

BOARD OF TRUSTEES – AUDIT COMMITTEE

Minutes of the meeting held at 4.00pm on 24 November 2016

Present: A Whatley M Humphreys

In Attendance: S Jones, Chief Financial Officer
C Bundy, Finance Manager
G Kerkham, Larking Gowen
J Bridges, Clerk to the Trustees

Trustees confirmed that they had no conflicts of interest to declare in relation to the items of the agenda.

1 Election of Chair

The Committee appointed A Whatley to chair this meeting. She is to step down in December 2016 as a Trustee but for the purpose of this meeting was happy to assume the role as Chair. The appointment of the Chair will be determined at the next meeting of the Committee to be held in June 2017.

Action

JBridges

2 Apologies for Absence

Apologies for absence were received from H Lay and C Gibson.

3 Minutes of 23 June 2016 meeting

The minutes of the meeting were agreed as a correct record.

4 Matters Arising

The matters arising from the meeting were summarised in the report and all actions reported had been completed or, where appropriate an update had been provided on progress elsewhere on the agenda.

5 Committee Terms of Reference

It was noted that the terms of reference for this Committee state the quorum requirement of three when advising or making recommendations to the Board of Trustees. However, under the Articles of Association (Article 23) two persons are entitled to vote upon the business to be transacted and two constitutes a quorum. Therefore it was agreed that items for approval at the meeting could be recommended to the Board under quorum rules of the Articles.

The Committee was informed that the Members of SAT approved the appointment of four Trustees recently and it was hoped that a number of these would join the membership of this and the Finance Committee as attendance in particular for Audit has been poor in the year and this was of a concern. Members asked that co-opted membership is considered to bolster the skills mix and aid improving attendance levels of the Committee and the Clerk will consider the co-option recruitment options and will report back at the next meeting of the Committee.

JBridges

G Kerkham left the meeting for the discussion of the next agenda item.

6 Appointment of Internal and External Auditors for 2016/17

Under the Scheme of Delegation the Board of Trustees is responsible to appoint auditors and at the meeting of the Board held on 29 September 2016 it was

approved that the Internal Audit Service is to be delivered by Schools Choice for the 2016/17 academic year and the External Audit Service awarded to Larking Gowen, to audit the financial statements and accounts for the year ending 31 August 2016. The renewal terms of the External Audit Service are to be reviewed and subject to the satisfaction of the Chair of the Finance Committee and the Chief Financial Officer the appointment of Larking Gowen would be confirmed.

The Committee discussed the performance of both audit service providers in the 2015/16 academic year and were comfortable in the knowledge that both appointees were experts in their fields and were appropriate appointments. The Committee recognised that the Chair of the Finance Committee and the Chief Financial Officer should continue to seek their satisfaction of the renewal terms of Larking Gowen but subject to that satisfaction would endorse a recommendation to approve their appointment to the Trust Board at the meeting to be held on 13 December 2016.

SJones

G Kerkham joined the meeting.

7 Audited Accounts for the year ended 31 August 2016

The Committee was pleased to receive a positive and unqualified set of audited accounts for the year ended 31 August 2016.

It was noted that part way through the document (from page 10 onwards) the text refers to Suffolk Academy Trust and should refer to Suffolk Academies Trust. There is also a typo in the document and the word 'education' requires amendment plus the Committee asked that a consistent approach is made throughout the document and references to 'pupils' are changed to 'students'. Subject to these corrections the Committee approved the Financial Statements and Annual Accounts for the year ended 31 August 2016 and will put a recommendation for approval to the Board of Trustees at the meeting to be held on 13 December 2016.

AWhatley

8 Audit Summary and Significant Findings Report

The Committee was pleased to learn that no modifications to the audit report were necessary and a clean, unqualified opinion of the report would be issued by auditors. It was noted that Appendices B – Trustee's representation letter and C – Regularity Representation Letter are to be signed at the meeting of the Board to be held on 13 December 2016 and are to be submitted along with the year-end accounts to the EFA by 31 December 2016. The Finance Manager and Finance Team were thanked for their hard work and support during the audit work; this uncontroversial audit is testimony to the team that effective financial management practice is in place.

