



Education
Funding
Agency

Review of financial management and governance

**Wakefield City Academies Trust final
report October 2016**

Published November 2018

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Introduction

1. This report sets out the findings arising from the Education Funding Agency (EFA), Provider Risk Assurance Division's (PRA) visit to Wakefield City Academies Trust (WCAT) between 27 June and 1 July 2016.
2. The purpose of our visit was:
 - To follow up implementation of the Action Plan resulting from our financial management and governance validation visit in September 2015
 - To undertake a financial management and governance review of the Multi-Academy Trust (MAT)
 - The review to cover financial management and governance arrangements at the centre and also within the following selected academies:
 - Wakefield City Academy
 - Yewlands Academy

Background

3. Wakefield City Academies Trust was established as an academy trust in 2013. The trust currently comprises 19 academies supported by a central team. Following the rapid early growth of the trust, the EFA completed a financial management and governance review in July and Sept 2015 to assess the progress of the MAT in setting up appropriate governance structures, policies and procedures and robust financial procedures. This resulted in an action plan; progress against the implementation of the actions identified in the plan were included as part of this review.

4. The trust has undergone a number of significant governance and leadership changes since the previous review. In October 2015 the trust instigated an internal investigation following whistle-blower allegations. This resulted in the resignation of an academy principal and the decision by the CEO in January 2016 to take a period of personal leave. The CEO subsequently left the organisation, under a settlement agreement, in May 2016. During the period from February 2016 onwards the trust engaged an interim CEO on a consultancy basis. The iCEO has a long association with the trust, was the previous chair of the board until August 2015 and has also been providing executive advice to the CEO under a consultancy contract. The trust is currently considering options for filling the vacant CEO post on a permanent basis and will be shortly advertising the post.

5. Throughout this period there has been a serious breakdown in the management, governance and oversight by the board of trustees at WCAT. Trustees have not been kept fully informed and decisions have been taken outside of the board without full board approval or ratification. The majority of the trustees resigned as from 1 April 2016 and four new trustees were recruited. This presented the trust board the opportunity to re-establish itself and move forward. However, there was a further breakdown in Board operations resulting in the trust members removing three of the four new trustees in June and July 2016.

6. The board has subsequently recruited further new members and trustees and held an inaugural meeting of this newly constituted board on 9 July 2016.

7. The trust is predicting large deficit budgets over the coming five years and requires a robust and detailed recovery plan to be urgently formulated and approved by the board.

8. The iCEO and the new chair of the board are working to identify efficiencies and savings across the trust in order to put the trust in a more financially stable position and ensure its ongoing viability. They have identified significant savings to be made through remodelling of the curriculum delivery and are working to introduce greater central procurement in order to take advantage of economies of scale.

9. The central team within the trust has been operating in deficit for a number of years and is forecasting rising deficits over the next five years. The rise in expenditure at

the centre is attributed to the trust engaging additional resource in advance of the expected further expansion of the trust.

Findings and recommendations

Role of Accounting Officer

10. The trust is currently in breach of the Academies Financial Handbook (AFH) as, following the settlement agreement with the former CEO, as from 31 May 2016, there has been no recognised Accounting Officer in post. The role of the Accounting Officer includes specific responsibilities for financial matters. It includes a personal responsibility to Parliament and to the EFA's Accounting Officer for the financial resources under the trust's control. While it is reasonable for the trust to employ an iCEO on a consultancy basis for a short period of time, this situation should be resolved at the first opportunity and a permanent salaried appointment made. In the interim we would expect that a formal agreement be put in place between the individual and the trust specifying the roles and responsibilities of the iCEO and Accounting Officer in line with the requirements of the AFH. The trust currently has no formal agreement in place covering the iCEO and Accounting Officer role.

Board of trustees

11. There has been a serious breakdown in the management, governance and oversight by the Board of trustees at WCAT since the beginning of 2016. Trustees have not been kept fully informed of serious developments within the trust and decisions have been taken by individual trustees and groups of trustees acting in isolation from the main board and without full board approval. The minutes from the 25 January 2016 board meeting record trustees challenging why decisions are being taken inappropriately and without board oversight and involvement.

12. The majority of the board resigned as from 1 April 2016 and four new trustees were appointed. This presented the trust with the opportunity to re-establish itself and move forward. However, there was a further breakdown in board operations resulting in the trust members removing three of the four new trustees in June and July 2016.

13. The review team were unable to ascertain any definitive reason for the removal of these trustees. While permitted under company law and the trust articles the removal of directors is an exceptional step for the members to take and one which we would expect to be taken in a fully open and transparent way and to be fully supported by documented evidence detailing the reason the action was deemed necessary.

14. The lack of openness and transparency raises concerns regarding the independent challenge presented by the board and whether the board is, in all instances, acting in the best interest of the trust.

15. **Recommendation 1:** The members and trustees should provide assurances to the EFA that the board will at all times act in accordance with the Cabinet Office Code of Conduct for Board Members of Public Bodies and the Nolan principles of public life. The

assurance should include a code of conduct for how the WCAT board will in future conduct its affairs in order to demonstrate its adherence to the Nolan principles and that all board decision have been taken in the best interest of the trust.

