

# TESTWOOD SCHOOL

External Audit Completion Report  
Year ended 31 August 2023



6 December 2023  
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#### EXTERNAL AUDIT COMPLETION REPORT FOR THE PERIOD ENDED 31 AUGUST 2023

The purpose of this letter is to provide the Trustees with constructive observations arising from the audit process. We set out below details of any expected modifications to our audit report, details of any uncorrected misstatements in the financial statements (except any misstatements which are clearly trivial) including the effect of uncorrected misstatements related to prior periods on the current period, any material weaknesses in systems we have identified during the course of our audit work and our views about the quality of accounting practices and financial reporting procedures, and any other relevant matters.

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Our audit does not necessarily disclose every weakness and for this reason the matters referred to below may not be the only shortcomings which exist.

We take this opportunity to remind you that:

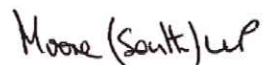
- This report has been prepared for the sole use of Testwood School;
- It must not be disclosed to any third party without our written consent;
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.

#### Concluding remarks

Finally, we take this opportunity of thanking your staff for the assistance offered to us during the course of our work. Their patient help and assistance was much appreciated especially in these strange times.

We shall be pleased to supply you with any further information you may require.

We shall be glad if you will inform us in due course what steps you decide to take in connection with each of the matters covered in this report. It would be helpful if you would also inform us when any changes are made in the existing system.



Moore (South) LLP

## CONTENTS



1 Introduction	4
2 Key Reporting Matters	5
3 Significant Audit Risks	7
4 Risk Of Fraud And Independence	8
5 Recommendations	9
Appendix 1 – Summary of adjusted and unadjusted misstatements	13
Appendix 2 – Academy Sector Developments	14

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# 1 Introduction



## The purpose of this document

We are pleased to present a summary of our audit findings of Testwood School for the year ended 31 August 2023.

As auditors, we are also required under the International Standard on Auditing 260 and 265 (ISA 260 and 265) to communicate certain matters arising from the audit of the financial statements to those charged with governance.

We set out below details of any expected modifications to our audit report, details of any uncorrected misstatements in the financial statements (except any misstatements which are clearly trivial) including the effect of uncorrected misstatements related to prior periods on the current period, any material weaknesses in systems we have identified during the course of our audit work and our views about the quality of accounting practices and financial reporting procedures, and any other relevant matters.

## Audit approach

We performed our audit work using the audit approach we communicated to you in our audit planning letter and meeting.

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Our audit does not necessarily disclose every weakness and for this reason the matters referred to below may not be the only shortcomings which exist.

Our audit work is designed to consider whether the financial statements give a true and fair view of the state of affairs of the School and of its results for the year under review taking into account the requirements of:

- FRS102 Accounting Standards applicable to UK and Ireland;
- Companies Act 2006 (Company Limited by Guarantee)
- Charities Act 2011 (exempt Charity) and Charities SORP 2019 (FRS 102)
- Academies Accounts Direction 2022-23 issued by the Education Skills Funding Agency ("ESFA")
- Academies Financial handbook 2022 issued by the ESFA

## Acknowledgments

We would like to thank the School's finance team for their help and co-operation during our audit.

## Audit status

Our audit work is now substantially complete and will be complete upon approval of the financial statements by yourselves and satisfactory post balance sheet audit work up to the date of our signing the audit report.

## Disclosure

We take this opportunity to remind you that:

- This report has been prepared for the sole use of those charged with governance of the School;
- It must not be disclosed to any third party without our written consent; and
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.



## 2 Key reporting matters



### Financial statements audit conclusion

We are proposing issuing a clean audit report. Our responsibilities with regard to the audit report extend up to the date on which it is signed and we will advise you of any changes to this position or any disclosures within this management letter if necessary.

Our audit opinion is subject to your approval of the financial statements and signing of the letter of representation. Within the letter, you will be required to confirm that there are no subsequent events that require amendment to the financial statements.

### Significant audit risks

At the planning stage we issued our audit planning letter which highlighted two significant audit risks we had identified and the work we planned to perform to address them. We carried out these procedures during our audit and have summarised our findings and conclusions in section 3.

