



Draft Audit Management Letter

**Mellor Primary**  
Year Ending 31 August 2022

BEEVER  
AND  
STRUTHERS

CHARTERED ACCOUNTANTS  
AND BUSINESS ADVISORS



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## Introduction

Our audit of the financial statements of Mellor Primary School (the Academy) is substantially complete. The purpose of this letter is to bring to your attention the findings from our audit. We appreciate that you will already be aware of the majority of the matters contained in this letter.

In order to comply with the provisions of the International Standard on Auditing (ISA) 260 – 'Communication of Audit Matters with those Charged with Governance' by which we report to management on the findings of our audit, with particular reference to:-

- views about the qualitative aspects of the Academy Trust's accounting practices and financial reporting;
- the letters of representation;
- unadjusted misstatements;
- matters specifically required by other Auditing Standards to be communicated to those charged with governance (such as fraud and error);
- expected modifications to the auditor's report;
- material weaknesses in the accounting and internal control systems; and
- any other relevant and material matters relating to the audit.

We also take this opportunity to comment on the Academy's performance for the year and to confirm our professional integrity, objectivity and independence.

We see effective communication as being a key part of our audit, and it is important that there is effective two way communication. We welcome any feedback or questions regarding the conduct of the audit process.

This report is not intended to cover every matter which came to our attention during the audit. We do not accept any responsibility for any reliance placed on it by third parties. Our procedures are designed to support our audit opinion and cannot be relied upon to identify any weakness in systems or controls which may exist.

We would like to take this opportunity to formally record our appreciation for the assistance and co-operation provided to us by the Finance Team who assisted us during the course of our audit.



**Beever and Struthers**

**Date 21/12/22**

## Areas of Focus

The following table summarises the key audit issues we identified as requiring specific consideration and the audit procedures we undertook in relation to them.

Audit issues	Audit procedure
<p><b>Integrity of non-financial information</b></p> <p>A number of disclosures included in the financial statements are not derived directly from the Academy Trust's financial reporting system e.g. operating lease commitments, related party transactions and completeness of contingent liabilities and provisions.</p>	<p>During the audit the following work was carried out to cover this area:</p> <ul style="list-style-type: none"> <li>• Review of Board and Committee meeting minutes;</li> <li>• Review declaration of interest forms;</li> <li>• Discussed any related parties, capital commitments or operating leases with the School Business Manager;</li> <li>• General consideration throughout the audit process of items that may require disclosure in the financial statements.</li> </ul> <p>Based on the above investigation the following was discovered:</p> <p>There were no additional operating leases not already disclosed.</p> <p>All related party transactions, regardless of size, must be disclosed in the financial statements. Declaration of Interest forms for all Key Management Personnel, and associated controls, were reviewed, and Director/Trustee Searches at Companies House were undertaken. These were used to inform our assessment of the accuracy and completeness of the related party disclosures in the financial statements..</p> <p>Other than trustee remuneration, disclosed per note 8, there were no related party transactions to disclose.</p> <p>Based on discussions with the school business manager and a review of the board and committee minutes there were no capital commitments as at the year end.</p> <p><b>Our work in this area was concluded satisfactorily subject to the recommendations on page 11.</b></p>
<p><b>Local Government Pension Scheme</b></p> <p>The Academy Trust is in a local government pension scheme which requires disclosure in the financial statements.</p> <p>The risk is that the disclosures made are not in line with the actuary report or that the report contains errors.</p>	<p>The actuary details were confirmed, and their qualifications, experience and reputation were reviewed.</p> <p>We assessed the reasonableness of the actuarial assumptions by benchmarking the assumptions against those used in other 31<sup>st</sup> August LGPS actuarial valuations.</p> <p>We assessed the reasonableness of the actuarial valuation of assets through recalculations and comparison to prior years.</p> <p><b>Based on the review during the audit it would appear that the assumptions used are appropriate and have been reflected in the accounts accurately.</b></p>

