

Sawston Village College Academy for YEAR ENDED 31 AUGUST 2016

AUDITORS' MANAGEMENT LETTER – YEAR ENDED 31 AUGUST 2016

Presented to the Board of Governors of Sawston Village College by MHA MacIntyre Hudson on 21 November 2016

MHA MacIntyre Hudson present this report solely for the attention Sawston Village College and for the use of the Trustees and senior management team. We note that the Academy is required to provide a copy of this report to the Education Funding Agency (EFA). The report has been prepared solely for the purpose of recording the audit scope, approach and risk areas and for communicating audit issues raised with those charged with governance.

The report has been prepared in compliance with the EFA's requirement for reporting to both the Trustees and the EFA through a management letter. No reports may be provided to third parties, with the exception of the EFA, without our prior consent. Consent will only be granted on the basis that such reports are not prepared with the interests of anyone other than the academy in mind and we accept no duty of care or responsibility to any other party. The report may not be relied upon for any other purpose. No responsibilities are accepted by MHA MacIntyre Hudson towards any party acting or refraining from action as a result of this report.

Contents

1.	Contact details	1
2.	Summary	1
3.	The audit process and areas covered by the audit assignment	1
3.1	Audit approach and scope	1
3.2	Areas covered by the audit	2
3.3	Materiality	6
3.4	Independence and ethical considerations	6
4.	Amendments to the financial statements	7
5.	Significant concerns	7
5.1	Regularity issues	8
6.	Internal control deficiencies	9
7.	Audit findings of prior years	12
8.	Issues highlighted for future periods	15
8.1	Management accounts	15
8.2	VAT	15
8.3	Website information	15
8.4	Charities SORP	15
8.5	The Apprenticeship Levy	16

1. Contact details

Engagement Partner – Stuart Manning stuart.manning@mhllp.co.uk

Audit manager – Sarah Whytock
sarah.whytock@mhllp.co.uk

MHA MacIntyre Hudson
8 – 12 Priestgate
Peterborough
PE1 1JA

01733 568491

2. Summary

This is our post audit report and management letter to the Trustees of Sawston Village College following our audit of the financial statements for the year ended 31 August 2016. This report summarises key issues in connection with the audit of the financial statements and with the regularity assurance engagement, which we consider should be drawn to the attention of the Trustees.

It should be noted that a copy of the management letter should be submitted to the Education Funding Agency by 31 December 2016 together with the Academy financial statements.

Purpose of our audit work

The purpose of the audit is to report our audit opinion in the audit report of the financial statements for the year ended 31 August 2016.

Audit Opinion

At the date of this report, no modifications have been proposed to the audit report on the financial statements to 31 August 2016 or to the regularity assurance report at that date.

Scope of audit

The scope of the audit and the work completed by MHA MacIntyre Hudson are detailed in Section 3.

Management letter issues raised are included in Sections 5 and 6.

3. The audit process and areas covered by the audit assignment

3.1 Audit approach and scope

The objective of the audit of the financial statements is to enable us to provide an audit opinion on whether the financial statements of the academy show a true and fair view of the state of the Academy Trust's affairs at 31 August 2016 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended and whether the information in the Trustees Report is consistent with the financial statements.

We also consider whether the financial statements comply with United Kingdom Generally Accepted Accounting Practice, the Academies Accounts Direction 2015 to 2016 issued by the Education Funding Agency and the Statement of Recommended Practice for Charities.

Our audit work is designed to provide the required assurance that the financial statements are free from material error, and to enable us to have a reasonable expectation of detecting material misstatements in the financial statements that result from irregularities or fraud. However, our audit of the financial statements is not a comprehensive report covering all of the systems and controls.

Our general audit approach was determined by our assessment of the audit risk, both in terms of the potential misstatement in the financial statements and of the control environment in which the company operates. We tested controls, carried out analytical review tests and completed substantive testing, verifying specific transactions or

balances. At the planning stage, we designed audit tests to provide us with sufficient audit evidence to support an opinion as to whether the financial statements show a true and fair view.

