GREAT MARLOW SCHOOL for YEAR ENDED 31 AUGUST 2015 (SORP 2005)

AUDITORS' MANAGEMENT LETTER – YEAR ENDED 31 AUGUST 2015

Presented to the Board of Governors of Great Marlow School by MHA MacIntyre Hudson on 7 December 2015

MHA MacIntyre Hudson presents this report solely for the attention of Great Marlow 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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2. Summary

This is our post audit report and management letter to the Trustees of Great Marlow 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 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 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 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:

Key Area	*Considerations on approach*
Existence and completeness of income - Restricted Funding - General Annual Grant - GAG	
There is a risk relating to the restrictions on expenditure of the GAG income, being restricted funding available only for specific expenditure.	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.
We note that there no longer is a risk relating to GAG carried forward. The restriction in the original funding agreement has been removed, as the academy has received confirmation that the claw back provisions are no longer applicable.	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.
Existence and completeness of income - Grant Funding and other income	
There was significant grant funding received by the academy, in addition to the GAG funding.	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.
Other income should be recognised as restricted income where appropriate, and in accordance with SORP 2005 and the funding agreement.	We also reviewed the allocation of income to restricted and unrestricted funds.

Key Area	*Considerations on approach*
Disclosure of Going Concern 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.	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.
Authorisation and validity of expenditure The Trustees are responsible for ensuring that expenditure from restricted funds is authorised and correctly allocated.	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.
Accuracy and completeness of payroll: control, calculation and authorisation Salary costs are the largest item of expenditure of the academy.	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.
Authorisation and validity of journals Journal entries are an area of risk to the financial statements.	We reviewed all significant journals made in the accounting records to assess validity and accuracy.
The validity and valuation of balance sheet items Debtors and creditors in the balance sheet.	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.

Key Area	*Considerations on approach*
Valuation of the Pension Scheme Liability 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. There remains a risk that the amount may be materially misstated if the assumptions used by the Academy's actuary are not appropriate.	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. We checked the FRS 17 disclosures in note 29 to the financial statements to ensure these reflected the assumptions used.

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

a) preparation of the statutory financial statements from the academy trial balance;
b) preparation of the TPA return;
c) provide general advice/VAT 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) Preparation of statutory financial statements from the academy trial balance: This is considered to be a mechanical function presenting the Academy's results for the period to 31 August into the required format. Any adjustments to the figures have been made following discussion with the academy and approval by the Business Manager. The financial statements are reviewed by an MHA MacIntyre Hudson second, independent manager prior to completion;

b) The completion of the TPA return does not affect our audit work for the statutory audit;

c) VAT advice is provided by our VAT experts who are independent of the audit team. 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 trial balance to finalise the financial statements have been sent to you.

As Trustees of the academy, you are responsible for the preparation of the financial statements and for the review of the adjusted items. Trustees are required in the letter of representation to confirm that the adjustments have been made 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 certain 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 in Section 6. The importance of these issues has been considered and the perceived risk rated as high, medium or low, following our discussion with the Business Manager. 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

Regularity deficiency and potential consequences	*Significance and recommendations*	*Trustees' response*	*Timescale and responsibility for implementation*
LOW RISK Management accounts are presented to the governors on an cash basis and there is no balance sheet or cash flow forecast. The expenditure includes capital additions which are not highlighted. This does not give a complete financial position to the governors.	Whilst the 2015 AFH requires preparation of monthly budget monitoring reports, we recommend that management accounts are prepared on a monthly basis on an accruals basis which includes income and expenditure, balance sheet and cash flow forecast and that fixed asset additions are capitalised or highlighted as such when reporting to the governors.	The Business Manager is in the process of constructing a set of management accounts, to include monthly income & expenditure reporting, balance sheet analysis and a cash flow forecast. This will use a new consolidated reporting tool, restructured chart of accounts and a move to accrual accounts from Period1.	January 2016 Business Manager
LOW RISK The academy has a risk register in place but it only includes financial risks. Operational and compliance risks also need to be included on the risk register. There is a business continuity plan in place, but it has not yet been approved by the governors.	Inclusion of operational and compliance risks will ensure that the academy has procedures and controls in place to address the risks should they occur or minimise the likelihood of them occurring. Once the risk register has been updated, there should be evidence of the governors reviewing and updating the register on at least an annual basis.	The Leadership Team will review the existing financial risk register and update to incorporate both operational and compliance risks. This will then be subjected to a review by the Governing Body and timetabled to be reviewed annually.	Spring 2016 Leadership Team & Governing Body

Regularity deficiency and potential consequences	***Significance and recommendations***	***Trustees' response***	***Timescale and responsibility for implementation***
MEDIUM RISK The Redgrave Sports Centre is a trading subsidiary of the academy. The sports centre commenced trading in May 2013 and the academy has been supporting the sports centre by not requiring immediate repayment of invoices for operating charges and salaries. The sports centre has been able to pay a portion of the invoices by the year end. However the sports centre has not performed financially as well as forecast for 2014/15.	The governors need to revise the three year forecast/budget for the sports centre to ensure that the sports centre can be self sufficient as soon as possible.	The processes around the timing of invoicing and repayment between RSC & the Academy have been reviewed and tightened. The Operating Charge process has been simplified and the Management Agreement between the two organisations has been extensively reviewed and refined.	Dec 2015 Business Manager & Sports Centre Manager

