



Education & Skills
Funding Agency

Financial management and governance review

Leading Learners Multi Academy Trust

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Executive summary

1. In April 2017, the Education and Skills Funding Agency (ESFA) received anonymous allegations relating to Leading Learners Multi Academy Trust. These included potentially irregular expenditure and concerns about financial management and governance. The ESFA commissioned a fact finding review between 31 May and 2 June 2017.

2. The ESFA review identified a number of significant failings and weaknesses in governance arrangements that breach the Academies Financial Handbook (AFH). As a result, this was escalated to a formal financial management and governance review. Key findings of the review have confirmed:

- contentious and potentially irregular expenditure was identified, including £1,888 spent on alcohol/bar drinks, along with some separate expensive hotel stays and hospitality. The trust did not have a travel and subsistence policy or formal oversight covering this expenditure and could not adequately demonstrate regularity, propriety or value for money, breaching the AFH s1.5.19
- financial oversight and scrutiny at the trust has been inadequate, breaching the AFH s2.1.8. This includes a lack of consolidated financial reporting, lack of financial skillsets amongst the board/Accounting Officer (AO) and capacity shortage in the finance function
- internal (financial) control arrangements at the trust have been inadequate, breaching the AFH s2.3. This includes the MAT not having an audit committee or any MAT-wide internal control checks
- MAT member and trustee appointments are unclear, not appropriately reported and board separation does not appear to have been in line with AFH best practice guidelines (AFH page 7)
- the MAT uses 5 educational consultants, including a National Leader of Education and a secondee, at the direction of the AO. No evidence of a proper procurement exercise was available for this expenditure (breaching the MAT's latest financial regulations) or management of actual or perceived conflicts of interest (consultants were known to the AO)

Background

3. Tyldesley Primary School opened on its present site in 1999. It was founded in the 1960s. The school is 2 FE with a pan of 60. There are currently 60 in R and Y1. The other year groups are 1.5 FE and this will be phased out as the 2FE moves through the school. The last Ofsted inspection was 24 and 25 November 2010 with overall effectiveness graded outstanding.

4. Tyldesley Primary School converted to academy status on 1 April 2012 and changed the name of the academy trust in April 2016 to Leading Learners Multi Academy Trust. A further three schools joined this Multi Academy Trust (MAT) between October 2016 and December 2016, with Tyldesley Primary School leading.

5. Since April 2016, the MAT board of trustees has reviewed governance, finance and audit, without separate committees. Both Tyldesley Primary School and the MAT have had the same persons in the roles of AO and Chair of the board since 2012.

6. In April 2017 the ESFA received a number of allegations relating to financial management and governance of Leading Learners Multi Academy Trust. As a result, an ESFA team undertook an onsite review of the allegations over the course of 3 days between 31 May and 2 June 2017. ESFA acknowledge the assistance provided by the trust to complete the review work.

Objectives and scope

7. The objective of this review was to establish whether the allegations received by the ESFA were evidence-based and in doing so, to identify whether any non-compliance or irregularity had occurred with regard to the use of public funds. Specifically, the allegations related to:

- the Chief Executive Officer's use of expenses and compliance with trust policies
- trust use of consultancy services, including compliance with procurement procedures
- trust asset disposal, compliance with procedures and value for money (VFM)
- transparency of financial management at board level

8. The scope of the work conducted by the ESFA in relation to the allegations, included assessing the adequacy and effectiveness of governance, risk management and control, including propriety, regularity, and VFM. This included:

- review of relevant documentation, including governing body minutes and supporting policies
- testing of financial management information, specifically in relation to the allegations received
- interviews with key managers and staff

9. In accordance with the ESFA investigation publishing policy the relevant contents of the report have been cleared for factual accuracy with Leading Learners Multi Academy Trust.

