



Education & Skills
Funding Agency

Financial management and governance review

Woodfield School

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Executive summary

1. Multiple concerns were received on 24 April 2018 in relation to Woodfield School, (hereafter referred to as the trust), raising concerns about financial management and governance. As a result, ESFA commissioned a financial management and governance review of the trust which took place from 25 to 27 June 2018.

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, the accounts direction, the charities SORP and potentially tax legislation. These also validate the concerns raised. Key findings of the review have confirmed:

- in relation to **procurement** practises, non-compliance with the at cost requirements and the trust's scheme of delegation (paragraphs 11 to 17 refer)
- failure to declare **related party transactions** with the former chair's limited company in the audited accounts, as required by the accounts direction in relation to disclosure of material transactions with related parties and the Charities SORP relating to the disclosure of the remuneration and benefits received by charity trustees (paragraphs 18 to 21 refer)
- the trust engaged the services of two consultants, one from 2013/14 and the other from 2014/15 to July 2018. One of which held the role of **chief financial officer (CFO)** off-payroll, between 1 December 2015 and 26 June 2018, as well as being appointed as the chair of trustees and a member of the resources committee (paragraphs 22 to 24 and 31 to 34 refer)
- the trust have not reported their current **governance arrangements and structure** on their website and Get Information about Schools (GIAS) (paragraphs 25 to 30 refer)
- the trust's **register of interests** has not been kept up to date (paragraphs 35 and 36 refer)

Background

3. Woodfield School is a special school that converted to an academy in April 2014. It has the capacity for 176 pupils, with approximately 157 currently on roll. The single academy trust is in the process of becoming a multi academy trust which will include the Village School. The Village School is an all through special school which is currently local authority maintained and also located in the London borough of Brent.
4. Ofsted last visited the trust in January 2017 and considered its overall effectiveness as outstanding, with a strong and effective leadership team being noted.
5. In April 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 from 25 to 27 June 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:

- consultancy services provided to the trust
- the role of a consultant who was the chair of trustees, a member of the finance committee and chief financial officer

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. 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 Woodfield School.

Findings

9. Allegations were made in relation to £240,000 of payments being made to a consultant (through [REDACTED]) who had also been:

- the chair of trustees, between 8 June 2015 and 2 October 17
- a member of the finance committee, between 10 November 14 and 2 October 2017
- CFO, between 1 December 2015 and 26 June 2018

10. We identified that the trust appointed the services of two consultancy companies [REDACTED] and [REDACTED] to cover various finance and HR tasks, initially for a period of time when the then bursar (school business manager) was on sick leave. The issues we identified in relation to these appointments are detailed below.

Procurement

11. The current executive headteacher confirmed in writing, prior to the start of our review, that there was no evidence that the trust had carried out a best value/procurement exercise in relation to the initial appointment of [REDACTED]. Our investigation identified no evidence that the trust followed a proper procurement process; the previous headteacher made a direct appointment and informed the board after the assignment had started, as confirmed by a review of board meeting minutes. The current executive headteacher could not determine how the services of [REDACTED] were procured. The current executive headteacher understood that this consultant appears to have been introduced to the trust by [REDACTED], to undertake HR and finance duties.

12. The AFH sets out the financial freedoms and limits that apply to academy trusts. The AFH states in this respect at 3.1.3, that academy trusts must ensure that:

- spending decisions represent value for money, and are justified as such
- internal delegation levels exist and are applied within the trust

13. The trust's finance policy states that the resources committee are responsible for authorising the award of contracts over £10,000. The trust has spent to date:

- [REDACTED] (2013/14 to date) £311,551.50
(Initially reimbursing Preston Manor School for the time of their employee/employees)
- [REDACTED] (2014/15 to date) £92,610.00

14. The AFH also 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 payments made to [REDACTED], exceed current OJEU thresholds for public contracts.

15. Detailed testing of all of the transactions between the trust and the two consultancy companies, in 2016/17 and 2017/18, identified that there were no written contracts in place for the services provided. In addition we identified that:

- [REDACTED], no purchase orders for 6 of 17 invoices in 2016/17 and no purchase order for 1 of 6 in 2017/18
- [REDACTED], no purchase orders for 8 of 16 invoices in 2016/17 and no purchase order for 1 of 10 in 2017/18

16. The trust's finance policy states that written, pre-numbered orders are used for all goods and services.

17. It is not clear from the tasks undertaken by the consultants, as detailed on their invoices, if there is any duplication or overlap. The narrative does not verify what exactly the trust has paid for. Further investigation is needed by the trust to be satisfied that there has been no duplication or overlap in the work invoiced by consultants. The failure to assure appropriate control arrangements is a breach of AFH para 3.1.3.

