would rise by £2.6 billion, and by £4.8 billion for 2022/23 (relative to funding in 2018/19, in both cases).

The full announcement and list of changes to the formula is published here:

<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-09-09/HCWS1828/>.

The operational guidance on revenue funding can be found here: <https://www.gov.uk/guidance/academies-funding-allocations>

Exit payment cap for public sector workers

The government published the results of its consultation on proposals to introduce a £95,000 cap on exit payments for public sector workers when they leave their jobs on 21 July 2020. The response to the consultation notes that:

- The £95,000 cap will apply to the total value of payments made as a consequence of the termination of an individual's employment.
- The cap will now be introduced as soon as possible, rather than in two stages as originally planned.
- The cap may be relaxed under certain published circumstances; any relaxation outside of these circumstances requires the approval of HM Treasury.

The full response to the consultation can be found here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902087/Public_sector_exit_payments_Consultation_response.pdf

Teachers' Pay Grant

The Government has confirmed that it will continue to provide grant funding for schools to cover the 2.75% teachers' pay award approved by the Secretary of State for Education in July 2019. Whilst the Government's current publications on revenue funding and the

Teachers' Pay grant confirm that it will continue to be paid separately from revenue funding allocation until 31 March 2021, there has yet to be any indication of whether it will continue beyond that date.

It was confirmed on 27 February 2020 that, for the 5-month period from April 2020 to August 2020, rates would be five-sevenths of the 7-month rates from September 2019 to March 2020, and that the payments would use October 2019 pupil numbers for 5 to 16 year olds as a basis for allocating funding.

More information on the detailed allocation of funding can be found here:

<https://www.gov.uk/government/publications/teachers-pay-grant-methodology/teachers-pay-grant-methodology>

Teachers' Pension Employer Contribution Grant (TPECG)

Teachers' pension contributions for employers increased from 16.48% to 23.68% on 1 September 2019. The government initially agreed to provide fund to cover the initial impact of the additional cost to employers, which it estimated at £848 million, between 1 September 2019 and 31 March 2020. This grant continues to be paid separately from general revenue funding.

As with the teachers' pay grant, it was confirmed on 27 February 2020 that, for the 5-month period from April 2020 to August 2020, rates would be five-sevenths of the 7-month rates from September 2019 to

March 2020, and that the payments would use October 2019 pupil numbers for 5 to 16 year olds as a basis for allocating funding. The rates.

It had previously been verbally announced that the funding would cover a three year period from 30 September 2019 to 31 August 2022. The published grant conditions cover the year from 1 April 2020 to 31 March 2021, but there has, as yet, been no formal publication confirmation funding beyond 31 March 2021.

Further information on the TPECG can be found here:

<https://www.gov.uk/government/publications/teachers-pension-employer-contribution-grant-tpecg>

Local Government Pension Schemes

The latest triennial valuation of the Local Government Pension Schemes (LGPS) was carried out as at 31 March 2019 and was published on 22 May 2020 as part of the LGPS' annual report and financial statements. The total liability across the 89 schemes in England and Wales at 31 March 2019 was estimated to stand at approximately £291 billion. When set against the scheme's assets, the funding rate was approximately 98%, a significant improvement on the 85% level estimated for the previous triennial valuation as at 31 March 2016. The impact of this valuation on employer contribution levels has yet to be announced.

A summary from the Chair of the LGPS Advisory Board, including a link to the full annual report for the LGPS as a whole, has been published here: <https://lgpsboard.org/index.php/schemedata/scheme-annual-report>

Policy and Governance

Transparent and accountable governance

In June 2020, the Charity Commission issued an alert for charities emphasising the importance of transparent and accountable governance. This alert was sent to trustees of large charities with complex governance and management structures that are in a service-providing industry (e.g. health, education, disaster relief etc). Whilst this was published by the Charity Commission rather than the ESFA, the points it raised are relevant to Academy Trusts.

The alert was prompted following a Charity Commission investigation into the Royal National Institute of Blind People (RNIB) which found that some beneficiaries were being placed at undue risk of harm through what it describes as systematic weaknesses at senior levels including having a culture of dismissiveness toward Ofsted or CQC criticism, inadequate staff training and an overreliance on agency staff leading to poor recruitment practices. The full report can be read at: <https://www.gov.uk/government/news/rnib-failures-led-to-some-children-in-the-charity-care-being-harmed-says-watchdog>

As a result of the RNIB investigation, the regulator has provided an alert to remind trustees, senior executives and staff of such charities on the best practice approach to good governance.

Trustees

The role of a trustee is to ensure robust oversight of the charity's operations and structure. Trustees may choose to delegate significant decision-making authority to senior executives and communication needs to be regular and effective. Trustees should also undertake an annual review of the charity's approach to identifying, prioritising and managing risks and establish a timely process for making and handling any complaints against the charity. The alert also suggests that clear lines of responsibility and reporting between all governance and management committees need to be made and that each body has the right mix of skills and is guided by appropriate terms of reference.

Executives

An executive should have effective oversight of the charity's operations and have the confidence to fully disclose any incident to trustees, regulators or agencies on a timely basis. The Charity Commission encourages regular reporting to the Board on significant incidents which should also include a summary of how such incidents are managed and mitigated. Executives also need to provide assurance to trustees on the quality and safety of the charity's

activities and need to have confidence in third party suppliers if used on how they carry out their work.

