

Ursula Taylor Church of England School for YEAR ENDED 31 AUGUST 2016

AUDITORS' MANAGEMENT LETTER – YEAR ENDED 31 AUGUST 2016

Presented to the Board of Governors of Ursula Taylor Church of England Lower School by MHA MacIntyre Hudson on 1 December 2016.

MHA MacIntyre Hudson present this report solely for the attention Ursula Church of England School 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

Engagement Partner – atul.kariya@mhllp.co.uk

Audit manager – angela.lowe@mhllp.co.uk

MHA MacIntyre Hudson
Equipoise House
Grove Place
Bedford
Beds
MK40 3LE

Telephone number: 01234 268761

2. Summary

This is our post audit report and management letter to the Trustees of Ursula Taylor C of E Lower School 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, SORP FRS 102.

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:

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>We note that there is low risk relating to GAG carried forward since the original funding agreement does not refer to any claw back provisions</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
Disclosure of Going Concern <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>
Authorisation and validity of expenditure <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>
Accuracy and completeness of payroll: control, calculation and authorisation <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>
Authorisation and validity of journals <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>

Key Area	Considerations on approach
<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>
<p>Valuation of the Pension Scheme Liability</p> <p>The FRS 102 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>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>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 on employers 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>We checked the FRS 102 pension disclosures in note X to the financial statements to ensure these reflected the assumptions used.</p>
<p>Financial reporting</p> <p>The Trustees report and financial statements must be fully compliant with the revised Charities FRS102 SORP 2015 and the Academies Accounts Direction 2015/16.</p>	<p>We have performed a review of the 2015 balance sheet, in detail, and identified FRS102 transitional adjustments in respect of the accounting for gains/losses on the defined benefit pension scheme. We have reviewed the Trustees reports for consistency with the financial statements and to ensure it complies with applicable regulatory (Academies Accounts Direction 2015/16) and SORP requirements. We have reviewed the accuracy of disclosures concerning Key Management Personnel.</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.

The Ethical Standards issued by the Auditing Practices Board apply to this assignment. These were outlined to you in our audit plan to the Board of Governors dated 6 September 2016.

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

4.1 Charities SORP

The new financial reporting standard, FRS 102, has replaced the current UK accounting standards, and a new Charity SORP was introduced this year. The changes introduced under FRS 102 and the revised SORP were implemented in the financial statements of the academy this year, reflecting the impact the accounting disclosures of the 2016 Academies Accounts Direction (AAD).

Due to the impact of FRS 102 there were some changes to the disclosures in the Trustees' Report, the Statement of Financial

Activities, the Balance Sheet, Cash Flow Statement and the policies and notes to the accounts.

We had discussed these changes with you in advance of the 31 August 2016 year end and no issues arose in respect to the reporting of the transition to FRS 102 in your financial statements.

4.2 Other adjustments

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. Matters arising from the audit

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 Wendy Bartle, the School Bursar. 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.

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.

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>
LOW RISK POINTS			
<p>1) Bank reconciliations of school fund bank accounts</p> <p>Bank statements are provided quarterly by the bank for the two school fund bank accounts. Bank reconciliations are performed on receipt of the quarterly bank statements. Statements were received for the quarter ended 31 July 2016 and the bank reconciled at that date. The bank account was not reconciled as at 31 August 2016.</p>	<p>All bank accounts should be reconciled as at 31 August 2016 being the year end date. It is recommended that the bank be requested to send either monthly statements or quarterly statements to coincide with the balance sheet date so that the bank reconciliations can be preformed promptly and at the balance sheet date.</p> <p>We do however not that there are virtually no bank transactions on the school fund bank account during August each year due to the nature of the bank accounts and the fact that the school is closed during this month.</p>	<p>The School will investigate registering for online banking for the School Fund Santander account. This will allow access to the account balances on a daily basis to enable reconciliation to be completed to a specified date.</p>	<p>31 March 2017.</p> <p>Headteacher as bank signatory with assistance from School Bursar.</p>
<p>2) Declaration of business interests</p> <p>We note that two governors had directorships which were not declared on their pecuniary interest</p>	<p>We recommend that all business interests must be declared on the pecuniary interest forms even where there are no transactions in with the school. All directorships are</p>	<p>The School will reiterate to Governors that all business interests, including company directorships must be declared on Pecuniary Interest forms.</p>	<p>1 December 2016</p> <p>Agenda item for FGB meeting 1 Dec 2016</p>

