



Education  
Funding  
Agency

Education Funding Agency  
Mowden Hall  
Staindrop Road  
Darlington DL3 9BG

Email:  
[AcademiesFinancialMonitoring.EFA@education.gsi.gov.uk](mailto:AcademiesFinancialMonitoring.EFA@education.gsi.gov.uk)

Mr Sajid Raza  
Principal  
Kings Science Academy  
Northside Road  
Lidget Green  
Bradford  
BD7 2AN

1 February 2013

Dear Sajid

### **Validation of Kings Science Academy Financial Management and Governance Self-Assessment: Final Report**

I am writing to you following our visit to Kings Science Academy (the Academy) during the week commencing 10 December 2012. The letter and the annex attached sets out our opinion and the findings arising from that visit.

The purpose of our visit was to validate your full financial management and governance evaluation (FMGE) return, to conclude whether or not we concurred with your self-assessed grade of 'Good' in respect of the your financial management and governance arrangements.

As part of the validation process, we met a number of your staff to gain a fuller understanding and of the Academy's financial management and governance arrangements their effectiveness, and to discuss the issues that arose during the visit. We would like to take this opportunity to record our thanks to the staff for the time, consideration and help afforded to us during the course of the review.

### **Feedback**

We gave feedback on our opinion on the Academy's financial management and governance arrangements and findings to you on 12 December 2012.

### **Overall Opinion**

Our assessment is that King Science Academy's financial management and governance arrangements are inadequate. We have undertaken the validation of the full FMGE return and we do not concur with the Academy's self-assessed grade of 'Good' in respect of the financial management and governance arrangements. We have identified additional weaknesses and areas of improvement during the course of the validation, which were not reflected in the self-assessment. Thus, we have to provide a grade of 'Inadequate', which is lower than the Academy's self-assessed grade.

### **Findings and Improvement Plan**

Our review has identified significant weaknesses in financial management and governance arrangements, which need to be addressed as a matter of urgency. The additional weaknesses and areas for are listed, along with the Summary of our Grades, in Annex A to this letter.

We would also ask that you respond to our findings and recommendations by preparing an Improvement Plan to explain how you will address the issues raised, and return this to me by Friday 22 February 2013 at the latest.

Please do not hesitate to contact [REDACTED] on [REDACTED] [REDACTED] if you require any assistance with the preparation of the Improvement Plan.

### **Follow-Up**

We will need to ensure that the Academy has taken all the action to address the weaknesses and/or areas for improvement specified in its Improvement Plan. We will agree with you a timescale within which will conduct a return visit to assess progress to implement the actions agreed.

We would also ask to be updated on progress to implement the recommendations contained within the [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] historical review report.

In the meantime we would expect you to share the results of our work with the Academy's governing body and for them to agree and oversee the implementation of actions contained within the Improvement Plan.

If you would like to discuss this letter further, please contact me at the above address.

Yours sincerely

[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

## ANNEX A: SUMMARY OF OUR VALIDATED GRADES

Area	The academy's self-assessed grades from its FMGE return		The EA team's validated grades	
	Grade derived from part A requirements	Grade derived from part B best practice	Grade derived from part A requirements	Grade derived from part B best practice
1) Financial oversight	<b>Good</b>	<b>Good</b>	<b>Inadequate</b>	<b>Inadequate</b>
2) Financial planning	<b>Good</b>	<b>Good</b>	<b>Inadequate</b>	<b>Inadequate</b>
3) Internal control	<b>Good</b>	<b>Good</b>	<b>Inadequate</b>	<b>Inadequate</b>
4) Financial monitoring	<b>Good</b>	<b>Good</b>	<b>Inadequate</b>	<b>Inadequate</b>
5) Proper and regular use of public funds	<b>Good</b>	<b>Good</b>	<b>Inadequate</b>	<b>Inadequate</b>
<b>Overall assessment of financial management and governance</b>	<b>Good</b>		<b>Inadequate</b>	

