

The Cedars Academy Trust

Audit Strategy and
Planning Memorandum

Period ended 31 August 2022

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Your contacts in relation to this report are:



Kevin Shotton
Partner
kevin.shotton@cliveowen.com



Aimee Brown
Manager
aimee.brown@cliveowen.com

Section 1: Audit purpose and objectives

1.1 Introduction

The purpose of this document is to explain the scope of the financial statement audit and the regularity assurance engagement, our proposed approaches, and to highlight the key risks that we will be focusing our audit work upon. This forms part of the ongoing communications we are required to make under International Standard on Auditing (UK and Ireland) 260, 'Communication of audit matters with those charged with governance'. It also forms part of our communication in respect of the regularity assurance engagement.

Our audit strategy has been developed following discussions with management and a review of the key risks facing the academy trust.

For the avoidance of doubt, the auditor is not required to design audit procedures for the specific purpose of identifying matters of governance interest, nor does the audit relieve management or those charged with governance of their responsibilities.

1.2 Audit purpose

Financial statements

Our primary responsibility as external auditor is to form an opinion as to whether the financial statements of The Cedars Academy Trust, prepared under UK accounting standards, show a true and fair view and are prepared in accordance with relevant legislation. We carry out our audit in accordance with International Auditing Standards (ISAs). For the academy trust we will be taking into account the requirements of:

- UK GAAP (FRS 102)
- the Academy Accounts Direction (AAD)
- the Charities Statement of Recommended Practice 2015 (SORP 2015); and
- the Companies Act 2006

Regularity

We are also required to provide a 'limited assurance' opinion on whether, in all material respects, the expenditure disbursed and income received during the period ended 31 August 2022 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them (the ESFA regularity audit opinion).

1.3 Our service objectives

Our objective is to deliver beyond the provision of an audit opinion in order to exceed the academy trust's expectations.

We aim to:

- deliver a quality, cost effective audit focusing on the key risks
- minimise disruption to your staff as far as is reasonably practical
- report transparently within your required timetable
- provide recommendations on current issues, internal controls and future developments; and
- always consider the commercial sensitivities of any recommendations

Section 1: Audit purpose and objectives

1.4 Independence

In accordance with ISA 260 'Communication of audit matters to those charged with governance' we are required to communicate to you all relationships between Clive Owen LLP and the academy trust that may be reasonably thought to have an impact on our independence. We are required to do this at the planning stage or when significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards we have in place.

Appendix 1 sets out our confirmation of independence, together with other relevant matters.

1.5 Electronic publication of financial statements

The academy trust will be required to publish its financial statements on its website. It is the responsibility of the academy trust to ensure that the document on the website presents the correct financial information and audit opinion.

Section 2: Audit approach

2.1 Audit approach and timings

Our audit approach involves understanding and assessing the academy trust's systems and processes that can impact on the financial statements. This understanding drives our identification of audit risk areas where there is the greatest risk of misstatement. The audit process can be broken down into 4 key stages in order to arrive at our audit opinion. These key stages and the key elements of work at each stage are summarised below:



The above timetable assumes that Covid-19 does not impact on control evaluation, onsite work and reporting timetable. Should the timetable require change as a result of Covid-19 we would discuss a revised timetable with management and share a revised plan with the Trust Board.

During the course of our audit we will maintain sufficient awareness of the academy trust's activities to ensure that our audit risk assessments remain valid.

2.2 Regularity audit

Our ESFA regularity audit will include testing compliance with authorising legislation, assessing compliance with other rules/regulations that define regularity and regard is also made to propriety over the use of public funds.

Whilst we report on the regularity engagement separately, the work performed is integrated into our financial statement audit procedures. This enhances the efficiency of the work and helps minimise disruption to your staff.

Section 2: Audit approach

2.3 Materiality

Our initial planning materiality for the financial statements has been set at £38,000 based on prior year accounts and the projected outturn for the current year. It will be updated for the actual year end figures. We will report to you all errors that we identify above £1,900. Those below this level would be considered trivial.

Certain errors may be considered material by their nature or context even if below this headline amount.

- Material errors by nature could be small in numerical terms, but of a sensitive nature for disclosure purposes. An example of this would be the salary disclosures of any paid to a member of the Trust Board.
- Material by context would relate to an item that would switch an accounting figure from one result to another. An example of this would be changing a surplus to a deficit if it was deemed significant to a user of the accounts.

Materiality for our regulatory work is influenced by legal and regulatory requirements. A monetary value of materiality will only be considered for sampling purposes and this figure will be based on the figures in the financial statements.

It should be noted that transactions that are considered immaterial for accounts classification purposes may become significant for regularity reporting purposes if there is a failure of the key principles of regularity, propriety or funding compliance.

