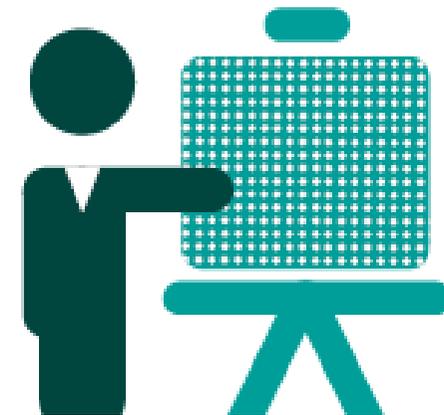


Audit Findings Report

for the year ended 31 August 2019 for

Chester Diocesan Academies Trust



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1. Introduction

This report has been prepared for the trustees of Chester Diocesan Academies Trust to bring attention to those charged with governance various matters arising from the audit of the academy trust for the year ended 31 August 2019.

Our audit and assurance procedures, which have been designed to enable us to express an opinion on the financial statements and provide a limited assurance conclusion on regularity, have included an examination of the transactions and controls thereon of the company.

The work we have done was not primarily directed towards identifying weaknesses in the company's accounting systems, other than those that would affect our audit or assurance opinions, nor to the detection of fraud. We have, however, designed our audit and assurance procedures in such a way that we felt would increase our chance of detecting any fraud.

We have included in this report only those matters that have come to our attention as a result of our normal audit and assurance procedures and, consequently, our comments should not be regarded as a comprehensive record of all weaknesses that may exist or improvements that could be made.

This report is to be regarded as confidential to the trustees of Chester Diocesan Academies Trust and is intended only for use by them, and the staff of the academy. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this report, or any part of it, is disclosed to a third party, other than to the Education & Skills Funding Agency, our written consent must be obtained.

The report is designed to include useful recommendations that may help improve performance and avoid weaknesses that could result in material loss to the academy trust or misstatement of the financial statements and other financial data.

Roles and Responsibilities

The trustees are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the trustees confirm that our understanding of all of the matters referred to in this report are appropriate, having regard to their knowledge of the particular circumstances.



2. Overview

Independence and ethical standards

We have not identified any potential threats to our independence as auditors. Please see section 3 for further details.

Audit scope and objectives

We set out the scope and objectives of our audit. Please see section 4 for further details.

Overall audit strategy

We set out our overall audit approach in section 5.

Key audit and accounting issues

We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified during our audit.

During our audit we found no instances of fraud or irregularity.

During our limited scope assurance engagement on regularity we did not identify any instances where the trust has not been compliant with the Academies Financial Handbook.

Recommendations

We are required to report to you on the significant deficiencies we found in internal controls during the course of our audit, along with any other deficiencies identified.



2. Overview

Misstatements and adjustments to the accounts

It is considered good practice to inform you of any material misstatements within the financial statements presented for audit that have been discovered during the audit. A material misstatement is one where the auditors believe that the misstatement is such as to affect the reader's understanding of the accounts. Materiality is considered in relation to the value of the misstatement and also its context and nature.

It is generally not practicable to make accounts completely accurate because judgements need to be made and it is difficult to obtain 100% of information about all transactions. Our role is to ensure that deviations from complete accuracy are not material to the reader of the accounts.

Going concern

The trustees need to give consideration to the level of reserves maintained, and consider going concern for the period to 31 December 2020, being at least 12 months from the approval of the accounts and ensure they agree with the assessment. The trustees have confirmed that they believe the academy trust's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the academy trust's needs. Our review supports the going concern status of the academy trust.

Thanks:

We would like to take this opportunity to thank the entire finance team and other staff for their co-operation and assistance afforded to us during the course of the audit.