16. The review identified that strategic business and board decisions have been taken outside of board meetings and in some cases acting against agreed board positions. Decisions taken and recorded in minutes have not been implemented and no reference has been made in future minutes to explain why board wishes have not been carried out. Examples include:

- At the January board meeting a trustee was formally appointed as the chair; at the next meeting in April 2016 although this trustee is in attendance, a different trustee is recorded as the interim chair with no documented rationale to support the change.
- At the January board meeting the board resolved to offer the iCEO post to one of the academy heads. There is no record of the subsequent decision or board approval to appoint [REDACTED] to the iCEO role as from February 2016.
- In April 2016 the trust central team moved location from offices within an academy to commercial premises incurring an annual charge of approximately £50,000. This decision was taken at a time when the board was in upheaval, the trust's permanent CEO was absent on personal leave and the central team was operating in deficit. There is no record in board minutes of the board decision and approval for this move.

17. **Recommendation 2:** The trust must ensure that all business decisions are recorded in the formal records of the business. Where changes to formally ratified decision occur these must be clearly documented.

18. Since September 2015 there have been a number of appointments to the role of chair and vice chair of the WCAT board. In the following case there was no documented record of the resignation or the board appointment:

- [REDACTED] stepping down as chair
- [REDACTED] appointment as interim chair

19. **Recommendation 3:** The board must ensure that all appointments and resignations of board officials are fully documented and recorded in board minutes.

20. Since January 2016 board minutes are in draft and have not been ratified by the board. A set of notes taken by the chair at the board awayday on 22 May 2016 were presented to the review team as official minutes. The accuracy of these notes was disputed by a number of trustees, in particular the record that a decision had been taken to make the iCEO appointment permanent; this decision was subsequently rescinded. Presenting minutes and other such documents to be actual business records may be deemed as falsification and a breach of s1138 of the Companies Act and the trust's Articles of Association.

21. **Recommendation 4:** The draft minutes from January 2016 meetings onwards should be ratified by the board without delay and by no later than 31 August 2016. The trust must ensure that all business meetings are quorate and business decisions/actions are recorded in line with the trust Articles. These should be ratified by the full board as soon as practicable and acceptance noted in the following board meeting minutes.
22. A review of board minutes from September 2015 to April 2015 identified a complete lack of financial oversight and challenge by the board and an absence of any operational finance or audit and risk committees. The 5 year forecast for the trust predicts large deficits which the board need to be fully appraised of in order to understand the financial risks and challenges faced by the trust. Since taking up post in February 2016 the iCEO has produced a number of financial position statements and reports which have been submitted to the board. However, it is not clear whether the board has the required financial skills and experience to conduct a robust review and challenge of the information that is being supplied. In particular, the board need to assure themselves that identified savings and revised forecasts have a sound basis, are achievable and will deliver the required level of savings needed to secure a balanced budget.
23. The governance structure within the trust comprises the main trust board supported by three sub-committees the Audit and Risk Committee (A&R); the Finance and General Purposes Committee (FGP); and the HR, Performance and Remuneration Committee (HRPR). The previous EFA review in July 2015 identified that the sub-committees had not been meeting regularly. The last meeting of the A&R committee was 14 August 2015 and the FGP committee last met on 6 July 2015. The current review identified that there have been no meetings of sub-committees between September 2015 and May 2016. The notes taken at the board awayday on 22 May 2016, however, do record the appointment of new chairs and committee members for all sub-committees and the resolution that inaugural meetings of all committees would take place in June 2016.
24. A meeting of the HRPR committee was held by telephone on 13 June 2016 and a meeting of the FGP committee was held by telephone on 15 June 2016. Minutes from both meetings record very limited agendas and discussion; both meetings felt that to move forward it was essential that the revised board structure and agenda was firstly clarified by trust members. Dates for next meetings were not recorded in the minutes. There has been no meeting of the A&R committee.
25. The role of these committees is to assist the board in fulfilling its oversight responsibilities for internal controls and financial reporting and for maintaining an appropriate relationship with the trust's external auditors. In particular, it is a requirement of the AFH that academy trusts have a separate audit committee or a sub-committee that performs the role of an audit committee.
26. **Recommendation 5:** The trust must ensure that its sub-committees are properly constituted, have clear and agreed terms of reference including an appropriate timetable of planned meetings.

27. As previously mentioned, there have been a number of recent changes to the board of trustees and we are aware that the board are seeking to appoint further new trustees. We did not find any evidence that the board had carried out a formal skills audit to determine the skills and experience of trustees and identify any skills gaps. It was therefore unclear from our review whether the current trustees have the right skill set and whether new trustees are being recruited to fill any existing skills gaps.

28. **Recommendation 6:** The trust should ensure all current trustees undertake a skills audit. Any identified skill gaps should be rectified in a timely manner.

29. Notes from the board awayday on 21 May 2016 record the resolution to appoint an independent clerk to the board. It was agreed that the appointed clerk would act in the capacity of the “hub” receiving and distributing communications on behalf of the trustees and members, disseminating to an appropriate person e.g. the chair, iCEO, Chief Operating Officer. We would concur with this appointment, particularly given the recent issues regarding the operation of the board and the recording of accurate minutes.

30. **Recommendation 7:** The trust should appoint an independent clerk to the board as soon as possible.