### Background

1. Kings Science Academy opened on 1<sup>st</sup> September 2011 in temporary accommodation and moved to a permanent site following building works at a cost of £10.18m. This is a popular, high profile and over-subscribed school. A number of issues emerged when the school opened in September 2011, including concerns regarding the strength and experience (educational and financial) of the governing body.
2. The academy was established as a free school; and consequently did not have, as many academy converters do, access to experienced staff, and existing control frameworks and processes. However, in order to comply with the Academies Financial Handbook the academy is required to have strong governance and financial management arrangements in place from its inception. The necessary corporate and financial structures, controls and functions have not been developed to adequately govern, manage and support the business of running the academy.
3. For general support and guidance the members of the finance team may wish to consider joining the Academies FD forum, the address for which is: <http://thecityacademies.co.uk> and / or the National

## Overview

4. It was apparent from our review that in certain respects:
  - a. the governing body has failed to meet its responsibilities under the funding agreement;
  - b. the Accounting Officer (if actually appointed by the governing body) has failed to meet his responsibilities;
  - c. internal controls were either not present or were not operating effectively; and
  - d. the [REDACTED] [REDACTED] [REDACTED] [REDACTED] report identifies concerns over the probity of a number of financial transactions.
  
5. [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] was instructed by the Executive Patron to undertake a historical review of governance, financial systems, controls and probity within the academy between opening in September 2011 and the current time. An associate of [REDACTED] [REDACTED] [REDACTED] conducted the majority of the review on behalf of [REDACTED]. The review commenced in August 2012. A draft report was circulated in November 2012, which identified many significant weaknesses in controls and procedures, and contains many recommendations. We note that [REDACTED] raised concerns about the probity of a number of transactions. A final report was issued by [REDACTED] in December 2012, which also incorporated progress to date on implementation of the best practice policies, systems, controls and procedures. This report has been shared with the EFA, and the external auditors, [REDACTED] [REDACTED]. Key components of the report were discussed by the governing body on 12<sup>th</sup> December 2012. Many of the areas we would review as part of a financial management and governance review have already been considered by CCW. **We recommend that the governing body ensures that all the recommendations made in the [REDACTED] report are implemented swiftly and in full.** This will help to address many of our own concerns about the effectiveness of financial management and governance arrangements in place.
  
6. We have identified from our work and the [REDACTED] review the following fundamental concerns over the financial management and governance of the academy:
  - a. the governing body does not appear to have had a Chair in place for the first year of operation; this is a requirement of the funding agreement. This raises questions about whether a properly constituted governing body is in place, and potentially whether decisions made may have effectively been ‘ultra-vires’;
  - b. we can find no evidence that the governing body has appointed

- an Accounting Officer;
      - c. the [REDACTED] report raises serious concerns about controls over payroll, procurement and use of the academy credit card; and
      - d. we understand that your external auditors, [REDACTED], are considering qualifying their regularity audit opinion in the report and financial statements of KIFSA Ltd (Kings Free School Academy Trust) for the year ended 31 August 2012 in respect of non-compliance with the academy's Articles of Association regarding the employment of [REDACTED] [REDACTED] [REDACTED] family members.
- 7. It was evident from our review that the academy does not have in place financial management and governance arrangements that reflect many of the provisions of the Academies Financial Handbook, as such the academy is in breach of its funding agreement. This is a critical issue and urgent attention is required to address it, as the Funding Agreement defines the criteria necessary for the payment of grant by the Secretary of State.
- 8. We recognise that the Executive Patron and the governing body have already recognised many of the weaknesses in financial management and governance arrangements, and are now proactively facilitating the strengthening of these functions within the academy. This is emphasised by the governing body meeting on four separate occasions during October and November 2012. We also note that:
  - a. a new governing body structure was approved by the governing body at a meeting on 28<sup>th</sup> November 2012. 'Terms of reference' for the governing body were also agreed. In addition a supporting sub-committee structure was also agreed. Three new sub-committees will be established (Pupil Support, Finance and Resources (incorporating the duties of an audit committee) and Standards / HR). Terms of reference have been drafted for these sub-committees;
  - b. four new governors have been appointed to the governing body, who will provide the educational expertise that has hitherto been lacking. The original governing body was deficient in terms of members with educational expertise and experience. The governing body recognise that the Finance and Resources sub-committee still requires further strengthening, and a process to recruit members with the necessary financial skill sets is underway;
  - c. increased resource has been provided to the finance department. A Finance Manager and a Finance Assistant have been recruited. The post of Finance Director is currently vacant, the previous incumbent having left the academy in November 2012. A recruitment process is underway to fill this vacancy;
  - d. an intranet framework is in place which should help to facilitate effective access to policy and other important documentation.