It should also be noted that regularity breaches are required to be reported directly to the ESFA by way of our audit management letter, or in very serious situations directly in relation to a specific issue.

2.4 Fraud

In accordance with ISA (UK and Ireland) 240 'The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements', we will consider the susceptibility of the academy to fraud, taking account of the business and control environment established and maintained by management, as well as the nature of transactions, assets and liabilities recorded in the accounting records.

However, the principal responsibility for the prevention and detection of fraud rests with management, who should not rely on the audit to discharge those functions.

We will report, as soon as practicable, any suspected or discovered fraud which comes to our attention, even if the potential effect on the financial statements is immaterial, unless there is a legal or regulatory requirement to report directly to a third party.

2.5 Internal control environment

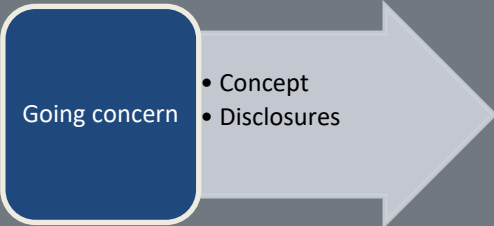
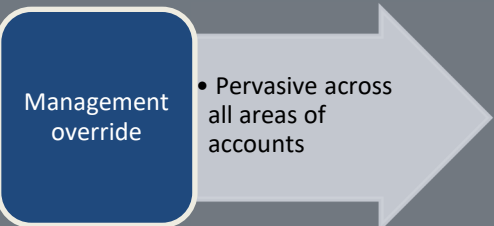
As part of our review of key process and systems we will update our prior year assessment of the control environment. This will include following up on prior year control recommendations made. The control observations made in the prior year audit are summarised in Appendix 2.

Section 3: Audit risks

3.1 Overview of key audit risks affecting our audit plan

Set out in the following pages is an overview of those matters that we consider to be the key audit risks arising from our preliminary risk assessment for the audit period ended 31 August 2022, together with our proposed audit approach to these risks.

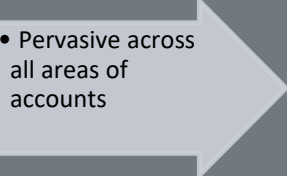
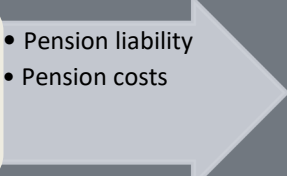
The risk assessment process is designed to ensure that we focus our audit efforts on the areas of highest audit risk to the academy trust's financial statements. The risk assessment and our responses will be updated throughout the engagement to ensure that all areas of material risk to the financial statements are addressed by our audit.

Audit risk and areas affected	Impact on audit plan
 <p>Going concern</p> <ul style="list-style-type: none"> • Concept • Disclosures 	<p>Going concern is a fundamental accounting concept in the preparation of the financial statements. Adopting this basis assumes the entity can continue in operation for at least 12 months from the approval of the financial statements. It is the responsibility of the Trust Board to assess the ability of the entity to continue as a going concern.</p> <p>We will review management forecasts and challenge the reasonableness of assumptions made. We will ensure disclosure within the financial statements is appropriate.</p>
 <p>Management override</p> <ul style="list-style-type: none"> • Pervasive across all areas of accounts 	<p>In accordance with ISA 240 there is a risk relating to the possibility of management override leading to manipulation of the financial results.</p> <p>Management is in a position to override internal controls and therefore may record entries in a way which would seek to present a different financial picture to reality. It is felt that this risk is heightened in more judgemental areas of the accounts, such as provisions and other accounting estimates.</p> <p>We will review and assess the appropriateness of any significant and key accounting judgements. We will also assess the impact of any changes in the method of calculation.</p> <p>We will consider any significant unusual or contentious transactions that come to our attention and ensure the appropriate accounting treatment appears to have been followed.</p> <p>We will review journal entries, using data analytics software, in order to identify any instances where normal procedures may have been overridden.</p>