Interim CEO appointment

31. The current iCEO has been in post since February 2016. During this period there has been no formal agreement in place between the trust and the individual regarding the role, responsibilities and accountabilities of the iCEO. The review team were informed that, following legal advice, the trust had made the appointment under a previous consultancy contract covering the individual to act as an executive advisor to the CEO. The review team will need to have sight of the commission for advice and the advice the trust received in order to ascertain the basis on which it has been made. We have requested this information from the trust and are awaiting their response.

Notwithstanding this advice, the trust should ensure that in any arrangement with an iCEO that a formal agreement exists which clearly specifies the roles and responsibilities of the CEO including the additional personal responsibilities of an Accounting Officer and that clear performance indicators are set and agreed by the board.

32. **Recommendation 8:** The trust to provide the EFA with a copy of the legal advice to support the appointment of the iCEO under the terms of the consultancy contract. The trust should provide evidence of the performance measures used to hold the iCEO to account.

33. The iCEO submits regular invoices for payment including details of the hours he has worked. The invoices are however approved for payment by the Chief Operating Officer who is a direct reportee of the iCEO. This is inappropriate and does not facilitate challenge should this be required in relation to the costs submitted by the iCEO for payment.

34. **Recommendation 9:** All invoices relating to iCEO payments should be approved by the chair of the board. The trust financial regulations should be amended to include the requirement that any payments to senior management should be approved by at least one level above the recipient.

35. The iCEO charges the trust a discounted daily rate of £395. Although not specified in the contract, payment by the trust is based on a day being 7.5 hours and any time above those hours for a day has attracted additional payment. The total charges for the iCEO time for the period 13/2/16 to 31/5/16 = £82,025. These charges include substantial additional hours over the 7.5 per day. Based on this level of charging the rates equate to an annual salary of £282,000. While we appreciate that the iCEO has been working additional hours since taking over the role of iCEO, we would question the cost effectiveness of this arrangement in that a salaried CEO would be expected to work additional hours within their pay rate. The CEO model job description includes the requirement that the role will at times require working outside contract hours in order to meet the demands of the role. It would therefore be prudent of the trust to expedite the recruitment of a permanent, on-salary, CEO.

36. The consultancy contract under which the trust has indicated that the iCEO appointment has been made specifies in clause 5.2 that fees paid by WCAT to the consultant will cover any and all expenses. The trust travel and subsistence policy specifies that payment of mileage expenses will be at the HMRC approved rate of 45p per mile. A review of invoices submitted by the iCEO identified that the trust is currently paying mileage costs at a rate of 82p per mile. This is in breach of both the consultancy contract and the trust policy. Payment of mileage expenses for the period 13/2/16 to 31/5/16 = £3,229.16; £1,457.06 of which is outside the trust and HMRC approved rates.

37. **Recommendation 10:** The trust should provide documentary evidence that the board approved payment of expenses outside the terms of the contract and also that they agreed a rate higher than the trust policy and the approved HMRC rate. The evidence should also specify the basis for these agreements.

38. The trust board resolved at its meeting on 9 July 2016 to offer the current iCEO a twelve month contract as iCEO, off payroll. The chair of the board has subsequently indicated that this decision may be revisited by the board and the appointment will be offered as a salaried employee of the trust. We have notified the chair that an off payroll appointment is a breach of the AFH and HMT and HMRC guidance. We therefore await confirmation from the trust that the appointment will be on payroll.

39. **Recommendation 11:** The trust must ensure that all senior positions are on payroll and confirm as a matter of urgency that the iCEO post will be as a salaried employee of the trust.

Chief Financial Officer (CFO)

40. The AFH requires trusts to appoint a CFO who is the trust finance director and who takes a technical and leadership role in ensuring appropriate financial management and risk management processes are in place. While the trust has qualified finance staff in place, they do not have a designated CFO who undertakes this leadership role at director level.

41. **Recommendation 12:** The board must appoint a CFO who is the trust's finance director, business manager, or equivalent, to lead on financial matters. The CFO should play both a technical and leadership role, including ensuring sound and appropriate financial, governance and risk management arrangements are in place, preparing and monitoring of budgets and ensuring the delivery of annual accounts.

Strategy

42. At the time of the review the trust did not have in place a documented strategic plan. We are aware that subsequently the board has had initial meetings to begin formulating such a document.

43. **Recommendation 13:** The trust should prepare a strategic policy document, which as a minimum should include:

- Vision, aims and objectives
- Values and ethos
- Medium and long term development strategies
- Risks/challenges identified and mitigations
- Roles and responsibilities within the strategy
- Addressing needs of individual academies as part of the overall strategy
- Inclusion of finance and governance plans
- Inclusion of specific actions to address Ofsted and DfE/EFA concerns and recommendations

44. Once approved by the board this document should be made available to all current trust academies and new academies joining the trust.

Trust budget

45. The trust is forecasting an in-year deficit of c£2.56m for 2015/16 which will reduce the trust cumulative surplus by approximately 50% to £2.4m. The 5 year forecast in the April 2016 month end report shows that the trust is forecasting deficit budgets from 16/17 onwards with increasing closing deficit balances.

- 2016/17 (£762)
- 2017/18 (£4,148m)
- 2018/19 (£7,431m)

- 2019/20 (£10,926m)
- 2020/21 (£14,961m)

46. It is a requirement of the AFH that the board approve a balanced budget for the trust.

47. The iCEO presented an updated forecast to the board meeting on 9th July 2016 and is forecasting much improved outcomes over the five year period, with increased closing surplus balances. The focus has been on identifying curriculum efficiencies to return to a balanced budget.

