

## **Sawston Village College for YEAR ENDED 31 AUGUST 2015 (SORP 2005)**

### **AUDITORS' MANAGEMENT LETTER – YEAR ENDED 31 AUGUST 2015**

#### **Presented to the Board of Governors of Sawston Village College by MHA MacIntyre Hudson on 25 November 2015**

MHA MacIntyre Hudson present this report solely for the attention of 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.

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## 1. Contact details

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## 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 2015. 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 2015 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 2015.

### **Audit Opinion**

At the date of this report, no modifications have been proposed to the audit report on the financial statements to 31 August 2015 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 is 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 2015 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 2014 to 2015 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.

### 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;
- 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.

We considered the following to be key areas of focus:

<i>Key Area</i>	<i>Considerations on approach</i>
<p><b>Existence and completeness of income - Restricted Funding - General Annual Grant - GAG</b></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 2014/15. 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><b>Existence and completeness of income - Grant Funding and other income</b></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 2005 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 2005 in respect of the entitlement, certainty and measurement of the income.</p> <p>We also reviewed the allocation of income to restricted and unrestricted funds.</p>

<b><i>Key Area</i></b>	<b><i>Considerations on approach</i></b>
<p><b>Disclosure of Going Concern</b></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><b>Authorisation and validity of expenditure</b></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><b>Accuracy and completeness of payroll: control, calculation and authorisation</b></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><b>Authorisation and validity of journals</b></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>

<b><i>Key Area</i></b>	<b><i>Considerations on approach</i></b>
<p data-bbox="129 279 808 312"><b>The validity and valuation of Balance Sheet items</b></p> <p data-bbox="129 363 965 397">Debtors and creditors are significant items in the Balance Sheet.</p>	<p data-bbox="1005 333 2107 432">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>
<p data-bbox="129 489 703 523"><b>Valuation of the Pension Scheme Liability</b></p> <p data-bbox="129 542 981 676">The FRS 17 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 2015.</p> <p data-bbox="129 716 965 815">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="1005 544 2107 713">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 FRS 17 valuation.</p> <p data-bbox="1005 718 2092 783">We checked the FRS 17 disclosures in note 25 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 2015 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 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 2015 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. 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.

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**

<b><i>Regularity deficiency and potential consequences</i></b>	<b><i>Significance and recommendations</i></b>	<b><i>Trustees' response</i></b>	<b><i>Timescale and responsibility for implementation</i></b>
<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>We recommend that the current Academies Financial Handbook is reviewed and its guidelines followed.</p>		
<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.</p>	<p>We recommend that an approved supplier list is drawn up through discussions between budget holders and the Finance Manager. This would then be submitted for discussion and ratification by the Full Governing Body and should be updated annually in a similar fashion.</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>6.1 We note that for certain income streams of the Academy – for example, sports centre and letting income, income is recorded on a cash basis.</p> <p>Although we are satisfied that the effect is immaterial, this may lead to misstatement of income, as well as deferred income and debtors.</p> <p>6.2 During our testing of after date invoices, we observed a number of invoices which related to goods or services received during the year.</p> <p>Expenditure should be recognised in the year in which it is occurred, not necessarily when the invoice is received.</p> <p>6.3 For one employee in our review, there was no contract of employment or evidence of references on file.</p>	<p>We recommend that the Academy consider recognising income strictly on an accruals basis – i.e. recognising income when either the sports facilities or the use of the facilities are provided.</p> <p>This may require recognising a debtor if payment is made after this point or deferred income if payment is made before.</p> <p>We recommend that following each year end, a review of invoices received is made and that any which pertain to the year just passed are accrued for.</p> <p>We recommend that for all employees, signed contracts of employment are kept up to date and maintained within their personnel file.</p>		

<i>Deficiency and Potential consequences</i>	<i>Significance and Recommendations</i>	<i>Trustees' Response</i>	<i>Timescale and responsibility for implementation</i>

