



Education & Skills
Funding Agency

Financial management and governance review

Enquire Learning Trust

July 2017

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Executive summary

1. The Education and Skills Funding Agency (ESFA) visited The Enquire Learning Trust (ELT) in January 2017 as part of a programme of routine assurance visits to validate that financial management and governance arrangements within the Trust are compliant with the Academies Financial Handbook (AFH) and the Funding Agreement. The scope of the review included the trust central operations and the constituent academies. The review assessed that there was a good level of assurance over the financial management and controls within the individual academies. However, the review identified serious weaknesses in both financial controls and financial management and governance arrangements at the centre. It also identified a number of areas of non-compliance with the AFH.
2. Because of these findings, the routine assurance visit was halted and a formal financial management and governance review of the ELT central operations was undertaken between 13 and 17 March 2017.
3. The review identified a number of significant failings and weaknesses in governance arrangements that breach the AFH. Key findings have confirmed:
 - the trust is not following AFH guidance regarding adequacy of accountability, oversight and challenge at the trust. This is due to senior managers (including the AO) being employed off payroll through limited companies, a lack of contract management and oversight of the work of these key managers and concerns regarding finance and governance skill sets on the board
 - the trust has never had a specific contractual arrangement covering the role and responsibilities per the AFH, with the nominated AO. This breaches the AFH and HM Treasury's 'Managing Public Money' guidance
 - the financial information presented to the board of trustees lacks detail and does not give a trust level consolidated view of the overall financial position of the trust
 - the trust's engagement of a related party, Enquire Ltd, to provide leadership, management and school improvement services did not follow a proper procurement process in breach of the AFH, the trusts own procurement policies and EU procurement rules
 - the trust failed to disclose two instances of related party transactions in the 2015/16 financial statements in breach of the AFH and Charities SORP
 - Other disclosed related party transactions were understated
 - the financial control over purchasing by the central team, including the use of trust credit cards, is inadequate
 - the trust did not have a functioning audit committee and internal controls testing (responsible officer) was not independent

Background

4. Enquire Learning Trust (ELT) was incorporated on 3 May 2012 and entered into a funding agreement with the Secretary of State for Education in May 2013. The trust currently has 27 primary academies across 3 regional hubs based in the North East, Yorkshire and the Humber and the North West. Originally based in Durham, the trust central office relocated to Wakefield in September 2013.

5. At the time of signing the funding agreement, the trust also entered into a tripartite agreement with the Secretary of State for Education and the sponsor Enquire Ltd. The two directors of Enquire Ltd are also directors of ELT. The tripartite agreement allows Enquire Ltd to provide services to the trust providing these services are at cost and procured in compliance with the Public Contracts Regulations 2006 and the Secretary of State's guidance and policies, particularly those set out in the AFH and the funding agreement.

6. In January 2017, ESFA visited the trust as part of a programme of routine multi-academy trust (MAT) reviews that formed part of the 2016/17 assurance plan. The purpose of the visit was to conduct a financial management and governance review of the trust to validate compliance with the AFH. The review covered operations at the central office of the trust and visits to the following academies:

- Manchester Road Primary Academy
- Hawthorns
- Laceby Acres Academy
- Welholme Academy
- Southcoates Primary Academy
- Buckingham Primary Academy

7. The review found a good level of control and compliance at academy level but identified a number of significant weaknesses and non-compliances relating to the central trust operations. This resulted in a decision to halt the MAT review and initiate a formal financial management and governance review. This work was completed between 13 and 17 March 2017.

Objectives and scope

8. The objective of the review was to seek assurance that the trust's financial management, internal controls and governance arrangements are compliant with the AFH 2016 and its Funding Agreement.

9. 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. Work was undertaken in the following areas:

- all relevant trust policies and procedures, particularly those pertinent to financial management and financial controls, including the financial policy and scheme of delegation
- relevant trust information, including the Funding Agreement, governing body and relevant committee minutes, recruitment and payroll information, financial management information including bank statements, credit card statements and procurement documentation
- adequacy of trustee oversight and challenge
- the review covered all transactions since MAT incorporation and included interviews with key senior management at the trust and the Chair of the board of trustees

Findings

10. The review identified a number of specific issues including breaches of the AFH and significant weaknesses in governance arrangements.

