



Education & Skills
Funding Agency

Financial management and governance review

DRB Ignite Multi Academy Trust

March 2017

Contents

Executive summary	3
Background	5
Objectives and scope	6
Findings	7
Oversight, independence and challenge	7
Procurement / operating model and connected party transactions	9
Governance	13
Conclusion	15
Annex A	16

Executive summary

1. The Education and Skills Funding Agency (ESFA) received allegations of financial irregularity in July 2016, regarding a leasing arrangement at Bromley Pensnett Primary School, part of the DRB Ignite Multi Academy Trust (the trust).

2. In response to the allegations, ESFA decided to investigate the allegations and undertook a review of financial management and governance at the trust on 7 to 16 February 2017, based at the trust's registered offices. The review also included a visit to Bromley Pensnett Primary School.

3. The ESFA review identified a number of significant failings and weaknesses in governance arrangements that breach the Academies Financial Handbook (AFH). Key findings of the review were:

- the trust is not adhering to AFH guidance regarding adequacy of oversight and challenge at the trust. This is due to a lack of separation of roles between members, trustees and the senior leadership team; concerns regarding financial / governance skill sets on the board of directors; and the Accounting Officer (AO) being a director as well as a member
- the trust's current operating model of directly using related parties / commercial companies to provide the majority of central functions without following a proper procurement process is inherently irregular and breaches the AFH, the trust's own procurement policies, and potentially EU procurement regulations
- directors were unable to fully demonstrate they were solely acting in the interests of the trust. This was due to inadequate separation, and management of conflicts of interest, between the trust and connected parties
- since incorporation, the AO role has rotated between three of the members / directors. At no time was any person occupying the trust's central function roles (including the AO) on the trust payroll. In addition, the trust has never had a specific contractual arrangement detailing the role and responsibilities, per the AFH, with the nominated AO. This breaches the AFH and HM Treasury's 'Managing Public Money' guidance
- limited evidence was available to demonstrate a robust procurement exercise was followed for the lease of smartboards at Bromley Pensnett Primary School. Specifically there was little evidence that conflicts of interest were managed or the arrangement represented value for money

- the trust did not have a functioning audit committee and the testing of internal financial control was not independent as required by AFH s2.4.9

Background

4. DRB Ignite Multi Academy Trust is described within its own promotional literature as being part of the DRB group of companies and an approved academy sponsor operating in the West Midlands.

5. In this report there are frequent references to trustees. This is the same body of people as the directors of the trust; these words are used interchangeably.

6. The trust's articles of association identify DRB Educational Trust as the sponsor.

7. The DRB group of companies consists of a number of entities, including DRB Schools & Academies Limited, DRB Facilities Management Limited, DRB Visual Limited, DRB Marketing Limited and DRB Learning Limited that provide services to the education sector and to its own academies through a service level agreement.

8. The trust was incorporated on 24 October 2014 and entered into a funding agreement with the Secretary of State on 1 October 2015 to operate 4 academies. A further 4 primary academies joined the trust from September 2016. The trust has a combined pupil capacity of 3,033 and had a student roll of 2,924 as per the school census in October 2016. The trust has committed itself to work exclusively with primary academy converters and those that require improvement based on Ofsted ratings.

9. In July 2016, the ESFA received allegations relating to irregularities in the procurement of IT hardware brokered by DRB Visual Limited at the Bromley Pensnett Primary School, an academy within the trust.

10. Following background checks and receipt of additional information from the trust it was agreed that a review of financial management and governance was required at the trust due to concerns over the leadership and governance structures in operation across the commercial and not for profit entities.

Objectives and scope

11. The objective of the review was to seek assurance that no financial irregularity had occurred, and that the trust is compliant with the Academies Financial Handbook 2016 and its Funding Agreement regarding financial management, internal financial control and governance.

12. The scope of the review was: to assess the financial controls and management within the trust; to assess the adequacy and effectiveness of governance, risk management and control, including propriety, regularity, and value for money.