To summarise our approach, we:

- updated our understanding of the organisation and its environment;
- reviewed the design and implementation of key internal financial control systems; and
- planned and performed an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

Significant risks are those which are derived from business risks that may result in a material misstatement, relate to unusual transactions that occur infrequently, or judgemental matters where measurement is uncertain. In areas where we identified the potential for significant risk, we extended our audit testing to include more detailed substantive work. Our work in other areas was proportionately less detailed.

- Reviewing the register of interests and minutes to ensure that all related parties have been disclosed adequately;
- Reviewing related party transactions in respect of no-profit issues;
- Checking that all capital expenditure has been correctly identified in the accounts; and
- Checking restricted income and expenditure allocation.

3.2 Areas covered by the audit

During the course of our audit work and regularity engagement we reviewed the accounting systems and procedures operated by the Academy. Our work included:

- Reviewing the existence and completeness of GAG and other income;
- Review of bank reconciliations;
- Checking the authorisation of expenditure;
- Review of payroll control, calculation and authorisation;
- Review of authorisation and validity of journals;
- Checking the validity of balance sheet items;
- Checking that income and expenditure relating to the General Annual Grant has been reflected accurately in the accounts;

We considered the following to be key areas of focus:

Key Area	Considerations on approach
<p>Existence and completeness of income - Restricted Funding - General Annual Grant - GAG</p> <p>There is a risk relating to the restrictions on expenditure of the GAG income, being restricted funding available only for specific expenditure.</p> <p>In addition there remains a risk relating to GAG carried forward.</p>	<p>We tested the allocation of income received to ensure it is restricted; the expenses met by the GAG reserves, and reviewed supporting records to ensure that GAG expenditure is correctly allocated. We tested the records to ensure that the expenses are appropriately accounted for in the GAG restricted funds.</p> <p>We checked that the appropriate carried forward GAG is recognised in line with current guidance from the Education Funding Agency (EFA) requirements included in the Academies Accounts Direction 2015/16. We reviewed the disclosure notes on the GAG balances carried forward, to ensure that these are appropriate and comply with the EFA requirements.</p>
<p>Existence and completeness of income - Grant Funding and other income</p> <p>There was significant grant funding received by the academy, in addition to the GAG funding.</p> <p>Other income should be recognised as restricted income where appropriate, and in accordance with SORP 2015 and the funding agreement.</p>	<p>The Academy's accounting policies in respect of restricted income and unrestricted income was reviewed. We ensured that the accounting policy correctly reflected the requirements of the AAD and SORP 2015 in respect of the entitlement, probability and measurement of the income.</p> <p>We also reviewed the allocation of income to restricted and unrestricted funds.</p>

Key Area	Considerations on approach
<p>Disclosure of Going Concern</p> <p>The Trustees are responsible for assessing the ability of the Academy to continue as a going concern for a period of not less than 12 months following the anticipated date of approval of the accounts of the financial statements. Going concern consideration is a key area of our audit.</p>	<p>We reviewed the cash flow forecasts and budget forecasts of the academy and consider the assumptions made in relation to going concern to ensure these remain appropriate, ensuring that the Academy is operating within its financial limits and it has sufficient resources to continue for at least 12 months following the date of approval of the financial statements.</p>
<p>Authorisation and validity of expenditure</p> <p>The Trustees are responsible for ensuring that expenditure from restricted funds is authorised and correctly allocated.</p>	<p>We reviewed the allocation of income and expenditure of restricted and unrestricted funds, checking that expenses are correctly allocated and used for the purposes intended.</p>
<p>Accuracy and completeness of payroll: control, calculation and authorisation</p> <p>Salary costs are the largest item of expenditure of the academy.</p>	<p>We reviewed the reconciliations of the payroll records with the disclosures in the financial statements. We tested controls over payroll and completed substantive testing to provide assurance that the payroll information is accurately reflected in the financial statements.</p>
<p>Authorisation and validity of journals</p> <p>Journal entries are an area of risk to the financial statements.</p>	<p>We reviewed all significant journals made in the accounting records to assess validity and accuracy.</p>
<p>The validity and valuation of balance sheet items</p> <p>Debtors and creditors are significant items in the balance sheet.</p>	<p>We tested samples of debtors, creditors, prepayments and accruals. We agreed all material balances and reviewed cut-off, ensuring that material balances are complete and included at the appropriate amounts.</p>