## Areas of Focus

Audit issues	Audit procedure
<p><b>Wages and Salaries</b></p> <p>Payroll is the largest single expense at the Academy Trust and therefore is a significant area in the audit.</p> <p>The audit risks concerning payroll are that leavers in the year have not been correctly removed from the payroll or that fraudulent starters have been added to the payroll and paid a salary. The valuation of the payroll expense as declared in the accounts is also a risk given increasing pressures on budgets in the sector.</p>	<p>A walkthrough of the procedures in place for making amendments to the payroll was carried out which included reviewing the addition and removal of starters and leavers throughout the year. Tests were conducted to ensure the procedures were working effectively.</p> <p>Reconciliations between the accounting system and payroll reports were reviewed and any variances which were identified was explained.</p> <p><b>Our work in this area was concluded satisfactorily.</b></p>
<p><b>Regularity</b></p> <p>The financial statements include an Independent Reporting Accountants' Report on Regularity. The report provides a limited assurance conclusion about whether the expenditure disbursed, and income received by the Academy in the financial period have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.</p>	<p>We documented the key financial systems and control procedures in place. We reviewed their effectiveness and undertook tests of control.</p> <p>We undertook testing which covers the following broad areas:</p> <ul style="list-style-type: none"> <li>- Review of the Accounting Officer's Statement on Regularity, Propriety and Compliance.</li> <li>- Delegated authorities have been complied with.</li> <li>- Transactions with connected parties are compliant with the terms of the Academies Financial Handbook.</li> <li>- Governance considerations.</li> <li>- Internal controls effectiveness and appropriateness.</li> <li>- Procurement procedures have been applied in line with the School's documented procedures.</li> <li>- Grant income has been applied in line with any restrictions outlined in the terms and conditions applicable to the funding.</li> </ul> <p><b>Our work in this area was concluded satisfactorily subject to the recommendations on page 11.</b></p>

## Areas of Focus

Audit issues	Audit procedure
<p><b>Fund Accounting</b></p> <p>Academy Trusts, as charities are required to classify balances in the financial statements to a fund – i.e. restricted, unrestricted and restricted fixed asset funds. The audit risk in respect of fund accounting is that items are incorrectly allocated to restricted and unrestricted funds.</p>	<p>The key systems and controls in place for allocating income and expenditure to funds were assessed and discussed with the School Business Manager.</p> <p>The substantive sample testing of income and expenditure included a consideration of whether the sample items tested have been allocated to the correct fund.</p> <p><b>Our work in this area was concluded satisfactorily.</b></p>
<p><b>Assessment of fraud risk</b></p> <p>ISA 240 “The Auditor’s responsibility to consider fraud” requires us to consider the risk of fraud and the impact that this has on our audit approach. There is a presumed significant risk of fraud in two areas;</p> <p><b>Revenue Recognition</b></p> <p>Material misstatements due to fraudulent reporting often result from an overstatement of revenues, for example through premature revenue recognition or recording fictitious revenues. The auditor therefore presumes that there are risks of fraud in revenue recognition and considers which types of revenue may give rise to fraud risks.</p> <p>The Academy Trust’s main source of income is General Annual Grant (GAG) received from the Education and Skills Funding Agency (ESFA). The ESFA notify the Academy Trust of the GAG allocation in advance of each financial year. Claw backs are calculated based on in-year census data. We therefore have assessed the risk of fraud in the recognition of GAG as low.</p> <p>The cut off procedures for the GAG funding, along with other material income streams, will be reviewed as part of our final audit visit.</p> <p><b>Management Override</b></p> <p>Under ISA 240 there is a presumed risk of management override of the system of internal controls.</p> <p>Material misstatements can arise from management overriding the controls which are in place or by manipulating the results to achieve targets and the expectations of the stakeholders.</p> <p><b>Policy Statement</b></p> <p>The Trustees have adopted anti-fraud policies</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement whether caused by fraud or error. In particular, we reviewed revenue recognition and management control override, as noted below.</p> <p>As part of the audit planning:</p> <ul style="list-style-type: none"> <li>• We met management to discuss fraud related risks and the risk of material misstatement in the financial statements.</li> <li>• We reviewed the Academy’s anti-fraud policies.</li> <li>• We also reviewed the work of internal audit.</li> <li>• Reviewed the fraud register</li> </ul> <p>At the audit visit (remote):</p> <ul style="list-style-type: none"> <li>• We assessed and tested the controls over GAG income and other material sources income, for example capital grants;</li> <li>• Assessed and tested the controls over cash and the segregation of duties in place;</li> <li>• Tested the cut off on the GAG funding and other material sources of income e.g. local authority grants;</li> <li>• Considered the manipulation of the financial results through the use of journals and management estimates, such as provisions and accruals.</li> <li>• Undertook data analytics procedures on the journals raised in the year.</li> </ul> <p>Our work on income recognition did not identify any issues.</p> <p>Our work on systems and controls at the interim visit did not identify any instances of management override of controls. The policy statements in place were found to be up to date.</p> <p><b>Our work in this area was concluded satisfactorily subject to the audit adjustments noted on page 9 and recommendations page 11.</b></p>

