

Ursula Taylor Church of England School

AUDITORS' MANAGEMENT LETTER – YEAR ENDED 31 AUGUST 2015

Presented to the Finance Committee of Ursula Taylor Church of England Lower School by MHA MacIntyre Hudson on 12 November 2015

MHA MacIntyre Hudson present this report solely for the attention Ursula Taylor Church of England School and for the use of the Governors 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 Governors 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	5
3.4	Independence and ethical considerations	5
4.	Amendments to the financial statements	5
5.	Matters arising from the audit	6
6.	Internal control deficiencies	7
7.	Audit findings of prior years	9
8.	Issues highlighted for future periods	10

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2. Summary

This is our post audit report and management letter to the Governors of Ursula Taylor C of E Lower School 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 Governors.

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

There are no matters of which we are aware which would require a modification to our audit report on the financial statements to 31 August 2015 or to the regularity assurance report at that date. We confirm our audit report and regularity assurance report will be unmodified.

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 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 Governors 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.

- 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>We note that there 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 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>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 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>
<p>Disclosure of Going Concern</p> <p>The Governors 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>

Key Area	Considerations on approach
<p>Authorisation and validity of expenditure</p> <p>The Governors 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>
<p>Valuation of the Pension Scheme Liability</p> <p>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>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 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>We checked the FRS 17 disclosures in note 24 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 Governors.

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 Governors or its staff.

The Ethical Standards issued by the Auditing Practices Board apply to this assignment. These were outlined to you in our letter to the Board of Governors dated 21 August 2015.

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 have been sent to you. There were no unadjusted errors found during the course of the audit for the year ended 31 August 2015.

As Governors of Academy, you are responsible for the preparation of the financial statements and for the review of the adjusted and unadjusted items. Governors 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 2015 only a few 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 Wendy Bartle, the School Bursar. Recommendations for changes in procedures in order to address these areas have also been included.

Regularity and audit 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 Governors' responses to the internal control 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>Governors' Response</i>	<i>Timescale and responsibility for implementation</i>
	Low risk points			
1.	<p>Contracts and tendering procedures</p> <p>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>The Governors may wish to consider reducing the limit for tendering requests since the amount of £100,000 appears to be high given that the Academy is small and when compared to the purchasing policy of other similar sized academies. A suggestion would be decrease the limit to £60,000.</p>	<p>A revised purchasing policy reflecting the suggested reduction in the limit for tendering was approved by the Finance Committee on 12th November 2015.</p> <p>The School's Finance Manual has been updated to reflect the revision to the policy.</p>	<p>Finance Committee for approval of revision to policy.</p> <p>School Bursar – to update finance Manual.</p> <p>Completed 13 November 2015</p>
2.	<p>Bookkeeping procedures</p> <p>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>Capital expenditure needs to be recorded as a fixed asset in the Academy accounts when it is incurred and depreciation calculated and posted at the very least for the period to 31 March and then to 31 August.</p> <p>It is recommended that the school fund entries are posted to the Academy accounts at 31 March and 31 August each year for completeness.</p>	<p>The school will continue to maintain the Fixed Assets register as now, recording details of fixed assets purchased and depreciation.</p> <p>Journal entries will be prepared by the School Bursar to reflect the position as at 31 March and 31st August each year. The entries will be reviewed for accuracy by MHA MacIntyre Hudson prior to posting to the accounts by the School Bursar.</p> <p>Journal entries will be prepared and posted to the accounts by the School Bursar to reflect transactions as at 31 March and 31st August each year.</p>	<p>School Bursar – to prepare journal entries for review for accuracy by MHA MacIntyre Hudson prior to posting in the accounts by School Bursar Each year; in April and Sept</p> <p>School Bursar</p> <p>Each year; in April and Sept</p>

<i>Deficiency and Potential consequences</i>	<i>Significance and Recommendations</i>	<i>Governors' Response</i>	<i>Timescale and responsibility for implementation</i>
<p>Low risk points</p> <p>3. 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.</p>	<p>The Governors may wish to review how to achieve a better return on cash balances, in the context of acceptable risk.</p>	<p>The investment of surplus funds was considered by Governors at the Finance Committee meeting on 12th November 2015. A proposal to manually 'sweep' funds between the school's HSBC current and deposit accounts to earn interest (of 0.07% on funds up to £100k) was discussed but not approved. Governors concluded that because interest rates are very low at present the rate of return on investments made would be small and would not warrant the additional administration required.</p> <p>The Headteacher and School Bursar will continue to investigate investment options available to the school.</p>	<p>Finance Committee to periodical review investment options</p> <p>Headteacher School Bursar – to investigate other investment options</p> <p>Periodic review May 2016</p>

7. Audit findings of prior years

Prior year management letter points

Deficiency and potential consequences at 2014	Status in current year
<p>1. Various Governors have been appointed since conversion to Academy status and two Governors had resigned during the period. However relevant appointment and termination forms to add and remove them have not been completed and submitted to Companies House to bring records up to date.</p> <p>2. It was noted that some lettings were not being invoiced frequently. This may result in lettings income monies due being not received promptly.</p> <p>3. We have noted that parents pay a small one off fee to be part of the Active Schools Kid Club and regular payments for use of the facility. All payments are maintained by the Active Club Leader however our audit testing revealed that the audit trail was not always clear for such income.</p> <p>4. We did not identify any details of procedures followed in respect of Trip income, as a result it is not easily identifiable who is responsible for this money and how monies collected are handled.</p> <p>5. During the course of our payroll testing it was noted that staff are reimbursed for expenses including travel expenses at approved mileage rates. There is no P11d dispensation in place and therefore the payroll bureau used by the Academy prepares P11d forms for the relevant staff.</p> <p>6. During the course of the VAT audit testing it was noted that a restriction is applied to the input VAT to restrict recovery of VAT relating to business income.</p> <p>7. Although the academy has disclosed the remuneration of the Head and the remuneration figure for the other two staff Governors in note 12 of the statutory accounts, the names of the staff Governors have not been included.</p> <p>We have notified you that this disclosure is not in compliance with the requirements of the Academies Accounts Direction 2014 or with the Charities SORP. We have discussed this issue, emphasising that the name of each trustee, together with the remuneration in a £5k banding, should be disclosed separately.</p>	<p>The records at Companies House have now been updated and accurately record the Governors including details of any appointments and resignations.</p> <p>The audit testing revealed that lettings are now being invoiced on a timely basis.</p> <p>The cashbook for the Active School Kids Club has been updated so that it is now clear who the income is from and what type of income it is.</p> <p>The Finance Manual has been expanded to include procedures with respect to the collection of school trip income.</p> <p>A dispensation request was made to HMRC on 8 October 2015.</p> <p>This was addressed by the School Bursar during the year under review and a restriction is now applied to input VAT to restrict recovery of VAT relating to business income.</p> <p>The accounts for the year ended 31 August 2015 have been prepared on the basis of full disclosure with the Academies Accounts Direction 2014 and the Charities SORP></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 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 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 Governors' 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 the Spring of 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 Ursula Taylor Church of England Academy who assisted us in carrying out our work, particularly Wendy Bartle.

MHA MacIntyre Hudson

November 2015