- 2016/17 £1,330m
- 2017/18 £1,686m
- 2018/19 £2,387m
- 2019/20 £3,104m
- 2020/21 £3,589m

48. This represents a circa £20m recovery over the 5 years. The iCEO and the chair are working to review trust expenditure to identify efficiencies and further cost savings. It will be for the board to closely monitor the trust budget and cash-flow over the coming months to ensure the realisation of these savings and the continued financial viability of the trust.

49. **Recommendation 14:** The trust must undertake a fundamental review of all costs associated with running the organisation to identify efficiencies and cost savings. From this review a comprehensive financial strategy and recovery plan must be created which is linked to the trusts overall Strategy Document. The board should receive regular updates and cash flow information in order to monitor the budget situation and ensure the continued financial viability of the trust.

Central core team budget

50. The trust provides central services to its academies for which it charges a service charge of 5% of GAG funding. The central core team has been operating in deficit since 2012/13 and had a closing deficit balance for 14/15 of (£657,000). On 27 July 2015 the board approved a budget for 15/16 and a 5 year budget forecast for the central core team predicting in-year surpluses and an increasing surplus closing balance. However, the financial position in the May 2016 month end report is showing an extremely significant worsening position.

Forecast closing balances – July 2015

- 2015/16 (£373,000)
- 2016/17 (£41,000)
- 2017/18 £220,000
- 2018/19 £465,000

- 2019/20 £694,000
- 2020/21 £923,000

Forecast closing balances – June 2016

- 2015/16 (£1,389m)
- 2016/17 (£2,338m)
- 2017/18 (£3,297m)
- 2018/19 (£4,316m)
- 2019/20 (£5,395m)
- 2020/21 (£6,535m)

51. The main reason for this significant worsening position is the action taken by the previous CEO in relation to recruitment of core staff in excess of budget approvals. A review of new staff recruited since September 2015 identified an increase in the core staff salary costs of approximately £1m per annum.

52. The June core team budget review document includes details of some identified savings and a revised 5 year forecast which demonstrates an improved position but does still not represent a balanced budget.

Revised forecast: closing balances – June 2016

- 2015/16 (£1,389m)
- 2016/17 (£1,471m)
- 2017/18 (£1,247m)
- 2018/19 (£1,075m)
- 2019/20 (£953,000)
- 2020/21 (£884,000)

53. This does not present a credible recovery plan and more needs to be done by the trust to move the operation of the central team to a breakeven/surplus position.

54. **Recommendation 15:** The trust must review the core team budget and operations and formulate a realistic and credible recovery plan to ensure it moves to a break-even position as quickly as possible.

Control of funds

55. The trust is currently operating under a funding agreement that does not allow for pooling of funds and therefore does not have a policy for pooling of GAG funding. All funding is currently disbursed to the academies which also hold any surpluses. This reduces the oversight and control from the centre in that:

- Surplus funding is held in individual academy bank accounts
- Investment can only be at a local rather than a central level

- The centre does not have the ability to move funds to support financially any academy facing a temporary deficit position.

56. **Recommendation 16:** AFH 3.10.5 specifies that a multi-academy trust has the freedom to amalgamate a proportion of GAG funding for all its academies to form one central fund. This fund can then be used to meet the normal running costs at any of its constituent academies within the trust. The trust should consider how it wishes to control and maximise its funding. Any decisions to enter into an updated funding agreement and introduce greater pooling of funds and central investment should be clearly documented in trust policies and should be agreed with Local Governing Bodies (LGBs) and approved by the board. The trust must give individual consideration to the funding needs and allocations of each constituent academy, and must, in accordance with AFH 3.10.6, have an appeals mechanism in place.

Capital expenditure plan

57. The trust does not currently have a documented strategy for maintenance of its estate and fixed assets. The strategy should identify the level of capital spend needed across its academies together with a detailed capital expenditure plan to meet those expected costs.

58. **Recommendation 17:** The trust should review its estate and fixed assets to identify and plan for future capital expenditure. Based on the findings of the review the trust should produce a documented Capital Expenditure Strategy for board approval.

Trading company

59. The trust operates a subsidiary trading company, WCAT Trading Ltd, to oversee leisure and nursery facilities at Hemsworth Arts and Community College. The trading company was established in July 2013 and has reported deficits in its annual statements 13/14 (£137,227), 14/15 (£194,963). The trust has indicated that the deficit position is as a result of the nursery operations and that the leisure side of the business makes a small surplus. Paragraph 3.15b of the funding agreement specifies that GAG funding cannot be used to subsidise nursery provision. The trust therefore needs to ensure that the nursery can be self-funded. The trust has subsequently indicated that it intends to close the nursery as from September 2016.

60. The trading company has one Director. This person is a previous trustee of WCAT who stepped down as from 4 April 2016. The trading company is therefore currently not under the control of the trust.

61. The last financial statements filed for WCAT Trading Ltd are for the period ending 31 August 2014. The delay in filing the 14/15 financial statements is due to the auditors awaiting a signed letter of comfort from the WCAT board to confirm that WCAT will make available sufficient unrestricted funds to enable WCAT Trading to meet its liabilities and

continue as a going concern. We were recently informed by the chair of the board that the letter has now been signed and therefore the accounts can be filed.

