



Education
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Financial management and governance review

Bursley Multi Academy Trust

November 2016

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Executive summary

1. In May and June 2016 the Regional School Commissioner (RSC) informed the EFA of information from a whistleblower alleging potential financial irregularities at Bursley Multi Academy Trust (BMAT). The EFA commissioned a financial management and governance review to resolve concerns.
2. On the 7 October the EFA were notified of the resignation of the Chair of Trustees, Chief Executive Officer and 1 other trustee (who was also a member) from their positions on the board.
3. Following initial background research, including a review of financial health, which did not raise any issues, a financial management and governance review was undertaken by EFA between 10 and 13 October 2016.
4. EFA findings did not identify any financial irregularity but did highlight a number of weaknesses and inadequacies in governance arrangements operated by the trust. Key findings of the review have confirmed:
 - breaches of the trust's Articles of Association. These mainly arise from the current situation relating to trustee resignation, representation of members and number of directors falling below the de minimis level
 - failure to comply with a number of requirements of the Academy Financial Handbook in relation to the appointment of senior staff, Board oversight of operations and risk identification and mitigation. A full list of breaches that were identified are contained in the main body of the report.
5. Other areas of concern identified included:
 - a lack of medium term financial planning and forecasting
 - no benchmarking of costs or monitoring of key performance indicators
 - inadequacies within financial procedures guidance

Background

6. BMAT consists of three primary schools: Bursley, Hollinsclough and Manifold. Bursley is the lead school. Bursley School converted in 2012 and was rated Outstanding at the time. It is an urban 3-11 primary with 330 pupils on roll. The Trust board included representatives from all three schools and the Church of England (CofE) Diocese of Lichfield.

7. Manifold is a small rural 3-11 CofE primary academy with around 40 pupils on roll (previously 56 in 14/15). Hollinsclough is a small rural 3-11 CofE primary academy with around 50 pupils on roll. Both schools were rated Good (September 2013 and January 2014 respectively – in all areas) when they converted to join BMAT in September 2015.

8. The DfE was notified from May 2016 of concerns from Hollinsclough and Manifold who raised a range of allegations covering incidents such as safeguarding issues, poor financial controls and a lack of support for the two schools. A number of meetings were held between the trust board and RSC in June and July 2016 in an attempt to resolve the governance issues highlighted by the local governing bodies in the trust.

9. A range of proposals were put forward by the RSC in order to address the breakdown in relations of the governance function of the trust, including a restructure of the board. A number of the proposals were accepted and implemented by the trust but a board restructure was rejected.

10. Allegations of potential irregularities relating to financial compliance, control and governance, conflict of interest, bullying and safeguarding were received from a whistleblower in May and June 2016. The allegations were triaged by the EFA to identify if further follow up action with the trust was required.

11. In view of the number and nature of financial issues and the significant leadership and governance issues, a financial management and governance review of the trust by EFA to review the documentation was negotiated to occur 10-13 October 2016.

Objectives and scope

12. The objective of the review was to seek assurances regarding financial regularity and the trust's compliance with the Academies Financial Handbook 2016 and its Funding Agreement.

13. 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. The visit included a review of the following areas:

- 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
- 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

Findings

14. Our review work included discussions with key personnel within the academy, consideration of trust policies and procedures and review of relevant documentation. The testing performed was aimed at identifying if the allegations made by the complainant warranted further action by the EFA as well as identifying weaknesses in internal controls.

15. Findings from the review identified a number of specific issues, including breaches of BMAT's Articles of Association, non-compliance with the Academies Financial Handbook and general 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.

Financial management and governance concerns

16. A related party transaction was entered into with a trustee for education consultancy services. The value of the transaction was below the £2,500 limit where the 'at cost' principle applies. Interviews with trust staff indicated that benchmarking of costs did take place, with the resultant charge being 30% less than market rates.

17. The acting Chair confirmed that the decision to procure the services of the trustee was undertaken verbally and were not documented in the minutes of the board. The Board must ensure that any future arrangements entered into with a connected party is fully documented in order to evidence that due process has been followed and that value for money has been achieved in relation to the transaction.

18. The scheme of delegation presented to the audit team was in draft although a review of the trust board minutes show that this has been ratified for use across the trust in June 2016. A review of the document in its current form indicated that it is not fit for purpose due to current breakdown in relations of the trust's governance function.

19. The trust has a range of central policies which includes finance, HR and admissions but these all are written from the perspective of the lead academy in the chain. Interviews with trustees and staff indicated that these have not been consistently applied across the MAT. All central policies must be reviewed by trustees with the aim of redrafting and applying in a consistent manner across the MAT.

