



Education & Skills  
Funding Agency

# **Financial management and governance review**

**Stratton Education Trust**

**November 2018**

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## Executive summary

1. Allegations were received by ESFA on 16 May 2018 in relation to Stratton Education Trust, (hereafter referred to as the trust). The allegations were wide ranging but raised concerns about financial management and governance arrangements at the trust. As a result, the Education & Skills Funding Agency (ESFA) commissioned a visit to assess the validity of those concerns.

2. The ESFA review identified a number of failings and weaknesses in financial management and governance arrangements that breach the Academies Financial Handbook (AFH) 2017 and the Academies Accounts Direction 2016/17, which validate the concerns raised. Key findings of the review have confirmed:

- weak controls exist in relation to procurement which breach Official Journal of the European Union (OJEU) regulations, the AFH and the trust's finance policy (paragraphs 10 to 24 refer)
- a lack of transparency in reporting governance arrangements and business interests on the trust's website and Get Information About Schools (GIAS) (paragraphs 25 to 36 refer)
- the trust's audit committee is not operating in line with AFH requirements (paragraphs 37 to 39 refer)
- value for money cannot be demonstrated over the failed recruitment exercise for the Director of Transformation post (paragraphs 40 to 45 refer)
- non-disclosure of severance payments in the 2016/17 audited accounts (paragraphs 46 to 47 refer)
- severance payments not being supported by a legal assessment or a business case justifying the payment (paragraphs 48 to 52 refer)
- non-disclosure of related party transactions in the 2016/17 audited accounts (paragraphs 53 to 55 refer)

## Background

3. The trust is a multi academy trust (MAT) which was formed in 2012 when Stratton Upper School and Gamlingay Village College became academies. However, Gamlingay Village College transferred to another trust in September 2017, leaving Stratton Upper School as the only school in the trust. Stratton Upper School has a capacity of 1320 pupils and in October 2017, it had 1069 pupils on the roll.
4. Ofsted last visited the trust in April 2018 and considered its overall effectiveness as requires improvement, recommending that an external review of the school's governance should be undertaken in order to assess how this aspect of leadership and management may be improved.
5. In May 2018, the ESFA received allegations relating to financial management and governance at the trust. As a result, an ESFA team undertook an on-site review of the allegations between 30 July and 1 August 2018.

## Objectives and scope

6. The objective of this review was to establish whether the concerns received by the ESFA were evidence based and in doing so, identify whether any non-compliance or irregularity had occurred with regard to the use of public funds. Specifically, the concerns related to:

- procurement
- governance arrangements
- recruitment
- staff pay and turnover
- severance payments

7. The scope of the work conducted by the ESFA in relation to the concerns, included assessing the adequacy and effectiveness of governance, risk management and control, including propriety, regularity, and value for money. In particular this included:

- review of relevant documentation, including governing body minutes and supporting policies
- testing of financial management information, specifically in relation to the allegations received
- interviews with key staff and trustees

8. In accordance with ESFA investigation publishing policy, (August 2014) the relevant contents of the report have been cleared for factual accuracy with Stratton Education Trust.

## Findings

9. Allegations were made in relation to governance arrangements, recruitment, staff pay, turnover, severance payments, and procurement. Our findings have upheld a number of these concerns and are detailed below.

### Procurement

10. The trust uses PS Financials as their accounting system which has in built controls in respect of purchase ordering, which if used correctly, provide an audit trail of the order being raised, the order being authorised, the goods being received and the invoice being authorised. However, from our sample testing, it was identified that it was common practise for orders to be raised on receipt of the invoice. This is not in line with the trust's finance policy, which states:

- 'Non-order invoices - Other than in exceptional circumstances goods and services should not be purchased without an official order. Records will be kept of instances of non-order invoices and those who do not comply will be asked to justify their non-compliance to the Internal Auditor and Director of Finance'

11. Whilst the trust's internal auditors have checked this process in May 2017 and April 2018, this issue has not been raised and there is no record of non-compliances being reported to them. Further specific findings in relation to procurement are listed below (paragraphs 12 to 24).