Key Area	Considerations on approach
<p data-bbox="120 245 996 277">Valuation of the Pension Scheme Liability</p> <p data-bbox="120 300 996 432">The pension liability represents the Academy's share of the deficit of the Local Government Pension Scheme. The amount recognised is an estimate, and has been recorded from the valuation undertaken by an actuary out 31 August 2016.</p> <p data-bbox="120 475 996 539">There remains a risk that the amount may be materially misstated if the assumptions used by the Academy's actuary are not appropriate.</p>	<p data-bbox="996 300 2119 475">We reviewed the actuarial valuation for the Academy that has been presented by the actuary. We completed review procedures on the estimates to determine our reliance on this work. We ensured that the Academy checks the data which has been provided for the actuarial report and we considered the relevance of the assumptions used by the actuary in preparing the 2016 valuation.</p> <p data-bbox="996 512 2119 576">We checked the pension disclosures in note 23 to the financial statements to ensure these reflected the assumptions used.</p>

3.3 Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and the impact of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

We have assessed the materiality for this assignment by considering the total income of the academy, net of capital income together with the relevant expenditure, gross and net assets at 31 August 2016 and other relevant indicators. A lower measure of materiality was set for those specific areas where the nature of the transactions requires this, for example in respect of related party transactions.

Where individual errors, or accumulated errors found during the course of the audit, are in excess of materiality, these are discussed with you and adjustments made to the financial statements. If the adjustments had not been made, our audit report would be modified. Where adjustments are found during the audit which are below the relevant materiality level, they have been sent to you for consideration by the Trustees.

3.4 Independence and ethical considerations

Under current UK Ethical Standards, we are required to write to you to give you full and fair disclosure of any matters that may relate to our independence, or the perception of our independence, as the Academy's auditors. The Ethical Standards issued by the Auditing Practices Board apply to this assignment.

MHA MacIntyre Hudson operates safeguards in order to ensure that we act independently.

We have ensured that the partners and staff on this audit do not have any connections with the academy, or with its trustees or its staff.

We note that in addition to performing the statutory audit, we also provide the following non-audit services:

- a) Provide general advice as required.

The following safeguards are in place in respect of the provision of the above non audit services to ensure our independence:

- a) General advice and assistance with accounting queries during the period is not considered significant for this academy.

We confirm therefore that there are no further significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board (APB) Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

4. Amendments to the financial statements

A summary of adjustments made to the academy TB to finalise the financial statements and also the unadjusted misstatements have been sent to you.

As Trustees of Academy, you are responsible for the preparation of the financial statements and for the review of the adjusted and unadjusted items. Trustees are required in the letter of representation to confirm that the recorded items do not require adjustment in the financial statements. Those below the trivial threshold will not be included in the letter of representation.

5. Significant concerns

During the course of our audit and regularity assurance engagement for the year ended 31 August 2016 a number of matters arose which we consider should be brought to your attention. We note that these matters came to light during the course of our normal audit and assurance tests. These tests are designed to assist us in forming our opinion on the financial statements and providing a limited assurance conclusion on regularity. Our tests may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit and assurance tests, we would, of course, inform you as soon as practical.