20. Records covering the last financial year were reviewed and confirmed that internal control checks were performed on payroll, purchases, income, debit cards and the accounting system by the trust's independent internal audit function. The internal audit process involved sample testing of transactions and observation of controls being applied in a live environment to ensure control measures have been followed. No evidence was

found to indicate that the internal control checks were carried out without site visits as alleged by the complainant.

21. A review of trust documentation did not result in any issues being identified with the segregation of duties in the finance function. Payroll is duly signed by the principal of each academy and the finance staff. Purchases are signed off by two parties, the academy and the central finance function.

22. Interviews with the statutory auditor indicated they are aware of personal relationships between parties that have potential influence over the finance function and the tests they perform are geared to identify and test for this. The statutory auditor reported that they found no evidence in last year's audit of any attempt to circumvent controls that are in place.

Articles of Association

23. Breaches of BMAT Articles of Association were mainly owing to the current situation regarding resignation of governors, including:

- the Articles state that members appointed to represent the CofE cannot be less than the 25% of the total numbers, neither should their representation exceed this number. As there are currently 3 members of the trust, with one being a representative of the Church, their representation has risen to 33% of active members
- with the resignation of CEO and Chair of Governors, combined with earlier resignations, the number of directors at the time of the audit stood at 2. Article 101 requires that there are a minimum of 3 directors. With so few directors the board is not in a position to ensure robust governance and effective financial management of the trust's operations

Academies Financial Handbook

24. A number of procedural breaches and instances of non-compliance with the Academy Financial Handbook were identified during the course of the audit. The specific breaches are that:

- the trust currently has no senior executive in post due to the resignation of the CEO. The board of trustees of the academy trust must appoint, in writing, a senior executive leader who may, in accordance with the trust's articles of association, act as an ex officio trustee (*AFH 2016 s2.1.2*)
- the trust currently has no accounting officer. Each trust must designate, in writing, a named individual as its accounting officer. (*AFH 2016 s1.5.19*)

- the trust currently has no schedule setting out when their meetings will take place. The board and appropriate committees must meet at least three times per year and conduct business only when meetings are quorate (*AFH 2016 s2.1.3*)
- the board of trustees, and any separate committee responsible for finance, must receive and consider information on financial performance and take appropriate action to ensure ongoing viability. Due to the low number of directors on the board this function is not adequately being discharged. (*AFH 2016 s2.2.4*)
- the trust has no chief financial officer in post, with appropriate qualifications and/or experience (*AFH 2016 s2.1.9*)
- the trust currently has no investment policy despite forecasting their cumulative surplus to be £695,000 at year end. The funds are currently held in its current account; the trust should consider if this is the best place to hold their reserves (*AFH 2016 s2.2.8*)
- the trust has no business continuity plan (BCP) in place. (*AFH 2016 s2.3.8*)
- a review of the trust documentation did not show that the risks arising from its operations had been adequately assessed, nor did it have a MAT wide risk register in place (*AFH 2016 s2.3.7*)
- the trust has not published on its website all relevant business and pecuniary interests of its trustees and members (*AFH 2016 s3.1.16*)

25. A number of concerns were found within the financial procedures manual which will need to be rectified. Failure to clearly articulate procedural guidance may result in misunderstanding of requirements and poor control, leading to potential financial irregularities occurring. Specifically, the manual did not include:

- gifts and hospitality guidance
- information to clarify “at cost” requirements and procedures to deal with such transactions
- sufficient guidance surrounding counter fraud procedures
- delegated authority limits for the categories of transactions set out in the AFH are not included

26. Other weaknesses found during our review included:

- no medium term financial planning is undertaken to forecast future revenue and expenditure
- key performance indicators and benchmarking is not incorporated within the financial management information provided to the board
- inadequate clerking of the Governing Bodies. Our review of governing body minutes identified some quality issues and difficulty in tracking through the decision making of trusts boards

27. From interviews with trustees and staff, poor communication between the governance and management structures of the trust has been identified as a contributory

factor in the breakdown in relations, this has lead to the trust not acting as a joined up MAT. The trust should consider the implementation of a communications strategy designed to help trustees communicate effectively and meet core organisational objectives.

Conclusion

28. Following concerns raised with the EFA in relation to governance of BMAT a review of financial management and governance was undertaken to establish whether those concerns were valid. Review of the 2014-15 financial statements prior to our visit confirmed BMAT accounts were unqualified, there were no regularity issues and that the trust is in a relatively healthy financial position. Although our work on site did not identify any financial irregularity issues, it did confirm improvements are required to strengthen financial management and governance arrangements.

29. The resignation of a number of governors, including the Chair and CEO, has led to breach of the trust's compliance with their Articles of Association. We also identified a number of procedural weaknesses relating to governance arrangements and compliance with the Academy Financial Handbook. These issues need to be urgently addressed to ensure internal control arrangements within the trust are operating effectively and assure the safeguarding of public funds.

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



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