



**Lord Agnew Kt DL**

Parliamentary Under-Secretary of State for the School System  
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Dear audit colleague

**The academy audit process and board governance**

I wrote to you last year highlighting some of the priorities we have identified in the governance of academy trusts. As I said then, the Department relies on the quality and thoroughness of your audits as part of our oversight of the sector. We know that many academy trust boards are still adjusting to the additional rigour expected of them, when compared to being a local authority school governing body. Your role in helping them on this journey is important. I want to emphasise some of the ways in which you can help us too.

**ISA 260 - Communication with those charged with governance**

I appreciate the important role of this auditing standard in framing your communication with trusts. Having the components of the standard reflected in your feedback helps the Department take assurance that trusts are receiving a complete picture of the significant issues you have found. It is always helpful, therefore, for us to see in your management letters the areas you are reporting under ISA 260. I strongly encourage you to do this.

**Management letters - recommendations for areas of improvement**

The Department is increasingly using these to help inform the assessment of the quality of governance and control frameworks in trusts. Your expertise in identifying management letter issues is therefore vitally important for getting to grips with issues early. I recognise that comprehensive reporting may involve sensitive or difficult conversations with a trust, but it is hugely beneficial to the trustees in supporting their oversight of financial management and improving governance. Whilst a robust exchange of views between the client and auditor is healthy, it will be an immediate warning if trustees are in denial on material issues that you raise. If serious issues develop in a trust that are linked to previous audits, but they were not flagged in management letters, we will take any appropriate action open to us.

If you identify serious concerns about an academy trust, we would always encourage you to speak to us early in the process. Whilst this is a matter for your professional judgment, there may be rare occasions where delay, and reliance on the standard channels for reporting audit findings, runs the risk of significant irregularity or impropriety.

At the other end of the spectrum, whilst management letters containing no recommendations can be a sign that a trust's financial management and governance is in good shape, we will still look at these cases for indications of concern elsewhere. We will consider the volume and nature of adjusted and unadjusted errors that you report, to gain an insight into the quality and rigour of the trust's financial accounting procedures. We are particularly concerned where we see issues raised in one year that remain unresolved in the following year.

Our view is that a simple way to avoid these failings going onto the public record is through mid-year audit reviews. This gives management teams the time to resolve them before the accounts have to be signed. Siren voices that complain about the cost of this action should be cause for concern in itself. Normally the failings identified will have a cost well in excess of an audit review. The sooner they are rectified the less risk and cost to the trust.

### **Auditor's opinion on regularity and governance**

Good governance underpins the regular and proper use of money. The work you perform on regularity is particularly important. Through it, we gain assurance that trusts have spent their money in accordance with the conditions we set. It gives us the basis to act if they have not.

It is for this reason that we have made some changes in the Academies Accounts Direction for 2018/19 to bring a sharper focus on governance, including:

- extending the suggested regularity tests for auditors in the area of governance. I ask that you apply the regularity tests we suggest in paragraph 4.14, annex B, of the Accounts Direction. These get to the heart of the evidence needed, both by trust boards and by the Department, to improve compliance. This should also help you describe clearly in your regularity report the work you have undertaken;
- explaining that your conclusions in the regularity report should reflect any findings about trusts' compliance with the Department's governance requirements;
- clarifying that your opinion on trusts' financial statements, under ISAs 700 and 720, should state explicitly that you have reviewed the trust's governance statement and whether it is materially inconsistent with the financial statements or your knowledge obtained during the audit.

Any observations or inconsistencies that you identify through your work to help drive up standards of governance will be enormously valuable.

### **Financial summaries and projections**

We have seen some excellent examples of small audit packs of around 10 pages, produced by academy trust external auditors that summarise the trust's annual accounts in addition to the audit findings. These are powerful as they bring together in a simple way all the important financial and audit issues that a

board should be aware of at the time the accounts are signed.

We know that the statutory requirements involving both charity and company law makes for a complex set of accounts. A short financial summary will help ensure trusts have a solid base from which to construct robust three-year financial forecasts.

It is important for academy trust management teams to produce an appropriate briefing for their boards when they table the accounts, not to outsource this to their auditors. We strongly recommend that you work with your trusts to ensure the information they produce is complimentary to your own reports and collectively helps the board take an informed view.

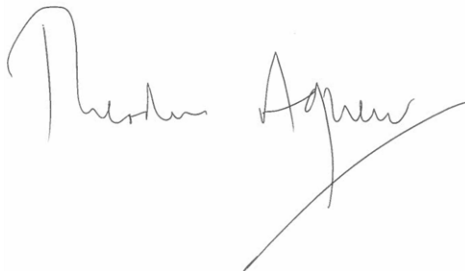
### **Building on improvements**

I am pleased with the progress that we have made with governance over the last 18 months. There is a rising awareness of its importance, chairs of boards are becoming more hands-on and the steady recruitment of Academy Ambassadors with business experience is deepening the commercial know-how on boards. In particular, I want to ensure that boards have good financial information throughout the year, so they are well sighted on the interaction between profit and loss, budget and cash flow and the balance sheet. I am sure you will help us to make this happen. As you will know, over £20 billion per year of public money is remitted to academies in revenue funding. We have passed the 50% milestone of pupils being educated in the state sector by academies and so strong governance is absolutely vital.

Thank you for all that you are doing and, as I have consistently said, I am always open to feedback from you as to how we can improve our governance process without imposing an undue burden on academies.

I am copying this letter to accounting officers of academy trusts.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Theodore Agnew', with a long horizontal flourish extending to the right.

THEODORE AGNEW

Parliamentary Under Secretary of State for the School System