

Our ref: PCA/RH/H00237

14 December 2015

The Trustees  
Hope Valley College  
Castleton Road  
Hope  
Hope Valley  
S33 6SD

Dear Sirs

## REPORT TO MANAGEMENT

During the course of our audit and regularity assurance engagements for the year ended 31 August 2015, a number of matters arose which we consider should be brought to your attention.

Accompanying this letter is a memorandum noting these points, together with any recommendations we have for possible improvements which could be made.

These matters came to light during the course of our normal audit and assurance tests which 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 immediately.

This report has been prepared for the sole use of the trustees of Hope Valley College. We understand that you are required to provide a copy of this report to the Education Funding Agency. With the exception of this, no reports may be provided to third parties without our prior consent. Consent is, and 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 that we accept no duty or responsibility to any other party. No responsibilities are accepted by BHP, Chartered Accountants towards any party acting or refraining from action as a result of this report.

Finally, we would like to express our thanks to all members of the academy's staff who assisted us in carrying out our work.

Yours faithfully

*BHP, Chartered Accountants*

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**Barber Harrison & Platt**  
2 Rutland Park, Sheffield, S10 2PD  
Tel: 0114 266 7171 [www.bhp.co.uk](http://www.bhp.co.uk)

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## **SIGNIFICANT MATTERS RELEVANT TO OUR AUDIT AND REGULARITY ASSURANCE ENGAGEMENTS FOR THE YEAR ENDED 31 AUGUST 2015**

### **Audit approach**

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.

To summarise our approach, we:

- updated our understanding of the business 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 arise on most audits and are often 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 proportionally less.

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 of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the 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.

There were no changes to our audit approach.

## Summary of significant audit findings

### Internal controls

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our audit is therefore not designed to identify all control weaknesses and the matters reported below are limited to those deficiencies that we have identified during the audit.

<b>Significance</b>	<b>Control weakness identified</b>	<b>Potential implications and recommendations</b>	<b>Management response/ timetable for action</b>
Medium	A detailed analysis of funds income and expenditure has not been maintained throughout the year. Restricted and unrestricted expenditure is not separately identifiable in SAGE.	Risk that any overspend will be unidentified until the year end when the funds analysis is done. Funds may be spent not in adherence to funding agreements.  Ensure that all expenditure on each restricted fund is separately identifiable via the use of costs centres in SAGE and that a funds analysis is maintained throughout the year.	This situation arose following the retirement of Finance Officer in July. The funds are constantly monitored to ensure we are aware of the financial position of the College but, a lack of evidence was a concern. This has been addressed.
Medium	The recording of lettings income and raising of invoices on SAGE was incomplete and at the year-end cut off was incorrect. There is no segregation of duty between the individual recording the lettings income and collecting the income and communication with finance is sometimes poor.	Risk that invoices are not raised timely and that income is understated in SAGE. The risk that some letting income may be misappropriated.  Ensure that the finance team regularly check the lettings booking record and ensure that all invoices are raised. Ensure the income is collected by the finance team to segregate duties.	The Finance Team have struggled to get the information from the Site Manager to ensure letting were dealt with correctly. Lettings are now the responsibility of the Business Manager. The resignation of the Site Manager ensures that this practise will not continue.

<p>Medium</p>	<p>School fund records are not up to date and so the split of the fund between various categories including trips is not immediately apparent. The wrong bank account is occasionally used for School fund. Monies are occasionally paid into and out of the incorrect bank account but not corrected promptly.</p>	<p>It is difficult to ascertain how the balance on the school fund at the year-end is made up. School funds records, following the departure of Julie Morton in July 2015 have not been maintained.</p> <p>Ensure a record of all school fund income and expenditure is maintained to ensure all costs and income are tracked. Ensure that transfers between bank accounts are performed.</p>	<p>Again the previous Finance Officer ran a system which would have identified this, however we are unable to understand her system. We have now gone back to a simpler way of recording income/expenditure which will clearly show individual categories of funds.</p>
<p>Medium</p>	<p>Since the departure of Julie Morton in July 2015, capital funding expenditure has not been monitored against income received.</p>	<p>Risk of overspend on projects if costs are not fully tracked.</p> <p>Ensure that the site manager and the finance team communicate and keep a record of all expenditure against capital bids so that they can identify specific expenditure and review project costs.</p>	<p>This was an issue which we recognised before the Auditors arrived in the College. This was due to a difficulty with internal communication and also an issue with the email addresses due to a change of staffing. We have dealt with this issue.</p>
<p>Medium</p>	<p>The banking is currently carried out on an irregular basis and the cash is taken by the finance officer in a carrier bag to the bank.</p>	<p>Risk of theft is high on transit of the monies to the bank.</p> <p>Banking should take place on a regular basis to avoid large amounts of cash building up in the safe. To minimise risk a secure banking company could be employed.</p>	<p>Banking is done on a weekly basis to avoid large amounts of cash. Unfortunately, the local branch of our bank has closed. We are looking into alternative methods of banking and also making the college cash free.</p>