### Capital project

12. One of the allegations related to contracts for the trust's science block build being awarded without going to tender, that the project management contractors were not effective and that the project and the requirement for an independent audit of the processes was ignored and not recorded on the trust's risk register. Our review identified that:

- there is no evidence of any formal or informal procurement process being undertaken for the appointment of [REDACTED] to manage the tendering processes for the contractors used for the building of the new science block
- minutes of the full board on 20 May 2013, propose the appointment of [REDACTED], with no clear indication as to why the proposal was made
- a formal OJEU tendering process was undertaken to select both the architects and construction contractors for the project, which was managed by [REDACTED]
- there is also evidence that the board had challenged the performance of [REDACTED] and had agreed to retain their services, following a meaningful discussion

- the trust's 2016/17 risk register included a risk in relation to the project, with a risk score change history note stating 'confirmation required that the project is being independently audited' however, in response to this the register states 'no change to risk score but agreed at last meeting that no further action required'

13. The trust spent £281,505 with [REDACTED] over the period 30 August 2013 and 28 October 2015, who were appointed by way of recommendation, as proposed at the full board meeting of 20 May 2013. The trust therefore have failed to comply with their own finance policy, which states that:

- 'Orders/Contracts over the EU Threshold - Undertake a publicly advertised competitive EU tender process seeking a minimum of five tenders'

14. This is also a breach of the AFH at 3.1.3, which states that 'academy trusts must ensure that a competitive tendering policy is in place and applied, and Official Journal of the European Union (OJEU) procurement thresholds are observed'. The payments made to [REDACTED], exceed current OJEU thresholds for public contracts.

## High value transactions

15. We selected a sample of suppliers using an analysis of 2017/18 purchase ledger invoices to schedule all suppliers by spend. We selected 16 suppliers and [REDACTED] (separate test), by size and for specific types of supplier that may relate to issues in the allegations raised in respect of procurement. For each supplier, larger items were selected to total a sample of 20 invoices.

16. Our findings were that one invoice dated 12 September 2017 for £51,395.22 + VAT from [REDACTED] did not have a description of the items purchased but did have a purchase order reference. The details of the purchase order on the accounting system only referred to a quote number. The relevant quote could not be located during our visit. The trust's finance policy states in this respect that:

- 'All goods/services ordered with a value over £20,000, or for a series of contracts which in total exceed £20,000 up to £60,000 must be subject to formal tendering procedures. Formal quotation by sealed bid, opened in the presence of either the director of Operations or Director of Finance and the budget holder. At least three suppliers should be invited to quote'

17. The trust have failed to comply with their finance policy. Also, by committing trust funds without prior authorisation and not maintaining an audit trail of paperwork to support spending decisions and transactions, they cannot demonstrate compliance with the AFH, which states at, 2.3.2 'The academy trust must establish a control framework that recognises public expectations about governance, standards and openness. 2.3.3 The trust's internal control framework must include':

- ensuring that delegated financial authorities are respected

18. Also of 2.2.4, which states that ‘the board of trustees, and any separate committee responsible for finance, must ensure good financial management and effective internal controls’ are in place.

## Mobile phone bills

19. The trust have four mobile phones through [REDACTED], three of which are SIM only and the other is pay monthly. We reviewed the invoices paid in the current year in respect of the mobile phones, our findings were:

- all invoices are in the name of [REDACTED] c/o Stratton Upper School
- the bills for the pay monthly phone contain excess charges over and above the contracted allowance
- none of the invoices are itemised
- purchase orders have been raised in receipt of the invoice
- invoice 15423 is for the Saturday delivery of an iPhone 8 +, which was also invoiced and paid for on another bill resulting in a duplicate payment
- the incorrect amount had been posted for one invoice and had been posted to the ledger

20. The trust cannot demonstrate compliance with the AFH, which states at 2.3.3 ‘The trust’s internal control framework must include:

- applying discipline in financial management, including managing banking, debt and cash flow, with appropriate segregation of duties’

## Petty cash

21. The petty cash file for financial year 2017-18 was reviewed and the majority of transactions were for reimbursing staff who had purchased catering and food tech items. However, we did identify that one claim form for £100, with no date of claim but a date of purchase of 4 December 2017, for prize giving catering, had no receipts attached to it.

22. Failing to retain paperwork in support of transactions is further evidence of non compliance with the AFH 2.3.2 and 2.3.3.