6. Internal control deficiencies

Deficiency and Potential consequences	*Significance and Recommendations*	*Trustees' Response*	*Timescale and responsibility for implementation*
LOW RISK The academy has a responsible officer (RO) who carried out testing of systems and controls. The RO has made some recommendations during the year which have not been acted upon by the academy. There is a risk that systems and controls are not operating as efficiently as possible given that the RO recommendations have not been acted upon.	The recommendations of the RO should be acted upon as soon as possible, namely that the old items on the bank reconciliation are reviewed and cleared if appropriate, and that the recharge of VAT reimbursement to the trading subsidiary be presented correctly on the nominal ledger.	Old items have been written off. The recommendations on the presentation of the VAT reimbursement have now been put into practice.	Dec 2015 Business Manager
LOW RISK The academy has included trade creditors as at 31/08/15 as accruals instead of processing the invoices which amounted to £74,054 inclusive of VAT. This has a presentation impact on the notes to the financial statements with regards to VAT debtor, prepayments and classification of creditors.	Accruing for costs rather than presenting them correctly as trade creditors means that the VAT liability in the statutory accounts is misstated. Correction has been made by way of audit adjustments. We recommend that all invoices are processed through the purchase ledger in the month in which they are dated.	The staffing arrangements are being reviewed to ensure that adequate resources are available during the summer holiday period for the timely processing of invoices.	Summer 2016 Business Manager

7. Audit findings of prior years

Prior year management letter points

Deficiency and potential consequences at 2014	Status in current in year	Trustees' response	Timescale and responsibility for implementation
LOW RISK The academy produces budgets looking ahead to one year only which could lead to the academy not having sufficient funds to carry out large projects in the future, particularly given the well publicised cuts to academy funding in the next few years. Whilst we are aware that the Academy has 2 year forecasts, we recommend that the Academy produces more detailed forecasts/ budgets looking ahead at least three years.	The academy has not yet implemented the production of more detailed forecasts/budgets looking ahead at least three years.	The Business Manager is in the process of constructing a set of management accounts, to include monthly income & expenditure reporting. This work will include in-year forecast and extend to form part of a five year projection.	Spring 2016 Business Manager
LOW RISK The academy had entered into a related party transaction which had not been approved by Governors and there was no documentation in place to indicate that it had been carried out at cost. The transaction was in regard to brokers for insurance services.	The transaction with the insurance brokers recurred in the current year. Although the transaction had been approved by the governors, there was no statement of assurance of cost in place as required by the EFA Financial Handbook. The statement of assurance was provided retrospectively on request.	The Governing Body & related party provider have mutually agreed to end the contract at the end of the transaction term (May 2016).	May 2016 Business Manager & Finance Committee

Deficiency and potential consequences at 2014	Status in current in year	Trustees' response	Timescale and responsibility for implementation
MEDIUM RISK A review of the academy's tendering process showed that whilst some quotations are being obtained, the academy is not abiding by their requirement to go out to tender for amounts over £10,000. This could lead to goods and services not being obtained in a cost effective and transparent way. Per the academy's finance manual, they state that a formal tendering process is required for all goods and services over £10,000. This is a low value and we recommended a review of this level.	The academy reviewed their finance manual and removed the section on tendering all together and said that orders over £50,000 required 3 quotations. The Sixth Form build costs of ~£1m followed a tender process, but the process for replacement window costs of £143k was to only obtain 3 quotations. We recommend that the school include a tendering process into their finance manual and consider an appropriate limit for tendering, to ensure the Trust receives value for money for large expenditure. The AFH requires Trusts to have a competitive tendering policy in place	The academy will review the current levels and associated guidelines to incorporate best practice into a revised finance manual.	Spring 2016 Business Manager & Finance Committee
LOW RISK The fixed asset register was not reconciled to the nominal ledger on a monthly or annual basis which could lead to additions being missed and depreciation calculated incorrectly. We recommend that the fixed asset register is maintained by the client and depreciation calculated on a monthly or termly basis. Additions, disposals and depreciation should be posted onto the Corero nominal ledger and reconciled to the fixed asset register.	The academy has not maintained a fixed asset register and consequently has not kept track of additions, disposals and depreciation. Assistance was required at the year end to complete the register for the year. Our recommendation from 2014 is carried forward	The academy will maintain a fixed asset register and will move to in-year depreciation, to be updated each month.	Spring 2016 Business Manager

Deficiency and potential consequences at 2014	Status in current in year	Trustees' response	Timescale and responsibility for implementation
LOW RISK The trade debtors listing contains a very old debt from Thomas Vale totalling £18,295 which could lead to current assets being overstated if the debt is not recoverable. We recommend that the governors consider the Thomas Vale debt and how this debt can be recovered.	The Thomas Vale debt is still on the trade debtors listing due to the academy withholding a retention payment to Thomas Vale until the snagging issues have been resolved. A final position has still not been resolved.	The snagging issue remains a live project that is being actively managed. The building contractors have been on site recently and are in on-going discussions on how to successfully resolve the dispute.	On-going – no timetable set. Deputy Headteacher & Sports Centre Manager

8. Issues highlighted for information

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 Website information

Each Academy Trust must publish on their website relevant business and pecuniary interests of Trustees and Members.

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 Trustees' Report, the Statement of Financial Activities, the Balance Sheet, Cash Flow Statement and the policies and notes to the accounts.

8.4 Notification to EFA

The Financial Handbook for 01 September 2015 requires Trusts to notify EFA within 14 days of the vacating or filling of the positions of chair of trustees, AO and chief financial officer and appointment of all trustees and members

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 Great Marlow School who assisted us in carrying out our work, particularly Mark Ballard and Beverley Smith.

MHA MacIntyre Hudson

7 December 2015