### Identified misstatements

Any misstatements that we have identified, either adjusted or unadjusted, are detailed in Appendix 1 to this report.

The schedule does not include matters we believe to be clearly trivial.

### Regularity conclusion

In addition to our report expressing an opinion on the financial statements, we also produce a report providing a conclusion on "regularity". Our limited assurance regularity report must state whether matters are in accordance with the direction identified by Parliament and the governing bodies.

Our regularity work undertaken includes assessing whether:

- Procedures are in place in connection with general procurement, tendering, use of credit cards and expenses;
- Procedures are in place in order to ensure appropriate remuneration of payroll staff, agency staff and consultants;
- Procedures are in place to ensure that conflicts of interest and related party transactions are identified and the disclosures in the financial statements are appropriate.

The School has not informed us of any control weakness or irregularity in these areas.

Based upon the work carried out to date, no non-compliance has come to light that may give rise to any modifications to the regularity report. However, this is dependent on work performed up to the date of our signing the report and any other disclosures made by the Accounting Officer and yourselves.

## 2 Key reporting matters (continued)



### Significant difficulties

We are required to communicate to you if we encounter significant difficulties while performing our work.

We have not experienced any significant difficulties during our audit and based on the work completed up to date we have not identified any significant matters which we consider should be reported to you.

### Internal Controls

During the course of our audit we reviewed the principal internal controls that management has established to enable them to ensure, as far as possible, the accuracy and reliability of the School accounting records and to safeguard the assets.

The purpose of our audit is to express an opinion on the financial statements and not to express an opinion of the effectiveness of the internal control environment. Any weaknesses we have identified and reported should not therefore be regarded as a complete list of all deficiencies which may exist.

Based on the work completed up to date we have identified a number of significant weaknesses in internal controls and these have been communicated via our recommendations in section 5 of this report.

### Qualitative aspects of accounting practices and financial reporting

During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We have discussed with you the following observations:

- The appropriateness of the accounting policies to the particular circumstances of the trust;
- The timing of transactions and the period in which they are recorded;
- The appropriateness of accounting estimates and judgements, for example, in relation to provisions, including the consistency of assumptions and degree of prudence reflected in the accounting records;
- The potential effect on the financial statements of any uncertainties including significant risks and disclosures, such as pending litigation that are required to be disclosed in the financial statements.
- Material uncertainties related to events and conditions that may cast significant doubt on the company's / group's ability to continue as a going concern;
- The extent to which the financial statements are affected by any unusual transactions during the period and the extent to which such transactions are separately disclosed in the financial statements;
- Apparent misstatements in the trustees' report or material inconsistencies with the audited financial statements;
- Disagreements about matters that, individually or in aggregate, could be significant to the trust's financial statements or the auditor's report. These communications include consideration of whether the matters have or have not been resolved and the significance of the matters.

### 3 Significant Audit Risks



Significant audit risk	Our response to the audit risk
<p><b>Revenue Recognition</b></p> <p>This is considered to be a fraud risk area under International Standards of Auditing (UK). We consider that the specific revenue risk relates to rights and obligations of your ESFA funding and cut off.</p>	<p>We reviewed a sample of ESFA and other government grants received in the period and considered whether grants are recorded in line with the terms and conditions set. This included the assessment of claw back of grants received and the treatment of any accrued or deferred elements.</p> <p>We reviewed a sample of sources of other income and controls pertaining to these sources of income to determine whether there was a risk of a material misstatement.</p>
<p><b>Risk of management override</b></p> <p>The International Standards on auditing (ISAs) presume that management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records by overriding internal controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur, there is an inherent risk of financial misreporting due to fraud which represents a significant risk on all audits.</p>	<p>We updated our understanding of the Trust's internal control procedures including those which are in place to address the risk of fraud or error occurring.</p> <p>Our testing strategy included general ledger journal testing coupled with consideration and review of:</p> <ul style="list-style-type: none"> <li>• key accounting policies;</li> <li>• material accounting estimates;</li> <li>• use of management judgement; and</li> <li>• any unusual or individually significant business transactions.</li> </ul>

## 4 Risk Of Fraud And Independence



### Fraud

International Standard on Auditing (UK) 240 "The Auditor's responsibilities relating to fraud in an audit of financial statements" sets out our responsibilities as auditors for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

Our key objectives in connection with this responsibility are:

- To identify and assess the risks of material misstatement of the financial statements due to fraud;
- To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- To respond appropriately to fraud or suspected fraud identified during the audit.