<i>Deficiency and Potential consequences</i>	<i>Significance and Recommendations</i>	<i>Trustees' Response</i>	<i>Timescale and responsibility for implementation</i>
forms.	considered to be business interests.	<p>The Governor who has not declared their business interest will be asked to submit a revised declaration.</p> <p>The other Governor concerned is no longer a member of the Governing Body.- no action.</p>	<p>30 November 2016.</p> <p>Headteacher to request.</p> <p>Governor concerned to submit.</p>
<p>3) Financial Procedures Manual</p> <p>We note there have been changes to the Financial Procedures Manual during the year and although the changes have been adopted there has been no evidence of formal approval of these changes by the Governing Body.</p>	<p>It is recommended that the changes be formally adopted and approved by the Governing Body at their next meeting and that this is recorded in the minutes of that meeting to reflect that the changes are now the correct procedures going forward.</p>	<p>All updates to the School's Financial Procedures Manual had been formally discussed with and approved by the Finance Committee.</p> <p>Amendments made were subsequently presented to the Full Governing Body although it is acknowledged the approval of the changes made have not been clearly recorded in the minutes.</p> <p>The School will ensure in future that Governing Body minutes clearly record the approval of all updates to the Financial Procedures Manual.</p>	<p>With Immediate affect.</p> <p>Clerk to Governors to record decision.</p> <p>Chair of Governors and Finance Committee to review minutes.</p>

7. Audit findings of prior years

Prior year management letter points

Deficiency and potential consequences at 2015	Status in current in year
<p>Low risk points</p> <p>1. Contracts and tendering procedures The current purchasing policy recommends a formal tendering process to be entered for purchases in excess of £100,000. Three written quotations are sought for purchases between £10,001 and £100,000.</p> <p>2. Bookkeeping procedures Although the client maintains a fixed asset register and is calculating depreciation, the accounting entries to reflect the capital expenditure and calculation of depreciation in the accounts of the Academy had not been posted by the end of the year.</p> <p>The Academy has a separate school fund account for which the School Bursar operates a separate cashbook however the accounting entries had not been posted onto the Academy accounts by the end of the year.</p>	<p>A revised purchasing policy reflecting the suggested reduction in the limit for tendering was approved by the Finance Committee on 12 November 2015.</p> <p>The Academy's Finance Manual has been updated to reflect the revision to the policy.</p> <p>The Academy has continued to maintain the Fixed Assets register recording details of fixed assets purchased and depreciation.</p> <p>The depreciation had been calculated but was noted posted as the School Bursar wanted the entries to be checked by MHA MacIntyre Hudson prior to processing.</p> <p>Journal entries were prepared by the School Bursar to reflect the position as at 31 March and 31 August. The entries were reviewed for accuracy by MHA MacIntyre Hudson prior to posting to the accounts by the School Bursar.</p>

3. Low risk points

Investments policy

The Academy does have significant cash balances which are currently all held in current accounts. No interest is paid on the main current account.

The position has not changed in the year and the Headteacher and School Bursar will continue to investigate investment options available to the school

8. Issues highlighted for future periods

8.1 Issues arising from the Academies Financial Handbook 2016

- **Notifications to DfE**

The DfE must be notified of all relevant changes within the academy - appointment and resignation of members, trustees, local governor in a MAT, chair of trustees, chair of local governing body, accounting officer and chief financial officer. This notification must be provided using Edubase for the updating of data, and notified within 14 days. The requirement for the notification to be completed within the 14 days deadline is in order to maintain the accuracy of the National Database of Governors – as part of the requirement to increase the transparency of information available to the public. You will need to ensure that changes can be made by the academy during holidays or absences of relevant staff who have access to the Secure Access system for such updates. Late notification remains a breach of the Academy Financial Handbook 2016.

- **Whistleblowing policy**

Academy trusts must have a policy and procedures in respect of whistleblowing. This is not new, but was previously a recommendation. It may be appropriate to remind all staff of the requirement to report any issues of suspected wrongdoing at the academy, where this is in the interest of the academy or in the public interest. It would be useful to remind staff that their concerns will be managed in a confidential manner and that failure to report may be a disciplinary matter.

8.2 Financial Health & Efficiency

The EFA have a financial health and efficiency section on their website to bring together relevant information, tools, guidance and links to external resources. The topics covered include budget planning, financial review and self assessment and financial efficiency planning checks for governors.

To support academies to become more efficient and financially healthy, MHA MacIntyre Hudson has signed up with the EFA to offer academies a comprehensive financial health check. There are three levels of checks: a short financial health check; addressing specific issues or future budget pressures; support to plan and deliver change. Further details can be obtained from the EFA website.

8.3 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.

8.4 Academies Annual Return 2016

The Academies Annual Return (AAR) for 31 August 2016 will be a new online form, replacing the excel spreadsheet previously completed. The Accounting Officer (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 auditors.

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 by us as auditors. The AAR will need to be submitted by 31 January 2017.

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 Ursula Taylor Church of England School who assisted us in carrying out our work, particularly Wendy Bartle.

MHA MacIntyre Hudson

December 2016