## 7. Audit findings of prior years

### Prior year management letter points

<b>Deficiency and potential consequences at 2014</b>	<b>Status in current in year</b>
We were unable to find any written procedures with regard to how the income from the sports centre should be recorded and processed.	We note that procedures have been put in place for sports centre income.
<p>Compensation payments were being allocated in the accounting system as general expenses. We found two examples of this during our audit procedures.</p> <p>When on site to do our audit testing we noted that the fixed assets register was not fully up to date.</p> <p>During the course of the audit we found no evidence that regular fixed assets counts are performed (checking the actual assets against the register).</p>	<p>We did not note any compensation payments being allocated to general expenses in the current year.</p> <p>The fixed asset register was found to be fully up to date in the year.</p> <p>We note that although fixed assets checks are now carried out, this is only an informal basis and is not documented.</p>

## **8. Issues highlighted for future periods**

### **8.1 Management accounts**

The Budget Forecast Return will require reporting of actual results to 31 March 2016. We recommend that you ensure that there are robust accounting procedures, including monthly accruals, prepayments and depreciation calculations, particularly at 31 March.

### **8.2 Charities SORP**

The new financial reporting standard, FRS 102, replaced the current UK accounting standards, for periods beginning on or after 1 January 2015. The Charity Commission have issued Charities SORP 2015 based on FRS 102. Academy trusts will need to be aware of changes introduced under FRS 102 and the revised SORP next year, as these impact the accounting disclosures of the Academies Accounts Direction (AAD).

The financial statements for the year ended 31 August 2016 will include comparative financial information for the year to 31 August 2015. The 2014-15 comparative figures have an opening balance sheet date of 1 September 2014. Therefore the comparatives and the opening balances should be reviewed at the earliest opportunity, under the requirements of the new SORP. There will be changes to the Trustees' Report, the Statement of Financial Activities, the Balance Sheet, Cash Flow Statement and the policies and notes to the accounts.

We suggest a meeting in February 2016 to discuss these issues in advance of the 31 August 2016 year end.