We note in this section the issues arising from our regularity audit. Significant concerns arising from the 'true and fair' audit of the financial statements, which do not impact regularity, are included at Section 6. The importance of these issues has been considered and the perceived risk rated as high, medium or low, following our discussion with A and B. Recommendations for changes in procedures in order to address these areas have also been included.

Regularity opinion

Our regularity opinion in the financial statements must reflect all significant and material issues that have been raised in this management letter.

There are no significant issues detailed in this management letter which are required to be included in the regularity opinion, hence the regularity opinion in the financial statements has not been modified.

Where we have identified areas of irregularity, but have concluded that the irregularity is not material by virtue of the value or nature of the issue, this has been included in the summary below. This is included in order for the Education Funding Agency to have full information relating to all regularity issues, enabling them to draw an overall conclusion on regularity in the Academy Trust.

(need to distinguish then those that are material (and lead to reporting in the Regularity opinion, and those that are not material but included below for completeness)

The Trustees' responses to the issues raised, together with a timescale for action, have been included where these have been received prior to the finalisation of this report.

Recommendations made by us in the previous year relating to the audit of the financial statements and the regularity audit have been included together with any changes on the issues raised.

5.1 Regularity issues

<i>Regularity deficiency and potential consequences</i>	<i>Significance and recommendations</i>	<i>Trustees' response</i>	<i>Timescale and responsibility for implementation</i>
<p>Bank Reconciliations</p> <p>The EFA's "Academies Financial Handbook" stipulates that "all control accounts must be reconciled regularly, and signed to show they have been checked."</p> <p>We found reconciliations were not signed to show they had been checked for the following periods:</p> <p>Sept 2015 Oct 2015 Jan 2016 Feb 2016 May 2016</p> <p>These findings indicate that accounts are not being reconciled appropriately in line with regulation.</p>	<p>We reiterate the importance of regularly reconciling control accounts, to ensure ongoing financial health can be effectively monitored.</p>	<p>Reconciliations are carried out on a regular basis. The reconciliations in question were mid-month and carried out for operational reasons in the finance department. All formal monthly reconciliations had been signed in line policy. All reconciliation in future will be signed</p>	<p>Immediate</p>

6. Internal control deficiencies

<i>Deficiency and Potential consequences</i>	<i>Significance and Recommendations</i>	<i>Trustees' Response</i>	<i>Timescale and responsibility for implementation</i>
<p>MEDIUM RISK</p> <p>From a review of credit card statements, it was noted that alcohol purchases in the region of £1,045 had been made throughout the year.</p>	<p>We are aware from inspections of other Academies that the EFA do not approve of alcohol being purchased. The Governors should specifically approve this and the Academy needs to continue purchasing from unrestricted funds.</p>	<p>The academy has a cinema which screens films and NT Live viewings to the local community evening events. In order to generate more income to enhance this facility wine is available for adult ticket holders to purchase during the interval. The school has an alcohol licence for the premises in question and the cost of the alcohol is paid for out of the income generated from these screenings.</p>	
<p>MEDIUM RISK</p> <p>From a review of staff expense claims, it was noted that the head's expenses were signed off by the head and not by the Chair of Governors or the Chair of the Resources Committee. This is not inline with the requirements stated in the Academy's Financial Regulations.</p>	<p>We recommend that all expense claims of the head are signed by the Chair of Governors or the Chair of the Resources Committee as stated in the Academy's Financial Regulations.</p>	<p>This claim should have been signed off by the Chair</p>	<p>Immediate. Bursar to ensure future claims are signed off before being processed</p>
<p>LOW RISK</p> <p>Declaration of business interests</p> <p>The declaration of business interests of two governors were found to be incomplete following a review of directorship information available on Experian.</p>	<p>We acknowledge that only "relevant" business interests require public disclosure via the academy's website.</p> <p>However, it is important that all business interests are disclosed privately (via the declaration of business interest forms) to the School Business Manager, to ensure all potential conflicts are identified, and any dealings with related parties dealt with in accordance with regulation.</p>	<p>The Governors discussed 'business declaration' earlier in the year and came to the conclusion that only business interests that were associated with, or potentially associated with, the school need to be declared. The matter will be discussed at a future GB meeting with the intent of introducing a revised system.</p>	<p>6 months. Chair and Principal</p>