3. Independence

Under current UK Ethical Standards we are required as auditors to confirm our independence to “those charged with governance” i.e. the trustees/directors. Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 August 2019. In addition to performing the statutory audit, we also provide the following non-audit services:

Non-audit service provided	Safeguards in place to ensure our independence
Preparation of the statutory financial statements	The preparation of the financial statements from your own draft accounts is largely a mechanical function to present the results in the necessary format required by the Annual Accounts Direction. Any adjustments required, have been made following approval. We are able to treat your board of trustees, as a body, as informed management. Furthermore, an independent UHY HY reviewer, who is not otherwise involved in the audit process, has carried out a review of all journal adjustments and the financial statements.
Certification of the Teachers’ Pension End of Year Certificate (“EOYC”)	The certification of the Teachers’ Pension EOYC does not affect our audit.
Completion of the August Accounts Return and providing an assurance thereon;	The completion of the August Accounts Return is largely an exercise involving the extraction of the relevant numbers from the financial statements and support accounting records, and the provision of an assurance report confirming that the Return has been completed consistently with the financial statements and other supporting records is not considered to affect our audit.



4. Audit scope and objectives

Our statutory audit of the financial statements is carried out in accordance with International Standards on Auditing (UK), with the aim of forming an opinion whether:

The financial statements give a true and fair view of the state of the academy trust's affairs as at 31 August 2019 and of the academy trust's result for the year then ended.

The financial statements have been properly prepared in accordance with FRS 102.

The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and the Annual Academies Accounts Direction issued by the Education & Skills Funding Agency.

The information given in the Trustees' Report for the financial year is consistent with the financial statements.

We also report on whether:

The academy trust has kept adequate accounting records.

The financial statements are in agreement with the accounting records and returns.

Other information contained in the annual report is not consistent with the audited financial statements.

Certain disclosures of trustees' remuneration specified by law are not made.

We have not received all the information and explanations we require for our audit.



5. Overall audit strategy

Risk-based audit

We performed a risk-based audit, focussing our work on key audit areas. We began by developing further our understanding of the trust's activities and the specific risks it faces. We held an initial planning meeting with key management and finance staff to ascertain management's own view of potential audit risk, and to gain an understanding of the trust's activities. We have also developed an in depth understanding of the accounting systems and controls so that we may ensure their adequacy as a basis for the preparation of the financial statements, and that proper accounting records have been maintained.

Our audit procedures were carried out, and then we ensured the presentation and disclosure in the accounts meet all the necessary requirements.

Risk-based limited assurance engagement

In addition to our audit opinion we are also required to perform a limited scope assurance engagement, reporting both to you and to the Education & Skills Funding Agency ("ESFA"), considering whether the expenditure disbursed and the income received by the trust during the period 1 September 2018 to 31 August 2019 has been applied to the purposes identified by Parliament and that the financial transactions undertaken by the trust conform to the authorities which govern them. This latter point is concerned with looking at compliance with the requirements of the various frameworks that apply to trust, including your memorandum and articles, your funding agreements, the Academies Financial Handbook(s) extant for the relevant period, the Academies Accounts Direction 2018 to 2019, the Charities Act 2011 and the Companies Act 2006.

Our approach was once again risk-based. We began by developing our understanding of the trust's own approach to ensuring the proper application of funds received and to ensuring compliance with relevant legal and contractual frameworks. We developed an understanding of the trust's governance arrangements and internal control procedures, planning our work accordingly to allow us to gain sufficient evidence to give the required limited assurance opinion. Our assurance procedures included reviewing and commenting on the Accounting Officer's Statement on Regularity, Propriety and Compliance, and the trustees' report and governance statement. We also discussed with the Accounting Officer the procedures performed so that he may sign the Regularity report.



5. Overall audit strategy

Significant risks

As part of our audit procedures we are required to consider the significant risks that require special audit attention.

Auditing Standards require us to consider:

- Whether there is a risk of fraud;
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
- The complexity of transactions;
- Whether the risk involves significant transactions with related parties;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

The identified significant audit risks were communicated to you in our audit planning report issued before our main fieldwork began. We now note the work performed and conclusions drawn on the following pages:



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Revenue recognition (mandatory risk)</p>	<p>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. The auditor’s responsibility to consider fraud in an audit of financial statements therefore is an assumption that revenue recognition is a fraud risk.</p> <p>Income from grants should be recognised when the conditions of recognition have been satisfied.</p> <p>Income from contractual arrangements should be recognised in the period in which entitlement has been earned through service delivery.</p> <p>Management exercise judgment in determining when income from grants should be recognised.</p> <p>There is also potentially management judgement in the classification of income between restricted and unrestricted funds.</p>	<p>We documented the income systems and carried out audit procedures to gain assurance over the operation of internal financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We discussed with the trustees and academy finance staff whether they are aware of any cases of fraud occurring during the year. We also reviewed FGB and Finance & Resources Committee minutes.</p> <p>Our audit testing involving sampling income balances and the associated funding agreements, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>No significant issues arose during our sample based checks including on our work on ESFA and non-ESFA income.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Management override (mandatory risk)</p>	<p>The trustees and other management have the primary responsibility for the detection of fraud, as an extension of their role in preventing fraudulent activity. Trustees should ensure a sound system of internal controls is in operation to support these, and other, objectives.</p> <p>Auditing Standards presume a significant risk of management override of the system of internal controls.</p> <p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error.</p> <p>We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p>	<p>Management often find themselves in a unique position where potentially could override routine day to day financial controls.</p> <p>Our audit considers this risk and we adapt our procedures accordingly.</p> <p>During our audit we considered the possibility of manipulation of financial results, for example through the use of journals or management estimates, such as provisions and accruals.</p>	<p>Our audit procedures have not identified any instances of management override.</p>
<p>Valuation and disclosure of the LGPS deficit and related disclosures required under FRS 102</p>	<p>This is a material provision and accounting estimate to be included with complex disclosures that are subject to a high degree of judgement.</p> <p>For 2018-19 there are specific issues such as revised mortality assumptions and the impact of the McCloud case which will affect the closing liability.</p>	<p>Review the documentation from the actuary and ensure that the assumptions therein are valid and reasonable, paying particular attention to adjustments made (or not made) in respect of McCloud and updated mortality assumptions.</p> <p>Ensure that the correct provision has been made at the end of the period and that all movements and disclosures in the period have been treated correctly.</p>	<p>The basis of the FRS 102 liability appears reasonable, and is in line with that used by other academies.</p> <p>You have instructed the actuary to prepare the FRS 102 report using their default assumptions and so McCloud has been taken into account.</p> <p>This has had the impact of increasing the closing LGPS liability, reflected as past service cost.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Regularity and propriety of income and expenditure</p>	<p>As set out in our overall audit strategy, we are required to obtain limited assurance about whether the expenditure disbursed and income received by the trust during the financial year have been applied to the purposes intended, and whether the financial transactions conform to the authorities which govern them.</p> <p>The Academies Accounts Direction lists the following matters which apply to the trust which may potentially trigger an increased likelihood of irregularity in an established academy trust:</p> <ul style="list-style-type: none"> • culture (attitude and values) within the academy trust; • a change in accounting officer, principal finance officer or significant changes in the board of trustees; • an expansion of the number of academies within the academy trust; and • changes to the scheme of delegation or major accounting systems. <p>Regularity also covers compliance with the Academies Financial Handbook which contains a significant number of 'must' requirement which the trust needs to adhere to.</p>	<p>Review of systems in place to ensure that there are financial controls in place that comply with guidelines in the Academies Accounts Direction.</p> <p>We have asked the Accounting Officer to complete a regularity checklist and AFH questionnaire asking for confirmation of compliance with Annex C 'musts'. The answers to these were reviewed and, if necessary, discussed with the AO to obtain further explanations. Where necessary the answers were corroborated with other information available to us.</p> <p>An assessment of the risk of material irregularity and impropriety across all of the academy trust's activities.</p> <p>Sample check of transactions, including purchases and salary payments, to source documentation to ensure expenditure incurred for a valid purpose and does not indicate any regularity issues.</p> <p>Review and testing of credit card transactions.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not been informed of any material control weaknesses or irregularity.</p> <p>Based on our review of the regularity checklist and AFH 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> <p>We have not noted any instances of non-compliance with the AFH.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Related and connected parties</p>	<p>We are required to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the Companies Act 2006 and Academies Accounts Direction. In particular, the Accounts Direction requires that:</p> <ul style="list-style-type: none"> • declarations of business interests have been completed by those in a position to influence the academy trust, including key staff; • contracts with connected parties have been procured following the academy trust's procurement and tendering process; • where contracts are entered into or renewed the academy trust has obtained statements of assurance (confirming no profit element was charged) and the academy trust has followed their internal processes in reviewing this; • the academy has requested, under the open book arrangement, a clear demonstration that the charges do not exceed the cost of supply; • any trustees who provide consultancy services to the academy are not receiving a profit for their services and the correct procurement and tendering process is being followed; • no connected party gains from their position by receiving payments under terms that are preferential; and • if employees are providing external consultancy that the income is being received into the academy's accounts if the work was performed within the academy's normal working hours. • relevant new related party contracts of other agreements entered into post 1.4.2019 have been notified to the ESFA in advance, and that pre-approval has been obtained for any such transactions in excess of £20,000 (including cumulatively in the year). 	<p>We discussed with management and reviewed trustee and other senior management declarations to ensure there are no potential related party transactions which have not been disclosed.</p> <p>Internal procedures in place for the identification of related party transactions were reviewed and assessed, and any relevant information concerning any such identified transactions was reviewed.</p> <p>A Companies House search was completed for each of the trustees to identify possible related parties with which the trust may have transacted.</p> <p>We have requested written management representations from you confirming the full disclosure of related party transactions.</p>	<p>We have not located any instances of non-compliance with the AFH in relation to related and connected parties.</p> <p>Based on the work undertaken, we have not identified concerns over the completeness of related party transaction disclosures.</p> <p>We have obtained written representations from you also, asking the Board and to confirm their satisfaction with the completeness of the disclosures made.</p>



