



MINUTES

**The Challenge Academy Trust
Audit and Risk Committee
Wednesday 4 December 2019, 4.30pm**

PRESENT:

Matthew Grant (MG)
Alan Farquharson (AF)
Howard Platt (HP)
Linda Waterson (LW)
Steve Whatmore (SW)
Adrienne Laing (AL)

Damian McGuire (DM)
John Monaghan (JM)
Lauren Gerrard (LP)
Michael
Steven Pringle (SP) – Auditor

IN ATTENDANCE:

Part One – non confidential business

Governors had a presentation on risk management prior to the meeting.

Action: Clerk to send slides to trustees

1. Welcome

Governors were welcomed to the meeting

2. Absence/Apologies

Apologies were received from Gary Stuart (GS) and Philip Dyke (PD).

Claire Findlay (CF) was absent from the meeting.

3. Declaration of personal interest

There were no declaration of personal interests.

4. Election of Chair and Vice Chair

Linda Waterson was elected a Chair.

Alan Farquharson was elected as Vice Chair.

5. Minutes

Neil Clarke to be added to the attendance.

6. Internal Audit

Human Resources

The purpose of this review was to consider whether the Trust's arrangements for HR are appropriate. As part of the review the auditors looked at a sample of schools as well as the Trust. The scope and objectives were agreed in advance. There are substantial assurances that adequate systems are in place.

The following 4 recommendations were made:

- Trust produces a report to Senior Management and the Trust Board on its HR project management and progress as soon as possible. HR compliance and progress should become a standing agenda item at SMT meetings and regular updates should be made to the Trust Board.
- HR representatives at all academies across the Trust check employee files for completeness. Where documents are missing, WBC should be contacted to provide documents so that files are brought up to date.
- The Trust ensures progression towards completion of a fully up to date suite of policies and procedures that encapsulate all of the systems and processes used to provide HR management at the Trust.
- That a HR Hub action plan is completed in the current academic year and that any areas not completed in line with schedule are highlighted as soon as possible.

It was noted that there were a number of areas of good practice identified.

Governors were informed that the recommendation in relation to personnel files due to the conversion of a primary school where old files had not been transferred from the Local Authority. Governors were assured that the files did exist.

HP felt that this was a good starting point for the new HR Manager. Governors were informed that Ben Logan has been appointed and will start in February. His experience is in educational HR however he does have experience of working with private companies. **HP asked** if he would sit on the CET. It was noted that he would in a similar capacity to DM and AL. It was noted that his appointment would relieve the pressure from AL. AL reported that there is a list of actions for him to do once he starts and he will own some of the risks identified.

Governors noted that it is a positive report and that it is good to see that there are areas of good practice.

7. External Audit

- Statutory accounts

It was reported that it is close to the end of the audit process. A number of improvements have been made this year. The principal objectives of the external audit work are to ensure that:

- The financial statements of the trust give a true and fair view of the state of affairs of the Trust and of its results for the year;
- Funds from whatever source administered by the Trust for specific purposes have been properly applied during the year for those purposes and, where relevant, managed in accordance with appropriate legislation;
- Funds provided by funding bodies during the year have been applied in accordance with all relevant Financial Agreements and any terms and conditions attached to them.

The purpose of this report is to highlight any issues which have been identified during the course of the work and which it is believed should be brought to the attention of the Trustees.

It was reported that a clean audit report is presented again this year.

Nicola visited each school this year in early autumn and produced a full record of the systems in place. Tests were carried out on the expenditure and income at various schools.

In our duty as auditors we have considered the reliability of the going concern assessment and in our opinion the assessment is reasonable given:

- At 31 August 2019 the Trust held bank balances totalling £3.3 million, had net current assets of £1.9 million and million borrowings.
- The funding from the ESFA is reliable, subject to some variance based on pupil numbers.
- The Trust's forecasts suggest that any deficit which could arise would be more than covered by the Trust's cash reserves.

