

# **Finance, Resources, Audit and Risk Committee (FRAR)**

## **Terms of Reference**

<b>Date Last Approved by Trustees:</b>	<b>July 2023</b>
<b>Date to be reviewed:</b>	<b>July 2024</b>

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## 1. Constitution

- 1.1 The Board of Trustees of Endeavour MAT resolve to establish a committee of the Trust Board to be known as the Finance, Resource, Audit and Risk Committee (FRAR).

## 2. Membership

- 2.1 The Committee shall comprise of between three and five Trustees appointed by the Board of Trustees.
- 2.2 The Chair of Trustees may attend the Committee but may not chair it and will not be a voting member of the Committee.
- 2.3 The Chair and Vice Chair of FRAR will be appointed by the Committee annually. The Committee will elect a temporary replacement from among the members present at the meeting in the absence of the Chair and Vice Chair. No person may act as a Chair unless they are members of the Trust Board.
- 2.4 The Executive will ensure that a Clerk is provided to take minutes at meetings of the Committee.
- 2.5 The Committee may invite attendance at meetings from persons who are not Committee members to assist or advise on a particular matter or range of issues. Such persons may speak with the permission of the Chair but shall not be entitled to vote.
- 2.6 The CEO and COO will participate in all Committee meetings but will not be entitled to vote.

## 3. Remit and Responsibilities of the Committee

The Committee shall be responsible for the matters set out in the scope of responsibilities below.

## 4. Proceedings of Committee Meetings

The proceedings of the Committee will fall under the Standing Orders of the Trust Board.

## 5. Authority

The Committee is authorised by the Trust Board to:

- 5.1.1 carry on any activity authorised by these terms of reference and delegated powers through the Trust's Scheme of Delegation;
- 5.1.2 seek any appropriate information that it requires from any officer of the Trust and all officers shall be directed to cooperate with any request made;
- 5.1.3 commission reports and services from third parties to enhance the Committee's scrutiny of the executive.

## 6. Reporting Procedures

- 6.1 The reporting procedures followed by the committee will fall under the Standing Orders of the Trust Board

- 6.2** The Committee shall conduct an annual review of its work and these terms of reference and shall report the outcome and make recommendations to the Trust Board.

## **Scope and Responsibilities of the Committee**

### **7. Finance and Physical Resources**

- 7.1** Consideration of Endeavour MAT's funding and assessment of the implications for the schools in advance of the financial year, drawing any matters of significance to the attention of the LGB's.
- 7.2** Determination of the level of any contingency fund or balances to be held by the Trust and its schools, ensuring the compatibility of all such proposals with the development priorities set out in the Trust's strategic plan.
- 7.3** Scrutiny of the annual budgets and forecasts ensuring they comply with Endeavour MAT funding agreement, memorandum and articles of association and the ESFA financial handbook.
- 7.4** Scrutinising the draft financial accounts prior to their submission to the Board of Trustees for approval.
- 7.5** Rigorous review of financial systems to ensure statutory compliance and financial probity.
- 7.6** Receiving and reviewing the management accounts on a monthly basis.
- 7.7** Scrutinising school and Trust budgets and making recommendations to the Board of Trustees as appropriate.
- 7.8** Contributing to formulation of the Trust's Strategic Plan, through the consideration of financial priorities and proposals.
- 7.9** Review the reserves policy and consider and make proposals to the Board on the use of general reserves for the benefit of individual schools and the Trust as a whole.
- 7.10** Overseeing strategy and compliance of IT (Cyber Security) and Physical Resources (Estates, Health and Safety) and the Strategic development of the site.

### **8. Audit and Risk management**

#### **8.1 Financial reporting**

- 8.1.1** The committee shall monitor the integrity of the financial statements of the Trust, including its regulatory returns and any other formal statements relating to its financial performance and position, and review and report to the board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.
- 8.1.2** In particular, the committee shall review and challenge where necessary:
- 8.1.2.1** the application of significant accounting policies and any changes to them;
- 8.1.2.2** the methods used to account for significant, contentious or unusual transactions where different approaches are possible;

- 8.1.2.3** whether the Trust has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
- 8.1.2.4** the clarity and completeness of disclosures in the financial statements and the context in which statements are made; and
- 8.1.2.5** all material information presented with the financial statements, including the strategic report and the governance statements relating to the audit and to risk management.
- 8.1.3** The committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.
- 8.1.4** Where the committee is not satisfied with any aspect of the proposed financial reporting by the Trust, it shall report its views to the board.