CBundy

Auditors confirmed that the outstanding item (point 4.11, page 6 of the report) has now been completed and the cost certificate received relating to the Service Level Agreement between West Suffolk College and the Trust. A review of the SLA is currently being completed with the intention to present this to the Trust Board for approval at the meeting to be held on 13 December 2016.

SJones

The Committee was informed that in line with the movement seen on the majority of academy clients, the pension deficit has almost doubled in the year; from £1,378,000 on 1 September 2015 to £2,355,000 on 31 August 2016. The main reason for the increase is the reduction in discount rates used in the actuarial assumptions at 31 August 2016. The discount rate is linked to the rate receivable on similar corporate and non-corporate bonds with a similar timeframe, which have fallen significantly in the year.

It was noted that the draft accounts show total funds carried forward of £27,095K. This comprises unrestricted funds of £345K, restricted fixed asset funds of £29,034K, restricted fund of £71K and a restricted pension deficit of £2,335K. General Annual Grant (GAG) monies have been received from the EFA and are restricted for the Academy Educational Operations. The Trust is carrying a net surplus of £70,862 before the pension adjustment on restricted general funds, which includes the sum of £480,000 deficit which was inherited at conversion. Of this balance £46K relates to unspent GAG money which will continue to be used for the Academy Educational Operations; the £24K is surplus income over expenditure for Free School Meals, the planned use of this is to continue to support students with Free School Meals. A transfer of £189K has been made from GAG to the Fixed Asset Funds for continuing investment in the building and IT operations. A transfer of £322K was made to support the pension deficit.

On page 2 of the report it was noted that two adjustments to reconcile the figures concerning the £1.6m West Suffolk College liability and the removal of £80K rent payment to WSC have been made. The draft accounts include the £1.6m liability to WSC at £80K per annum for 20 years. The premises lease agreement includes these payments as rent charges, however, the accounts reflect the substance of the arrangement as loan repayments.

The Committee was informed that on conversion to academy status the Academy Trust inherited assets and liabilities from the predecessor school. These were received for £nil consideration. The assets and liabilities have been recognised at fair value and recognised in the Balance Sheet under the appropriate headings with the corresponding net amount recognised as income in the Statement of Financial Activities.

Auditors asked the Committee to confirm the progress of the Free School Sixth Form Application in Bury St Edmunds. The Chair confirmed that the Trust has received the approval of the DfE to proceed to the pre-opening stage of the project. The schedule that is being worked toward, but cannot be published, is for the Sixth Form to open in September 2018. The Trust will receive a Project Development Grant for the sum of £250K, £30K of which is expected to be received at the end of this month. Auditors asked that the note of the 'Plan for Future Periods' on page 9 of the accounts is changed to declare the progress of the project as reported and the wording in the penultimate sentence changed to read 'at a Free School' rather than 'at the Free School'.

CBundy

On page 8 of the accounts the Reserves Policy states that 'there is no absolute level of free reserves that the Academy should hold but, generally, as this is allocated for unforeseen liabilities, it should normally be restricted to 1 months' worth of estimated expenditure and this is the level to which the Trust is currently working toward'. Auditors suggested that under the Accounts Direction the value should be somewhat more exact about the amount of free reserves so the Chief Financial Officer will give thought as to how this can be better expressed in the accounts and will amend the section in the copy to be presented to the Board of Trustees at the meeting to be held on 13 December 2016.

SJones

It has been brought to the attention of the Academy Trust during the year that there may be an undercharge on the electricity consumed and an estimate of the financial effect is £100K. It was noted that this has been expressed as a contingent liability in the accounts and auditors are satisfied that this is the correct disclosure.

Academies are required to disclose remuneration of key management personnel. This comprises Trustees and the Senior Leadership Team. The total amount of employee benefits (including employer pension contributions) received by key management personnel for their services to the academy trust was £328K. It is unlikely that this declaration will attract any publicity.

It was noted that there were no changes to the preliminary assessment of potential ethical threats to audit independence that were required to be communicated to the Committee.