The auditors reported that they are comfortable that the Trust has sufficient resources to survive the next 12 months. Last year it was recommended that the Trust's central finance function was strengthened with the employment of more staff. This has been actioned by re-organising the current team and making additional appointments. It was noted that the timing of the changes has meant that during the 18/19 year the finance team was not in a position to present full consolidated management accounts (including balance sheets) to the relevant trustee meetings. DM felt that trustees had been presented with accounts. HP felt that the deficit is the critical issue and not the balance sheet. The auditor informed governors that the handbook states that the balance

sheet must be shared with trustees. Governors were assured that they will have access to this information going forward.

Action: balance sheets to be shared with Trustees as a priority

It was noted that page 3 details the matters arising from financial statements and audit process. The auditors reported that the Trust was much better prepared for the audit than previously. All information required was provided quickly.

HP asked if the auditors were happy with the structure and resources in place. They noted that they were however they had not assessed the capability of the Management Accountant. The auditor expressed his confidence in DM but felt that the work of the Management Accountant was not his role. **HP asked** if the auditors were expressing concerns. They noted that they were in some aspects as they were expecting to see more information. DM explained that other issues had arisen which needed to be made a priority. **HP asked** if there are any alarms being raised. The auditor felt that if Lauren Gerrard was in post there would be management accounts. AL reported that there have been some resource issues and the Management Accountant has been supporting in other areas. HP noted that there have been a number of changes and staff have had dual roles. DM noted that there were staff in the academies that weren't experienced in this format of accounting and a lot of time has been spent on ensuring they are up to speed. AL reported that apprentices have been appointed in two of the schools which has allowed some release time. It was felt that everything is starting to fall in place. AL informed them that Priestley College has been down a member of staff so Karen has been providing support. She has also had a lot of input in developing the apprentices. The central finance team spends a day a week based at Priestley whilst the rest of time is spent in schools. MG reported that a paper was presented to the board who agreed that the appointment of the accountant was to be made priority over the HR manager. AL felt that next year will see a step change.

Page 4 details the audit risks which are applicable to most of the academies. It was noted that the auditors are comfortable with the level of risks.

The statutory format of the Statement of Financial activities for a MAT includes assets transferred into the MAT when new schools join. This can make it more difficult for Trustees to see the underlying performance for the year. This year if transfers are excluded this shows a deficit of £3,412k. It should be recognised that this is after non cash depreciation of £3,199k and a non cash pension adjustment of £1,083k. Reversing these would result in a surplus of £870k. However, to give a true reflection of financial performance if we add back depreciation then we should deduct fixed asset additions, which amounted to £1,707k and this

would leave a deficit of £873k. DM reported that some of the expenditure has been charged as income but it is for capital work projects.

An alternative way of assessing underlying performance would be to remove capital grants of £1,496k from the £870k surplus. This would suggest an operating deficit of £626k.

The auditor recommended that the trust looks for better surpluses. It was noted that improvements in future operating results are also expected due to:

- Increased funding at Beamont Collegiate Academy based on lagged funding formula
- Reinstatement of split site funding at Bridgewater High School
- The effect of increases in Year 7 student intakes at some academies

DM reported that discussions have already been held with the CET about the need to start business plans for those schools with deficit budgets. Strategies will be presented on how these deficits can be turned around. This has already started at Padgate with a staff restructure. The consultation for this ends tomorrow. A review of the curriculum is the next stage of the plan. MG felt that the most important thing is that pupil numbers are improving. Penketh High are consulting on reducing their PAN. All 3 with low numbers have shown a trajectory to hit the plan and can now model a curriculum offer. They have all driven up performance and now it is the time to look at staffing models in place. It was noted that the other area that has not been covered is the guaranteed in year funding for Padgate and Sir Thomas Boteler. If the Trust receives this funding we will be in a surplus. **SW asked** if the business plans will be for 3 years. It was noted that they will be for a minimum of 3 years. The auditor noted that the key thing for an educational establishment is its reputation which is ultimately driven by results.

Page 6 shows the balance sheet at 31 August 2019. The cash at bank and in hand has reduced from £4.4 million to £3.3 million. The net current assets has reduced from £2.6 million to £1.8 million. The net current assets is the key measure of liquidity and this has been decreased by £818k during the year after a decrease of £1695k in the previous year. As highlighted in last year's audit highlights report, the deterioration in net current assets suggests a significant outflow of resources. It was reported that this is due to the purchase of the Roger Hunt building which is a one off payment and that there are some academies with deficit budgets. It was felt that schools have worked on the basis of the income they have received must be spent. Work needs to be done on stopping this and encouraging them to generate a surplus.