## Independence

### **Ethics and Independence**

In the UK and Ireland, auditors are subject to the ethical requirements of the Financial Reporting Council's 2010 Ethical Standards for Auditors.

International Standard on Auditing (UK and Ireland) 260 *Communication with those Charged with Governance* and good practice require us to confirm the following to those charged with governance:

- We confirm that we are independent.
- We confirm that we are unaware of any relationships which may bear on our objectivity and independence.
- We have provided details below of any non-audit services provided to Mellor Primary School.
- We confirm that we comply with the requirements of the Financial Reporting Council's Ethical standards in relation to the supply of non-audit services by an audit firm.

The Trust Board should take an active role in considering whether the external auditor's independence might be impaired by the provision of non-audit services.

### **Non Audit Services**

In addition to our work as the Academy Trust's external auditors, we also provide other services to the Academy Trust, including

- Statutory Accounts preparation
- Regulatory assurance
- Preparation of Accounts Return
- Review of Teachers' Pension EOYC

The statutory accounts and Academies Accounts Return are prepared by teams who are not directly involved in the audit of the Academy Trust. The regularity assurance is linked to the audit assignment. In addition, the Academies Accounts Direction requires the external auditor to undertake this assignment.

We consider that appropriate safeguards are in place and, in our opinion, the provision of these additional services does not prejudice our independence and objectivity as the Academy Trust's external auditors.

### **Independence Declaration**

We confirm that:

- We are not aware of any personal relationships between Beever and Struthers and the Academy.
- Appropriate safeguards have been established for the provision of any non-audit services.
- We comply with Ethical Standards and in our opinion the firm is independent within the meaning of regulatory and professional requirements and the objectivity of the engagement partner and the audit staff is not impaired.

## Qualitative aspects of Accounting Practices & Financial Reporting

### **Accounting Policies**

FRS 102 requires that entities should review their accounting policies regularly to ensure that they are appropriate to its particular circumstances for the purposes of giving a true and fair view. The Board of Trustees plays a key role in this process.

We have reviewed the Academy Trust's accounting policies as stated in the financial statements in detail and confirm that we judge them to be appropriate to provide relevant, reliable, comparable and understandable information.

### **Accounting Estimates**

Key accounting estimates in the financial statements concern depreciation, allocation of expenditure and the valuation of the LGPS. We confirm that estimates have been made appropriately in line with our knowledge of the Academy Trust and the sector and are disclosed satisfactorily in the financial statements.

### **Timing of Transactions**

Our audit work confirmed that material transactions were recorded in the correct accounting periods subject to the adjustments below

### **Going Concern**

The financial statements have been prepared on a going concern basis. We have evaluated your assessment of the Academy Trust's ability to continue as a going concern and the disclosure made in the Report of the Board of Trustees and we confirm that this assumption is appropriate.

In line with auditing standards, we will review further forecasts and financial performance through to the date of signing the accounts.

### **Report of the Board of Trustees**

We reviewed other information in the document containing the financial statements. We confirmed that there is no material inconsistency between it and the financial statements. Further, we are required to confirm that the information in the Trustees' Report etc. is not materially misstated.

### **Financial Statement Disclosures**

We confirm that we judge the disclosures throughout the financial statements to be neutral, consistent and provide sufficient clarity to the user.