Oversight, independence and challenge

11. The trust 2015/16 financial statements (FS) confirm the trust had 4 members and 7 trustees. Two of the trustees are also directors of the sponsor company Enquire Ltd and provide school improvement services to the trust. They are also engaged off payroll by the trust in senior management roles; CEO and Accounting Officer; and Director of Learning.

12. The 2015/16 FS also identify the 6 members of the trust senior management team (SMT). Of the 6 SMT members, 4 are currently employed off payroll; CEO, Chief Finance Officer (CFO), Director of Learning and the Strategic Lead for School Improvement. The CFO and Strategic Lead for School Improvement appointments are made on an annual basis through agreed letters of engagement approved by the board and signed by the CEO. The letters include a list of the tasks required of the role and an agreed payment. They do not include any objectives, performance targets or indicators, or termination clauses.

13. The CEO and the Director of Learning are engaged through the sponsor company Enquire Ltd. The engagement is to provide leadership, management and school improvement and is reviewed and approved annually by the board. There is no formal contract in place between the trust and Enquire Ltd for these services. There are no formal contracts in place with the individuals for the roles of CEO/AO and Director of Learning. In not formally designating in writing a named individual as its AO, the trust is in breach of AFH 1.5.19.

14. 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.

15. There is only limited oversight of these off payroll and service delivery arrangements by the board. Board minutes record that for the Enquire Ltd engagement the board are presented annually with the breakdown of the costs (daily rate and number of days only) and asked if they are happy to agree them for another year. Minutes record that trustees agreed that the costs are competitive and in line with the work which is carried out. For the appointment of the CFO and the Strategic Lead for School Improvement board minutes record only that trustees agree to continue with the appointments.

16. Discussions with the Chair of the Board highlighted a lack of knowledge of trustee responsibilities under statute, regulations and the funding agreement as required in AFH

1.5.11 – 1.5.13. Board minutes did not record the degree of challenge or oversight of the arrangements operating at senior levels within the central office that would be expected to assure trustees that arrangements complied with legal and regularity frameworks.

17. The trust does not have a separate finance committee and therefore financial oversight and management rest solely with the board. A review of board minutes identified that the CFO presents financial information to the board on a regular basis. However, the information was not presented at every meeting, was not in a consistent format and lacked detail. The CFO, who is not an employee of the trust, prepares and presents the information. There was no evidence that the work was reviewed prior to it being presented. The board are not presented with a consolidated current position or forecast for the trust. Information presented is at individual academy level with the exception of consolidated interim profit and loss and balance sheet statements. There is no 3 to 5 year consolidated forecast for the trust. The trust does not have a central finance system and therefore any consolidation requires manual intervention that increases the risk of data error.

18. The lack of financial expertise and challenge at trustee level in a MAT responsible for a total 2015/16 revenue funding of £32.6m 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 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.

19. A member of the central finance team currently provides The Responsible Officer function. This is a breach of AFH s2.4.9 that requires the function to be independent of the trust. The trust should review this arrangement to ensure that there is sufficient independent oversight of the internal controls operated by the trust.

20. The trust does not have an operational audit committee function in breach of AFH s2.4.2 that requires that trusts 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.

Procurement and related party transactions

21. AFH s3.1.12 confirms academy trusts must be even-handed in their relationships with connected parties by ensuring that there are measures to manage any conflict of interest. The AFH s3.1.13 states, “The board of trustees must ensure that the requirements for managing connected party transactions are applied across the trust. The chair of the board of trustees and the accounting officer (as senior executive leader) must ensure that their capacity to control and influence does not conflict with these requirements. They must manage personal relationships with connected parties to avoid both real and perceived conflicts of interest, promoting integrity and openness in accordance with the seven principles of public life.”

22. ELT has entered into three related party transactions with companies connected through common directorships and with an individual who holds office with ELT. These transactions must be handled in line with principles set out in AFH s3.1.11 to s3.1.20 and s3.2.

23. The trust currently purchases leadership, management and school improvement services from Enquire Ltd; the value of the services procured over the five years since the inception of the trust is £970,150. In addition, the trust has incurred high costs for hotels and overnight stays relating to school improvement and other residential events. As the 2 directors of Enquire Ltd are also trustees of ELT and engaged in senior management roles within the trust, this represents a significant related party transaction and conflict of interest for the trust. The tripartite agreement signed between ELT, Secretary of State for Education and Enquire Ltd, permits Enquire Ltd to provide services to the trust so long as services are provided at cost and comply with relevant procurement regulations.

