

Tove Learning Trust for YEAR ENDED 31 AUGUST 2016 (SORP 2015)

AUDITORS' MANAGEMENT LETTER – YEAR ENDED 31 AUGUST 2016

Presented to the Board of Governors of Tove Learning Trust by MHA MacIntyre Hudson on 28 November 2016

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

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1. Contact details

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2. Summary

This is our post audit report and management letter to the Governors of Tove Learning Trust 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 Governors.

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 Tove Learning Trust 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 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 2015 to 2016 issued by the Education Funding Agency and the Statement of Recommended Practice for Charities.

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

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

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

To summarise our approach, we:

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

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

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 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, certainty and measurement of the income.</p> <p>We also reviewed the allocation of income to restricted and unrestricted funds.</p>

Key Area	Considerations on approach
<p>Disclosure of Going Concern</p> <p>The 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>
<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>

Key Area	Considerations on approach
<p>Valuation of the Pension Scheme Liability</p> <p>The pension liability represents the Academy's share of the deficit of the Local Government Pension Scheme. The amount recognised is an estimate, and has been recorded from the valuation undertaken by an actuary out 31 August 2016.</p> <p>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 valuation.</p> <p>We checked the disclosures in note 18 to the financial statements to ensure these reflected the assumptions used.</p>

3.3 Materiality

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

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

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

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

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 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 School 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.

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 Sue Wagstaff. 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 Governors' 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.

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 Governors of Tove Learning Trust, 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. Significant concerns

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

5.1 Regularity issues

No Regularity issues have been identified during the course of our audit work for the year ended 31 August 2016.

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>
<p>LOW RISK</p> <p>Asset Verification We understand that an annual verification of all fixed assets is carried out to ensure they are still in working order and that the FAR is updated to reflect anything damaged or written off. However, during our audit testing we were unable to see any evidence of this annual check being done.</p>	<p>It is important that such checks are documented so that all members of the finance team have the full information available to them when updating the fixed asset register. This will help to ensure that the fixed asset register accurately reflects the assets held by the academy at the end of each year. We recommend that these checks continue to be completed but that a record is kept of which assets have been checked each year and any issues identified are noted against the relating asset.</p>	<p>The school uses Parago Asset Management system to record all its assets and inventory items. We also hold our PAT testing information on there so electrical assets are checked on a regular basis. However we accept the management point in that the items listed are not checked back to the FAR on a periodic or systematic basis. The school will implement this check with immediate effect and ensure the Parago system and the FAR are updated accordingly.</p>	<p>Immediate</p>

7. Audit findings of prior years

Prior year management letter points

<i>Deficiency and potential consequences at 2015</i>	<i>Status in current in year</i>	<i>Governors' response</i>	<i>Timescale and responsibility for implementation</i>
<p>LOW RISK</p> <p>Monthly Reporting</p> <p>The present format of the management accounts reports may not wholly fulfil the requirements as stated in section 2.3.3. Academies Financial Handbook 2014/15, as follows:- <i>The Academy Trust's internal control framework must have regard to: Preparation of timely monthly management accounts, including income and expenditure reports on an accruals basis, cashflow forecasts and balance sheets as appropriate.</i></p>	<p>The requirement per the 2015 academies financial handbook has been updated in relation to this issue.</p> <p>The handbook now simply states that the academy must 'apply discipline in financial management and prepare monthly budget monitoring reports.'</p> <p>We are satisfied that the financial reporting carried out by the academy on a monthly basis meets the above requirement.</p>		

8. Issues highlighted for future periods

8.1 Management accounts

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

8.2 Website information

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

8.3 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.

8.4 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.

8.5 Whistleblowing policy

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.

8.6 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 Tove Learning who assisted us in carrying out our work, particularly Sue Wagstaff, Sonya A'Court and Diane Simpson.

MHA MacIntyre Hudson

November 2016