### **Significant Matters Arising from the Audit**

There were no significant matters arising from the audit that were discussed, or subject to correspondence with management.

### **Significant Difficulties Encountered During the Audit**

There were no significant difficulties encountered during the audit.



## Management Representation Letter and Audit Opinion

### **Independent Auditor's Report on the Statutory Financial Statements**

In accordance with ISA 580, we obtain written representation from management that they acknowledge their responsibility for preparing the accounts and have made all information available to us.

We will present our management representation letter for signing at the same time as the financial statements. There are no specific matters on which we have requested Board representation to support the conclusions and evidence provided for our audit opinion.

**We expect to provide an unqualified statutory audit opinion for the year ended 31 August 2022.**

### **Independent Reporting Accountant's Report on Regularity**

In addition to the letter of representation covering the statutory accounts and audit, a further letter of representation is required in support of our Independent Reporting Accountant's Report on Regularity.

We will present our management representation letter for signing at the same time as the financial statements.

**We expect to provide an unqualified opinion on Regularity for the year ended 31 August 2022.**

## Audit Adjustments

Our audit work is based upon an assessment of materiality to ensure there is no material misstatement contained in the financial statements. In assessing materiality, we take into account both the materiality of the class to which the balance belongs and the overall impact of the balance on the income and expenditure account and balance sheet.

ISA 260 requires us to report to management on all uncorrected misstatements identified during the audit, and to include in this report how we have calculated materiality, and any misstatements identified during the audit which have been corrected.

We are not required to report on corrected or uncorrected misstatements we believe are clearly trivial.

### Materiality

Our assessment of materiality was based on the first draft accounts received prior to the audit and calculated using a proportion expenditure. Throughout the audit and at completion we reconsider the materiality levels. A summary of the final assessment of materiality is as follows

	<b>Materiality £</b>	<b>Triviality £</b>
Mellor Primary School	44,190	2,210

### Adjusted and Unadjusted potential differences

Our audit procedures have been designed to provide reasonable assurance that the financial statements are free of material misstatements. A summary of the adjustments is as follows

## Audit Adjustments

### Summary of adjusted misstatements

Description	£'000
<b>Net Income/(Expenditure) per trial balance presented for audit</b>	<b>241</b>
<b>Adjustments resulting from the audit work:</b>	
<i>Movement on the LGPS as detailed in the actuarial report</i>	(121)
<i>Posting of depreciation charge</i>	(66)
<i>Posting of Accrued Capital Grant</i>	76
<i>Posting of movement in School Fund, Friends of Mellor and OOSC</i>	44
<i>Deferment of Universal Infant Free School Meals for 22/23</i>	(23)
<i>Capitalise Chromebooks, roof and windows works</i>	18
<i>August 2022 payroll accrual</i>	(74)
<i>Audit and Accounts fee accrual</i>	(7)
<b>Net (Expenditure) per audited accounts</b>	<b>88</b>
<i>Actuarial Gain / (loss) in respect of the pension scheme</i>	982
<b>Net movement in funds/(deficit)</b>	<b><u>1,070</u></b>

## Accounting and Internal Control

We have tested the systems of internal financial control to the extent that we intended to place reliance on them in forming our audit opinion on the accuracy of the figures in the financial statements. Our audit work enabled us to place substantial reliance on the operation of key controls, as planned.

ISA 260 requires that we report to those charged with governance any material weaknesses in internal control that we identify in the course of our audit work. A material weakness is one that could adversely affect the Academy Trust's ability to record, process, summarise, and report financial or other data so as to result in a material misstatement in the financial statements.

### Internal Audit

As the external auditors of the Academy Trust we have the sole responsibility for the audit opinion expressed on the Academy Trust's financial statements. We are also responsible for determining the nature, extent and timing of the external audit procedures. All judgements relating to the audit of the financial statements are ours.

As external auditors we consider the activities of the internal audit function and their effect, if any, upon our own procedures. Where appropriate we seek to use the work of internal audit as a form of evidence available to us to avoid the duplication of audit effort. Our overall responsibility is not reduced by any use of internal audit work, but it is a form of evidence available to us. As external auditors we obtain an understanding of internal audit activities to assist us in planning the audit. This facilitates the development of an effective audit approach.