Deficiency and Potential consequences	Significance and Recommendations	Trustees' Response	Timescale and responsibility for implementation
<p>LOW RISK</p>	<p>We recommend that credit card statements are signed by the Finance Director as stated in the Academy's Financial Regulations.</p>	<p>Every board and committee meeting includes a declaration of interest in items on the agenda.</p>	<p>Immediate Bursar and Principal</p>
<p>Signing of credit card statements</p>	<p>In the Academy's Financial Regulations, it states that all credit card statements must be signed by the Finance Director. However, this was found to only have been carried out for 1 month out of 12, with only the credit card statement for the month of October signed.</p>	<p>Individual invoices etc. are authorised f as being payable. The Academy's Financial Regulations will be amended to reflect the fact that the card statement does not need to be authorised.</p>	
<p>LOW RISK</p>	<p>We recommend that backing documentation is obtained for all purchases as stated in the Academy's Financial Regulations and that steps are taken to obtain any that are missing.</p>	<p>If after having taken all reasonable steps the backing documentation is still missing, then a note will be made on the statement to that effect.</p>	<p>Immediate Bursar and Principal</p>
<p>Missing receipts for credit card and cash purchases</p>	<p>Receipts were found to be missing for a number of credit card and cash purchases. In the Academy's Financial Regulations, it states that all invoices (which is assumed to include till receipts etc) are to be sent to the Finance Office.</p>		

<i>Deficiency and Potential consequences</i>	<i>Significance and Recommendations</i>	<i>Trustees' Response</i>	<i>Timescale and responsibility for implementation</i>
<p>LOW RISK</p>	<p>We recommend that the Academy's Financial Regulations are either adhered to with regards to cash debits or that the Academy's Financial Regulations are amended to allow this practice and to state the controls to be implemented.</p>	<p>The Academy's Financial Regulations need to be amended indicate that as and when required cashless catering money collected from the revaluation units each day may be used for Petty Cash purposes and the appropriate journal entry made. This is a practical arrangement as the local branch of our bank has been closed. All cash is accounted for regardless of the source and use.</p>	<p>6 months Bursar and Principal</p>
<p>LOW RISK</p>	<p>We recommend that the Academy's Financial Regulations is updated to reflect the correct policy, and up to date pay</p>	<p>The 3 staff members checked were all support staff and revised pay details are only placed on file if there is any change in the employees contract such as salary scale movements or working hours. Movement within the salary scale i.e. salary points or incremental increases are not recorded on the personnel file. This</p>	<p>No need to change procedure</p>
<p>Use of vending machine cash</p>			
<p>In the Academy's Financial Regulations, it states that the only deposits to petty cash shall be from cheques cashed specifically for the purpose. However, when reviewing the cash nominal code this was found not to be the case. It was noted that during the year four deposits had been debited to petty cash from vending machine.</p>			
<p>Personnel files and overtime</p>			
<p>The Academy's Financial Regulations states up to date details need to be on personnel files for the</p>			

Deficiency and Potential consequences	Significance and Recommendations	Trustees' Response	Timescale and responsibility for implementation
<p>annual check. We found this was not always the case.</p> <p>Also, there is no reference to overtime mentioned in Academy's Financial Regulations although overtime is paid.</p>	<p>details are put on file.</p>	<p>procedure is in line with the wording within the contract issued to all support staff</p> <p>The Academy's Financial Regulations will be updated to show that overtime may be payable if appropriate and in line with the contracted rate.</p>	<p>6 months Bursar and Principal</p>