6. Status of audit issues raised in prior year

As this is our first year as your auditor, we have reviewed the issues raised by your previous auditor and can confirm that they have all been resolved. Please refer to the last auditor's 1718 Management Letter for more information on the nature of those issues.



7. Recommendations for the current year

Significant deficiencies in internal control

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you. As the purpose of the audit is for us to express an opinion on the trust's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We confirm that we have not identified any significant deficiencies in internal control during the current year audit.

We did, however, note some areas where minor improvements could be made and these are listed later in this report.

We are also required to communicate other significant audit findings such:

- where we consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate in the particular circumstances of the entity;
- significant difficulties, if any, encountered during the audit; or
- other matters, if any, arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process are communicated to those charged with governance.

We confirm that we have nothing to report to you in any of the above three areas.



7. Recommendations for the current year

Other deficiencies in internal control

We also bring to your attention other deficiencies that came to our attention during our work, again along with our recommendations, and your own response:



Med

Medium risk/priority - internal controls should be strengthened to enhance operational efficiency but action is not time critical.



Low

Low risk/priority - Internal controls could be strengthened but there is little risk of material loss. This may be a point for future consideration as risks faced by the Trust evolve over time.



Advisory only. This point has been raised merely to bring something to your attention, or to highlight areas of inefficiencies or good practice.

	Priority	Area	Observation	Recommendations	Management response
1.	 Med	Payroll	The payroll control account was noted as having a brought forward difference amounting to £3,757.77.	All control accounts should be fully reconciled with any differences being ascertained, investigated and resolved.	To be reviewed and implemented.
2.	 Med	Cut offs & Accruals	A number of cut off errors were located including an understatement of accruals amounting to £11,000 for Astbury.	All invoices and work undertaken should be reviewed at the year end to ensure the cut off is as materially correct as humanly possible.	To be reviewed and implemented.



7. Recommendations for the current year

	Priority	Area	Observation	Recommendations	Management response
3.	 Med	Operating Leases	Currently all operating leases are not posted to their own separate nominal ledger which make them difficult to ascertain and treat correctly within the financial statements.	All leases should be allocated to their own separate nominal accounts going forward.	To be reviewed and implemented.
4.	 Med	Depreciation	The accounting policy for building improvements as per the financial statements, states two years straight line i.e. 50%, which is a very aggressive rate to use. Upon reviewing the Trust's financial manual of controls, it was noted that the rate is actually defined as straight line over 50 years.	For all future years, the financial statement should be updated to reflect the Trust's financial policy i.e. depreciation over 50 years rather than 2.	To be reviewed and implemented.
5.	 Med	Depreciation	The depreciation rate calculated by the Trust on playground equipment has inadvertently been set at 1% rather than 10%, as part of the calculation of depreciation.	The calculation should be updated to reflect the accurate depreciation rate.	To be reviewed and implemented.
6.	 Med	Fixed Assets	It was noted that a number of fixed assets had been included as expenses, rather than taken to the balance sheet. In addition, assets under construction from previous years, had not been transferred to the correct asset classification upon completion.	Greater controls are needed on the management and treatment of fixed assets across the Trust to ensure that they are accounted for correctly.	To be reviewed and implemented.