However, the primary responsibility for the prevention and detection of fraud rests with management and the School. It is important that management place a strong emphasis on fraud prevention by putting in place a structure which deters individuals from committing fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour. The School also has a responsibility to consider the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage results.

### Independence

We are not aware that there are any relationships, between Moore (South) LLP and the School, the Trustees and senior management and its affiliates, that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement and audit staff.

We also confirm that we have complied with the requirements of international auditing standards (ISAs UK) and UK Ethical Standards as issued by the FRC in relation to independence and objectivity.



## 5 Recommendations



During the course of our audit of the financial statements for the year ended 31 August 2023, we examined the principal internal controls which the School has established to enable the trustees to ensure, as far as possible, the accuracy and reliability of the accounting records and to safeguard the assets.

It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.

### Action plan – audit recommendations

We have identified a number of observations which we consider require management action. Recommendations to address the observations are detailed in the action plan below.

Grade	Definition
1	major issues for the attention of senior management which may have the potential to result in a material weakness in internal control
2	important issues to be addressed by management in their areas of responsibility
3	problems of a more minor nature which provide scope for improvement.

## 5 Recommendations – Current Year



Audit finding and implication	Severity	Recommendation	Management Response
<p><b>Best value for money analysis and quotes for orders over £5k</b></p> <p>We tested 10 purchases over £5,000. Per the schools scheme of delegation at least 3 written quotes must be obtained for orders over £5,000. From the sample tested it was not clear that this is being consistently done. Evidence of quotes and discussions around suppliers was provided for some of these, but for each order there was not a summary showing what had been done, the decision and the best value for money analysis.</p> <p>This is in breach of the Academies Financial Handbook and the schools scheme of delegation. Orders could be placed that are not at the best prices, or to favoured suppliers without considering best value.</p>	2	<p>We recommend the documentation for recording and assessing quotes is simplified. A summary form/note should be attached to each order over £5k detailing each quote obtained, the pros/cons of each, and the decision. Where quotes are not deemed necessary, please note this on the purchase order giving the reason why.</p>	<p>There is a robust process in place. We will consider how this can be documented more clearly going forward.</p>
<p><b>Statutory filing</b></p> <p>It was identified that the appointment of two new members were filed at GIAS with the wrong date. These had been filed at Companies House at the correct date but the two don't agree.</p> <p>The Academy Trust is in breach of the statutory filing requirements of the DfE.</p>	3	<p>We recommend that all trustee appointments are filed as required on time and with the correct details as confirmed by the clerk and finance manager.</p>	<p>As our clerk was relatively a new clerk and getting to grips with the role (employed by Governor Services) understands the need to inform the Director of Finance of trustees's dates of appointments and resignations for Companies House to match what she is using for GIAS.</p>

## 5 Recommendations – Current Year



Audit finding and implication	Severity	Recommendation	Audit findings in 2023
<b>Credit card statements</b>  There were two credit card statements from the start of the year that weren't signed off as approved by the Head Teacher.  Risk that un-authorised expenditure is processed.	2	We recommend each month is reviewed and approved by the Head Teacher prior to payment.	Tracey only took on the posting of the credit card journals at the beginning of September 22 and forgot to put the paperwork once posted into the Head's signing basket and filed the paperwork away in the credit card file. It hasn't happened again.