Findings

MAT board arrangements

10. Review of the MAT 2015/16 financial statements confirmed that all trust members were also directors. The AO was a member, director and employee until resigning as a member on 27 April 2016 according to trust minutes of the same date. However, the AO continued to sign documentation, including the MAT articles on 20 May 2016 and the 2015/16 financial statements on 31 December 2016 suggesting her role as member continued after the resignation date. A review of Edubase on 31 July 2017 also confirmed all current members are also directors as per Companies House. This is not in line with best practice requirements set out in the AFH which states “Governance structures in which members are also employees are not considered by DfE to be best practice. Whilst members can also be trustees, retaining some distinction between the two layers ensures that members, independent of trustees, provide oversight and challenge. This is especially important in multi academy trusts in which trustees are responsible for a number of academies”. In addition the list of trustees on Edubase does not reconcile with Companies House information. Not updating Edubase in a timely manner is a breach of the AFH 2016 s4.7.4 whilst ensuring Companies House information is accurate is a requirement of the Companies Act 2006.

Financial oversight and scrutiny

11. At the time of the review, the MAT could not provide the ESFA team with current detailed MAT-level consolidated financial data, MAT financial forecasts or robust assurances on the financial position of the MAT. Review of 2016/17 board minutes confirmed detailed consolidated MAT financial information, including forecasts have not been reviewed by the board, since becoming a MAT.

12. During interview, the AO confirmed that, although she and the Chair stay in regular contact with individual academy heads, there is no documented regular review by the AO over consolidated MAT and individual academy financial positions and key financial controls, for example bank reconciliations. The AO stated the trust is not in deficit and has no immediate cashflow concerns. Following the ESFA review, the trust also provided an initial draft consolidated budget. However, owing to the lack of available financial information historically, as well as at the time of our review and the draft nature of the budget provided after the review, the financial position could not be fully verified. ESFA deem this to be a breach of AFH s2.1.8 which states “the AO, under guidance of the board, must have appropriate oversight of financial transactions”.

13. During discussion, both the AO and Chair of the board demonstrated a lack of understanding of finance and governance, including lack of awareness of applicable components of the regulatory framework. In particular, Managing Public Money, company

director duties and Charity Commission requirements. The AO and Chair agreed their knowledge on finance and governance needed improvement. Furthermore, the MAT board does not include any individuals with accountancy qualifications or equivalent significant financial experience. Although planned, the MAT has not yet conducted a formal skills audit of the board or Senior Management Team (SMT).

14. The review team were advised of historic issues with consolidating finance systems and recruitment of a permanent Chief Financial Officer (CFO). The trust has had 4 separate persons occupying the role of CFO, or equivalent, in the space of 12 months. The current CFO is not permanently employed but on a short term contract of employment. Additionally, the level of financial resource currently available at the MAT central function appears insufficient for current demands. The AO agreed with ESFA observations. Without a permanent CFO, supported by the board and AO, the board is unable to demonstrate proper stewardship over public funds.

Internal control

15. The MAT does not have an audit committee or any committee which performs the functions of an audit committee. This is a breach of AFH s2.4.2 which requires all academy trusts to “establish a committee, appointed by the board of trustees, to provide assurance over the suitability of, and compliance with, its financial systems and operational controls”. A properly functioning audit committee provides internal scrutiny and delivers objective and independent assurance.

16. The MAT does not have any MAT-wide internal control checks. This is a breach of AFH s2.4 which requires the trust to have in place a process for checking its financial systems, controls, transactions and risks.

17. The MAT does not have a MAT-wide whistleblowing policy, although each school does have its own whistleblowing policy in place.

18. The review team also noted a number of other issues the trust need to address to ensure satisfactory arrangements are in place to manage trust funds and ensure internal control arrangements meet the required standards. This includes:

- the MAT was unable to evidence a robust and detailed plan on how academies would be incorporated within it, covering items such as policies, procedures, and approach to financial consolidation. Prior planning on financial consolidation could have helped the MAT to consolidate financial reporting much earlier
- MAT financial regulations were approved on 3 May 2017 although the MAT was formed in April 2016
- MAT financial regulations refer to pooling of General Annual Grant (GAG) but do not provide any further detail. No approved policy documentation is currently available to confirm the MAT view on pooling of GAG or management of funds

across the MAT. Pooling or MAT-wide management of funds should be considered formally by the board