Medium	There are two cheques on the year-end bank reconciliation that have still not been banked as at the date of the audit.	<p>There is a risk that cheques may be lost and failure to bank significant cheques could result in cash flow issues.</p> <p>Ensure that all cheques received have been banked promptly by making a conscious effort to bank funds at least once a week.</p>	Change of personnel and move of location contributed to these being missed for banking.
Low	Since July 2015 income has not been regularly agreed to remittances/funding agreements received from funding providers.	<p>Any missing funding may remain unnoticed. Funding is not analysed correctly in the accounts according to the nature of the income.</p> <p>Ensure that all income received in the year is agreed on a regular basis to remittances and the funding agreements received.</p>	Change of personnel and IT issues contributed to this issue.

### Anticipated audit report

We anticipate that we will issue an unmodified audit report for the year.

### Regularity assurance engagement findings

We conducted our regularity assurance engagement in accordance with the Academies Accounts Direction 2014 to 2015 issued by EFA. We performed a limited assurance engagement as defined in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement included examination, on a test basis, of evidence relevant to the regularity and propriety of the academy trust's income and expenditure. The work undertaken to draw our conclusions included:

- Detailed testing on a sample basis to assess the nature of expenditure and whether funds have been used appropriately
- Review of the trusts internal financial procedures to ensure that controls are in place to prevent or identify regularity issues.
- Ensure that EFA approval has been obtained for relevant transactions.

- Discussions with Governors, Senior Leadership Team and the Accounting Officer throughout the audit process to ensure that all regularity threats have been addressed.

We anticipate that we will issue a modified regularity assurance report for the year in relation to the procurement process for capital projects.

Regularity issues brought to your attention in connection with the regularity assurance engagement are as follows:

<b>Significance</b>	<b>Findings</b>	<b>Potential implications / financial impact and recommendations</b>	<b>Management response / timetable for action</b>
High	On testing of the capital procurement process, 4 quotes had been received for the work of refurbishing the toilet blocks. The most expensive quote was chosen (quotes ranged from £143k to £205k) and no evidence is available on the quotes or in the governors meeting minutes which explain the reasoning behind this.	Risk that public monies are spent in a manner which does not represent good value for money. Ensure that all quotes presented to the board are discussed and reviewed and the minutes of meetings explain the choice behind the quote accepted.	The CIF bid which funded this work was not awarded by the EFA until March 2014 for the work to take place in August 2014. The reason the most expensive quote was used was because it was not felt the other suppliers could meet the specification in the timescale allowed. It was an omission that this was not reported to F&P or the FGB. Steps have now been taken to ensure this omission does not happen again.
Medium	Expenditure on the school debit card is checked only by the finance manager and not authorised by any other member of staff.	Lack of segregation of duty could result in fraudulent expenditure. Ensure that there is a policy in place where by expenditure above certain levels is authorised by another member of staff.	Most of this expenditure is undertaken by the finance manager. In future, she will present a list of debit card payments supported by invoices to the Principal for review on a monthly basis.
Low	On a sample of 3 purchase invoices there was no physical evidence present that the invoice had been authorised by a senior member of staff.	Unauthorised expenditure is incurred outside of school policy and funding agreements. Ensure the authorisation procedure in place is carried out for all purchase invoices.	Goods that come into College are primarily addressed to the business manager who will check that goods have been delivered. However we will set up a system to ensure that all invoices are signed off by person who instigates the order.