13. ESFA's approach to the review included:

- review of all relevant trust policies and procedures, particularly those pertinent to financial management and financial controls, including the financial procedures manual, scheme of delegation and staff policies
- review of relevant trust information, including the Funding Agreement, Governing Body and relevant committee minutes, financial management information, including bank statements, credit card statements, procurement documentation and the gifts and hospitality register
- interviews with members, directors and the senior management team of the trust

14. The testing performed was aimed at ascertaining whether the allegations made by the complainant warranted further action by the ESFA as well as identifying any potential weaknesses in the financial management and governance at the trust.

Findings

15. Findings from the review identified a number of specific issues, including breaches of the trusts Articles of Association, non-compliance with the AFH and significant weaknesses in governance arrangements. These will need to be addressed to ensure there is a sufficient framework of internal control to manage the trust moving forward.

Oversight, independence and challenge

16. The trust's 2015/16 financial statements (FS) confirm the trust had 9 members, 12 directors and 5 senior management team (SMT) staff. Companies House records 11 directors for the trust for the same period.

17. Edubase (the Department for Education's register of educational establishments in England and Wales) records 10 members and 11 trustees (directors) for the trust. A review of records, as detailed in Annex A, found a significant amount of role overlap exists between members, directors and the SMT:

- all members were also directors
- all 5 individuals on SMT were also members and directors
- the nominated AO was also a member, director and company secretary
- 2 directors interviewed (directors 2 and 3) during the review confirmed they had resigned as members, although this had not been updated on Edubase; director 4 is recorded as a trustee on Edubase and as a director in the trust's 2015/16 FS, but not at Companies House

18. The AFH 2016 states "Governance structures in which members are also employees are not considered by DfE to be best practice." The AFH 2014, 2015 and 2016 all state, "While members can 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."

19. By not ensuring adequate separation between governance layers the trust is not following best practice guidelines set out in the AFH and have not been able to fully demonstrate adequate oversight and challenge.

20. In addition, by not updating Edubase within 14 days of member changes, the trust has breached the AFH s4.7.4.

21. Review of trust governance documents and interviews with directors confirmed that the role of AO has rotated between 3 members/directors since the date of incorporation. Trustees must be clear about their trust's chain of executive leadership and accountability.
22. It is expected that the trust will appoint a senior executive leader who will also be its AO, ensuring that these roles do not rotate so that there is no ambiguity about who is accountable for the financial management and integrity of the trust. The arrangement at the trust is a breach of the requirements of the AFH s2.1.2.
23. Trust directors confirmed the current AO role is provided through a larger contract for services with DRB group. Review of this contract confirmed no mention of provision of an AO or the roles and responsibilities of an AO. This also breaches the AFH s1.5.19 and s2.1.2.
24. Academy trusts must ensure that their senior employees' payroll arrangements fully meet their tax obligations and comply with HM Treasury's guidance about the employment and contract arrangements of individuals on the avoidance of tax, as set out in HM Treasury's Review of the Tax Arrangements of Public Sector Appointees. Having an AO off payroll since incorporation contravenes this guidance and breaches the AFH s3.1.22.
25. Discussions with some directors and members highlighted knowledge gaps around applicable financial and governance frameworks. The trust does not have any independent directors or members (i.e. not receiving a payment or benefit) who are qualified accountants or have equivalent experience. Furthermore, the chief financial officer (CFO) role at the trust is provided through a contract with DRB group and not by a permanent contract of employment.
26. A lack of permanent and independent financial expertise at director or SMT level in a trust responsible for a total of £5.3 million revenue funding for 2015/2016 represents a significant risk for the trust. It also increases the chances of poor finance and governance decisions being made and not challenged or scrutinised adequately. Trustees, directors and managers must have the skills, knowledge and experience to run the academy trust. Failure to ensure adequate oversight would lead to a breach of the AFH s2.1.
27. The trust's articles identify DRB Ignite Education Trust as a member and signatory to the Memorandum and Articles of Association but trustees have indicated it is DRB Ignite Ltd. A review of the financial statements of DRB Ignite Education Trust show it as a dormant and insolvent company. The inclusion of an insolvent member is a breach of clause 15c of the trust's articles of association, which states that membership will terminate in cases of insolvency.