The intention is to use this facility to communicate swiftly, securely and consistently with all staff and governors, and will represent good practice when fully operational.

## Financial Oversight

9. The academy has not produced any management accounts to date, although we understand they are being produced for the first time in January. Completion and review of management accounts, ideally on a monthly basis, is a fundamental principle of effective financial management. Section 2.3 (internal control) of the Academies Financial Handbook requires monthly management accounts to be prepared and best practice is to structure management accounts to:
- a. include detailed staffing budgets;
  - b. include an approved staffing establishment against which staff actually in post are monitored;
  - c. identify performance against budget in the year to date;
  - d. compare performance with previous periods or years in order that trends can be identified and considered;
  - e. project a year end out-turn;
  - f. include a month end and a projected year-end balance sheet;
  - g. include a rolling monthly cash flow forecast covering at least the next 12 months;
  - h. include a report on capital spends against budget. An extensive capital programme is underway at the academy site; there is some evidence of the governing body receiving oral progress updates, however there is little evidence of the governing body receiving any financial information in relation to the capital build;
  - i. indicate progress against key objectives;
  - j. include a written commentary that is sufficiently detailed to draw managers and governors attention to any key variances against budget that have arisen, explaining the cause; and
  - k. outline what actions management is going to take to address these variances.

**We recommend that the Finance Director (when appointed) produces management accounts every month, and that they reflect the best practice above.**

10. Minutes of governing body meetings, have been very brief, and do not provide much evidence of discussion and challenge. Furthermore it appears that at least one governing body meeting was not minuted. The most recent minutes, ie for the governing body meeting on 28<sup>th</sup> November 2012, show a clear improvement to those previously recorded in terms of content and quality. **We recommend that the governing body should ensure that minutes for all future governing body and sub-committee meetings conform to this standard.**

11. The academy has not been successful to date in recruiting a clerk to the governors. Section 2.1 (financial oversight) of the Academies Financial Handbook requires the governing body to appoint a clerk who is someone other than a trustee, governor or the principal / chief executive of the trust. Although the Finance Manager has performed the role on a temporary basis for governing body meetings since October 2012, the minutes for the governing body meeting on 28<sup>th</sup> November 2012 record that a clerk with the appropriate skill set should be appointed. **We recommend that an appropriate appointment is made promptly by the governing body.**
12. There was a lack of clarity regarding who was performing the role of Chair of the governing body. [REDACTED] [REDACTED] [REDACTED] was appointed Chair by governors at the meeting on 25<sup>th</sup> October 2012; however it does not appear that a Chair was formally in place between September 2011 and October 2012. [REDACTED] [REDACTED] was the Chair according to the free school prospectus, however no minutes record this appointment and he was not recorded as a director at Companies House. The governing body meeting in December 2011 recorded [REDACTED] [REDACTED] as Vice Chair. [REDACTED] [REDACTED] is still recorded on the academy website as Chair of Governors.
13. An appointment of an appropriate Responsible Officer (RO) has not been made. The requirement for independent assurance through the RO is a requirement (Section 3.1 [statutory audit] of the Academies Financial Handbook. Three RO reports have been completed, undertaken by a family relation of [REDACTED] [REDACTED]. This arrangement has now ended; [REDACTED] [REDACTED] [REDACTED] [REDACTED] has agreed to become RO for an initial period of three months until a suitable replacement is appointed however this does still not provide sufficiently independent assurance. **We recommend that the governing body appoints a permanent and appropriate RO as soon as possible.**
14. Section 3.1 [statutory audit] of the Academies Financial Handbook requires every academy trust to have in place a process for independent checking of financial controls, systems, transactions and risks. Trusts' may manage this programme of risk review in the way that they deem most appropriate to their circumstances; your preferred choice is via a Responsible Officer (RO). **Our best practice advice is for the governing body (or soon-to-be convened finance committee) to agree in advance a programme of checks to be performed by the RO.** This could include areas identified through the academy's formal risk management process, ie risk register, as representing the highest levels of risk to the academy (a formal risk management process is not yet in place).
15. The proposed Terms of Reference for the Finance and Resources Committee do not appropriately fulfil the functions of an Audit