G Kerkham left the meeting at 5.10pm

9 Internal Auditor's Report

At the request of the Committee the report of the completed internal audit work has been filtered to show just the outstanding recommendations to complete. The Finance Manager will ask Schools Choice if their report can be presented in this way for each meeting of the Committee.

CBundy

The Clerk confirmed that the skills audits of both the Trust Board and the Local Governing Body (question 17) has been completed and she will forward evidence onto the Finance Manager so that this can be shared with Internal Auditors when they visit next week.

JBridges

With regard to question 3 of the recommended action plan auditors had suggested that a financial plan that supported the School Development Plan should be developed that outlines the plan to achieve the educational goals and objectives of the Academy. The Chief Financial Officer confirmed that it is proposed that a 5 year summary financial projection is taken to the Finance Committee at the meeting to be held on 6 December 2016. It was noted that the Quality Improvement Plan will also inform this work and this is to be considered by the Local Governing Body at its meeting to be held on 30 November 2016. There was confusion muted at the meeting about exactly what the recommendation was asking for so the Chief Financial Officer will talk to the Principal and seek clarification from Schools Choice, who are on site next week for internal audit work, to explain exactly what is needed to discharge this recommendation.

SJones

10 Committee's Annual Report

The draft report has been prepared in consultation with the Chair of the Committee and responds to meeting the requirements of the Academies Financial Handbook enabling the Committee to fulfil its annual reporting requirements.

It was noted that the words 'regularity of' on page 3 under section 10 should read 'irregularity or'. It was noted that the case of criminal activity occurred post 31 August 2016 and therefore will appear in the annual report of 2016/17 and not this report. An update on this case is covered under item 12.ii. below.

JBridges

11 Risk Registers of:

i. Suffolk Academies Trust

At the request of the Committee it was noted that the risk in relation to the Free School has been amended to reflect that the risk was about the failure of the application rather than the failure of the School and the overall risk rating downgraded from a score of 22 (medium risk) down to a score of 8 (residual risk).

There are no high risks (scores of 24 or higher, RAG rated Red) on the register but the Committee suggested that as the register of Suffolk One rated a breakdown

of relationships between the trust and the LGB of One as high the risk register of the Trust should complement the level perceived. The Clerk will adjust the SAT Register to reflect the same risk level. The Committee also commented that as the momentum of the Free School project gained pace this could expose an emerging risk around management capacity and there was concern that the outstanding performance of the academy could be at risk if other activities are consuming management time. It was agreed that a risk is to be added to the register.

ii Suffolk One

The discussion of this item is captured under item 11.i above.

12 Any other business

i. Purchase Card Misuse – Fraud Case Update

In July 2016 the Academy was the victim of a card fraud involving the misuse of one of the purchase card details. No loss was suffered because the bank refunded the transactions undertaken by the fraudster. The details are most likely to have been picked up via a website that has been used and the bank's investigation team are handling the case. The bank does not share the details of that investigation with us.

This attempted fraud is less than £5,000 and therefore there is no obligation to inform the EFA but the Committee needed to be informed. The Committee was pleased to learn that no subsequent misuse of purchase cards has been made since the incident in July 2016. All staff with purchase cards have been alerted to the risk and are being vigilant about the websites they use to purchase goods. Where possible to minimise the risk of fraud staff are opting to pay on invoice or through BACS payments rather than making card purchases.

ii. Report of Potential Theft

Under the requirements of our Financial Administration and Control Handbook the Committee was made aware that the Academy has experienced a theft in the form of a third party using the academy phone system to facilitate multiple telephone calls to many numbers including international at a cost of approximately £1,500. The bill has been challenged with the provider and CCTV footage checked to see if unusual activity of the telephone system has been made.

A thorough investigation of the phone lines has been completed and it appears that the voicemail system has been hacked by an external party to facilitate high volumes of automated calls. The EFA have been contacted so that they are aware and the RPA (insurance) scheme has been notified in terms of any potential claim to recover a loss. The fraud team of the telephone line provider, BT, have also been contacted.

Date of next meeting

Thursday 8 June 2016 at 4.00pm

The meeting closed at 5.45pm