Procurement / operating model and connected party transactions

28. The trust operating model involves significant links to connected commercial companies including:

- directors 10 and 11 who have served as nominated AO are also directors of DRB group
- director 12 was an employee of DRB group
- the majority of trust central services in 2015/16 and 2016/17 (to February 2017) were provided by DRB group
- all trust central function staff are provided by DRB group or Sue Egersdorff Associates Ltd, through contracts for services (without formal procurement) and the trust has no central staff on payroll
- the independent internal scrutiny function for the trust is provided by DRB group, which is not independent. Further detail is covered under the governance section of this report

29. During 2015/16 Companies House records 11 directors:

- 5 are linked to companies transacting with the trust
- 3 hold directorships in companies transacting with the trust

30. Expenditure with these companies is classed as a connected/related party transaction. In this report, the term connected will be used per the AFH.

31. During the 2015/16 financial year, analysis provided by the trust shows that approximately £372,000 was spent on central office costs (funded by the central management top slice). Of this £310,000 was incurred with connected parties (83% of central expenditure).

32. During the 2016/17 academic year, invoices provided by the trust shows connected party expenditure (September to December 2016) totalling £109,000. Table 1 below shows a breakdown.

33. The majority of connected party expenditure was with DRB group companies and Sue Egersdorff Associates Ltd.

Table 1 Connected party expenditure at DRB MAT

Connected organisation	Connected director (per Annex A)	Expenditure in 2015/16 (inc. VAT)	Expenditure for 3 months of 2016/17 (inc. VAT) – Sept till Dec 2016	Contract held with trust	Procurement process undertaken	Contract complies with AFH 'at cost' policy AFH s3.2.14
DRB group companies	Dirs. 10 and 11	£239,000	£88,000	✓	✗	✗
Sue Egersdorff Associates Ltd	Dir 8	£71,000	£29,000	✓	✗	✗
Learning Horizons	Dir 1	-	£2,000	N/A	N/A	N/A

34. A summary of identified issues from the review of connected party expenditure is set out below:

- no formal procurement process was undertaken for any trust central expenditure, including that with connected parties. This is a breach of the AFH s3.1.3 regarding the application of a competitive tendering policy and s3.2.14
- no evidence was available to suggest actual or perceived conflicts of interest had been managed for connected party expenditure or expenditure where there were links to directors/the AO. This is a breach of the AFH s3.1.12 and s3.1.13
- failure to avoid conflicts or manage them adequately also potentially breaches statutory company director duties (AFH s1.5.13) and the 'Seven principles of public life' per AFH s1.5.23
- contracts with DRB group and Sue Egersdorff Associates Ltd did not comply with the 'at cost' policy, specifically breaching AFH s3.2.14. The contract with Sue Egersdorff Associates made no mention of at cost, did not have any statement of assurance nor inclusion of open book agreement requirement. The contract with DRB group did confirm services were at cost but did not include an open book agreement requirement.

- the trust does not have a policy on managing connected/related party transactions. These transactions must be handled in line with principles set out in AFH s3.1.11 to s3.1.20 and s3.2

35. The trust entered a 35 month service contract with DRB group (cancellable by both parties with one term's notice) on 1 October 2015 for provision of staff and services needed for the trust central function. Total expenditure to December 2016 between the trust central function and DRB group companies is £327,000 (inc. VAT). The contract was signed by Director 10 on behalf of DRB group and Director 8 on behalf of the trust.

36. Trust directors confirmed no procurement process was undertaken for this contract and no evidence was available to suggest consideration of Official Journal of the European Union (OJEU) requirements, including whether an OJEU tender was required given the expenditure to date was over the threshold. Academy trusts must ensure that a competitive tendering policy is in place, applied and OJEU procurement thresholds are observed, failure to do so is a breach of AFH s3.1.3

37. Invoices received from DRB group companies through 2015/16 and 2016/17 were signed by Director 8 as authorised for payment by the trust. There is a clear and significant conflict of interest when the trust contracts with one of its own directors, and that same director also approves his own invoices for payment. No evidence was available to suggest this conflict had been managed. This is a breach of the AFH s3.1.12 and s3.1.13.

38. The contract with DRB group confirms that services will be provided 'at cost', satisfying one part of the 'at cost' AFH requirement s3.2.14. However the contract did not make reference to an open book agreement, breaching the second part of AFH s3.2.14.