Committee. It is a requirement of the Academies Financial Handbook (section 3.1, statutory audit) that every academy trust must establish either an Audit Committee or a committee which fulfils the functions of an Audit Committee. **We recommend that the governing body establishes an Audit Committee or a committee which fulfils the functions of an Audit Committee as soon as possible.**

16. Section 2.4 of the Academies Financial Handbook (financial monitoring and management) states that academy trusts' should have a policy on the acceptance of gifts, hospitality, awards, prizes or any other benefit which might be seen to compromise personal judgement or integrity. We understand that this is currently in the process of being developed. **We recommend that this is finalised and approved by the governing body as soon as possible. It then should be communicated to all governors and academy staff.**

### **Financial Planning**

17. Section 2.2 of the Academies Financial Handbook (financial planning) requires academies to prepare financial plans so as to secure their short-term and long-term financial health. Best practice adopted at other academies is for a three to five year long-term financial plan to be established. A five year financial plan has very recently been prepared, but has not as yet been presented to, and approved by, the governing body. **We recommend that a long-term financial plan should be presented to the governing body for approval.**
18. It was unclear from our review of the minutes whether the governing body were presented with, and approved, the academy's 2011-12 and 2012-13 annual budgets. This is a requirement set out in section 2.1 of the Academies Financial Handbook (financial oversight). **We recommend that the governing body approves future annual budgets and the approval is minuted.**
19. There is no evidence that the governing body (or Finance and Resources committee) has agreed procedures so that all significant in year amendments to budgets are properly notified to them for approval. **We recommend that appropriate procedures for approving variances to budgets are agreed with the governing body (or Finance and Resources committee).**
20. It is best practice for all academies to consider setting a policy on how cash balances will be managed and invested, ie how risk and return is assessed. **We consider this falls within Section 1.5 of the Academies Financial Handbook (roles and responsibilities of trustees of the academy trust) for safeguarding public funds and ensuring value for money, and you should implement such a policy.**

