

Our ref: PCA/RH/H00237

21 December 2017

The Trustees
Hope Valley College
Castleton Road
Hope
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S33 6SD

Dear Sirs

REPORT TO MANAGEMENT

During the course of our audit and regularity assurance engagements for the year ended 31 August 2017, 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 & Skills 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 LLP 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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SIGNIFICANT MATTERS RELEVANT TO OUR AUDIT AND REGULARITY ASSURANCE ENGAGEMENTS FOR THE YEAR ENDED 31 AUGUST 2017

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.

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.

Summary of significant audit findings

Significance	Control weakness identified and significance	Potential Implications and recommendations	Management response/ timetable for action
Low	Out of the 8 invigilators records chosen for verification 6 did not have any photo identification to supplement their DBS checks. Also one employee's personnel file was not found and another did not contain any identification.	Risk of fictitious employees being paid by HVC, possible legal consequences of paying employees not eligible to work in the UK, overstatement of wages and salaries etc.	The personnel filing system is to be tightened up going forward ensuring that procedures around obtaining ID Documents are followed.
Low	Bank reconciliations were not undertaken on a regular basis throughout the year.	Risk that income and expenditure included within the bank is not reflected in the financial statements.	In the last few months of the financial year and moving forward the bank has been reconciled monthly.
Low	It was difficult to obtain a schedule of holiday entitlement not yet taken at the year end.	Risk that non-teaching staff are taking more holidays than entitled. Risk that liabilities are understated as outstanding holiday pay at the year end have not been provided for.	Moving forward there will be a member of staff who will be digitally tracking all holidays taken with all requests going through him.
Medium	Trade debtors have increased considerably in the year from £2k to £42k. This signifies a lapse in credit control procedures as the increase relates to numerous accounts	There is a detrimental effect on cash flow and irrecoverable debtors may not be identified on a timely basis.	Debtors are back down to a reasonable level at the end of November and the Chief Finance Officer is operating tighter credit control.

Significance	Control weakness Identified and significance	Potential Implications and recommendations	Management response/ timetable for action
Low	Trade creditor balances were incorrectly stated at the year end. This was due to netting payments off against incorrect invoices, duplicate invoices and missing invoices.	Creditors are incorrectly stated within the accounts, poor control is maintained over what monies is actually owed.	The Chief Finance Officer is now reviewing all trade creditors and reconciling them to supplier statements on a regular basis.
Medium	Income remittances have not been retained	Income is analysed incorrectly. Document retention guidelines are not adhered to. Increased risk of fraud.	A file has now been set up to retain remittances received.
Low	On one out of three employment leaver's forms, there was no signature present from D Willis to confirm the details are correct.	Increased risk of fraudulent employees not being identified	The personnel filing system is to be tightened up going forward ensuring that procedures around employee leavers are followed.
Low	Foreign currency petty cash held is not counted so the exact balance held is unknown. The balance is also not restated at the year end conversion rate.	Risk of undetected theft. Balance is stated incorrectly at the year end	The Chief Finance Officer will count this and ensure it is re-valued at the year end next year.
Medium	The lettings income spreadsheet is not complete as a result of not being maintained correctly for the full year and there were instances where income was received on an order rather than an invoice.	Increased risk of fraud	There is not a designated member of staff who is now maintaining the bookings records and the Chief Finance Officer will reconcile this to the nominal.
Low	The school fund summary needs updating to ensure that free and committed funds are clearly identifiable.	Free and committed funds are incorrectly disclosed.	The Chief Finance Officer is now maintaining a record of the nature of school fund balances.
Low	The catering team complete a purchase order retrospectively to ensure that all goods on an invoice have been received.	There is a risk that goods could be ordered that are not required and may be taken for personal use	The Chief Finance Officer is to consider implementing limits on size of order as it is impractical for each daily food order to be authorised in advance

Update on prior year's management letter points

Audit issues communicated in last year's management letter and our proposed approach to each of these areas in light of development in the year are outlined below:

<i>Findings/recommendations</i>	<i>Status In current year</i>	<i>Management response/ timetable for action</i>
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.	Banking is carried out on a regular basis in the current year. It is collected by a cash handling company.	Completed.
Insurance Premium Tax has been treated as VAT and reclaimed as such.	This was adjusted in the next VAT claim, and has been identified on any future insurance invoices.	Completed.
The catering team complete a purchase order retrospectively to ensure that all goods on an invoice have been received.	This continues to be the system in place in the current year.	See 2017 point raised.
Upon review of the cheque stubs it was found that two cheques for severance pay totalling £37,096 had been written before the year end and not included on the bank reconciliation. These transactions also weren't included in creditors.	Cheques written are dealt with promptly and the bank reconciliations are dealt with correctly at the year end.	Completed.
Upon review of the school's policies and procedures it was discovered they hadn't been updated since Jenny Doyle (previous Principal HR & Finance Officer) left.	The policies have since been updated are due to be updated again in early 2018.	Completed with a further update due in 2018.
Within nominal code '3500' expenditure in relation to post 16 totalling £11,400 had been posted to the income code.	Posted correctly in the current year.	Completed.
Stage lighting totalling £17,836.85, had been posted to PTFA expenses. However this represents the unfunded element of stage lighting costs by the PTFA. It should have been posted to capital additions	The posting was corrected and moved to capital additions. No such incorrect posting in the year to 31 August 2017.	Completed.
The school fund summary needs updating to ensure that free and committed funds are clearly identifiable.	This continues to be an issue in the current year.	See 2017 point raised.

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 2016 to 2017 issued by ESFA. 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 ESFA 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 revenue expenditure.

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

Significance	Findings	Potential implications / financial impact and recommendations	Management response / timetable for action
Medium	During paypal expenditure testing it was found that 4 out of the 10 items tested could not be traced to purchase orders or invoices.	Unauthorised orders and payments are made. Recommendation is to ensure that purchases are made only once authorised purchase orders have been obtained.	Since the year end, Paypal expenses are now being filed together with all supporting documents. Paypal controls have been tightened and passwords changed to minimise usage.
Medium	Credit card statements are not retained on file therefore it was not possible to see if credit card expenditure was adequately authorised.	Not compliant with regularity requirements. Recommendation is to ensure that an appropriate member of staff authorises the bank payment sheet for all credit card transactions. Retain credit card statements.	The Chief Finance Officer will retain credit card statements going forward and ensure authorisation is obtained.
Medium	Tender information is not all filed in a consistent way making it difficult to find evidence that value for money has been obtained.	It is difficult to obtain an audit trail behind the expenditure procurement procedure Ensure tender quotes are retained on file alongside Governor authorisation.	The CFO is to tighten up on this process going forward and will ensure a record is maintained of the tendering process followed.
High	Orders over £1,000 but less than £2,500. Per the financial handbook there should be at least 2 quotations sought to ensure value for money is being achieved. 2 revenue expenditure items were tested within these thresholds and it was found there were no quotes obtained on the basis they were from preferred suppliers. On review of the approved preferred supplier list the suppliers were not on there.	Risk that expenditure is overstated as they may not be receiving the best deal available to them. Recommendation is to ensure the financial handbook is updated to show there is a governor approved list of preferred suppliers and ensure this list is kept up to date. Where a supplier is not 'preferred' ensure that there are quotes obtained for relevant expenditure as per the financial handbook and these are retained on file.	The CFO is to tighten up on this process going forward and will ensure the financial handbook guidance is adhered to accordingly.

Significance	Findings	Potential implications / financial impact and recommendations	Management response / timetable for action
High	<p>Orders over £2,500 but less than £10,000. Per the financial handbook there should be at least 3 quotations sought to ensure value for money is being achieved. 11 revenue expenditure items were tested within these thresholds and evidence was obtained as follows:</p> <p>For 7 of the items there were no quotes obtained on the basis they were from preferred suppliers. On review of the approved preferred supplier list the suppliers were not on there.</p> <p>3 of the items were expenditure from suppliers where tenders could not be obtained i.e. local authority or exam board costs.</p> <p>1 item had 3 quotes present in line with financial procedures.</p>	<p>Risk that expenditure is overstated as they may not be receiving the best deal available to them.</p> <p>Recommendation is to ensure the financial handbook is updated to show there is a governor approved list of preferred suppliers and ensure this list is kept up to date. Where a supplier is not 'preferred' ensure that there are quotes obtained for relevant expenditure as per the financial handbook and these are retained on file.</p>	<p>The CFO is to tighten up on this process going forward and will ensure the financial handbook guidance is adhered to accordingly.</p>