39. The trust entered a contract for professional services to support the 'development of the trust and associated procedures' with Sue Egersdorff Associates Ltd on 1 Jan 2015 for 2 days per week at a cost of £625 per day plus expenses. The contract provided to the ESFA team was signed by Director 8 (annex A) on behalf of Sue Egersdorff Associates Ltd and had not been signed by anyone on behalf of the trust.

40. The contract made no reference to the 'at cost' requirements and trust directors confirmed no procurement process was undertaken. No evidence was available to suggest consideration of OJEU requirements leading to a breach of AFH s3.1.3 and s3.2.14.

41. There is a clear and significant conflict of interest when the trust contracts with one of its own directors. No evidence was available to suggest this conflict had been managed breaching the AFH s3.1.12/13.

42. The trust's purchasing, procurement and competitive tendering policy thresholds confirm that expenditure over £50,000 is subject to a formal tendering process and over £173,934 is subject to an OJEU tendering process. The policy also confirms that a series

of purchases from a single supplier in a single academic year contribute towards that purchase level. Expenditure in 2015/16 equated to £59,575 as stated in the latest set of trust financial statements.

43. As no formal procurement or tendering process was undertaken when procuring services from DRB group companies and Sue Egersdorff Associates Ltd this is also a breach of the trusts own purchasing policy. This also applies to services procured from DRB Group Limited companies.

44. Review of trust documents and discussion with trust directors confirmed there was no policy on management of connected party transactions or policy on managing conflicts of interest for the SMT, board and members.

45. In March 2016, Bromley Pensnett Primary School undertook a 48 month hire agreement with Smart Technologies Global Services Ltd (SMART) for provision of 10 smartboards, associated software, servicing and training. This agreement came into force on 16 June 2016. It was signed by Director 10 (annex A) on behalf of the trust and the value per the contract was £944 for first 12 months and £1,613 per month thereafter (totalling £69,436).

46. The trust does not acquire any rights to the equipment at the end of the agreement and was classed by the trust as an operating lease rather than a finance lease.

47. Prior to considering this lease, governors at Bromley Pensnett Primary School, as set out in the local governing body minutes, looked for alternative providers for comparison but struggled to find alternatives.

48. DRB Visual Limited (a DRB group company) proposed this leasing scheme from SMART with whom it claims to have innovative arrangements as mentioned in its formal proposal documents. The February 2016 revised proposal for Bromley Pensnett Primary School states one of the key benefits of this leasing arrangement is a flexible subscription model without the need for any capital expenditure and ownership of the technology.

49. Discussion with trust directors and the Head Teacher at Bromley Pensnett Primary School, along with a review of related documentation highlighted:

- no evidence was available to suggest the trust had formally considered centralised procurement options, which could look at hire/leasing needs of all its academies, to determine a co-ordinated and value for money approach. This includes whether the trust could buy the equipment outright
- no evidence was available to demonstrate a formal procurement exercise had been conducted by the trust central function for this hire agreement (including comparison of other suppliers)

- as the hire agreement was proposed by DRB Visual Limited, the agreement was signed by Director 10 on behalf of the trust. In addition, as Director 10 was also a director of DRB Visual Limited there was an inherent conflict of interest. No evidence was available to suggest this conflict of interest had been managed.

Governance

50. A number of additional procedural breaches and instances of non-compliance with the regulatory framework were identified during the course of the audit; these specific breaches are set out below.

51. The trust central function currently does not have access to funds held in the individual academy bank accounts nor does it operate a pooling system for surplus funds as allowed for in the AFH s3.4.10. This method of operating severely limits the trust's ability to move funds where required within the chain in order to address budget pressures.

52. A number of different finance systems are currently in operation across the trust. This makes the consolidation of financial or accounting information more difficult to achieve and prone to a reduced level of oversight. We acknowledge that the trust has plans in place to roll out a single finance operating system over the coming months. In doing so the trust must ensure that alongside adequate training, common budget and supplier codes are introduced with a suite of comprehensive reporting templates.

53. Interviews with trustees indicated that the finance committee, which is responsible for financial oversight of the trust, met infrequently through 2016. The trustees must ensure that the schedule of meetings is kept to and that all meetings that take place are quorate.

54. The trust should review the composition of its sub-boards to ensure that there is adequate independence and oversight of the trust's operations. The current members of the finance committee are not sufficiently independent to allow this to occur as all receive some form of payment or benefit from the trust.