62. **Recommendation 18:** The trust must undertake a review of costs associated with the trading company to ensure ongoing solvency and implement a recovery plan to bring it back to a surplus position. The trust should also provide evidence to the EFA that the operation of, or any planned closure of the nursery is not being subsidised from GAG funding.

63. **Recommendation 19:** The trust should appoint trustee(s) of WCAT as director(s) of the trading company.

64. **Recommendation 20:** The trust should also confirm that the 14/15 financial statements for the trading company have been filed at Companies House.

Staffing

65. The review identified potential duplication and inconsistency in the work undertaken between the local and central finance teams. The iCEO and the board has identified the finance function as an area for potential efficiencies and cost savings and is planning a review of the roles, responsibilities and structure of both the central and local finance teams.

66. **Recommendation 21:** The trust should undertake a review of its finance functions across the trust to ensure that the current model of working is fit for purpose.

Procurement

67. The previous EFA review identified non-compliance and inefficiencies with regard to trust procurement policies. The trust undertook in their action plan to recruit a procurement manager and work towards more central procurement of key services. The decision to recruit a procurement manager was subsequently put on hold by the previous CEO. Central procurement is an area where significant cost savings can be made and efficiencies achieved through rationalisation of the process and economies of scale. The iCEO and the board are increasingly reviewing services to identify where costs savings can be achieved. The chair reported that the trust has successfully negotiated a contract for the provision of supply staff across all the trust academies at a much reduced rate.

68. **Recommendation 22:** The trust should continue to review its contracts and areas of expenditure with a view to achieving greater efficiencies and savings through increased central procurement.

69. The trust currently has a contract with ██████████ for the provision of legal services. This contract has been in place since 2012. There was no evidence that the contract had been subject to review or market testing during that period.

70. **Recommendation 23:** It is best practice to review all service contracts on a regular basis to ensure that they continue to provide value for money. The trust should consider including a requirement within its financial regulations that all contracts should be reviewed after a specified time period. The trust should analyse all current contracts to identify any that have been in place for a number of years and which may require review.

71. A review of credit card statements at the centre showed that a number of IT-related products have been bought using the card. In order to obtain best value the trust should ensure that any IT-related purchases are linked to a predetermined strategy and identified need, rather than purchased on an individual or ad hoc basis.

72. **Recommendation 24:** The trust should take a wider view of IT requirements and ensure that future IT purchases are based on an agreed IT strategy and that purchases are made in such a way as to achieve best value for the trust.

Declarations of interest

73. It is a requirement of the AFH that declarations of interest are completed by the members, trustees, local governing body members and senior staff and should be, in accordance with the AFH, published on the trust's website. The trust did not hold declarations of interest for the trust members, with the exception of [REDACTED], who at the time of the review was also a director and chair of the trust board. A number of declarations held by the trust were unsigned. It was therefore not possible for the review team to verify that they had been completed by the person making the declaration. During the visit the trust were unable to provide a hard copy of the signed declaration for one of the trustees.

74. **Recommendation 25:** The trust must ensure it has up to date declarations of interest for all members/directors and local governors and that declarations are published on the trust's website. All declarations should be signed by the person making the declaration and all declarations should be available for inspection when required.

Risk management

75. The trust is currently in breach of the AFH as it does not currently have a Business Continuity Plan.

76. **Recommendation 26:** A Business Continuity Plan must be agreed and adopted by the board as soon as possible.

Financial control

77. There is a common financial system in use across the academies and the central office. However, due to inconsistencies in the way the system has been set up, it is not possible to produce consolidated reports directly from the system. This results in

additional resource being used to produce consolidated financial information and increases the risk of mistakes or inaccuracies being introduced into the data. The trust is working with the supplier of the system to identify how the system can be restructured in order to allow for common reporting and consolidation and is currently running a pilot within a small number of academies.

78. **Recommendation 27:** The trust should continue to explore the options for harmonisation of the finance system across the trust in order to provide consistent financial reports and allow for the production of trust-level consolidated reports.

79. A review of bank reconciliation statements for the central team identified that the process regularly shows unreconciled items totalling about £200,000. There was no documentation provided with the reconciliation to explain the variance. We were advised by trust staff that the variance was a result of the timing of the payroll in relation to when the bank statements are received. Bank reconciliations are a key control and any unreconciled items should be clearly evidenced and explained.

80. **Recommendation 28:** The trust should ensure that where there are variances between expected amounts that the reasons are clearly documented. Where the variance is due to a common reoccurring timing issue consideration should be given to changing dates to avoid the unreconciled items appearing.

81. Our testing of payments identified some instances of non-compliance with the trust's financial policy in relation to; the payment of invoices without documented proof that the goods had been received; and in the appropriate segregation of duties in relation to authorisation of credit card expenditure.

82. **Recommendation 29:** The trust should ensure that staff at all academies are consistently and correctly applying all financial procedures, checks and controls as detailed in the financial policy.

83. Testing also identified that the trust's Performance Related Pay Policy is currently in draft.

84. **Recommendation 30:** The Performance Related Pay policy should be ratified by the board as soon as possible and communicated to all academies across the trust.