Procurement

19. During interview it was confirmed that the MAT currently contracts with 5 educational consultants, including a National Leader of Education and a secondee, at the direction of the AO. Review of the arrangements highlighted a number of issues, including breach of the trust's financial requirements. Specifically:

- 4 of these 5 consultants did not have a contract for services
- one contract was for 2 years and guaranteed the consultant a minimum of 70 days work at £550 per day for the first year, with a review after 12 months. This could be viewed as a fixed term employment contract but the trust had not obtained any employment or tax advice in this regard
- the minimum contract value for this consultancy was £38,500 which according to the latest trust financial regulations would require a formal tendering exercise. No evidence of any tendering, VFM quotation comparison or procurement exercise was available for any of the consultants used
- the review team was able to confirm expenditure with another of the 5 consultants during 2016/17 of £23,755. Similarly, this should have been subject to formal tendering under the latest trust financial regulations

20. The AO confirmed the consultants were known to her, one in a personal capacity and the others professionally. Consequently, the procurement of these consultants would require management of actual or perceived conflicts of interest. There was no evidence that this had taken place.

Expenses

21. ESFA reviewed the trust's charge card expenditure for 2015/16 and 2016/17 and identified the following expenditure:

- £1,888.30 spent on bar drinks/alcohol across the period
- £164.50 on jewellery (gifts)
- £100 on a John Lewis Gift Card
- hotels costs including 3 rooms at £277.44 per room per night. No evidence was available to suggest cheaper alternatives had been considered
- £451.83 labelled as "trustee Xmas" on 20/12/16 (no VAT receipt). The AO stated this was a dinner for trustees and the senior management team (SMT)

22. None of the charge card expenditure had any evidence of review, approval or evidence of VFM consideration. There were also significant levels of charge card

expenditure which was supported with a credit card receipt but not a detailed VAT receipt resulting in expenditure that could not be properly analysed.

23. The ESFA review found no evidence of formal checks on senior staff expenses incurred (including the AO) on trust charge cards. The review identified that charge cards incur the bulk of SMT travel and hospitality expenses.

24. During interview the Chair of the board confirmed that he conducts performance management of the AO but was not aware anyone on the board should be approving travel and subsistence expenses. He was also not aware of anyone approving expenses to date. The review team confirmed that approvals should be conducted by the person conducting performance management and by an independent person.

25. ESFA review work confirmed the MAT has no policy on travel and subsistence expenses and had no regular internal checking process of expenses incurred. As a result, the expenditure could be deemed contentious as it did not appear to be related to the direct running of the MAT. The total expenditure is potentially higher as VAT receipts were not always available to identify spend. Owing to the lack of internal control arrangements surrounding expenses, ESFA consider this to be a breach of mandatory AFH requirements s1.5.11 and 1.5.19. These requirements relate to the responsibilities of trustees and the AO to demonstrate proper stewardship and probity in management of public funds.

Conclusion

26. The ESFA review faced a material uncertainty owing to the trust finance systems not being available during the review. However, a number of significant findings and breaches of the AFH were still identified.

27. The MAT needs to take urgent action to resolve the issues, including greater consideration given to the robustness of financial management and governance arrangements by the board and AO. Annex A includes a table of findings, breaches of frameworks and specific recommendations for the MAT.

28. Along with implementing the specific recommendations in Annex A, the MAT should commission an independent review of financial management and governance covering the entire MAT to fully identify all issues (including compliance issues with all applicable frameworks) which need to be resolved. The review commissioning process, terms of reference and scope should be agreed with the ESFA in advance.

Annex A

The following table lists the review findings, breaches and specific recommendations for the issues.