## Charge card

23. We reviewed the current year’s statements (2018) for the two charge cards held by the trust and noted that all transactions have a charge card authorisation form, which has been completed and signed. However we did identify that:

- one card is in the name of a person who no longer works for the trust



- one transaction was for a payment to [REDACTED] for £307.50 for an invoice dated 14 March 2018, with payment due date of 30 March 2018. The bill was paid on 10 May 2018, due to the threat of disruption to service
- the May statement, with April transactions, is missing from the file and is recorded as such

24. Failing to notify the bank that there has been a change in charge card holder and failing to pay a utility bill on time and resorted to paying it via a charge card, are further evidence of non compliance with the AFH 2.3.2, 2.3.3 and 2.2.4.

## Governance arrangements and structure

25. Prior to our visit, we reviewed the governance structure in operation at the trust as identified in the 2016/17 audited accounts. This was compared to records on the trust's website, Companies House and Get Information about schools (GIAS). We identified a number of anomalies, including:

- from the original signatories of the trust's articles, 2 members remain, one of which is the chair of trustees, the other, a local governing body governor

26. The trust are therefore in breach of their Articles of Association, which state that the members of the company will be:

- 'the signatories of the memorandum, of which there were four, plus
  - up to six others to include the chair of directors, the principal, the chair of the finance committee and the chairs of committees no longer in operation'

27. This is not in line with the current model articles, which do not allow members to be employees, therefore the principal would not be permitted to be a member.

28. The AFH states in this respect that the Department's minimum requirement before entering into a funding agreement is that academy trusts have at least 3 members, although the Department's best practise recommendation is for trusts to have at least 5 members wherever possible.

29. It further states, the Department's view is that the most robust governance structures will have a significant degree of separation between the individuals who are members and those who are trustees. If members also sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's recommendation is for a majority of members to be independent of the board of trustees.

30. The 2016-17 audited accounts do not differentiate between members and trustees, which is not in line with the accounts direction 2016-17 model financial statements,

reference and administrative details, which states, the information on this page must be included if relevant.

31. The trust have not been transparent in reporting their governance structure.

- the trust have not provided all of their governance information to GIAS
  - none of the current trustees are listed on GIAS
  - none of the former trustees are recorded on GIAS
  - the former headteacher is listed as the current headteacher
- Companies House records are not up to date
  - the former headteacher is still listed as a current trustee
  - the former chief financial officer is still listed as the company secretary

32. This is a breach of AFH 4.7.4, which states that the trust must notify DfE of the appointment or vacating of the positions of: member, trustee and local governor, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer, including direct contact details within 14 days of that change. Notification must be made via GIAS. The trust must ensure that its record on GIAS for all individuals holding the above positions remains up to date.

33. GIAS states in this respect, that all maintained school governing bodies and academy trusts have a legal duty to provide all of the governance information requested on this page in so far as it is available to them. This will increase the transparency of governance arrangements. It will enable schools and the department to identify more quickly and accurately individuals who are involved in governance, and who govern in more than one context.

34. The trust have not kept their website up to date in respect of governance structure and declaring business interests.

- the trust's website states that there is a board of trustees and a local governing board only, no members are listed
- the dates of appointment for each trustee have not been recorded
- 3 trustees have business interests which have not been declared on the trust's website
- the former headteacher is still listed as a trustee
- the register of interests is dated 2016/17
- declaration of interest forms were not on file for one current and one recently resigned trustee

35. This is a breach of the AFH, which states at 2.5.2 that in the interests of transparency, an academy trust must publish on its website up-to-date details of its governance arrangements in a readily accessible format. This must include:

- for each member who has served at any point over the past 12 months, their full names, date of appointment, date they stepped down (where applicable), and relevant business and pecuniary interests including governance roles in other educational institutions
- for each trustee and local governor who has served at any point over the past 12 months, their full names, date of appointment, term of office, date they stepped down (where applicable), who appointed them (in accordance with the trust's articles), and relevant business and pecuniary interests including governance roles in other educational institutions. If the trust's accounting officer is not a trustee their relevant business and pecuniary interests must still be published

36. This is also a breach of the AFH at 3.1.19, which states that boards of trustees should keep their register of interests up-to-date through regular review. In addition, this is also a breach of 3.1.20, which states that trusts must publish on their websites relevant business and pecuniary interests of members, trustees, local governors and accounting officers.