Pupil premium

85. Pupil premium payments are based on the pupil being in receipt of Free School Meals or having been in receipt over the last 6 years, as evidenced by appearing on the EVER6 list. Pupil premium payments were checked at Yewlands Academy and Wakefield City Academy. We were able to verify all payments at Yewlands, however, Wakefield City Academy were unable to produce the required EVER6 list during our visit. This appeared mainly due to lack of training in how to produce the list. There also appeared to be only one member of staff at Wakefield City Academy who had knowledge and experience in administering the pupil premium. We were unable to verify payments

during our visit to the academy and have since requested the academy to supply further information. The academy has been unable to respond to our request due to the responsible person being employed term-time only and therefore not available until September. This undue reliance on one individual represents a risk to the academy and the trust that pupil premium will not be administered correctly should that person be unavailable.

86. **Recommendation 31:** The trust should ensure that it has adequate numbers of staff in each academy trained to administer the pupil premium. The trust should arrange for the further information requested in relation to the pupil premium payments at Wakefield City Academy to be supplied to the review team as soon as possible.

Value for money

87. The trust should be mindful of the need to demonstrate value for money in its expenditure. We identified that the trust had paid mileage at a higher rate of 82p per mile to [REDACTED]. There was no formal agreement in place to support paying this high mileage rate and no justification was given to support the payment.

88. **Recommendation 32:** The trust should ensure that any payments in excess of the approved rate are exceptional and fully supported by a documented and approved business case.

89. A review of invoices at the centre identified that a booking made at [REDACTED] had subsequently been cancelled by the trust resulting in a cancellation fee of £2520, 90% of the full cost of the booking. The trust was given the option to re-book within a certain time to avoid this charge but did not take advantage of this offer. This represents a waste of public funds.

90. **Recommendation 33:** The trust must in all cases demonstrate proper stewardship of public funds and avoid extravagance or waste in the way it conducts its affairs. The trust should keep a designated log of all losses and write offs.

Conclusion

91. Our conclusion at the time of the visit is that the trust has been in an extremely vulnerable position as a result of inadequate governance, leadership and overall financial management. The recent appointment of new trustees and the work of the iCEO have over the last few weeks and months gone some way to rescuing the situation, which nevertheless remains of extreme concern.

92. The lack of openness and transparency with regard to the recent breakdown of board operations and the removal of a number of trustees has raised questions regarding the independence of the board and the assurance that decisions are taken only in the best interest of the trust. Going forward the newly constituted board needs to ensure that it is completely open and transparent in all its dealings and that its decisions are all formally documented and ratified.

93. There is an urgent need for the trust to prepare a strategic plan and a financial recovery plan. The financial plans should include full details of the steps and measures needed to achieve forecasted savings and move to a breakeven position. The review of the core team and the structure of the central and local financial teams in particular, should be undertaken with some urgency in order to avoid the central teams forecasted 5 year deficit position.

94. The board should ensure that they are fully appraised of the financial situation and in a position to robustly challenge all financial and budget data and information presented to them. Trustees should closely monitor the ongoing financial position and viability of the trust to ensure that forecasted savings are realised and that the trust can move to a balanced budget.

95. The board should review the ongoing operation of the trading company and the provision of nursery and leisure facilities at Hemsworth. They will need to obtain assurances that any deficits as a result of the nursery provision are not subsidised from GAG funding. Similarly should the nursery close, any overhead costs in relation to the closure should not be covered from GAG funds.

Next steps

96. You should respond to our recommendations by submitting an Action Plan detailing the actions to be taken by the trust to address the issues and recommendations raised in this report. The plan should include timescales for completion of the actions, a breakdown of the detailed tasks to be undertaken, together with target dates for completion and details of the person responsible. The board should delegate named trustee(s) to take ownership of and oversee implementation of the actions.

97. Following receipt of a completed Action Plan we will contact you to discuss the format and timing of any follow-up action to be taken with regard to the implementation of

the actions. Given the seriousness of the issues raised the EFA will give consideration to what further action may be required with regard to the areas of non-compliance.

98. In the meantime we would expect you to share the results of our work with the Board of Trustees, and for the Board of Trustees to oversee the implementation of the actions.

99. Please contact [REDACTED] if you have any queries in connection with our recommendations.

100. We would like to take this opportunity to record our thanks to the staff at the trust and the academies visited for the time, consideration and help afforded to us during the course of the review.

Service improvement response form

101. We aim to continually improve our service and your feedback will be very helpful. We have enclosed a Service Improvement Response Form and I would be grateful if you could complete this and return it to me. Your views on the validation visit and any suggestions for how it could be improved further would be very welcome.