55. The DRB Group, a connected party to the trust, is currently providing the internal controls testing function. The trust should review this arrangement to ensure that there is sufficient independent oversight of the internal controls operated by the trust.

56. Audit committee functions should be established in such a way as to achieve internal scrutiny that delivers objective and independent assurance. Where the RO function is provided by DRB group it cannot be shown to be independent and hence is a breach of the AFH s2.4.3.

57. Contracting arrangements across the trust need to be improved as currently contracts for goods and services are being entered into at academy level rather than at

trust level, which is the legally incorporated entity. Contracting at academy level reduces the level of oversight the trust Central function can exert over its academies and may lead to the breaching of applicable national and EU procurement rules due to combined values exceeding prescribed limits.

58. The trust has no central register of contracts, therefore reducing its ability to consolidate its approach to procurement in order to drive efficiencies in expenditure. The trust should ensure that information relating to all live contracts are collated centrally and reviewed to ensure that the combined purchasing power of the MAT can be used to obtain better value for money in future contracting arrangements.

59. Inadequate clerking of the governing bodies has been identified. Our review of governing body minutes identified some quality issues and difficulty in identifying challenge and the tracking through the decision making of trust boards.

60. The trust has not published on its website all relevant business and pecuniary interests of its trustees and members; this is a requirement of the AFH. The trust must ensure that all returns submitted by members, directors and the senior leadership team are uploaded to the trust's website.

61. The trust currently has no investment policy despite forecasting their cumulative surplus to be £1.3 million at year-end. The funds are currently held in current accounts. The trust should consider if this is the best place to hold their reserves and ensure compliance with AFH s2.2.8.

Conclusion

62. Following concerns raised with the ESFA in relation to financial management and governance at DRB Ignite Multi Academy Trust a review of financial management and governance was undertaken to establish whether those concerns were valid.

63. Our work on site identified a number of significant failings and weaknesses in financial management and governance arrangements that breach the AFH. A number of improvements are required to strengthen financial management and governance arrangements at the trust.

64. The issues identified in the report need to be urgently addressed to ensure internal control arrangements within the trust are operating effectively and assure the safeguarding of public funds.

65. The trust must undertake a review of governance arrangements, including the issues highlighted during our work and confirm in an action plan to ESFA how the required improvements will be managed.

Annex A

Overlap of key roles and links to companies

Name	Title used in this report	Director at DRB MAT*	Member at DRB MAT**	On DRB MAT SMT***	Nominated as Accounting Officer (since incorporation)	Other roles
[redacted]	Director 1	✓	✓			Director of company transacting with DRB MAT (transaction took place in 2016/17)
[redacted]	Director 2	✓	✓ (confirmed resigned as a member on interview)	✓		
[redacted]	Director 3	✓	✓ (confirmed resigned as a member on interview)	✓		
[redacted]	Director 4					Recorded as Director on 2015/16 FS and as trustee on Edubase but not on companies house
[redacted]	Director 5	✓	✓			
[redacted]	Director 6	✓	✓			
[redacted]	Director 7	✓	✓			Employee of company transacting with DRB MAT
[redacted]	Director 8	✓	✓	✓	✓	Director of company transacting with DRB MAT
[redacted]	Director 9	✓				
[redacted]	Director 10	✓	✓	✓	✓	Director of company transacting with DRB MAT.
[redacted]	Director 11	✓	✓	✓	✓	Director of company transacting with DRB MAT
[redacted]	Director 12	✓	✓			Employee of company transacting with DRB MAT

*Per Companies House, ** Per Edubase, *** per trust 2015/16 financial statements

© Crown copyright [2017]

This publication (not including logos) is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

To view this licence:

visit www.nationalarchives.gov.uk/doc/open-government-licence/version/3
email psi@nationalarchives.gsi.gov.uk
write to Information Policy Team, The National Archives, Kew, London, TW9 4DU

About this publication:

enquiries www.education.gov.uk/contactus
download www.gov.uk/government/publications

Reference: [000-000-000]



Follow us on Twitter:
[@educationgovuk](https://twitter.com/educationgovuk)



Like us on Facebook:
facebook.com/educationgovuk