## **8.2 Narrative reporting**

- 8.2.1** Where requested by the Trust Board, the committee should review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for members and other stakeholders to assess the Trust's performance, business model and strategy and whether it informs the board's statement in the annual report on these matters that is required under legislation, the Charities SORP and DfE guidance.
- 8.2.2** The committee will support the Accounting Officer in providing assurance to ESFA and Parliament that public funds have been used appropriately via the Accounting Officer's annual statement on regularity, propriety and compliance, and the governance statement within the audited accounts which demonstrates the Trust's ability to secure value for money

## **8.3 Internal controls and risk management systems**

The committee shall:

- 8.3.1** keep under review the Trust's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;
- 8.3.2** review and approve the statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks; and
- 8.3.3** advise the board on the benefits, or otherwise, of the Trust participating in the risk protection arrangement (RPA) or obtaining its own commercial insurance provision, taking into account value for money considerations.

## **8.4 Compliance, whistleblowing [speaking-up] and fraud**

The committee shall:

- 8.4.1** review the adequacy and security of the Trust's arrangements for its employees, contractors and external parties to raise concerns, in confidence, about possible

wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

- 8.4.2** review the Trust's procedures for detecting fraud;
- 8.4.3** review the Trust's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 8.4.4** review regular reports relating to the adequacy and effectiveness of the Trust's anti-money laundering systems and controls; and
- 8.4.5** keep under review the adequacy and effectiveness of the Trust's compliance function.

## **8.5 Internal audit**

The committee shall:

- 8.5.1** approve the appointment or termination of appointment of the internal auditor in line with the options available under Department for Education and ESFA guidance;
- 8.5.2** review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit agreement ensuring it is appropriate for the current needs of the Trust;
- 8.5.3** review and approve the annual internal audit plan to ensure it is aligned to the key risks of the Trust and receive regular reports on work carried out;
- 8.5.4** ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.5.5** ensure the internal auditor has direct access to the Trust chair and to the committee chair, providing independence from the senior leadership team and accountability to the committee;
- 8.5.6** carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment:
  - 8.5.6.1** meet with the internal auditor without the presence of management to discuss the effectiveness of the function;
  - 8.5.6.2** review and assess the annual internal audit work plan;
  - 8.5.6.3** receive a report on the results of the internal auditor's work;
  - 8.5.6.4** determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the Trust; and
  - 8.5.6.5** review the actions taken by the senior leadership team to implement the recommendations of internal audit and to support the effective working of the internal audit function;

- 8.5.7** monitor and assess the role and effectiveness of the internal audit function in the overall context of the Trust's risk management system and the work of compliance, finance and the external auditor; and
- 8.5.8** consider whether an independent, third party review of processes is appropriate.

## **8.6 External audit**

The committee shall:

- 8.6.1** consider and make recommendations to the Trust Board, to be put to members for approval at the AGM, in relation to the appointment, reappointment and removal of the Trust's external auditor. It is the duty of the Trust Board to report the removal of auditors to ESFA.
- 8.6.2** develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable regulatory requirements and good practice,
- 8.6.3** if an external auditor resigns, investigate the issues leading to this and decide whether any action is required. It is for the board of the Trust to formally notify ESFA of the auditor's resignation.
- 8.6.4** oversee the relationship with the external auditor. In this context the committee shall:
  - 8.6.4.1** approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
  - 8.6.4.2** approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 8.6.5** assess annually the external auditor's independence and objectivity taking into account relevant law, regulation, the FRC's Ethical Standard and other professional requirements and the Trust's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
- 8.6.6** satisfy itself that there are no relationships between the auditor and the Trust (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 8.6.7** agree with the Trust Board a policy on the employment of former employees of the Trust's auditor, taking into account the FRC's Ethical Standard and legal requirements, and monitor the application of this policy;
- 8.6.8** monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the FRC's Ethical Standard, including the guidance on the rotation of audit partner and staff;
- 8.6.9** monitor the level of fees paid by the Trust to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the FRC's Ethical Standard

