

BOARD OF TRUSTEES – AUDIT COMMITTEE

Minutes of the meeting held at 6.00pm on 26 November 2019

Present: R Inman (Chair) J Gazzard (Vice Chair)
A Maltpress J Wakelam

In Attendance: N Roberts, Third Party Adviser
S Jones, Chief Financial Officer
J Raffel, Group Director Finance
C Bundy, Finance Manager
N Coules, Group Director Information
G Kerkham, Larking Gowen
J Bridges, Trust Secretary

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

Action

- 1 **Apologies for absence**
Apologies for absence were received from S Howard.
- 2 **Minutes of the meeting held on 7 October 2019**
The minutes of the meeting were agreed as a correct record.
- 3 **Matters Arising from the meeting held on 7 October 2019**
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.
- 4 **Audit Planning Memorandum**
At the request of Auditors, Larking Gowen, they wished to see that their Audit Planning Memorandum had been sent to all trustees, not just shared with the Audit Committee. In addition, it was noted that the Chair of the Audit Committee met with external auditors ahead of this meeting to agree the work of the Financial Auditors.

The Trust Secretary confirmed that the Audit Planning Memorandum had been shared with all Trustees by email on 18 October 2019 and Auditors. Larking Gowen, were copied in and they, and Trustees, have confirmed their safe receipt.
- 5 **Audited Accounts for the year ended 31 August 2019**
The Accounts are presented to the Audit Committee and are also to be received for consideration by the SAT Finance Committee at their meeting to be held on 4 December 2019. Approval of the accounts are the responsibility of the SAT Board of Trustees and this decision is to be made at the meeting to be held on 13 December 2019.

The Committee was pleased to receive the accounts that had been prepared in full compliance with accounting regulations and received an unqualified opinion of the financial auditors, Larking Gowen. The accounts show a positive performance for the Trust with a surplus year end outturn. The Committee was satisfied to recommend the Audited Accounts for the year ended 31 August 2019 to the Board of Trustees at the meeting to be held on 20 December 2019.

RInman

The Committee was pleased to receive the accounts that had been prepared in full compliance with accounting regulations and received an unqualified opinion of the financial auditors, Larking Gowen. The accounts show a positive performance for the Trust with a surplus year end outturn of £248K. The Committee was satisfied to recommend the Audited Accounts for the year ended 31 August 2018 to the Board of Trustees at the meeting to be held on 20 December 2018 and congratulated the work of the Finance Manager and finance team.

It was noted that the words 'in transactions with WSC' are to be added to the end of the first sentence of the Related Party Transactions Committee paragraph on page 14 of the accounts so that the sentence reads 'comprising of the three Trustees who are not conflicted in transactions with West Suffolk College'.

CBundy

6 Audit Findings Report

G Kerkham reported that based on auditors' conclusions they have not made any modifications to the audit report and will issue a clean, unqualified audit opinion. Furthermore, it was reported that there are no changes to auditor's preliminary assessment of potential ethical threats to audit independence that they are required to communicate with the Trust.

The draft results, section 1.0 of the report, summarise a year end position of £1,259,193 comprising unrestricted (free reserves) plus GAG and other restricted general grants totalling this sum. It was noted that movement on 'other' restricted funds include a net spend of £125K from the Abbeygate fund and there has been no adjustment to the net surplus or reserves balance during the audit.

It was noted under item 3.1 (page 4) of the report that auditors have considered and tested the internal controls and management of revenue recognition (excluding General Annual Grant, GAG) and have concluded that it has been appropriately recognised, allocated to the appropriate accounting period, and identified that no matters required reporting.

In note 3.2 (page 5) auditors have considered and tested management override of controls and found no instances of fraud or management override, and no matter that required reporting.

Note 3.3 covers the area of regularity and auditors inspected and reviewed the accounting records, minutes, internal control procedures, management representations and declarations of interest. An enquiry of senior management, including the Accounting Officer was further conducted together with sample tests of expenses, Related Party Transactions, procurement and other regularity tests as specified in the Accounts Direction. Auditors particular concern was to confirm the appropriate management of conflicts of interest and related party transactions following the alignment of the membership of the governing body of West Suffolk College and the Trustee Board of SAT at the beginning of the financial year. Auditors investigations found that the revised Articles of Association submitted to the ESFA were approved on 5 November 2018, with a clause to remove a restriction on Trustees from participating in discussions where they may have duties towards West Suffolk College. In addition, it was found that the Trust has established a Related Party Transactions Committee, consisting of Trustees who are non-conflicted Trustees (i.e. they do not hold a Governor role with West Suffolk College) and other than reviewing the composition of that Committee (see note 4.1), auditors are satisfied and had no further observations.

Further to the regularity testing auditors found that the CFO and Accounting Officer are not on the payroll of SAT although the Academies Financial Handbook states that Senior managers with significant financial responsibility should be exclusively on the payroll. Auditors reviewed the implications of the rule and found that as the tax obligations of the CFO and Accounting Officer are met by West Suffolk College, there is no considered breach of the Academies Financial Handbook.

It was noted though that discussions continue concerning consultancy income that this paid to an employee, which although is concluded to be immaterial is still a regularity (see note 4.4) that is to be resolved.