Governors were informed that the expansion work at Beamont Collegiate Academy was needed due to the increase in pupil numbers. It was noted

that all the works have been funded through capital works money. If in 5 years time the government don't release capital money then the budget position would be completely different. It is important that there is an element of saving so that capital works can continue. MG noted that this is where the Trust can apply for capital grants and there is no indication that this will stop. The auditor noted that the Trust has spent far more than the grants it has received. DM stated that this is due to the purchase of the Roger Hunt building.

HP felt that there are a lot of reasons to be happy. DM noted that there are steps in place to improve the cost base of each of the academies.

A number of 3 year forecasts have been produced before the teacher pension grant and pay grant were announced. It was felt that the problem with a 3 year forecast is that there is an element of unknown with the government. The aim is for the budget to breakeven or be in a surplus. It was felt that it is important that the Trustees review the balance sheet so that they can identify where the net current assets are. It is important that there isn't a further decrease.

It was reported that there were no unadjusted errors and that the accounts were very accurate.

HP noted that the assessment is that the Trust is in good shape and has made progress. The issues have been around the lateness of appointment of a Management Accountant. The auditor noted that the Trust was over ambitious with the original plan. SW noted that the embracing of new systems takes time to embed and with the introduction of new schools provides additional work. MG felt that the balance sheet could be in a worse position. The Trust was under pressure to take on Padgate with a deficit. Everyone is aware of where the issues are and these are being tackled. DM reported that the member of staff who did the majority of the finance work at Broomfields suddenly died so additional support has been provided.

8. Risk Management Plan

- Risk Management Plan 2018/2019 update

MG highlighted the risks where there has been some activity. Risks have been included around the general election and the 1 year spending review. Safeguarding remains a risk and a trust wide policy is being produced.

There are issues around smoking at Priestley and this is being addressed. The tenders for Sir Thomas Boteler's access corridor is ongoing. Additional priorities have been identified.

In terms of risks around Human Resources additional support is in place at Padgate due to the maternity leave of the substantive principal. At the beginning of the year it was difficult to recruit business studies teacher. The consultation process for a restructure at Padgate was signed off on the 1 December 2019.

The in-year deficit at Padgate was £1,000 less than the original forecast at £234,000 as a result of good budgetary control. AL is providing support to the business team

ST asked if the credit card fraud was the same card. DM informed them that as soon as any fraud has been identified the card is cancelled. It was noted that the bank is good at spotting it and making us aware. One of the transactions was on a Saturday and the other was in America. As the cards are cancelled this causes disruption. ST asked how many credit cards do the Trust have. It was noted that the college has one.

- **2019/2020 draft plan**

MG reported that there is a difference in the number of risks identified in the draft plan. Some of the previous risks have been removed as they are no longer deemed a risk. The risks have been put in order of high, medium and low. Safeguarding will continue to be a high risk but a lot of work is being done to address health and safety issues. The work at Padgate has made a significant difference to the staff and pupils.

Finance is a high risk due to the issues around the deficit budgets in the 3 schools. Individual managers have been identified to lead on the specific activities.

National initiatives such as Brexit and the general election have been judged as a medium risk. This will be closely monitored. The future of UTC and New Horizons will have an impact on the Trust and a close eye will be kept on this.

The performance at all organisations has improved and pupil numbers is on the increase. Attendance at open evenings and expressions of interest has been positive. It is felt that in terms of reputation there is currently no risk.

A medium risk has been identified around utilities and estates. A capital management plan is in place which provides evidence of why specific projects are being carried out.

In terms of Human Resources the Trust need to keep in mind that MG is retiring at the end of the academic year. Appointments have been made in the Finance, HR and Operation teams. These are now strong and

stable. The CET remains strong with Meadowside and Broomfields joining the Trust.

MG felt that the draft plan reflects the points raised in the training. He has tried to keep it to the 10 main headings as recommended. The only thing that has not been addressed is around appetite.

9. Any other business

There was no any other business.

The meeting closed at

Signature: _____
Chair

Date: _____