



Education
Funding
Agency

Dorrington Academy Trust

Investigation report

November 2015

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Executive summary

1. In January 2015, the Education Funding Agency (EFA) received anonymous allegations of financial irregularity/fraud at the Dorrington Academy Trust. The trust commissioned an independent investigation which concluded there was no substance to the allegations. Following receipt of the report, further allegations were received and the EFA followed-up the work of the independent investigator with its own investigation. This included a wider review of financial management and governance, including compliance with the trust's funding agreement and articles of association.
2. We are satisfied that there is no substance to the allegations. However, we consider some expenditure identified in our wider review to be novel or contentious in nature. This is due to the trust not having sufficient policies, assessments or governor minutes to demonstrate the benefits of incurring the expenditure.
3. Our review of financial management and governance found areas for improvement relating to financial management, financial controls and governance and we recommend the trust takes action to address them.

Summary Report

Background to the investigation

4. Dorrington Academy Trust (“the trust”) is a single academy trust and acquired academy status for Dorrington Academy on 1 June 2012. It caters for 692 primary aged pupils and in 2014 to 2015 had an EFA funding allocation of £2.56 million.
5. On 9 January 2015, the Education Funding Agency (EFA) received anonymous allegations against the trust. The trust commissioned an independent investigation and a report was provided to the EFA on 24 April 2015.
6. Following receipt of further similar anonymous concerns at the trust, a decision was taken by EFA to follow-up the work of the independent investigator with its own investigation into the allegations. This review would also consider wider financial governance including compliance with the trust’s funding agreement and articles of association. A team from EFA’s Risk Analysis Division visited the trust between 2 - 5 June 2015.

Objectives and scope

7. The scope of the EFA investigation was to review the allegations and to assess the adequacy and effectiveness of governance, risk management and control, including propriety, regularity, and value for money.

Investigation methodology

8. Work was undertaken in the following areas:
 - the trust’s independent investigation and findings
 - all relevant trust policies and procedures, particularly those pertinent to the allegations, including the financial procedures manual, scheme of delegation and the staff absence policy
 - relevant trust information, including Dorrington Academy 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
 - interview the chair of governors, the vice-chair of governors, the Office Manager and the clerical team, the senior leadership team and the Accounting Officer.

Main conclusions

9. A number of allegations were made against the trust but were found to be without substance and no action is necessary. However, our review of financial management and governance did reveal a number of weaknesses which the trust will need to address.

Financial management and governance

10. In addition to investigating the allegations, we reviewed financial management and governance.

Governing body and meetings

11. At the time of the investigation, the trust was in breach of their articles of association due to the board membership being made up of more than one third employees. There was also a majority of employees on the finance committee. Where decisions were taken at either the full board or finance committee meetings that could benefit those on the board, they did not remove themselves from the meeting. We conclude there is insufficient independence on the board or finance committee.

Financial management

12. The trust has not appointed a Chief Financial Officer (CFO), with the Accounting Officer stating she fulfilled this role. Delegation limits were high, with the Accounting Officer able to authorise expenditure up to £15,000, and with the Chair of Finance up to £35,000. Although it is for the trust to determine their own arrangements, our conclusion is the trust's delegation limits are too high before approval from or notification to the board is required.

Related party transactions

13. The trust has related party transactions with Accounting Officer's father who undertakes building-related work at cost for the trust. Quotes were not obtained for one project where the value of work exceeded £10,000, although the work was pre-approved by the trust board. The Accounting Officer did not remove herself from the meeting when the discussion and decision was taken. Therefore, the trust breached its own financial procedures and articles of association regarding the related party transactions with the Accounting Officer's father.

Friends of Dorrington Charity / school fund

14. The Friends of Dorrington Charity is effectively dormant with its bank account closed on 30 May 2013. The EFA is not the principle regulator for the charity, but as part of our investigation we found the charity bank account was effectively controlled and

used by the trust. In 2012, there were two payments made to the Accounting Officer that may not have been in line with the charitable objectives.

15. The school fund is a separate bank account under the control of the trust. It was not consolidated into the trust's financial statements and VAT was not recovered on eligible expenditure. Some expenditure did not meet the stated purpose of the fund (to provide equipment for the children). Decisions on when to use the fund are inconsistent and unclear with examples of income being received into the school fund and related expenditure charged to the main trust fund. The school fund has not been used with sufficient clarity or transparency, requires tighter controls to be introduced and for it to be consolidated with the main trust funds.

Recommendations

16. We recommend that the trust reviews the issues raised in this report and produces an action plan, approved by the full board, to address the findings and ensure:

- compliance with the funding agreement, articles of association and Academies Financial Handbook
- adequate internal financial controls are in place and are adhered to
- any expenditure that could be considered novel or contentious is carefully considered by the governors, including updating policies, documenting assessments of benefits and recording discussion and decisions in minutes. Where appropriate, Secretary of State approval must be obtained prior to committing to any expenditure which may be considered novel and contentious.

Annex A – Detailed findings

Financial management and governance

17. In addition to the allegations, our investigation also included a review of the trust's financial management and governance.