102. For your information, you can find a copy of our EFA customer charter on our website.

Annex A – table of breaches

No	Issue	Breach
1	No formally appointed Accounting Officer in place following the settlement agreement with the previous CEO as from 31 st May 2016.	AFH 1.5.18, 1.5.19
2	Failure to keep formal records of all board decisions.	Article 99
3	Failure to keep a formal record of all board chair and vice chair appointments and resignations and to record in minutes how appointments have been nominated and approved.	Article 82-92
4	Failure to keep accurate minutes of meetings and to ratify that minutes are accurate.	Article 99 Companies Act s248, s249
5	Presenting meeting notes taken by the chair at the board awayday on 22 nd May 2016 as business records; this <u>may</u> be deemed falsification and a breach of s1138 of the Companies Act and the trust Articles.	Article 99 Companies Act s1138
6	Failure to establish a fully operational Audit Committee.	AFH 2.4.2
7	No formal contract in place with the iCEO to cover the role and responsibilities of the CEO and the personal responsibilities of the Accounting Officer.	AFH 1.5.18, 1.5.19
8	Intention to award the iCEO a 12 month contract off payroll.	AFH 3.1.22
9	Failure to appoint a Chief Financial Officer.	AFH 2.1.10
10	Failure by the board of trustees to ensure good financial management and to receive and consider information on financial performance at least three times a year, and take appropriate action to ensure ongoing viability.	AFH 2.2.4
11	Failure to agree a balanced budget; the 5 year budget forecast contained in the April Month End Report shows a forecast deficit budget from 16/17 onwards and an increasing deficit closing balance	AFH 2.2.2
12	The WCAT Trading company responsible for the provision of nursery and leisure facilities at Hemsworth is operating in deficit. The deficit is attributed to the low uptake of the nursery provision. It is a breach of the funding agreement and the AFH to subsidise nursery provision from GAG funding. There <u>may</u> therefore be a breach of the AFH and the Funding Agreement.	AFH 3.10.2 Funding Agreement para 3.15b

13	Incomplete declarations of interest for trust Members and trustees	AFH 3.1.17, 3.1.20
14	The trust does not have a business continuity plan	AFH 2.3.8
15	The trust's finance system does not currently allow for the production of consolidated financial reports. Testing at two academies identified noncompliance with regard to proof of goods received and a lack of separation of duties in payments made using trust credit cards.	AFH 2.3.3
16	The trust must ensure that spending decisions represent value for money, and are justified as such. The cancellation of the booking at [REDACTED] resulted in a cancellation fee of £2520, 90% of the full cost of the booking.	AFH 3.1.3

Annex B – Terms of reference

Reason for visit / objectives

- To follow up implementation of the Action Plan resulting from our financial management and governance validation visit in September 2015
- To review the additional areas listed below.
- The review to cover central trust arrangements and also local arrangements within a sample of academies within the trust.

Key contact

- [REDACTED], Accounting Officer

Scope of review

- To understand how WCAT is structured and governed. To include a review of the make-up of the Board of Directors, its sub-committees and senior managers regarding financial management and governance.
- To review compliance with the mandatory elements of the academies financial handbook within the trust and its academies.
- To review arrangements for the administration and payment of pupil premium.
- To review the register of business interests, declarations, and related party transactions.
- To review services provided to academies and compliance with the 'not-for-profit' principles outlined in the latest Academies Financial Handbook.
- To review trust policies and procedures including performance related pay, purchasing and tendering, travel and subsistence, credit card policy.
- To review compliance with trust recruitment, secondment and performance management policies
- Transaction and compliance testing of a sample of:
 - procurement contracts and purchase orders to confirm adherence to the trust's Standing Orders / Finance Regulations and best-value principles
 - payments and receipts
 - payroll
 - credit card statement(s) if applicable
 - staff and trustee expenses

Reporting

- A report will be produced setting out the findings of our review and any recommendations where improvements could be made

Annex C – recommendations

No	Recommendation
1	The members and trustees should provide assurances to the EFA that the board will at all times act in accordance with the Cabinet Office Code of Conduct for Board Members of Public Bodies and the Nolan principles of public life. The assurance should include a code of conduct for how the WCAT board will in future conduct its affairs in order to demonstrate its adherence to the Nolan principles and that all board decision have been taken in the best interest of the trust.
2.	The trust must ensure that all business decisions are recorded in the formal records of the business. Where changes to formally ratified decision occur these must be clearly documented.
3.	The board must ensure that all appointments and resignations of board officials are fully documented and recorded in board minutes.
4	The draft minutes from January 2016 meetings onwards should be ratified by the board without delay and by no later than 31st August 2016. The trust must ensure that all business meetings are quorate and business decisions/actions are recorded in line with the trust Articles. These should be ratified by the full board as soon as practicable and acceptance noted in the following board meeting minutes.
5.	The trust must ensure that its sub-committees are properly constituted, have clear and agreed terms of reference including an appropriate timetable of planned meetings.
6.	The trust should ensure all current trustees undertake a skills audit. Any identified skill gaps should be rectified in a timely manner.
7.	The trust should appoint an independent clerk to the board as soon as possible.
8.	The trust to provide the EFA with a copy of the legal advice to support the appointment of the iCEO under the terms of the consultancy contract. The trust should provide evidence of the performance measures used to hold the iCEO to account.
9.	All invoices relating to iCEO payments should be approved by the chair of the board. The trust financial regulations should be amended to include the requirement that any payments to senior management should be approved by at least one level above the recipient.
10.	The trust should provide documentary evidence that the board approved payment of expenses outside the terms of the contract and also that they agreed a rate higher than the trust policy and the approved HMRC rate. The evidence should also specify the basis for these agreements.