24. The chair of the board confirmed no formal procurement process was undertaken in engaging the services of Enquire Ltd 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 and applied, and OJEU procurement thresholds are observed, failure to do so is a breach of AFH s3.1.3.

25. The ELT finance policy states that “for any transactions for goods and services involving connected parties a formal procurement process must be adopted to ensure transparency and probity regardless of the value”. It also confirms that “all services ordered with a value over £50,000 or for a series of contracts which in total exceed £50,000, must be subject to formal tendering procedures”. The arrangements with Enquire Ltd are therefore also a breach of the trusts own policy.

26. There is no formal contract in place between ELT and Enquire Ltd and no statement of assurance confirming that their charges do not exceed the cost of the services; this is a breach of AFH s3.1.14. There was no evidence of any formal contract or performance management arrangements over the delivery of the services provided by Enquire Ltd.

27. The trust are required to disclose all related party transactions. The FS record the transactions between ELT and Enquire Ltd in the relevant section however, the value of the transactions are understated as they do not include the hotel and other costs relating to the delivery of the service.

28. In August 2016, the trust purchased SEN services from one of the Members of the trust for the value of £3,500. There was no statement of assurance confirming that the charges do not exceed the cost of the services and the related party transaction was not disclosed in the 15/16 financial statements in breach of the AFH and the Charities SORP.

29. Transaction testing identified that between Oct 2015 and January 2017 the trust had incurred costs on trust credit cards of £2,916 relating to travel and subsistence and overnight stays in Plymouth. The review team were told that from October 2015 to date the trust has been providing school improvement and other support to Connect Academy Trust, a new multi-academy trust based in Plymouth and that all costs relating to this support would be recovered from Connect in July 2017. There was no evidence of a formal contract or agreement between the two trusts detailing the services to be provided or the costs incurred. Without a formal contract in place, this expenditure could be deemed irregular.

30. The CEO of ELT became a trustee of Connect on 20 May 2016, any transactions with Connect following this date therefore represent a related party transaction for both trusts. Although no payment has been received by ELT to date, the trust has provided details of the costs incurred during the period and for which payment from Connect is expected in July 2017. The total cost to date is £20,810 of which the following amounts were incurred in each financial year 15/16 £11,966, 16/17 to date £8,844. Connect is a new trust which opened in May 2016 and has yet to present its first financial statements. ELT did not disclose in its 15/16 FS the £5,117 related party transaction that occurred following the ELT CEO's appointment as a trustee of Connect and are therefore in breach of the AFH and the Charities SORP.

Financial management and control

31. The trust has in place a scheme of delegation, a finance policy and a range of other policies covering the management and control of the trust finances. The review identified that while these policies are implemented across the academies and largely complied with they are not applied to the central office operations. The review identified a number of non-compliances with trust policies in the administration, authorisation and levels of expenditure at the centre. Instances of a novel and contentious payment and irregular payments were also identified.

32. The trust finance policy requires that for purchases "a quotation or price must always be obtained before any order is placed; the authorised ordering officer must ensure that adequate funds are available from a suitable and approved budget; all orders must be made, or confirmed, in writing using an official order form and must bear the signature of the approved budget holder; the invoice will be authorised by two official nominated signatories".

33. There was no evidence that the trust central office complied with this policy. The review identified that purchases are made without evidence of prior authorisation and that payments are processed without appropriate supporting documentation and independent approval. The lack of segregation of duties and independent oversight of purchasing and payment arrangements at the centre increases the risk of inappropriate expenditure.

34. The 2 main finance officers are not employees of the trust. They routinely process invoices for their own services without any independent checks or evidence that services have been delivered. Invoices relating to other members of SMT who are engaged off payroll are processed without sufficient supporting information to determine what services have been delivered. Expenditure on trust credit cards is also being incurred by members of the SMT without any prior authorisation and in a number of instances without supporting receipts. A large proportion of this expenditure relates to hotel stays and subsistence costs. There was no evidence of prior authorisation of this expenditure to ensure that it was appropriate and required. There is a significant conflict of interest when the trust engages its senior management through external contracts, in 2 cases its own directors, and those same contractors determine their work and travel agendas without independent oversight and also approve 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.