	Finding	Breach of AFH	Recommendation
1	MAT member and trustee appointments are unclear, not appropriately reported and board separation does not appear to have been in line with AFH guidelines.	The AFH 2016 p6 advises that members should not be employees and there should be separation between members and directors. AFH 2016 s4.7.4 requires trust to notify Edubase of any governance changes within 14 days of the change. The Companies Act 2006 requires all trustees/directors to be registered.	The MAT should ensure adequate separation between members, directors and the MAT SMT, including no employees being members. The MAT should also ensure Edubase and Companies House are updated with any changes within the required timescales.
2	Detailed consolidated MAT financial information, including forecasts, have not been reviewed by the board since becoming a MAT. During the ESFA onsite review, the trust were unable to provide any detailed consolidated MAT financial information, including forecasts. No documented regular review by the AO over consolidated MAT and individual academy financial positions and key financial controls, for example bank reconciliations.	This is breach of AFH s2.1.8 which states “the AO, under guidance of the board, must have appropriate oversight of financial transactions”.	The MAT must ensure the AO, under guidance of the board, has appropriate oversight of financial transactions. The board and the AO must review and determine the information and types of reports necessary for appropriate oversight. This must include the production of, and regular formal review of, consolidated financial reports, forecasts and key financial control reports, by the AO and the board. Any issues identified by the above reporting must be addressed within reasonable timeframes.

3	<p>During discussion, both the AO and Chair of the board demonstrated a lack of understanding of finance and governance, including lack of awareness of applicable components of the regulatory framework.</p> <p>Furthermore, the MAT board does not include any individuals with accountancy qualifications or equivalent significant financial experience. Although planned, the MAT has not yet conducted a formal skills audit of the board or SMT.</p> <p>The MAT does not have a permanent CFO and the level of financial resource within its central finance function appears insufficient.</p>	<p>This is a breach of AFH s2.1 which states “Trustees and managers must have the skills, knowledge and experience to run the academy trust”.</p>	<p>Members, trustees and the MAT SMT must conduct regular comprehensive skills audits to determine skills gaps. Any identified gaps must be rectified in a timely manner.</p> <p>This includes members, trustees and the MAT SMT ensuring their own financial skillsets are adequate, in order to provide appropriate oversight, scrutiny and leadership on finance and governance.</p> <p>In addition, the MAT must ensure its finance function is adequately skilled and staffed to fulfil its role.</p>
4	<p>The MAT does not have an audit committee or any committee which performs the functions of an audit committee.</p>	<p>This is a breach of AFH s2.4.2 which requires all academy trusts to “establish a committee, appointed by the board of trustees, to provide assurance over the suitability of, and compliance with, its financial systems and operational controls”.</p>	<p>The MAT must establish a committee, appointed by the board of trustees, to provide assurance over the suitability of, and compliance with, its financial systems and operational controls. Members of this committee should be independent from the MAT board and have adequate skills/qualifications to understand its role fully.</p>
5	<p>The MAT does not have any MAT-wide internal control checks.</p>	<p>This is a breach of AFH s2.4 which requires the trust to have in place a process for checking its financial systems, controls, transactions and risks.</p>	<p>The MAT must have in place a process for checking its financial systems, controls, transactions and risks. This checking process should be conducted on a regular basis with</p>

			reports to the relevant committee, board and AO. Any identified issues should be resolved in a timely manner.
6	The MAT was unable to evidence a robust and detailed plan on how academies would be incorporated within it. This should cover items such as policies, procedures, and approach to financial consolidation.		The MAT should ensure adequate planning and preparation is conducted for all major business activities, including incorporating new academies.
7	MAT financial regulations were approved on 3 May 2017 although the MAT was formed in April 2016.	This is a breach of AFH s3.1.3 which states "Academy trusts must ensure that: • internal delegation levels exist and are applied within the trust • a competitive tendering policy is in place and applied, and Official Journal of the European Union (OJEU) procurement thresholds are observed".	The MAT must ensure compliance with the AFH in this area. Compliance within this area should be included within regular internal control testing.
8	MAT financial regulations refer to pooling of General Annual Grant (GAG) but do not provide any further detail. No approved policy documentation is currently available to confirm the MAT view on pooling of GAG or management of funds across the MAT.		The MAT board should formally consider this area and provide guidance for operational management.
9	The MAT currently contracts with 5 educational consultants, at the direction of the AO. Review of the arrangements highlighted a number of issues,	This is a breach of AFH s3.1.3 which states "Academy trusts must ensure that:	The MAT must ensure a detailed and comprehensive procurement policy/procedures are produced and regularly reviewed.