### The following systems were reviewed:

- Related Parties
- Payroll
- Purchases
- Income
- Cash and Bank
- Management accounts and budgeting
- Tendering Procedures

### Overall Assessment

Overall, we found that the Academy's systems and internal financial controls in the above areas were operating effectively. To further improve the operation of the controls we have 4 recommendations (3 Low and 1 High).

### Our recommendations have been graded as follows:

- High recommendations represent fundamental control weaknesses, which expose the Academy to a high degree of unnecessary risk.
- Medium recommendations represent significant control weaknesses, which expose the Academy to a moderate degree of unnecessary risk.
- Low recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

## Accounting and Internal Control

System and Controls Evaluated	Results of Control Evaluation and Testing	Recommendation	Management Response
<b>Compliance with Trust Policies and Procedures</b>			
Petty cash transactions should be limited to below £30	From testing a sample of petty cash transactions in the year, we found one transaction that was over £30 for nuts and bolts of £48. This is in contradiction to the Trust's policy that petty cash transactions should not be over £30 as BACS or cheque's should be utilised in this case.	It is recommended that the policy is adhered to or conversely the policy is updated to reflect the instances where the £30 limit can be exceeded. <b>(Low)</b>	Petty cash limit has been revised to £50.
<b>Compliance with Academies Financial Handbook</b>			
Declarations of interest	We noted on our review of the declarations of interest that there was some missing for 21/22 and the information on the website was last updated on 21.05.2021	<b>It is recommended that the declarations are completed accurately and on a timely manner. Please ensure that the declaration of interest register is updated on the website to show all members, trustees, local governors, and accounting officers. (High)</b>	The declarations of business interests is already a set agenda item. Business interests will be completed by Trustees at the first FGB and members will have a set deadline or two weeks after this to complete them so that they may then be posted onto the school website.
Policies such as the Finance and Whistleblowing policies need updating	During our work we noted that an old financial and whistleblowing policy was being used from previous years. From discussions with the School Business Manager its update was delayed due to the move towards a MAT, however as this has fallen through it will be updated as a priority.	<b>Ensure that the policies are updated regularly each year. (Low)</b>	A policy update schedule has been created and we are working within its time frame. The Finance manual has already been updated and the Whistleblowing policy is scheduled for the spring term.
Credit card reconciliations were approved late for a number of months throughout the year. We define late as being over 1 month after the month being authorised	From our testing we could see that although they were approved the credit card reconciliations for 5 months of the year were certified over a month late.	<b>Ensure that timely reviews of reconciliations are taking place (Low)</b>	The SBM will endeavour to complete and submit for sign off in a more timely manner.

## Follow up of 2020/21 points

System and Controls Evaluated	Results of Control Evaluation and Testing	Recommendation	Management Response	Follow up 2021/22
Compliance with Trust Policies and Procedures				
Petty cash transactions should be limited to below £30	From testing a sample of petty cash transactions in the year, we found one transaction that was over £30. This is in contradiction to the Trust's policy that petty cash transactions should not be over £30 as BACS or cheque's should be utilised in this case. From discussions with the School Business Manager it was noted that this was an exceptional item and the Trust had no choice but to use the petty cash.	It is recommended that the policy is adhered to or conversely the policy is updated to reflect the instances where the £30 limit can be exceeded. <b>(Low)</b>	The finance manual that contains this policy is due to be updated and submitted for approval at the spring term FGB meeting. This will be addressed during this process	Recommendation for 2021/22
Compliance with Academies Financial Handbook				
Declarations of interest	<p>We noted on our review of the declarations of interest that there was an instance of an additional directorship that was not disclosed, however no transactions were carried out with the company in the year.</p> <p>It was noted that there was a member missing from the disclosure on the website</p>	<b>It is recommended that the declarations are completed accurately and on a timely manner. Please ensure that the declaration of interest register is updated on the website to show all members, trustees, local governors, and accounting officers. (Medium)</b>	The DOBI forms will be sent out electronically in year 21/22 allowing more timely return and additional time for scrutiny.	Recommendation for 2021/22

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