## 5 Recommendations – Prior Year



Audit finding and implication	Severity	Recommendation	Audit findings in 2023
<b>Statutory Filings</b>  It was identified that the appointment of two new members was not filed at GIAS. These had been filed at Companies House. The Academy Trust is in breach of the statutory filing requirements of the DfE.	3	We recommend that all trustee appointments are filed as required.	We identified some differences between the dates filed at GIAS and Companies House this year. Point carried forward.
<b>Website</b>  It was identified that the Trustee information reported on the Trust website had not been updated since 2020/21, specifically the list of Trustees and the Register of Interests. Publication requirements are not being met. The information reported on the website is out of date and does not reflect the current list of Trustees.	2	Ensure that the information published on the Trust website is reviewed and updated at least annually.	This was found to have been resolved this year.
<b>Management accounts</b>  The monthly management accounts lack detail and explanations for variances on budgets. It is unclear from the minutes what is provided to trustees and how often they receive this information. Lack of challenge from trustees documented in the minutes. Year end budgets may not accurately reflect the year ahead. Unusual expenditure and income may not be identified.	2	See section starting 2.18 in the 'Academies Financial Handbook'. Ensure variances to budget are documented and discussed, and financial performance is measured against Key performance indicators.	This was found to have been resolved this year.



## Appendix 1 – Summary of adjusted and unadjusted misstatements



Under the requirements of ISA 450 *Evaluation of misstatements identified during the audit* we are required to communicate all adjusted and unadjusted audit differences, other than those which are clearly trivial, to the Trustees.

Based on your income and expenditure account, our performance materiality was set at £116,000, triviality at £5,800.

There were no unadjusted misstatements identified during the course of our audit work.

The adjusted misstatements have been summarised below;

Reconciliation of movement on funds	£
Net movement on funds per TB	18,136
Being the adjustment for capital expenditure identified in grant income	42,614
Being the adjustment to accrued income for LA grant income	8,876
Being the adjustment to prepayments for wi-fi licence capitalised	(18,991)
Being the adjustment for fixed asset additions	58,857
Being the adjustment for the Salix loan not accounted for in 2021	(23,149)
Being the adjustment for depreciation	(284,756)
Being the adjustment to capitalise the CIF retention received in year	39,701
Being the adjustment for additional capital assets identified	3,256
Being the adjustment to accruals for a late invoice	(1,833)
Being the FRS102 LGPS service cost	(95,000)
Being the FRS102 LGPS interest cost	(14,000)
Being the FRS102 LGPS actuarial gain or loss	279,000
Adjusted net movement on funds per draft accounts	46,257

## Appendix 2 - Academy sector development



Trusts operate in an ever-changing environment and need to be quick to adapt to ensure continued success. There are a number of key issues that Trustees should be aware of going forwards. These are not specific to the Testwood School and are not based on any audit findings, but are set out to provide Trustees with an indication of future developments in the sector that may be relevant.

Over the past decade, the Education sector has been experiencing a significant squeeze on funding. The Institute of School Business Leadership have reported that 41% of schools are reporting deficit forecasts for the 2023/24 financial year, 20% of these with options and 21% with serious concern. This is driven by high inflation and forecasted pay rises anticipated to increase by approximately 10%, against only a 2-3% anticipated increase in funding levels. Furthermore, the Institute for Fiscal Studies have forecasted falling pupil numbers with a 5% decrease in primary school pupil numbers anticipated between 2025 and 2028. This trend is impacting schools within London and the South-East at a greater rate than the rest of the UK. Trusts must ensure robust forecasting, models and sensitivity analysis are regularly reviewed and information is fed to senior management and trustees in order to make informed decisions.

Teacher recruitment, retention and welfare has also been identified as a key risk across many Trusts. In May 2023, TES reported there were currently around 12,000 teacher vacancies for the upcoming academic year. School leader vacancies are also growing which is indicative of the difficulties many trusts are facing in recruiting to these positions. It is therefore critical that succession planning is well considered and appropriately prioritised by trusts. In conjunction with this, it continues to be highly important to know where the skills lie within the existing leadership to ensure cover can be provided and gaps can be filled upon the departure of any members of key management. Ongoing staff risks include increased union action; increased recruitment, supply and agency costs; and increasing capacity issues due to strain and stresses on current staff. Trusts must ensure they have a comprehensive HR approach which also covers staff welfare in order to retain staff and mitigate long term absences. Reporting on HR KPI's is also important for senior management and Trustees to identify key trends and make strategic decisions.