7. Audit findings of prior years

Prior year management letter points

Deficiency and potential consequences at 2015	Status in current in year	Trustees' response	Timescale and responsibility for implementation
<p>We note that the Sawston Village College website does not publish the relevant business and pecuniary interests including governance roles in other educational institutions of the Academy's governors.</p> <p>This is a requirement of the Academies Financial Handbook 2015, paragraph 2.5.2</p>	<p>The website now discloses this information.</p>	<p>This procedure continues as requirement in accordance with the Academies Financial Handbook</p>	

The Academy does not currently have an approved supplier list. An approved supplier list would have a number of positives – it would help the Academy achieve best value for money without needing to worry about the standard of service received. In addition, it would reduce the risk of undisclosed related party transactions, because if any of the suppliers on the list were related parties this would be disclosed on the list and the reasoning for its selection documented.

We note that for certain income streams of the Academy – for example, sports centre and letting income, income is recorded on a cash basis. Although we are satisfied that the effect is immaterial, this may lead to misstatement of income, as well as deferred income and debtors.

During our testing of after date invoices, we observed a number of invoices which related to goods or services received during the year. Expenditure should be recognised in the year in which it is occurred, not necessarily when the invoice is received.

The Academy uses the same supplies where possible (it is just not documented as an approved supplier list).

There is no change to procedures but Governors are happy with this treatment.

There was a cut off date to help account for the invoices received post year end. A few invoices were still found to be in the wrong accounting period but these are immaterial.

This procedure continues

This procedure continues

Every effort is made to ensure expenditure is in the correct accounting period however some suppliers are slow in issuing their invoices.

For one employee in our review, there was no contract of employment or evidence of references on file.

The staff member checked was a casual employee who working very infrequently

The staff member in question left in November 2015

8. Issues highlighted for future periods

8.1 Management accounts

The Budget Forecast Return will require reporting of actual results to 31 March 2017. We recommend that you ensure that there are robust accounting procedures, including monthly accruals, prepayments and depreciation calculations, particularly at 31 March.

8.2 VAT

There should be a continued process to monitor other income sources against the VAT registration threshold, to ensure that VAT registration is completed when required.

8.3 Website information

Each Academy Trust must publish on their website relevant business and pecuniary interests of Trustees and Members. The information provided on your website requires monitoring and updating as and when required.

8.4 Academies Annual Return 2016

The AAR for 31 August 2016 will be a new online form, replacing the excel spreadsheet previously completed.

The AO will need to register the Academy trust and obtain a unique username and password. The AO will then be able to set up other users with access rights, including us as Auditor.

Some data will be pre-populated, and there will be prompts where adjustments or explanations may be required.

Online sign off will be required by both the Academy and the external Auditor.

Please ensure the Academy Trust registers and sets us up as users in good time as it is likely that the AAR will need to be submitted by 16 January 2017 instead of the usual 31 January.

8.5 The Apprenticeship Levy

Larger Academies and MAT's in England are facing further pressure on their budgets as the government confirms those with staff costs of £3 million per year and above, will be required to put aside 0.5% of their 'paybill' towards the apprenticeship levy from April 2017. The levy is intended to help fund 3 million apprenticeships by 2020.

There is a £15,000 allowance, effectively removing those with a pay bill of less than £3 million. For example, the levy for schools with a £5 million pay bill would be:

Total levy: 0.5% x £5,000,000

= £25,000

Subtracting levy allowance:

£25,000 - £15,000

= £10,000 annual levy payment

A MAT with staff costs of £30 million would have a levy of £135,000.

Whilst not being introduced until next year, any costs should be included in your Budget Forecast Return.

The wage costs for the year to 31 August 2016 total £4,670,808.

We look forward to receiving your comments on the points made. Should you require any further information or explanations please do not hesitate to contact us.

We would like to express our thanks to all members of staff of Sawston Village College who assisted us in carrying out our work, particularly Brian Croft.

MHA MacIntyre Hudson

November 2016