35. The centre spends a substantial amount each year on hotel costs for residential training events and overnight stays. Sample testing of transactions for 14/15 and 15/16 identified that a significant number were above the limits specified in the trust expenses policy.

36. The majority of the SMT hold a trust credit card, including the 4 members of the SMT who are employed as contractors.

37. The trust finance policy states “all purchases made using a card must be authorised in the same way as any other purchase. Purchase receipts will be returned from card users to the Academy Business Manager as soon as is practically possible, who will reconcile receipts on a monthly basis against the statements and subsequently against the bank direct debit charge”.

38. The review found that expenditure at the centre on cards is incurred without any prior authorisation. The central team could not account for a substantial amount of spend on the cards as receipts had not been presented. Two months transactions were tested:

March 2016

Total spend across all credit cards = £3968.64

Total without receipts = £1538.06 (39%)

October 2016

Total spend across all credit cards = £3356.90

Total without receipts = £1009.75 (30%)

39. Testing of credit card transactions for the Director of School Improvement identified that expenditure had been incurred in relation to overnight stays and subsistence costs. The letter of engagement for this post however, specifies that the cost quoted in the letter is inclusive of expenses.

40. Novel payments are defined in the AFH s3.3.1 as those of which the academy trust has no experience or are outside the range of normal business activity for the trust; contentious payments are defined as those which might give rise to criticism of the trust by Parliament, and/or the public, and/or the media. Testing of a sample of transactions at the trust identified that in November 2015 the CEO authorised a payment of £649 for staff medical costs. This payment was outside of the terms and conditions for the post and was not approved by the board of trustees or the ESFA. The payment is deemed as novel and contentious and is a breach of AFH s3.3.1 that requires all such payments to be referred to the ESFA for explicit prior authorisation.

41. The trust made 2 separate payments, £720 in August 2015 and £690 in May 2016, relating to the valuation of the trust premises in Wakefield on behalf of the private pension funds of 2 of the trustees. These transactions were in relation to a proposal by the 2 trustees to purchase the building through their pension funds and lease it back to the trust. As such, they were private transactions between the individuals and the provider and should not have been paid from trust funds. These payments are therefore irregular.

Governance

42. A number of additional areas were noted where operations need to improve to ensure the trust is operating efficiently and fully complying with the regulatory framework.

43. The trust has made a start in centralising its procurement and contracting arrangements by entering into a number of centrally negotiated contracts, for example it has recently entered into a trust level contract for the catering provision across all academies. More needs to be done however to ensure that the centre are fully sighted on local contracting arrangements at each of the academies and are in a position to take advantage of the economies of scale presented by trust wide procurement.

44. The trust has no central register of contracts, therefore reducing its ability to consolidate its approach to procurement and 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.

45. 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. The trust currently does not have access to consolidated transactional information and therefore is not aware of the level of spend by individual academies with particular suppliers. An analysis prepared as part of this review would suggest that the level of spend across all academies with a number of suppliers may have breached procurement limits.

46. We had concerns that a wide range of suppliers and contracts were in use for the provision of IT services across the trust without a clear IT strategy being in place. We also

identified concerns regarding the control and safeguarding of assets. A number of valuable IT assets i.e. laptops and tablets had been issued to staff and contractors without any documentation or signed declarations from the individuals. There is currently no central record of all IT assets across the trust.

47. Our review of trust board minutes identified some quality issues and difficulty in identifying challenge and in tracking through the decision making of the board.

The trust uses a common financial system in each of its academies however, these are not linked into a central system. This makes the consolidation of financial/accounting information more difficult to achieve and reduces the level of oversight. We would strongly recommend that the trust move to a centralised solution as soon as is practicably possible.

Conclusion

48. A review of the 2015/16 financial statements prior to our visit confirmed ELT accounts were unqualified, there were no regularity issues and that the trust is in a relatively healthy financial position.

49. Our work on site identified a number of significant failings and weaknesses in financial management and governance arrangements that breach the AFH. The findings have been raised and discussed with senior management at the trust and the Chair of the board of trustees.

50. The trust has acknowledged that 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. They have recently constituted an audit committee and are working towards standardising the level of security and ICT infrastructure across the academies. They have also indicated that they will take steps to bring all senior staff onto the payroll and to regularise the procurement of school improvement services.

51. The trust must commit to undertaking these actions together with a full 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.



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