Staff

Service-providing charities make use of front-line staff or volunteers who serve and interact directly with beneficiaries, who are often vulnerable, and it is important that safeguarding responsibilities remain a top governance priority. The alert highlights the following points for charities to consider:

- Establishing safeguarding policies and procedures that all stakeholders follow;
- Ensuring there are skilled, trained staff/volunteers/trustees to protect people;
- Appointing a senior safeguarding lead to help co-ordinate the charity's safeguarding strategy through engagement both internally and with other agencies and partners; and
- Reviewing the charity's safeguarding arrangements on a regular basis.

The Charity Commission's full alert can be read at: [https://www.gov.uk/government/publications/alert-for-charities-the-importance-of-transparent-and-accountable-governance/alert-](https://www.gov.uk/government/publications/alert-for-charities-the-importance-of-transparent-and-accountable-governance/alert-for-charities-the-importance-of-transparent-and-accountable-governance)

[for-charities-the-importance-of-transparent-and-accountable-governance](#)

Impact of Brexit on audit and accounting

Following the UK's exit from the EU on 31 January 2020, under the terms of the Withdrawal Agreement, the UK entered a "transition period" which is due to end on 31 December 2020. During the transition period there is no change to the UK's audit, accounting and corporate reporting framework.

NCVO Code of Ethics

In light of concerns on safeguarding, the National Council for Voluntary Associations (NCVO) has developed a Code of Ethics for charities to review their own internal policies and practices. This may be a useful tool for Academy Trusts to consider in the context of their own policies, in conjunction with ESFA and DfE guidance. Endorsement of the 'Charity Ethical Principles' is voluntary but covers four key areas: putting beneficiaries first, integrity, being open and the right to be safe. The Principles can be read in full at <https://www.ncvo.org.uk/policy-and-research/ethics/code-of-ethics>

Fraud and cybercrime

The Government has published a comprehensive guide on how charities can protect themselves against fraud and cybercrime. The guide covers all aspects of fraud and cybercrime with useful links to relevant organisations that combat fraud in charities. As not-for-profit

organisations and exempt charities, this guidance is equally applicable to academy trusts.

The guidance determines eight overarching principles for tackling fraud:

1. Fraud will always happen, even at charities;
2. Threats are constantly changing so it is important for charities to be able to adapt defences quickly;
3. Prevention mechanisms are better than cure;
4. Fraudsters exploit the trust and goodwill of a charity;
5. It is good to discover fraud as this is the first step in fighting fraud;
6. Report all fraud on a timely basis to Action Fraud, the relevant regulator or police;
7. Responses to fraud should be proportionate to the charity's size, activities and fraud risks;
8. Everybody involved in the charity should help fight fraud, especially trustees.

The fraud section of the guidance covers a broad range of issues, including how fraud should be reported if a charity is a victim of fraud,

how a charity should protect itself from fraud and example policies on anti-fraud, whistleblowing and investigations.

As an ever evolving threat to all organisations, the guidance on cybercrime covers an array of topics. Of particular significance, the National Cyber Security Centre (NCSC) has produced an electronic learning training package covering top tips for staff that covers four key areas: defence against phishing, passwords, device security and incident reporting. The NCSC has also designed a toolkit specifically for boards to encourage wider discussions throughout the charity which contains information on how to plan a response to a cyber-incident. In the event of a cybercrime attack, Action Fraud, the national policing lead for fraud, has launched a 24/7 live cyber-attack helpline which is connected with the National Fraud Intelligence Bureau (NFIB).

The detailed guidance can be found at:
<https://www.gov.uk/guidance/protect-your-charity-from-fraud>

HR and Personnel

Auto-enrolment

With effect from 6 April 2019, the minimum level of contribution rates into a workplace pension scheme rose to 8% (being at least 3% from the employer, with the employee contributing 5%).

If the employer elects to contribute at a higher rate than these minimum amounts, the rate of contributions required from employees will reduce accordingly.

Taxation

Gift Aid Small Donations Scheme for academies and MATs

GASDS is a simple way to claim Gift Aid-style top-up payments on small cash donations or contactless card donations (£30 or less) without any need to collect personal details or a declaration from the donor. For an academy trust, the GASDS could be useful for cash collections made at, for example, PTU meetings, parents' evenings and school fairs etc.

As with regular Gift Aid, HM Revenue and Customs (HMRC) will pay out 25% of the total value of the donations received. However, with no requirement to collect declarations, in basic principle GASDS is as simple as collecting and recording the cash, and then making the claim.

Further information on GASDS and how academy trusts could effectively apply the scheme can be found on the Buzzacott website, here: <https://www.buzzacott.co.uk/insights/gift-aid-small-donations-scheme-for-academies-and-mats-worth-2-000-per-school-per-year>

VAT

HMRC is looking closely at Academies and their VAT obligations and continues to issue letters to trusts clarifying their responsibilities. The

letter reminds trusts that they cannot use the VAT126 form to claim VAT on purchases related to business supplies if they are not VAT registered. The letter also reminds trusts that they must be registered for VAT if their annual taxable turnover exceeds the registration threshold (currently £85,000). Given that a MAT with a small number of schools can easily breach this threshold with what might appear to be a small amount of taxable business supplies at different schools, it is important that trusts regularly review their level of activities and taxable business supplies.

For further information on the common direct tax and VAT pitfalls and risks for academy trusts, please see our website:

<https://www.buzzacott.co.uk/insights/academies-common-tax-pitfalls-risks-and-opportunities>