Section 3: Audit risks

Audit risk and areas affected	Impact on audit plan
<div style="display: flex; align-items: center;"> <div style="border: 1px solid white; border-radius: 15px; padding: 10px; margin-right: 20px; background-color: #1a4a8e; color: white;"> Revenue recognition and restricted income </div> <div style="font-size: 2em; color: #ccc;">➔</div> <ul style="list-style-type: none"> Revenue Accrued income Deferred income Fund allocation </div>	<p>In accordance with ISA 240 this is a higher risk area in which we need to ensure all material income due to the academy trust is recognised in the correct period.</p> <p>The academy trust receives significant levels of funding from government bodies. We will review the accounting treatment for material income streams to ensure income is recognised appropriately based on the reason for receipt. In addition we will consider the potential for any claw back of any funding if terms of grant are not met.</p> <p>We will be alert to any netting off of income against expenditure that may be designed to conceal irregular expenses / payments. Furthermore we will review expenditure incurred to ensure it appears in accordance with grant conditions.</p>
<div style="display: flex; align-items: center;"> <div style="border: 1px solid white; border-radius: 15px; padding: 10px; margin-right: 20px; background-color: #1a4a8e; color: white;"> Accounting estimates </div> <div style="font-size: 2em; color: #ccc;">➔</div> <ul style="list-style-type: none"> LGPS Land and building valuations Depreciation Prepayments Accruals </div>	<p>A revised ISA 540 is effective for the current year audit and it enhances the work required of auditors in respect of accounting estimates.</p> <p>Accounting estimates are considered to be a higher risk area of the audit as it is through estimation and judgement that management could attempt to manipulate the financial picture. The nominal ledgers listed are where there may be an element of estimation.</p> <p>We will seek to obtain evidence post year end that supports the position taken by management at the year end. However, where this is not possible, we will interrogate and seek evidence to support the assumptions used in arriving at the figure included within the financial statements to ensure it is reasonable. Where contradictory evidence is obtained, we will challenge management as to whether this evidence would arrive at a more accurate figure.</p>

Section 3: Audit risks

Audit risk and areas affected	Impact on audit plan
<div data-bbox="183 387 379 562" style="border: 1px solid white; border-radius: 15px; padding: 5px; display: inline-block; background-color: #0056b3; color: white; text-align: center; width: 100px; height: 60px;"> ESFA regularity review </div> <div data-bbox="384 412 580 495" style="display: inline-block; vertical-align: middle; margin-left: 10px;"> <ul style="list-style-type: none"> • Pervasive across all areas of accounts </div> 	<p>We will review procedures and controls and test compliance with funding and other conditions in accordance with the ESFA regularity framework.</p> <p>The Academies Accounts Direction gives detailed guidance on the work expected of auditors to cover areas such as:</p> <ul style="list-style-type: none"> - delegated authorities; - transactions with connected parties; - governance; - internal controls; - procurement; and - income. <p>We will review the terms and conditions of key grants to ensure that the academy has complied with these. We will review academy trust expenditure to ensure that it is permissible within the academy trusts framework of authorities, appropriately authorised and in line with funding agreements. Alcohol and excessive gifts continue to be banned transactions regardless of the source of funds used.</p> <p>Our review of regularity will include the use of data analytics to assist in identifying any transactions that run contrary to the requirements of the Academy Financial Handbook.</p>
<div data-bbox="183 1216 379 1391" style="border: 1px solid white; border-radius: 15px; padding: 5px; display: inline-block; background-color: #0056b3; color: white; text-align: center; width: 100px; height: 60px;"> LGPS Retirement Benefits Position </div> <div data-bbox="384 1240 580 1301" style="display: inline-block; vertical-align: middle; margin-left: 10px;"> <ul style="list-style-type: none"> • Pension liability • Pension costs </div> 	<p>The valuation of the LGPS pension liability represents a significant judgement due to the number of assumptions made by the actuary in calculating the figure. Reliance must be placed on the expertise of the independent actuary to try to minimise the risk of material misstatement.</p> <p>As this is a specialist area, we will confirm that the firm that performs the valuation on your behalf has the necessary skills and experience to perform these tasks, so that they can be relied upon, and that the valuer is independent of the academy trust.</p> <p>We will compare the actuarial assumptions used for this academy trust with those used in other valuations to ensure consistent and reasonable given the current economic environment. We will also verify key data used in the calculation to ensure its integrity.</p>

Section 4: Audit fees

Our agreed fees in respect of this audit will be £8,600 (excluding VAT). This fee includes the following:

- Audit of financial statements;
- Regularity audit; and
- Audit of AAR.

Our quotation includes attendance at the pre-year end and finalisation meeting, plus one additional meeting, usually the Audit Committee. Additional meetings will be charged at our standard hourly rates.

The academy trust also receives the following services at **no additional cost**:

- Invitations to various seminars held during the year;
- The provision of informal advice;
- Briefing documents, newsletters and emails on technical, tax and governance issues;
- A copy of the Kreston benchmarking survey.

We have agreed a list of information requirements, broken down into specific process areas, for management to provide. A timeline for this information has been agreed for us to be able to meet the required deadlines for approval of the financial statements. If the information is not provided in accordance with the agreed timeline we cannot guarantee that we will be able to complete the work within the agreed timescales, or additional fees may be chargeable. **In particular it is essential that the trustees report is received at the start of the onsite fieldwork – if this is not received by this point an additional fee of £500 will be charged.**

Appendix 1: Independence

Assessment of our objectivity and independence

In accordance with ISA 260 we must communicate our independence to those charged with governance at the planning stage of the audit. As part of this exercise we must disclose any relationships that may impact on our independence and objectivity, together with the safeguards applied to protect against these threats.