### **Internal Control**



21. Section 2.3 of the Academies Financial Handbook (internal control) requires all academies to have in place sound internal control and risk management processes, including arrangements for recognising, managing and tracking opportunities and risks, and giving consideration to their desired risk profile. There is currently no process in place for management and governors to identify, assess, and mitigate risk although we understand that [REDACTED] have been requested to facilitate completion of a risk register. **We recommend that the governing body ensures appropriate risk management policies are implemented as a matter of urgency.**
22. At most governing body meetings, but not all, any potential declaration of interest is clarified and recorded in the minutes. **We recommend that this occurs at every governing body meeting in future; and all sub-committee meetings likewise as a standing agenda item.**
23. A whistle-blowing policy is in place, but there is no evidence that it has been seen by, and approved by the governing body. **We recommend that this is presented to the governing body for approval at the next meeting.**
24. The governing body has approved many academy policies based on discussion alone, ie without sight of any documentation. This approach does not support the view that the governing body is exercising an appropriate level of scrutiny. As recommended in paragraph 11, the appointment of an effective clerk should help to address this issue. **We recommend that all documentation for which approval of the governing body is sought should accompany the agenda and be issued to members no less than a week before meetings take place, wherever possible. This would allow members to properly consider them and enable them to be sufficiently informed and able to comment appropriately at the meeting.**
25. Section 3.5 of the Academies Financial Handbook (investigation of fraud and irregularity) sets out in detail the Accounting Officer's personal responsibility in relation to the investigation of fraud and irregularity. These responsibilities extend to the prevention of loss through fraud and irregularity, and this means that academy trusts must be aware of the risk of fraud and irregularity to occur within their organisations and they must, as far as possible, address this risk in their internal control and assurance arrangements by putting in place proportionate controls. This should involve the approval and implementation of a fraud policy, which was not in place at the time the validation visit was conducted. **The governing body must approve and implement a fraud policy to meet the requirement of the Academies Financial Handbook.**
26. Section 2.3 of the Academies Financial Handbook (internal control) sets out a requirement that a contingency and business continuity plan

setting out what is needed to ensure the continued operation of the academy trust must be in place. There is no evidence that this exists. **We recommend that the Principal must ensure that a contingency and business continuity plan is completed, presented to the governing body for approval and a schedule of regular review established to ensure then plan is kept up-to-date.**

27. A form of Financial Procedures manual exists however it is a replication of the model provided in the original Academies Financial Handbook. As well as being out-of-date, no obvious work has been done to tailor the manual to reflect the actual processes in place. **We recommend that a Financial Procedures manual is completed by the Finance Director (when appointed), presented to the governing body (or Finance and Resources committee) for approval and then circulated to staff.**

### **Financial Monitoring**

28. Section 2.4 of the Academies Financial Handbook (financial monitoring and management) requires that academy trusts should receive financial reports at least termly; this has not occurred. **We recommend the governing body should receive management accounts at least termly.**

### **Proper and Regular Use of Public Funds**

29. Probity testing set out in the [REDACTED] report raises queries over the authorisation of invoices, missing supporting evidence for credit card purchases and other questionable practices such as taxi authorisations and purchase of stationery. **The governing body must ensure that all transactions include appropriate audit trails that demonstrate proper separation of duties, prior authorisation before a purchase is made; appropriate accounting treatment and the existence of proper checks and balances.**
30. Members who attended the governing body meeting on 25<sup>th</sup> October 2012 completed Declaration of Interest forms. The template is very basic and not comprehensive, for example it does not cover the interests of governors' close family members. There do not appear to have been any declarations completed covering the period from September 2011 to October 2012. Declarations of interest are an integral part of the governance process in an academy and are a mandatory part of the Academies Financial Handbook, section 2.5 (proper and regular use of public funds). **We recommend that the template is reviewed and all governors complete a declaration, including those newly appointed, and must be reviewed and updated where appropriate at least annually. The governing body may also wish to look into introducing a more comprehensive template covering the interests of family members.**

31. Although examples exist where a competitive tendering process has been followed prior to the awarding of a contract, we are not aware of the existence of a competitive tendering policy. This is a mandatory part of the Academies Financial Handbook (section 2.5, proper and regular use of public funds). **We recommend that a competitive tendering policy must be agreed by the governing body.**
32. The advice we provide to all academies on opening is to circulate the HM Treasury publication 'Guidance on Codes of Practice for Board Members in Public Bodies' to governors. This document can be readily downloaded from the HM Treasury website, failing that we can supply a copy. **We recommend that this document is circulated to all governors.**

The findings set out in this report will be shared with EFA and DfE colleagues as necessary and in line with our normal business practice.