- 8.6.10** assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 8.6.11** seek to ensure coordination of the external audit with the activities of the internal audit function;
- 8.6.12** evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee;
- 8.6.13** develop and recommend to the board the Trust's formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the committee and specifying the types of non-audit service to be preapproved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
  - 8.6.13.1** threats to the independence and objectivity of the external auditor and any safeguards in place;
  - 8.6.13.2** the nature of the non-audit services;
  - 8.6.13.3** whether the external audit firm is the most suitable supplier of the non-audit service;
  - 8.6.13.4** the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - 8.6.13.5** the criteria governing compensation.
- 8.6.14** meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit, review its work and any issues arising from the audit;
- 8.6.15** discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team (including the use of technology);
- 8.6.16** the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 8.6.16.1** a discussion of any major issues which arose during the audit;
  - 8.6.16.2** the auditor's explanation of how the risks to audit quality were addressed;
  - 8.6.16.3** key accounting and audit judgements;
  - 8.6.16.4** the auditor's view of their interactions with the senior leadership team; and
  - 8.6.16.5** levels of errors identified during the audit
- 8.6.17** review any representation letter(s) requested by the external auditor before it is (they are) signed by the senior leadership team;
- 8.6.18** review the management letter and the senior leadership team's response to the auditor's findings and recommendations;



**8.6.19** assess the auditor's view of the Accounting Officer's approach and statement in the annual report and accounts relating to regularity; and

**8.6.20** the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the committee.

## **8.7 Risk appetite, tolerance and strategy**

The committee shall:

**8.7.1** Advise the board in agreeing the Trust's overall risk appetite, tolerance and strategy, and the principal and emerging risks the Trust is willing to take in order to achieve its long-term strategic objectives. The committee should seek assurance on the risks the Trust Board has identified as those to which the business may be exposed. The risks will be specific to the Trust's circumstances but are likely to include many of the following:

- Threats to the business model or future performance
- Operational risk
- Capital
- Insolvency
- Liquidity
- Counterparty risk
- Conduct risk
- Material litigation
- Reputational risk
- Environmental, Social and Governance (ESG) issues
- Ethical codes
- IT operations, including cyber risk
- Health and safety
- Pandemic risk
- Business continuity plans
- Duties under the Companies Act 2006 and Charities Acts 2011 and 2016

Other risks specific to the Trust and its operations need to be identified and may, for example, include:

- Regulatory and legal risks
- Regulatory stress testing
- Risk exposures and limits
- Asset impairments
- Risk trends, concentrations and correlations
- Research and development
- Terrorism
- Major Accident

**8.7.2** Advise the Trust Board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact.

**8.7.3** Advise the Trust Board on the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals, ensuring that a due diligence

appraisal of the proposition is undertaken, focussing on implications for the risk appetite, tolerance and strategy of the Trust, and taking independent external advice where appropriate and available.

## **8.8 Risk reporting**

The committee shall carry out the following duties to assist the board in fulfilling its reporting responsibilities in the annual report.

- 8.8.1** Monitor and review the effectiveness of the Trust's risk management, including the risk register and internal control systems.
- 8.8.2** Review the Trust's procedures to manage or mitigate principal risks and to identify emerging risks, to assist in the Trust Board's assessment of principal and emerging risks.
- 8.8.3** Review and assess the Trust's risk appetite and associated stress testing.
- 8.8.4** Evaluate the Trust's principal risks, to be taken into account by the board when assessing the Trust's prospects against the risk register.
- 8.8.5** Review and approve the statements to be included in the annual report concerning internal controls and risk management.

## **8.9 Internal controls and risk management systems.**

The committee shall oversee and seek suitable assurance regarding:

- 8.9.1** The risk exposures of the Trust, including risk to the Trust's business model, and solvency and liquidity risks.
- 8.9.2** The adequacy and effectiveness of the Trust's processes and procedures to manage risk and the internal control framework, including the design, implementation and effectiveness of those systems.
- 8.9.3** The ability of the Trust's risk management and internal control systems to identify the risks facing the Trust and enable a robust assessment of principal risks.
- 8.9.4** The Trust's capability to identify and manage new and emerging risks.
- 8.9.5** The effectiveness and relative costs and benefit of particular controls.
- 8.9.6** The effectiveness of management's processes for monitoring and reviewing the effectiveness of risk management and internal control systems and ensuring corrective action is taken when necessary.
- 8.9.7** The Trust's ability to reduce the likelihood of principal risks materialising and the impact on the Trust of risks that do materialise.
- 8.9.8** The appropriateness of the Trust's values and culture and reward systems for managing risk and internal controls, and the extent to which the culture and values are embedded at all levels of the Trust.
- 8.9.9** The right of direct access of the staff member leading on risk to the chair of the Trust Board and to the committee.