11.	The trust must ensure that all senior positions are on payroll and confirm as a matter of urgency that the iCEO post will be as a salaried employee of the trust.
12.	The board must appoint a CFO who is the trust's finance director, business manager or equivalent, to lead on financial matters. The CFO should play both a technical and leadership role, including ensuring sound and appropriate financial, governance and risk management arrangements are in place, preparing and monitoring of budgets and ensuring the delivery of annual accounts.
13.	<p>The trust should prepare a strategic policy document, which as a minimum should include:</p> <ul style="list-style-type: none"> • Vision, aims and objectives • Values and ethos • Medium and long term development strategies • Risks/challenges identified and mitigations • Roles and responsibilities within the strategy • Addressing needs of individual academies as part of the overall strategy • Inclusion of finance and governance plans • Inclusion of specific actions to address Ofsted and DfE/EFA concerns and recommendations <p>Once approved by the board this document should be made available to all current trust academies and new academies joining the trust.</p>
14.	The trust must undertake a fundamental review of all costs associated with running the organisation to identify efficiencies and cost savings. From this review a comprehensive financial strategy and recovery plan must be created which is linked to the trusts overall Strategy Document. The board should receive regular updates and cash flow information in order to monitor the budget situation and ensure the continued financial viability of the trust.
15.	The trust must review the core team budget and operations and formulate a realistic and credible recovery plan to ensure it moves to a breakeven position as quickly as possible.
16.	AFH 3.10.5 specifies that a multi-academy trust has the freedom to amalgamate a proportion of GAG funding for all its academies to form one central fund. This fund can then be used to meet the normal running costs at any of its constituent academies within the trust. The trust should consider how it wishes to control and maximise its funding. Any decisions to enter into an updated funding agreement and introduce greater pooling of funds and central investment should be clearly documented in trust policies and should be agreed with Local Governing Bodies (LGBs) and approved by the board. The trust must give individual

	consideration to the funding needs and allocations of each constituent academy, and must, in accordance with AFH 3.10.6, have an appeals mechanism in place.
17.	The trust should review its estate and fixed assets to identify and plan for future capital expenditure. Based on the findings of the review the trust should produce a documented Capital Expenditure Strategy for board approval.
18.	The trust must undertake a review of costs associated with the trading company to ensure ongoing solvency and implement a recovery plan to bring it back to a surplus position. The trust should also provide evidence to the EFA that the operation of, or any planned closure of the nursery is not being subsidised from GAG funding.
19.	The trust should appoint a trustee(s) from WCAT as director(s) of the Trading Company.
20.	The trust should also confirm that the 14/15 financial statements for the trading company have been filed at Companies House.
21.	The trust should undertake a review of its finance functions across the trust to ensure that the current model of working is fit for purpose.
22.	The trust should continue to review its contracts and areas of expenditure with a view to achieving greater efficiencies and savings through increased central procurement.
23.	It is best practice to review all service contracts on a regular basis to ensure that they continue to provide value for money. The trust should consider including a requirement within its financial regulations that all contract should be reviewed after a specified time period. The trust should analyse all current contracts to identify any that have been in place for a number of years and which may require review.
24.	The trust should take a wider view of IT requirements and ensure that future IT purchases are based on an agreed IT strategy and that purchases are made in such a way as to achieve best value for the trust.
25.	The trust must ensure it has up to date declarations of interest for all members/directors and local governors and that declarations are published on the trusts website. All declarations should be signed by the person making the declaration and all declarations should be available for inspection when required.
26.	A Business Continuity Plan must be agreed and adopted by the board as soon as possible.
27.	The trust should continue to explore the options for harmonisation of finance system across the trust in order to provide consistent financial reports and allow for the production of trust level consolidated reports.
28.	The trust should ensure in completing bank reconciliations that the reasons for any unreconciled amounts are clearly documented. Where the variance is due to a common reoccurring timing issue consideration should be given to changing dates to avoid the unreconciled items appearing.

29.	The trust should ensure that staff at all academies are consistently and correctly applying all financial procedures, checks and controls as detailed in the financial policy.
30.	The Performance Related Pay policy should be ratified by the board as soon as possible and communicated to all academies across the trust.
31.	The trust should ensure that it has adequate numbers of staff in each academy trained to administer the pupil premium. The trust should arrange for the further information requested in relation to the pupil premium payments at Wakefield City Academy to be supplied to the review team as soon as possible.
32.	The trust should ensure that any travel expense payments in excess of the approved mileage rate are exceptional and fully supported by a documented and approved business case.
33.	The trust must in all cases demonstrate proper stewardship of public funds and avoid extravagance or waste in the way it conducts its affairs. The trust should keep a designated log of all losses and write offs.

Annex D – service improvement response form

MAT: Wakefield City Academies Trust	Report Date: August 2016	PRA Officer(s): [REDACTED] [REDACTED] [REDACTED]
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Please return this form to [REDACTED] within two weeks of the date of this report.

	Satisfaction Response <i>(Please tick the box that most closely corresponds with your opinion)</i>	Strongly Agree	Agree	No View	Disagree	Strongly Disagree
1	The MAT was well briefed about the Team's review.					
2	An appropriate level of communication took place between you and the assurance officers.					
3	The assurance officers appeared to have made good use of all of the documentation requested.					
4	The assurance officers conducted themselves professionally and were accessible.					
5	The assurance officers kept disruption to a minimum.					
6	The management of the assurance visit was effective.					
7	The recommendations made will improve the soundness, operation and effectiveness of the Academy's financial management and governance arrangements.					
8	The presentation of the visit findings is clear and understandable.					
9	The issued post visit report/letter was based on the closing meeting feedback.					

Please explain further if you 'disagree' or 'strongly disagree' with a statement:
(Please attach additional sheets if necessary)

Please provide any other comments, which may be helpful for improving the organisation and operation of future visits: (Please attach additional sheets if necessary)



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