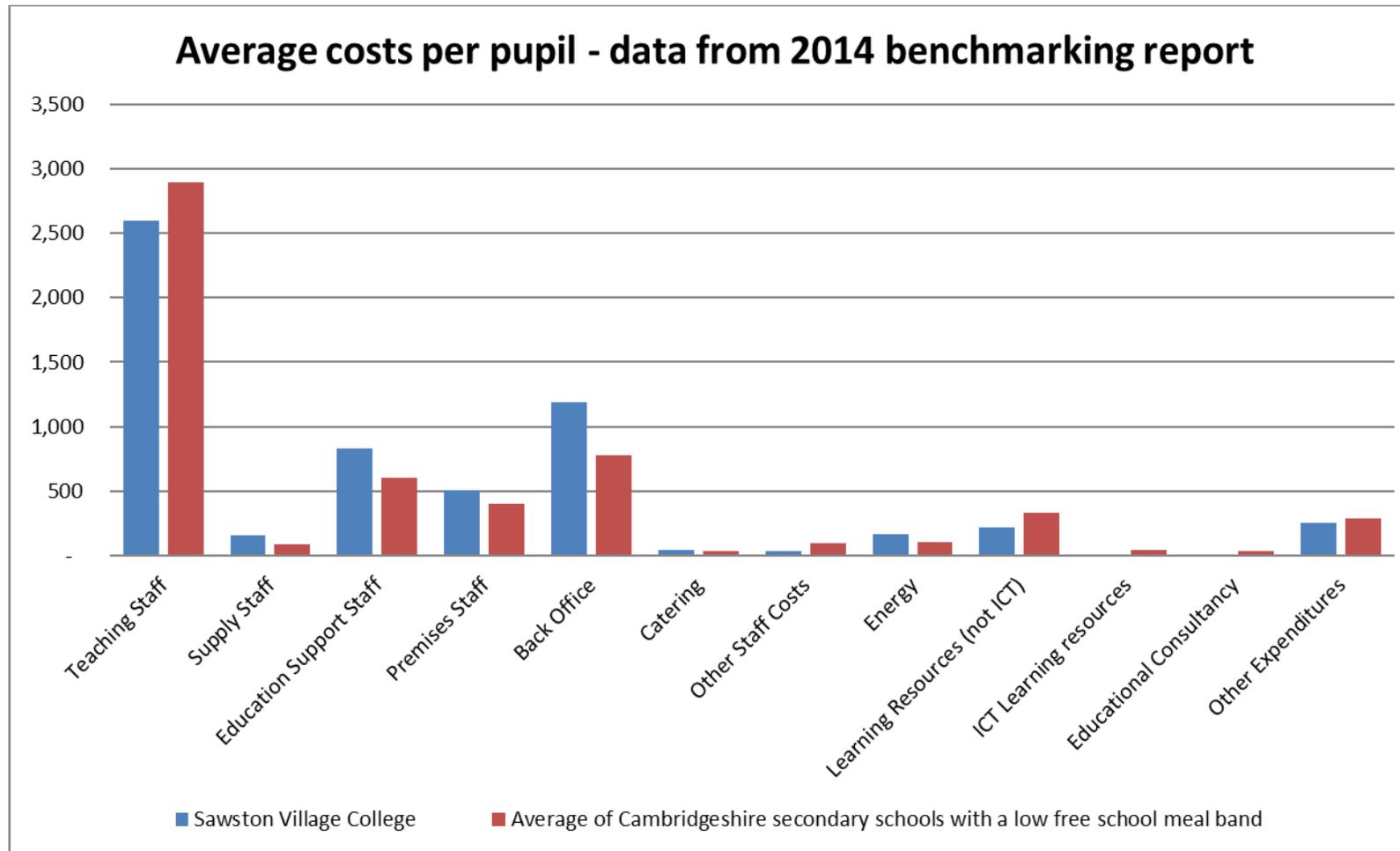
We look forward to receiving your comments on the points made. Should you require any further information or explanations please do not hesitate to contact us.

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 2015

## 9. Benchmarking



## Appendix A

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<b>Sawston Village College</b>						
<b>ADJUSTED AUDIT MISSTATEMENTS SCHEDULE</b>						
	<b>SOFA</b>		<b>Balance sheet</b>		<b>Reserves</b>	
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
	<b>Dr</b>	<b>Cr</b>	<b>Dr</b>	<b>Cr</b>	<b>Dr</b>	<b>Cr</b>
<b>Deficit per draft financial statements</b>						
FRS17 pension cost less contributions payable - to be disclosed within <i>Other pension costs</i> not <i>Wages and salaries</i> in Note 10.	±103,000					
	-	-	-	-	-	-

## Appendix B

<b>Sawston Village College</b>						
<b>UNADJUSTED AUDIT MISSTATEMENTS SCHEDULE</b>						
	<b>SOFA</b>		<b>Balance sheet</b>		<b>Reserves</b>	
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
	<b>Dr</b>	<b>Cr</b>	<b>Dr</b>	<b>Cr</b>	<b>Dr</b>	<b>Cr</b>
<b>Deficit per draft financial statements</b>						
Insurance prepayment (Zurich cover for the period June 2015 to May 2016).	( 37,743)		37,743			
Estimate of deferred income balance as a result of recognising sports centre income on a cash basis.	21,533			21,533		
Post year end invoices relating to expenses in 2014/15 that need to be accrued for.	58,700			58,700		
Reconciliation of the payroll records on Education Personnel Management (EMP) and the staff cost in the accounts.	11,336				( 11,336)	
	<b>53,826</b>	<b>-</b>	<b>37,743</b>	<b>80,233</b>	<b>( 11,336)</b>	<b>-</b>