7. Recommendations for the current year

	Priority	Area	Observation	Recommendations	Management response
7.	 Med	Fixed Asset Registers	The current fixed asset registers do not fully show the fund classification of each asset and therefore the classification of the associated depreciation charge.	All fixed asset registers should be updated to include the fund category and fully reconciled and cross referenced back to the financial statements.	To be reviewed and implemented.
8.	 Med	Deferred Income	Certain income has been deferred on the basis that the expenditure will be incurred in the following year, however, the income should only be deferred where it relates to the next year rather than to match any associated costs. Any balance should therefore be included within the closing funds for the current year and carried forward.	Only income which spans the accounting periods should be deferred.	To be reviewed and implemented.



Appendix I – Emerging and topical issues for academies

Further clarification on related party rules

The ESFA have recently updated their guidance on related party transactions.

This confirms that there is no need to notify or seek approval for any income from related parties.

For expenditure related party transactions with a new supplier, academy trusts must, however, confirm whether they have previously received a donation from the related party.

Academy trusts must continue to declare their intention to enter into a new agreement before confirming the transaction with a related party supplier. This includes agreements being renewed with a related party supplier.

Any single proposed contract or agreement exceeding £20,000 or a proposed contract or agreement of any value which means the total value of contracts or agreements with the same related party exceeds £20,000 in a financial year needs prior approval.

Risk register

Whilst most academy trusts maintain a risk register, and this has always been a 'should' best practice requirement, the 2019 AFH has made this a new 'must' requirement. To be effective the risk register should be a working document that is reviewed regularly. This will become increasingly important given the requirement to link the programme of internal scrutiny (see next point) to the risk register and identified risks.

Internal scrutiny

ESFA are increasing the focus on internal scrutiny for 2019/20 and have recently released an internal scrutiny best practice guide which we recommend you read.

The work needs to be directed by the audit committee (or finance committee fulfilling that role) and the programme of work – which should include non-financial areas as well as financial ones – should link clearly from the risk register.

A copy of your most recent internal scrutiny report will need to be submitted this December along with the accounts and year end external audit findings report.

In 2019-20 it will be necessary to submit an 'annual summary' showing the internal scrutiny work that has taken place and the conclusions reached.

Self-assessment tool and checklist

The ESFA have updated the [school resource management self-assessment tool](#) and this must be completed by all academies in 2019-20 and annually thereafter.

It is also a requirement to complete and submit a related checklist by Thursday 14 November 2019. The checklist asks a number of questions of trust boards in six areas of resource management; governance, trust strategy, setting the annual budget, staffing, value for money, and protecting the public purse.

Fraud risk management

Academies are increasingly targeted by fraudsters as cybercrime in general becomes more prevalent.

The ESFA have highlighted resources available to academy trusts to help them minimise this risk. Their [Guide to Reducing Fraud](#) is a document all trustees and finance staff should read and there is specific guidance linked from here on [cyber-crime and security](#).

Statutory policies

DfE [guidance on statutory policies](#) explains clearly the policies academies should have in place in a variety of area, and indicates how often these should be reviewed, and the suggested approval level for each policy.

LGPS employer rates change in April

The LGPS was subject to a full revaluation as at 31 March 2019 and this means a change to the employer contribution rate from 1 April 2020.

We are expected Local Authorities to advise academies of their new rate towards the end of 2019.

TPS pension grant

The cost of increased TPS employer contributions from September 2019 is covered by the Pension Grant until 31 August 2020. The Government has recently indicated that this funding will now continue beyond September 2020.