Since 2018, there has been a 20% reduction in single academy trusts, with 88% of academies now part of a Trust with more than two schools. The movement towards larger multi academy trusts has also been seen with 20% of schools now part of Trusts with over 21 schools, as at January 2023, compared to just 3% in December 2018. This has principally been driven by Government strategy, believing that schools flourish in strong families of schools, benefitting in turn from the support of the best in the group, and the resilience that comes from being part of a large multi academy trust. Ultimately, the Trust still needs to ensure that they undertake appropriate due diligence and that systems and controls are established to continue to facilitate growth.

The need for strong estates management continues to be a key issue, with many schools in serious conditions. With CIF grants becoming increasingly difficult to obtain, it is as important as ever that capital planning policy and procedures within the Trust are robust.

## Appendix 2 - Academy sector development



ICT and cyber attacks continue to be one of the largest and growing risks to the academy sector, with a significant increase in the frequency and complexity of cyber attacks recorded over the last 3 years. A legacy of poor investment in IT and cyber security has left some Trusts more vulnerable. As the IT environment expands there is a real need for Trusts to align systems and controls, continually monitoring for weaknesses.

Fraud is also a risk for schools which is becoming a more prevalent, as a number of instances of fraud have been reported in the sector over the past year. Fraud is particularly being noted due to a lack of controls in relation to the changing of supplier bank details. Finance staff are often able to amend supplier details with no review or authorisation from SLT or accounting officers, allowing for cash to be misappropriated without immediate detection. In light of this, it is recommended that trust boards ensure the procedures in place are appropriate for the size of their academy and sufficient to detect potential frauds.

On 6th October, the Department for Education (DfE) announced that it had inflated the schools budget for 2024/25 by 0.62%, after mis-calculating pupil numbers. The error will result in schools receiving £370 million less funding than they were originally notified in July 2023. A full investigation into the quality process surrounding the calculation of the national funding formula for schools is being undertaken. Trusts will therefore need to be vigilant in adjusting their budget forecasts to account for the error.

The DfE has also published the outcome of the 2020 Teachers' Pensions scheme valuation. From 1st April 2024, the employers' contribution rate is expected to increase by 5% to 28.68%. Whilst there will be additional funding to cover this increase for the financial year 2024/24, cost for future years will be looked at as part of respective annual spending reviews. Details of the funding package have not yet been published, but are expected to be calculated on a similar basis used previously to fund the increases in teachers' pay.

Finally, there have been several amendments within the Academies Accounts Direction 2022-23, specifically with regards to estates management. Maintaining the school's estates is a requirement covered by multiple areas including the funding agreement, the Academy Trust Handbook and grant applications. There is also a requirement to include specific reference to value for money considerations within the financial statements, demonstrating appropriate use of funding and value for money. It is crucial that senior management and trustees are aware of their responsibilities in relation to estates management and that this is evaluated regularly within the risk register. The Goods Estate Management guide (<https://www.gov.uk/guidance/good-estate-management-for-schools>), updated in June 2023, should be reviewed by anyone with a responsibility for overseeing or managing estates. This will assist with preparing your estates strategy. The net carbon zero strategy for 2030 should also be included within the Trust's estate strategy.



## Changes to the ATH for 2023/24



The changes within the Academy Trust Handbook 2023 have been summarised below;

- Roles and responsibilities of members and trustees - Emphasising again the importance and value of good estates safety and management and ensuring that the board has relevant financial knowledge to govern the trust.
- Main financial requirements - Management accounts are still to be prepared on a monthly basis and shared with the chair of the trust. However, the requirement for the rest of the board to see the management accounts at least six times a year has been removed. They must still consider them when they meet. The 'must' requirement for trusts to select key financial performance indicators and regularly monitor these has also been removed however is still recommended.
- EV salary sacrifice scheme - An allowance is now made for trusts to establish Electric Vehicle (EV) salary sacrifice schemes without ESFA approval (paragraph 2.31) provided no liability falls on the trust if an employee does not meet their contractual obligations.
- Related parties - Trusts must obtain prior approval for contracts and other agreements for the supply of goods or services to the trust by a related party agreed on or after 1 September 2023, where the contract value exceeds £40,000 in the same financial year ending 31 August. This is an increase from the existing £20,000 limit.