<p>including breach of the trust’s financial requirements. Specifically:</p> <ul style="list-style-type: none"> • 4 of the 5 did not have a contract for services • one contract was for 2 years and guaranteed the consultant a minimum of 70 days work at £550 per day for the first year, with a review after 12 months. This could be viewed as a fixed term employment contract but the trust had not obtained any employment or tax advice in this regard • the minimum contract value for this consultancy was £38,500 which according to the latest trust financial regulations would require a formal tendering exercise. No evidence of any tendering, VFM quotation comparison or procurement exercise was available for any of the consultants used • the review team was able to confirm expenditure with another of the 5 consultants during 2016/17 of £23,755. Similarly, this should have been subject to formal tendering under the latest trust financial regulations. <p>The AO confirmed she had known some of the consultants for a long time. Consequently, the procurement of these consultants would require management of conflicts of interest. There was no evidence that this had taken place.</p>	<ul style="list-style-type: none"> • spending has been for the purpose intended and there is probity in the use of public funds • spending decisions represent value for money, and are justified • internal delegation levels exist and are applied within the trust • a competitive tendering policy is in place and applied, and Official Journal of the European Union (OJEU) procurement thresholds are observed • relevant professional advice is obtained where appropriate including that of their external auditor where necessary” 	<p>Compliance in this area should form part of regular internal control testing. Specifically the MAT must ensure:</p> <ul style="list-style-type: none"> • consultants are not engaged without a robust contract in place. The contract must ensure fairness in terms and conditions for the MAT. In applicable professional advice should be gained where needed • all procurement must comply with trust financial regulations, applicable frameworks including the AFH and also OJEU (where necessary). The trust must be able to demonstrate probity in the management of public funds, including propriety, regularity and value for money • there are measures in place to manage conflicts of interest.
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<p>10</p>	<p>ESFA reviewed the trust’s charge card expenditure for 2015/16 and 2016/17 and identified the following expenditure:</p> <ul style="list-style-type: none"> • £1,888.30 spent on bar drinks/alcohol across the period; • £164.50 on jewellery (gifts); • £100 on a John Lewis Gift Card; • hotels costs including 3 rooms at £277.44 per room per night. No evidence was available to suggest cheaper alternatives had been considered; • £451.83 labelled as “trustee Xmas” on 20/12/16 (no vat receipt). The AO stated this was a dinner for trustees and the SMT. <p>None of the charge card expenditure had any evidence of review, approval or evidence of VFM consideration. There were also significant levels of charge card expenditure which was supported with a credit card receipt but not a detailed VAT receipt resulting in expenditure that could not be properly analysed.</p> <p>The ESFA review found no evidence of formal checks on senior staff expenses incurred (including the AO) on trust charge cards. There was also no MAT policy on travel and subsistence expenses and no regular internal checking process of expenses.</p>	<p>Owing to the lack of internal control arrangements surrounding expenses, ESFA consider this to be a breach of mandatory AFH requirements s1.5.11 and 1.5.19, with regard to the responsibilities of trustees and the AO over the proper stewardship and probity, in management of public funds.</p>	<p>The board must produce and approve comprehensive policy/procedures on expenses, which is in line with applicable frameworks such as the AFH and Charity Commission. In addition, they should include robust independent methods of approval, particularly for senior MAT staff.</p> <p>These policies/procedures must be communicated to all staff.</p> <p>Compliance in this area should be included within regular internal controls testing.</p> <p>The trust, as part of the independent review of finance and governance, must conduct a comprehensive retrospective review of expenses for 2015/16 and 2016/17. The review must identify all expenditure which could be deemed contentious, so it can be reviewed by the board and the ESFA.</p>
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