## **Audit and risk committee**

37. The trust has an audit and risk committee. Our review of the minutes for this committee, identified that:

- whilst there was evidence that the trust's risk profile was being discussed, there wasn't always a clear indication of why risks were either removed or 'greyed out' from the register
- the minutes contained no records of discussions around internal controls, external audit findings and agreeing a programme of work to address internal control risks
- the trust board minutes do not demonstrate that assurances to the board have been provided

38. This is a breach of the AFH, which states at 2.4.4 that the committee's work must focus on providing assurances to the board of trustees that all risks are being adequately identified and managed with particular regard to:

- reviewing the risks to internal financial control at the trust
- agreeing a programme of work to address, and provide assurance on, those risks

39. Also of 2.4.7, which states that the outcome of the committee's work should inform the governance statement that accompanies the trust's annual accounts and, so far as is possible, provide assurance to external auditors.

## Director of Transformation/Chief Financial Officer

40. Allegations were made in respect of the use of an agency to recruit a senior trust officer and that costs were incurred when the post was not filled. The post, was designated the 'Director of Transformation' (DoT). Our review identified that during the latter half of 2016, that the agency ██████████ was approached as a head-hunter to find a suitable candidate for the newly designated DoT role. The approach was made to this company as it had been used by one of the trustees in the past, and not through any market testing process.

41. ██████████ was paid a total of £20,000 +VAT and candidate's expenses but no proper procurement process was followed. It was noted that the invoices were addressed to the trust chair, at the trust address. The system shows that purchase orders were raised after receipt of the following invoices:

- 31 October 2016 - retainer fee £8,000 [no authorising signature on the invoice]
- 30 December 2016 - shortlist fee £8,000, authorised by the previous CEO
- 22 March 2017 - cancellation fee £4,000; £267.22 consultant and candidate travel expenses, authorised by the previous CEO

42. A candidate was interviewed and offered the DoT position but the offer was not accepted, no other candidates were approached with an offer. Value for money in respect of this exercise cannot be demonstrated. The AFH states at 1.5.22, that the role of accounting officer includes specific responsibilities for financial matters. It includes a personal responsibility to Parliament, and to ESFA's accounting officer, for the financial resources under the trust's control. Accounting Officers must be able to assure Parliament, and the public, of high standards of probity in the management of public funds, particularly:

- value for money – this is about achieving the best possible educational outcomes through the economic, efficient and effective use of resources. A key objective is to achieve value for money not only for the trust but for taxpayers generally.

43. The trust subsequently began another recruitment exercise for a senior finance post. Following an advert in the press, two people were interviewed on 3 October 2017. One person was offered the post and was appointed from 13 November 2017, only to give notice of resignation in a letter dated 10 January 2018. Her last working date was 19 January 2018.

44. The trust does not now have a permanent senior finance officer/chief financial officer (CFO); the post is being covered by an agency employee, who was appointed in January 2018 but was not approved by the board. We understand that this is only a temporary arrangement, pending the recruitment to post on a permanent basis. However, it is a requirement of the AFH at 2.1.10 that academy trusts must have a CFO, appointed by the trust's board, who is the trust's finance director, business manager or equivalent,

to lead on financial matters. The CFO should play both a technical and leadership role, including ensuring sound and appropriate financial governance and risk management arrangements are in place, preparing and monitoring of budgets, and ensuring the delivery of annual accounts.

45. The AFH also states at 3.1.22 that 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. Failure to comply with these requirements can result in a fine by HM Treasury. The review recommends that, the most senior staff should be on the payroll, unless there are exceptional temporary circumstances. Temporary in this case, meaning no more than 6 months. The post of chief financial officer is considered a senior post. The trust is therefore at risk of incurring a fine, should they continue with this arrangement.

## Severance payments

46. The trust's externally audited financial statements declare the following in the staffing notes in respect of severance payments:

- 2014/15: nil
- 2015/16: nil
- 2016/17: £30,000

47. We reviewed the records held for severance payments made during 2017/18 and identified that a total of £66,306 was not declared in the 2016/17 accounts. The payments were not made until September 2017 but provision for the payments should have been made in the FY 2016-17 accounts.

48. The total paid in September 2017 was £96,306, which relates to payments made to six staff who were made redundant. Of these payments, four were confirmed as being contractual and above statutory requirements, Amounts were calculated in line with the Central Bedfordshire Redundancy and Restructure policy which states:

- "A week's pay is that which the employee is entitled to under his or her terms of the contract at the 'calculation date'. The 'calculation date' is the date on which the school gives the employee notice of dismissal on the grounds of redundancy. If the pay varies (e.g. through supply work), the amount of the week's pay is averaged over the 12 weeks prior to the 'calculation date'"

49. However, we identified that two of the payments made did not match the calculations provided. One person was underpaid £991 and another was paid £10,237 more than their assessed payment. Further enquiries established that whilst the

underpayment could not be explained, the additional payment was made as a result of negotiations and was non-contractual.