In note 3.4 (page 8) auditors reviewed internal controls and management of expenditure and through testing identified no matters that required reporting. Note 3.5 explains the review of TPS and LGPS pension scheme liabilities conducted. Auditors reviewed the report for FRS102 purposes prepared by the actuary and the key assumptions used and benchmarked these against a number of other schemes with similar year ends to assess their overall reasonableness. The assumptions adopted were found to be reasonable and the net liability within the expected range. It was noted that the increase in the net liability is largely driven by the reduction from 2.8% to 1.9% in the discount rate applied to the scheme liabilities.

The review of the risk that funds may be incorrectly allocated (note 3.6 on page 9) concluded that tests of income and expenditure between funds and a review of documentation, key terms and allocations and balances for significant funding streams had found no matters for reporting.

The review of the oversight and operation of the financial controls across the Trust (note 3.7 on page 9) did not uncover any material matters although it was noted that it did highlight instances of variation from the Trusts Financial Regulations in relation to procurement (see note 4.2) which are to be resolved.

Audit areas noted in 3.8, Payroll Costs, 3.9 Financial Statements Presentation and note 3.10, Revenue Recognition – General Annual Grant (GAG) all concluded with no matters for reporting.

Auditors found (note 3.11) that a company has been created, a wholly owned subsidiary of West Suffolk College, as a possible vehicle for the future operation of shared services, which is subject to DfE/ESFA approval and would welcome a discussion with the Trust on the future plans for the company.

A number of subsequent events for discussion were provided for under note 3.12 (page 12); including financial forecasts for the next 12 months; issues giving rise to contingent liabilities/assets or impairment concerns; capital commitments for possible financial statements disclosure; operation of Abbeygate (not yet disclosed in draft account notes); and any other significant post year end events.

Section 4 of the report shows the 4 accounting systems and internal control observations (as noted under notes 3.3 and 3.7 above). The first observation (4.1) suggests that to improve the perception of independence (non-conflicted) Trustees should look to appoint Related Party Transaction Committee members who do not have a recent connection with West Suffolk College. The Audit Committee considered the issue concluding that as 2 of the non-conflicted Trustees of the RPT Committee had only been a Governor of West Suffolk College for a 4-month term of office therefore they were of sufficient independent status.

The instances of variation from the Trusts Financial Regulations in relation to procurement were detailed in observation note 4.2 (page 15) and it has been agreed that on both occasions the authority to vary regulation form had not been completed. With immediate effect it has been resolved that the Finance Manager will be extra vigilant to ensure that the relevant quotes are obtained, or the authority form completed.

Observation Note 4.3 asks that the Trust reviews the Financial Regulations to specify financial limits, the authorisation process and whether the policy of gifts and hospitality applies differently to volunteers, staff, senior management and/or Governors/Trustees. It was noted that a review of the Financial Regulations is scheduled to be presented to the Finance and Trust Board meetings to be held in March 2020.

The final observation (note 4.4) relates to the external consultancy income earned by the Principal of Abbeygate Sixth Form College who is employed full time by SAT but attends Ofsted Inspections within their work hours and that they are remunerated directly for this, as approved by the CEO upon their appointment. In accordance with the Academies Accounts Direction (4.12) the arrangement is considered irregular and auditors would like to understand the arrangement better before the matter can be concluded. It was noted that discussions are ongoing to unpick this arrangement and Trustees noted their concern expressing that this arrangement should be regularised (as a bonus payment as opposed to a direct payment) however with the uncertainty of the terms under which this arrangement had been agreed at appointment of the post holder this needs to be determined and it was suggested that this is sought between Auditors and the CEO.

GKerkham

N Roberts and A Maltpress left the meeting at 6.50pm

Section 5 of the report (pages 18 through to 21) helpfully provide Trustees with other information, regular changes in laws and regulations. Highlights include updates to the Academies Financial Handbook 2019, changes with Internal Scrutiny, Executive (Senior Management) Pay, Budgeting, Risk Register, Whistleblowing, Clarifications and new guidance for charities with a connection to a non-charity.

Appendix A and Appendix B are the Trustee Representation Letter and Regularity Representation Letter to be signed by the Chair of the Board of Trustees at the meeting to be held on 13 December 2019. The Committee approved that a recommendation could be made for these to be signed and recognised the unresolved regularity point covered above in point 4.4.

RInman

The Committee recognised the need under the Academies Financial Handbook to undertake internal scrutiny and concentrate focus on evaluating suitability and compliance with financial and other controls; offering advice and insight to the board on addressing weaknesses in controls; and ensuring all categories of risk are being adequately identified, reported and managed and questioned the suitability of the incumbent service provided for by Schools Choice. The intention is to market test the internal audit service and this process will commence in the spring term for appointment to commence wef 1 September 2020. The Finance Manager was asked to ascertain if Schools Choice could provide assurance through their internal audit work to ensure that all categories of risk are being adequately identified, reported and managed. It was noted however, that the requirement lies with the Trust to identify on a risk basis (referring to the risk register) the areas for review each year, modifying checks accordingly. Volunteers for the appointment panel for the internal audit service tender were agreed as R Inman, J Wakelam and J Gazzard. The CFO will confirm the tender programme and dates with the panel.