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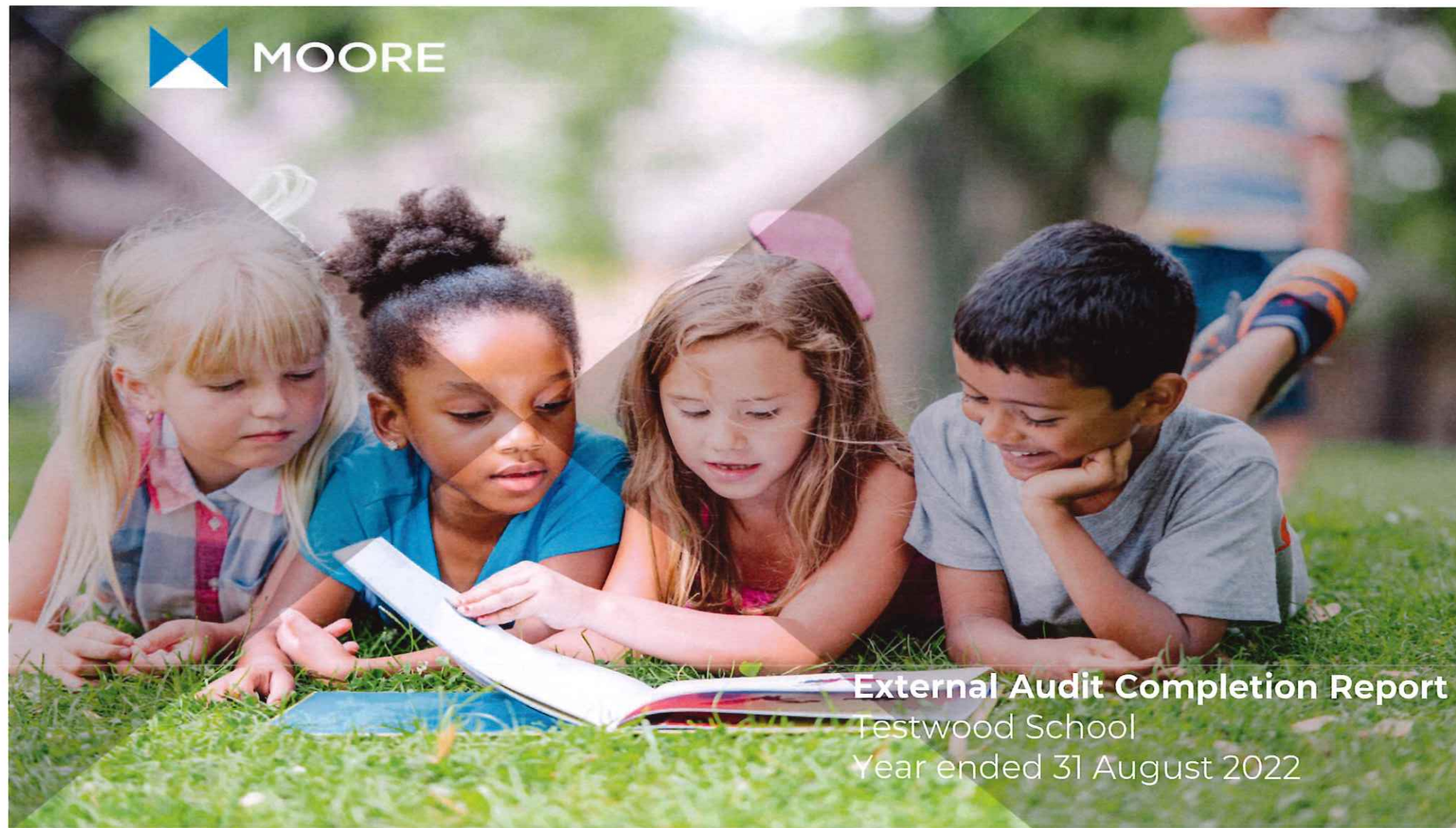
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