50. The AFH para 3.7.4, states that the trust must have considered the following issues before making a binding commitment:

- that trustees reasonably consider the proposed payment to be in the interests of the trust
- whether such a payment is justified, based on a legal assessment of the chances of the trust successfully defending the case at employment tribunal. If there is a significant prospect of losing the case then a settlement may be justified, especially if the costs incurred in maintaining a defence are likely to be high. Where a legal assessment suggests that the trust is likely to be successful, then a settlement should not be offered
- if the settlement is justified, the trust would then need to consider the level of settlement. This must be less than the legal assessment of what the relevant body (e.g. an employment tribunal) is likely to award in the circumstances

51. AFH para 3.7.7 states that academy trusts should demonstrate value for money by applying the same level of scrutiny to a payment under £50,000 as if it were over the £50,000 delegation and have a business case justifying the level of settlement reached. Settlements must not be accepted unless they satisfy the conditions in this handbook and in ESFA's guidance and submission template.

52. Whilst the trust have informed us that that the payment was made in the best interests of the trust, they have also confirmed that no legal advice was sought over the matter and that there is no business case to support the payment.

## **Related party transactions**

53. The former headteacher of the trust is also a trustee at another academy. During 2016/17, the trust spent £63,000 with this academy for alternative provision. No related party transactions (RPTs) were declared in the 2016/17 financial statements. Over £7,000 has been spent with the academy in 2017/18, for the same provision. This is standard rate grant funded provision, which does not fall within the goods and services 'at cost' requirement. However, in the interests of transparency, the 2016/17 transactions should have been recorded in the RPT note of the audited accounts. The transactions in the current year should be declared in the RPT note for the 2017/18 accounts.

54. The academies accounts direction 2016-17 also states at 7.6.1:

- FRS 102 requires all transactions with related parties to be disclosed in accounts so that users of the accounts can gain a full understanding of them, and of issues that might have influenced them. Disclosure provides accountability and

transparency to the public and demonstrates that potential conflicts of interest are being identified and reported

55. 7.6.2 of the Charities SORP states that the disclosure of related party transactions is an important element of transparency in financial reporting because:

- related parties may enter into transactions that unrelated parties would not
- transactions between related parties may not be made at the same amounts or on the same terms as those between unrelated parties
- the existence of the relationship may be sufficient to affect the transactions of the charity with other parties

## Conclusion

56. A number of significant findings and breaches of the AFH have been identified, including weak internal controls in respect of procurement, a lack of transparency in respect of reporting governance arrangements and non-disclosure of severance payments and RPTs in the audited accounts.

57. The trust needs to take urgent action to resolve the issues, including greater consideration given to the robustness of financial management and governance arrangements by the board. Annex A includes a table of findings, breaches of frameworks and specific recommendations for the trust.



## Annex A – findings, breaches and recommendations

The following table lists the review findings, breaches and specific recommendations for the issues.

	Finding	Breach of AFH / framework	Recommendation
<b>Procurement</b>			
1	Value for money cannot be demonstrated through procurement practises in operation.	This is a breach of the AFH, which states at 3.1.3 that academy trusts must ensure that: <ul style="list-style-type: none"> <li>• spending decisions represent value for money, and are justified as such</li> </ul>	The trust must ensure that they can demonstrate that spending decisions represent value for money and can be justified as such.
2.	Non-compliance with Official Journal of the European Union (OJEU) procurement threshold requirements	This is a breach of the AFH which states at 3.1.1 that academy trusts must ensure that a competitive tendering policy is in place and applied, and Official Journal of the European Union (OJEU) procurement thresholds are observed.	The trust must ensure that spending decisions are made in line with their finance policy and that EU procurement threshold requirements are observed and complied with.
3.	Non-compliance with the trust's finance policy in respect of obtaining quotes.	Non-compliance with the trust's finance policy.	The trust should ensure that it complies with its finance policy. It must also ensure that it obtains and retains quotes in support of spending decisions.
4.	Weak internal controls, demonstrated by: <ul style="list-style-type: none"> <li>• committing trust funds without prior authorisation</li> </ul>	The trust have failed to comply with their finance policy and the AFH, which states at 2.3.2: The academy trust must establish a control framework that recognises	The board of trustees must take urgent action to address the weaknesses in internal controls.