Governing body and meetings

18. The articles of association state that the board of governors should be made up of no more than one third employees. At the time of the investigation, just under half (47%) of governors were employees. Both the Accounting Officer and Chair of Governors acknowledged there were insufficient non-staff governors on the board and stated they would resolve this by September 2015.

19. The trust does not meet the criteria where a dedicated audit committee must be established and so instead must include the functions of an audit committee within an existing committee. However, the terms of reference for the finance committee do not include any reference to those of an audit committee. The finance committee is made up of 3 members of staff (including the Accounting Officer), the Chair of Finance and the chair of the governing body. The committee has delegated authority to authorise expenditure between £15,000 and £35,000.

20. The trust contracts with an external company to review and report on internal controls. The finance committee has not agreed a programme of work with the contractor, although standard control checks were being reported on. The latest report was discussed at the finance committee on 6th May 2015. There were 3 employees and the Chair of Finance present at the meeting. Minutes suggest the Accounting Officer led the discussion and governors authorised the trust response to the findings.

21. The trust's articles (6.8) states governors must be absent from the part of any meeting, and not vote, when there is a discussion that may provide any benefit to the governor. Staff governors have not removed themselves from meetings when discussions regarding direct or indirect benefits have taken place.

22. The trust has not held an Annual General Meeting (AGM) for period ending 31 August 2013 as required by its articles of association (19). In interview the Chair of Finance stated that there had been an AGM but couldn't provide any details for the meeting, any minutes or any evidence that an AGM had occurred.

23. There is no evidence that the governing body meeting received and approved the financial statements before submitting to the EFA. There were no governing body meetings within the period of the accounts being laid at the trust.

24. Minutes of meetings are not held in electronic format at the trust. A paper copy is retained at the trust and governors have copies individually. However, there is a risk that if records were destroyed there would be no official record of the governor meetings.

25. We conclude the trust has breached its articles of association and there is insufficient independence on the full board of governors or the finance committee.

Financial management

26. The trust has not appointed a Chief Financial Officer (CFO), and is therefore in breach of the Academies Financial Handbook. The Accounting Officer stated that she considered herself to be fulfilling this role.

27. The Accounting Officer has not delegated any budget responsibility to other senior leaders or class teachers and she has a delegated approval limit of £15,000. The Chair of Finance is required to approve expenditure between £15,001 - £35,000. The delegation limits set by the trust have led to most expenditure not being approved by anyone other than the Accounting Officer of Chair of Finance.

28. The Chair of Finance is frequently asked to provide guidance on operational finance matters and stated that he has a lot of financial expertise and provides advice for the office staff. He estimated that on average he visited the trust once or twice a week.

29. Although it is for the trust to determine their own arrangements, our conclusion is the trust's delegation limits are too high before approval from or notification to the board of governors is required.

Payroll

30. The trust outsources its payroll to an external contractor and the payroll report is authorised by the Accounting Officer. However, there have been payments made to individuals for work undertaken at the trust that have not been processed via payroll. For example, the Clerk to Governors is also employed as a Teaching Assistant and the payment for the clerk duties was made by cheque and not via payroll. Employer national insurance contributions have not been made.

31. Our scope did not include a detailed review of whether some individuals were correctly categorised as self-employed. To reach a conclusion will require the trust to seek professional advice to be satisfied that the payment treatment is correct.

Related party transactions

32. The trust had 2 related party transactions during 2013 to 2014 financial year which have both been declared in the audited financial statements. The larger transaction

relates to the Accounting Officer's father who has an agreement to undertake building-related work at the trust for a daily rate of £200. The trust has benchmarked this against another supplier that charges £230 per day and has a written declaration that the £200 includes no element of profit.

33. The trust financial regulations manual states that for any work with a value over £10,000, 2 quotes should be obtained. We found one example where the Accounting Officer's father undertook refurbishment and painting work with a value of £11,362 where there is no evidence of any alternative quotes being obtained.

34. Governor minutes dated 25 June 2014 evidence governors approving the Accounting Officer's father to undertake painting work. There is no evidence of the Accounting Officer removing herself from the discussion or decision and no pecuniary interests had been declared at the start of the meeting.

35. There is no documentary evidence of a budget for the work being agreed by governors and no evidence of a quote/estimate from the Accounting Officer's father as to how much the work was likely to cost.

36. The disclosure in the audited financial statements of the cost of work supplied by the Accounting Officer's father could not be agreed to a cost breakdown from the trust's financial records. For 2013 to 2014 financial year the audited financial statements disclose £21,804 of expenditure whereas the trust's ledger had £10,422. The audited financial statements for 2012 to 2013 financial year, which cover the period from opening, disclosed an amount of £33,654 whereas the ledger held £34,640, the difference being the omission of a single item of expenditure for £986.

Friends of Dorrington Charity

37. The Friends of Dorrington charity is listed as active on the Charity Commission website. The registered address is the same as the trust. We reviewed the bank accounts for the charity and confirmed their closure on 30 May 2013. Interviews with 2 of the 4 trustees that are still employed at the trust confirmed that the charity is effectively dormant and needs to be closed down.