This section therefore addresses:

- General firm procedures to address independence and objectivity
- Independence and objectivity considerations in relation to non-audit services provided; and
- Independence and objectivity considerations relating to other matters

General procedures to address independence and objectivity

All Clive Owen LLP personnel must adhere to strict regulatory, professional and internal independence requirements. All Partners and staff must annually certify their compliance with these personal independence rules and also disclose any links or relationships they may have to audit clients of the firm. Clive Owen LLP is authorised by the Institute of Chartered Accountants in England and Wales (ICAEW), to carry out statutory audits. Members of this institute and other accounting bodies are bound by the Ethical Code, which covers, inter alia, objectivity, independence, confidentiality and integrity. Our internal policies are compliant with the rules and regulations imposed upon auditors.

Our general procedures have not identified any independence issues.

Non- audit services

During the year we have provided the following non- audit services to the academy:

- Teachers' Pension Scheme audit

The preparation of statutory accounts and AAR does not involve any judgement on our part, it is a mechanical exercise using your own financial information. Any adjustments made to the numbers are formally approved by management. In addition, we also use separate teams for the provision of non-audit services. We are satisfied that the level of fees received for non-audit services does not impact on our independence or objectivity.

Other matters

There are no other matters that in our opinion bear on our independence and should be disclosed to you.

Confirmation of independence

We confirm that as at the date of this report, in our professional judgment, Clive Owen LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Partner and audit staff is not impaired.

Appendix 2: Prior year control recommendations

Classification	Control weakness and implication	Recommendations
A	<p><u>Declarations of interest</u></p> <p>The annual declaration of interests has not been not fully completed by all Trustees.</p> <p>The academy trust may unknowingly enter into transactions with related parties.</p>	<p>Declarations of interest to be updated to ensure all potential related parties are disclosed. Trustees should be reminded to include all business interests (and those of close family members) on these forms.</p>
A	<p><u>VAT</u></p> <p>A partial exemption calculation is not being prepared.</p> <p>This may result in VAT claims being overstated.</p> <p>Only one VAT claim was made in the period from September 2020 to April 2021. This could impact on the academy trusts cashflow.</p>	<p>The academy trust should prepare partial exemption calculations when submitting VAT claims together with an annual one as required by HMRC.</p> <p>VAT claims should be submitted on a regular basis.</p>
A	<p><u>School Fund</u></p> <p>Not all transactions in the school fund were posted.</p> <p>Movement not posted on a timely basis may result in management accounts reviewed by Trustees being misstated.</p>	<p>Post all transactions in the school fund accounts and reconcile the balance.</p>
A	<p><u>Payroll</u></p> <p>ID for an employee (L Service) is not held on file.</p> <p>This could expose the academy trust to possible fraud and not being able to verify an employee's existence.</p>	<p>To hold a copy of ID on file for every employee.</p>
A	<p><u>Pupil Premium</u></p> <p>The pupil premium information for the year has not been published on the website.</p> <p>Failure to publish the Pupil Premium information on the academy's website is a breach of regulations.</p>	<p>Publish Pupil Premium information on the website year on year.</p>

Appendix 3: Accounting framework and developments

Accounts direction

The Academy Accounts Direction 2021 to 2022 was issued on 31 March 2022.

Academies have to report under this direction, which combines corporate with charity SORP reporting requirements. This means the annual financial statements must contain:

- A comprehensive Trustees report
- A governance statement
- A statement of regularity, propriety and compliance
- A statement of Trustees responsibilities
- An independent auditor's report on the financial statements
- An independent reporting accountant's report on regularity
- A statement of financial activities
- A balance sheet
- A cash flow statement
- Supporting notes that deal with revenue account and balance sheet items, and also funds.

The accounts are due to be submitted to the ESFA by 31 December each year.

The main changes in the current year are as follows:

- Clarification that an academy trust should describe the organisational structure of any subsidiaries, joint ventures, or associates within their trustees' report
- New section to the governance statement which requires academy trusts to explain how conflicts of interest are managed
- New disclosure requirement on severance payments to reflect changes in guidance published by HM Treasury. This does not change existing disclosure on special staff severance payments
- Updated the guidance on service concession arrangements, such as PFI
- New section to provide guidance on the accounting treatment for business rates effective from 1 April 2022
- Removed the previous requirement to submit dormant accounts to ESFA
- Removed the requirement to produce trading accounts for teaching school (hubs) as separate notes to the financial statements. Clarification on where and how transactions relating to such activities should be shown in the rest of the financial statements. Guidance extended to cover other types of hub which academy trusts may operate.