CBundy

SJones

7 Internal Audit Report and Action Plan

The report shows that there are two actions brought forward from 2018/19, one of which is now complete and the other of which has not been accepted.

The recent audit fieldwork resulted in 7 recommendations; 3 of which have not been accepted, 3 are in progress and 1 has already been completed. The fieldwork covering payroll, purchasing processes and purchasing transactional testing produced an overall grading as 'Good'.

It was noted that the recommendation to include the VAT apportionment rates in the Trusts Financial Regulations was not accepted because there is no requirement to state these.

The recommendation in relation to the payroll reconciliation will be queried with Schools Choice to determine exactly what action/practice needs to be put in place.

The third recommendation that has not been accepted relates to authorisations for trips and visits and the Committee was satisfied that this does not require action.

In addition, the fourth recommendation that has not been accepted was also agreed by the Committee, as expenses of the Principal of the Academies of course should be approved by their Line Manager, the CEO, and not the Board of Trustees as suggested.

8 2018/19 Committee Annual Report

The report has been prepared and responds to meeting the requirements of the Academies Financial Handbook.

The report has been amended further to suggestions put forward by the Committee at the last meeting and these have been included. The Committee **approved** the report for presentation to the Trust Board at the meeting to be held on 13 December 2019.

C Bundy and G Kerkham left the meeting at 7.10pm

9 GDPR Update

On 7 October 2019 Suffolk Academies Trust (SAT), Abbeygate and One Sixth Form Colleges had a GDPR Impact Assessment carried out by the DPO Centre. The report and recommendations from this assessment were received and a summary of the RAG actions for each organisation were shared with the Committee.

A review has been carried out of each of the organisations reports and the associated recommendations within and an action plan will be drawn up for each organisation to ensure that the recommendations are implemented within the timeframes specified. A summary of the progress against the plan(s) are to be provided at each meeting of the Committee and members requested to see, in particular, a reduction in the number of red recommendations outstanding by the next meeting of the Committee to be held in February 2020.

For SAT and Abbeygate there are no reportable breaches to report. One Sixth Form College has experienced four breaches in this academic year to date although it was noted that these were not reportable to the ICO but are still under investigation.

NCoules

10 **Risk Management Update**

i. ***Risk Register***

The register currently identifies two red, two amber, two yellow and six green status risks.

Risk R018 (failure to recruit Abbeygate student numbers leads to reduced income) has been reinstated (score of 30, RED) as requested by the Committee at the last meeting.

In addition, a 'pertinence' colour coded column has been added to the register to show if the risk is not only pertinent to SAT but if it is also pertinent to One Sixth Form College, Abbeygate Sixth Form College and/or both.

It was noted that the Committee accepted and agreed with the top risks identified on the register.

ii. ***Heat Map***

The heat map shows an increase of 1 in the number of risks in the red zone (now 2), since the position in September 2019. The number of amber and yellow risks remain the same at 2 and those in the green zone remain with 6.

iii. ***Board Assurance Map – Slice 1***

The Board Assurance Map has been sliced to show the top 3 risks and the levels of assigned assurance in order that the Committee can take a more focussed approach to manage the risk.

In turn the Committee looked at each risk, R011, R018 and R002 and discussed the appropriateness of the coloured assurance levels provided for in the map. The Committee were content with the assurance levels of R011 and questioned if the green assurance levels of R018 were acceptable. It was concluded that this assessment level was proportionate. With regard to R002, Trust/Local Governing Body/Academy relationships under strain the yellow ESFA assurance level is to be removed and the green governance oversight assurance level downgraded from green to yellow, in recognition that Trustees did not feel that they had sufficient oversight of effective relationships.

JBRidges

The CFO questioned if a risk should be added around building capacity at One Sixth Form College and the Committee concurred that this should be raised as a discussion point at the Strategic Conference to be held in January 2020.

RInman

11 **FMGS Return**

The ESFA requires new academy trusts and those that are expanding from one academy to submit the Financial Management and Governance Self-Assessment (FMGS).

At the time of receiving this notification it was queried with the ESFA if the Trust was required to complete the return as it was already established as a Multi Academy Trust. The query was raised and acknowledged by the ESFA, but a response was not forthcoming. The Trust was subsequently notified after the submission date that the Trust had failed to complete the return by the 31 October 2019 and having queried our position again, we were duly informed that we did indeed need to complete and submit the return. The return shows that the Trust is fully compliant with the requirements of the FMGS but before submission the Trust must confirm the date upon which the Trust, or its dedicated Committee, has approved the return. The Committee questioned the appropriateness of the

responses made to questions 31 and 32 in light of the regularity point noted above under agenda item 6 and concluded that 'yes' responses were justifiable. Further to due consideration the Committee resolved to **approve** the return for submission to the ESFA. **Approved** by a show of hands.

12 Any other business

None.

Date of next meeting

Monday 10 February 2020 at 5.00pm. West Suffolk College Room TG1.16

The meeting closed at 7.40pm.