38. Interviews with the trust's Chair of the Finance and 2 of the trustees of the charity suggest a lack of clarity and use over the funds, and a lack of understanding of the charity. For example, there was no evidence of any trustee meetings taking place and no evidence of an annual general meeting (AGM) taking place – although the Charity Commission annual returns had been submitted.

39. The chair of the finance committee authorised expenditure from the charity funds when he was not a trustee of the charity. Interviews suggest the trust governors considered the charity bank account as an extension to the school fund account and under their control.

40. In September 2012 a payment of £3,625 and in October 2012 a payment of £2,000 was made to the Accounting Officer by cheque from the charity. The first payment was for working during the preceding summer holiday period where the Accounting Officer invoiced the trust and the second payment was a performance management bonus. There was no documentary evidence that payments were authorised by any of the charity trustees; rather it was authorised by the chair of the trust's finance committee, although charity trustees signed the cheque. The payments were not processed via payroll and therefore employer national insurance contributions were not paid by the trust.

41. The EFA is not the principle regulator for the Friends of Dorrington Charity; however our conclusion is the charity funds have been controlled and used by the trust and sometimes for purposes that may not have met the charitable objectives.

School fund

42. During the 2013 to 2014 financial year, the school fund account received income of £22,933 and incurred expenditure of £17,925. It was not consolidated into the trust's audited financial statements. The external auditors raised the non-consolidation as part of the 2012 to 2013 audit. Interviews identified that the trust governors and leadership view the fund as more convenient to use for low value transactions and 'not public' in the way GAG funding 'is public' and therefore decided not to consolidate.

43. The fund is used for a variety of purposes including charitable fundraising, events (such as the summer and Christmas fetes), club income (such as breakfast, book and film), staff away days/away weekend/party, and equipment.

44. It is not clear why school fund is used for some income/expenditure rather than GAG. For example, the fuel for the minibus is paid from school fund rather than GAG and refunds from staff for personal taxis is paid into the school fund whereas the invoice from the taxi firm is paid from GAG. Of the 23 GAG account items tested, there were 4 instances where income was receipted into the school fund account but expenditure charged to the GAG account. This included 2 instances where income from the summer and Christmas school fetes was paid into school fund, but some expenditure charged to GAG (for example, the first prize in the raffle has been an ipad mini and the cost of the prize charged to GAG).

45. The income raised through the Snowdon charity fundraising event was accounted for through the school fund account however 2 items of expenditure on clothing and hotel expenditure specifically for this event were charged to GAG. The clothing has been retained by the trust to be used in the outdoor education area.

46. An extract from the trust website and prospectus states "During the school year, we have certain fund raising events to raise money for the school. All money raised is used to provide equipment for the children."

47. School fund income and expenditure is tracked during the year into discrete funds such as events, charity, and club income. However, the surplus funds at the end of each financial period are not carried over for each discrete fund but rather as a consolidated figure. The restricted nature of any of these funds for its predesignated purpose is therefore not maintained. It is very difficult to assess whether all surplus funds raised are being spent on equipment for children. However, a review of the spreadsheet indicates not all net funds raised have been spent on equipment for the children (for example expenditure on scales for the staff gym, kettle for management office, management meetings).

48. As the income and expenditure is not processed via the trust's finance system, VAT is not recovered which could equate to around £2,000 not being reclaimed each year (depending on whether expenditure incurs VAT at 20% or not, and whether the expenditure is eligible for VAT to be reclaimed).

49. Our conclusion is the school fund has not been used with sufficient clarity or transparency, requires tighter controls to be introduced and for it to be consolidated and audited with the main trust fund.

Annex B – Details of substantive testing

There were 23 purchase orders tested in total from the main GAG account. The table below provides details on the nature of the test, the sample tested and number of instances of failure across each test.

Value of purchase order	No of purchase orders tested	The number of fails in each test								
		A	B	C	D	E	F	G	H	I
Less than £10,000	13	4	2	2		13	13	8	13	9
Between £10,000 and £15,000	4				3	4	4	2	4	1
Between £15,000 and £35,000	4					4	4	2	4	1
Greater than £35,000	2				1	2	2		2	2
Total	23	4	2	2	4	23	23	12	23	13
% of sample with test fails		17%	9%	9%	17%	100%	100%	52%	100%	57%

Details of the test

- A Income and expenditure for this transaction is accounted for through the same account, whether that is the main 'GAG' account or the school fund account
- B Payments are made after the order and invoice have been received and approved.
- C Full evidence exists to support the nature, value, and timing of the expenditure.
- D Quotations received and tendering policy followed as per trust policies.
- E Internal orders raised by the budget holder (prior to the official finance order form).
- F Purchase orders signed and dated as approved.
- G Invoices marked with letters 'O', 'D', and 'I' to evidence Order has been processed, Delivery has been made, and Invoice has been raised.
- H Invoice is stamped and evidenced the following: PO, Cost Centre, Invoice entered by, Invoice authorised by, Chq no paid by, and date paid.
- I Invoice is dated and received after the purchase order.



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