	<b>Finding</b>	<b>Breach of AFH / framework</b>	<b>Recommendation</b>
	<ul style="list-style-type: none"> <li>• failing to maintain an audit trail of paperwork to support spending decisions and transactions</li> <li>• failing to notify suppliers of the correct legal entity for invoicing purposes</li> <li>• paying twice for a delivery charge</li> <li>• not maintaining control over excess phone charges sufficiently to determine if personal usage has occurred</li> <li>• posting an incorrect invoice amount to the ledger</li> <li>• failing to notify their bank that there has been a change in charge card holder</li> <li>• failing to pay a utility bill on time and resorted to paying it via a charge card</li> </ul>	<p>public expectations about governance, standards and openness. 2.3.3 The trust's internal control framework must include:</p> <ul style="list-style-type: none"> <li>• applying discipline in financial management, including managing banking, debt and cash flow, with appropriate segregation of duties</li> <li>• ensuring that delegated financial authorities are respected</li> <li>• Also with 2.2.4, which states that the board of trustees, and any separate committee responsible for finance, must:</li> <li>• ensure good financial management and effective internal controls</li> </ul>	
<b>Governance arrangements and structure</b>			
5.	The current membership structure of the trust is not clear and potentially not in line with trust articles and recommendations.	The AFH states that trusts should have a minimum of three members, and recommends that they should have at least five, wherever possible.	The trust should confirm its actual membership structure and ensure that its website and GIAS are updated accordingly.

	<b>Finding</b>	<b>Breach of AFH / framework</b>	<b>Recommendation</b>
			In addition, the trust should consider the recommendation to have at least five members wherever possible.
6	<p>The trust have not provided all of their up to date governance information to GIAS.</p> <p>Companies House records are also not up to date.</p>	<p>This is a breach of the AFH, which states at 2.5.2, in the interests of transparency, an academy trust must publish on its website up-to-date details of its governance arrangements in a readily accessible format.</p> <p>This is also a breach of the AFH at 3.1.20, which states that trusts must publish on their websites relevant business and pecuniary interests of members, trustees, local governors and accounting officers.</p> <p>In addition, of 4.7.4, which states that the trust must notify DfE of the appointment or vacating of the positions of: member, trustee and local governor, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer, including direct contact details within 14 days of that change. Notification must be made through GIAS. The trust must ensure that its record on GIAS for all individuals holding</p>	<p>The trust must publish all relevant business and pecuniary interests of members, trustees, local governors and accounting officers on their website.</p> <p>In addition, for each member and trustee who has served at any point over the past 12 months, their full names, date of appointment, date they stepped down (where applicable), and relevant business and pecuniary interests including governance roles in other educational institutions.</p> <p>The trust must also notify DfE of the appointment or vacating of the positions of: member, trustee and local governor, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer, including direct contact details within 14 days of that change. Notification must be made through GIAS. The trust must ensure that its record on GIAS for all individuals holding the above positions remains up to date.</p>

	Finding	Breach of AFH / framework	Recommendation
		the above positions remains up to date.	
<b>Audit committee</b>			
7.	Audit committee minutes do not demonstrate that the committee are fulfilling the functions as required by the handbook.	<p>This is a breach of the AFH, which states at 2.4.4 that the committee's work must focus on providing assurances to the board of trustees that all risks are being adequately identified and managed with particular regard to:</p> <ul style="list-style-type: none"> <li>• reviewing the risks to internal financial control at the trust</li> <li>• agreeing a programme of work to address, and provide assurance on, those risks</li> <li>• Also of 2.4.7, which states that the outcome of the committee's work should inform the governance statement that accompanies the trust's annual accounts and, so far as is possible, provide assurance to external auditors.</li> </ul>	The trust must ensure that their audit committee members have the necessary skills and expertise to demonstrate that internal scrutiny, which delivers objective and independent assurance has been achieved.
<b>Chief financial officer</b>			

	<b>Finding</b>	<b>Breach of AFH / framework</b>	<b>Recommendation</b>
8.	The trust does not now have a permanent chief financial officer (CFO); the post is being covered by an agency employee, whose appointment was not approved by the board. We understand that this is only a temporary arrangement, pending the recruitment to post on a permanent basis.	Having a CFO is requirement of the AFH at 2.1.10. The AFH at 3.1.22 refers also to an HM Treasury review, which recommends that, the most senior staff should be on the payroll, unless there are exceptional temporary circumstances. Temporary in this case, meaning no more than six months. The post of chief financial officer is considered a senior post.	The trust must consider HM Treasury's recommendation that the most senior staff should be on the payroll unless there are exceptional temporary circumstances. Temporary in this case, meaning no more than six months.  The trust should also be aware that continuing with this arrangement could result in a fine from HM Treasury, which should therefore be accounted for.
<b>Severance payments</b>			
9.	The trust did not ensure that a provision was made in their 2016-17 audited accounts for the severance payments made in September 2017.	This a breach of the AFH, which states that trusts must take full control of their financial affairs, applying the letter and the spirit of this handbook, and ensuring appropriate oversight of financial transactions by: <ul style="list-style-type: none"> <li>preparing accruals accounts, giving a true and fair view of the trust's use of resources, in accordance with existing accounting standards</li> </ul>	The trust must ensure that adequate records are maintained, to ensure that their accounts can be prepared in accordance with accounting standards and give a true and fair view of the trust's use of resources.
10.	Two of the severance payments made did not match the calculations provided. One person was underpaid £991 and another was paid £10,237 more than their assessed payment.	The trust is not fully compliant with the AFH, which states at 3.7.4, that they must have considered the following issues	The trust must ensure that severance payments are justified, based on a legal assessment of the chances of them successfully defending the case at employment tribunal.

	Finding	Breach of AFH / framework	Recommendation
	<p>Further enquiries established that whilst the underpayment could not be justified, the additional payment was made as a result of negotiations and was non-contractual.</p> <p>Whilst the trust have indicated that the payment was made in the best interests of the trust, they have confirmed that no legal advice was sought over the matter and that there is no business case to support the payment.</p>	<p>before making a binding commitment:</p> <ul style="list-style-type: none"> <li>• whether such a payment is justified, based on a legal assessment of the chances of the trust successfully defending the case at employment tribunal. If there is a significant prospect of losing the case then a settlement may be justified, especially if the costs incurred in maintaining a defence are likely to be high. Where a legal assessment suggests that the trust is likely to be successful, then a settlement should not be offered</li> <li>• if the settlement is justified, the trust would then need to consider the level of settlement. This must be less than the legal assessment of what the relevant body (e.g. an employment tribunal) is likely to award in the circumstances</li> </ul> <p>Also of 3.7.7, which states that academy trusts should demonstrate value for money by applying the same level of scrutiny to a payment under £50,000 as if it were over the</p>	<p>Also that they are supported by a business case, justifying the level of settlement.</p>

	Finding	Breach of AFH / framework	Recommendation
		<p>£50,000 delegation and have a business case justifying the level of settlement reached.</p> <p>Settlements must not be accepted unless they satisfy the conditions in this handbook and in ESFA's guidance and submission template.</p>	
<b>Related party transactions</b>			
11.	<p>The trust did not declare transactions in their 2016/17 audited accounts, with the academy that the former headteacher was a trustee at, as related party transactions.</p>	<p>The academies accounts direction 2016-17 states at 7.6.1:</p> <ul style="list-style-type: none"> <li>• FRS 102 requires all transactions with related parties to be disclosed in accounts so that users of the accounts can gain a full understanding of them, and of issues that might have influenced them. Disclosure provides accountability and transparency to the public and demonstrates that potential conflicts of interest are being identified and reported.</li> <li>• 7.6.2 The SORP states that the disclosure of related party transactions is an important element of transparency in financial reporting because:</li> </ul>	<p>The trust must be able to demonstrate that goods or services provided by individuals or organisations connected to the trust are provided at no more than cost beyond the limits specified in the handbook.</p> <p>Also, that no member, trustee, local governor, employee or related individual or organisation uses their connection to the academy trust for personal gain.</p> <p>Further, that FRS 102 reporting requirements have been complied with.</p>

	Finding	Breach of AFH / framework	Recommendation
		<ul style="list-style-type: none"><li>○ related parties may enter into transactions that unrelated parties would not</li></ul>	





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