Related party transactions

18. One of the consultants was appointed to the role of chair of trustees, serving in that capacity from 08 June 2015 to 2 October 2017. During this period therefore, any transactions with the consultant's company, [REDACTED], should have been considered related party transactions (RPTs) and the at cost and subsequent reporting requirements would apply. No related party transactions were reported in the 2016/17 accounts and the services were not provided at cost.

19. The AFH states at 3.2.1 that a trust must pay no more than 'cost' for goods or services provided to it by the following persons:

- any member or trustee of the academy trust

20. 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

21. 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

Role of Chief Financial Officer

22. In addition to his role as chair of trustees and member of the resources committee, the individual acting through the consultancy, [REDACTED] fulfilled the role of CFO, off payroll, between 1 December 2015 and 26 June 2018. The arrangement results in a lack of appropriate separation at board level and represents a conflict of interest. It also raises concerns that the trust has not ensured that their senior employee's payroll arrangements fully meet their tax obligations.

23. Current legislation from April 2017, in respect of off-payroll working rules (IR35) for public authorities, requires the trust to decide whether the off-payroll working rules apply because the appropriate conditions have been met. We were provided with evidence that the trust had completed the HMRC online questionnaire regarding the consultant's assignments. This identified that the off- payroll working arrangements do not apply, as the trust had stated that the worker arranged and paid a substitute to do the work instead of them. In light of the long-term positions held within the trust, the trust's conclusion that the off- payroll working arrangements do not apply is incorrect.

24. The AFH at 3.1.22, states 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 six months. The post of CFO is considered a senior post.

Governance arrangements and structure

25. Prior to our visit, we reviewed the governance structure in operation at the trust and as identified in the 2016/17 audited accounts. This was compared to records on the trust's website, Companies House and GIAS, where we identified a number of anomalies. Since our initial review however, the trust has updated some of the records and our findings as at 10 July 2018, are now that:

- the trust's website states that there is one current member and two vacancies, whereas GIAS records show that there are four members
- one former member and two former trustees, who all served in the last 12 months are not recorded on GIAS
- one member has a business interest which has not been declared on the trust's website

- the dates of appointment for one former and two current trustees differ between Companies House and GIAS
- one trustee, who resigned in March 2018 is not listed on the trust's website or GIAS

26. Page 6 of the AFH states in this respect that trusts should have a minimum of three members, and recommends that they should have at least five, wherever possible.

27. 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. 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

28. 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.

29. This is also 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.

30. Page 7 of the AFH states that, 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. However, we found that three of the four members listed on GIAS are also trustees.

31. Our review of the board meeting minutes identified that:

- the previous chair (the consultant) attended three further board meetings, after his resignation on 2 October 2017, as an observer but the trust did not declare his

interest. In the meeting of 27 November 2017, it was noted that he was issued with an action relating to his CFO role indicating that he participated in the meeting when he was recorded as an observer only

- at the meeting of 27 June 16, the previous chair declared his interest in item 8.3 but is not recorded as having left the meeting at this point in the minutes
- the previous chair did not declare his interest at the meeting of 8 June 2015, when he was a trustee and also a consultant with an interest in financial matters under discussion

32. The AFH states at 3.1.12, that academy trusts must be even-handed in their relationships with connected parties by ensuring that:

- trustees understand and comply with their statutory duties as company directors to avoid conflicts of interest, not to accept benefits from third parties, and to declare interest in proposed transactions or arrangements

33. The trust has a resources committee, who fulfil the audit committee functions. Our review of the resource committee meeting minutes identified that, the previous chair of trustees was a member of the resources committee, whilst also fulfilling the staff role of CFO. He was present at, contributed to and made proposals to discussions about audit matters.

34. This is a breach of the AFH which states at 2.4.3, that audit committee functions should be established in such a way as to achieve internal scrutiny which delivers objective and independent assurance, which means that:

- where the trust operates a combined finance and audit committee, staff may be members but should not participate as members when audit matters are discussed; they may remain in attendance to provide information and participate in discussions
- the accounting officer and other relevant senior staff should routinely attend the committee in the capacity set out directly above

Register of interests

35. Our review identified that three staff and two parent trustees have not completed the trust's register of interests on an annual basis. Whilst we did not identify evidence to suggest that they had any relevant interests, this represents non-compliance with AFH requirements.

36. The AFH states at 3.1.19, that boards of trustees should keep their register of interests up-to-date through regular review.

Conclusion

37. A number of significant findings and breaches of the AFH have been identified, including a lack of transparency, conflicts of interest, breaches of procurement requirements and RPT's not complying with the at cost requirement. In addition, breaches of the accounts direction and the charities SORP.

38. 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 – review findings

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

	Finding	Breach of AFH / framework	Recommendation
Procurement			
1	Value for money cannot be demonstrated through procurement practises in operation. Non-compliance with the trust's finance policy and scheme of delegation.	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"> • spending decisions represent value for money, and are justified as such Also that: <ul style="list-style-type: none"> • internal delegation levels exist and are applied within the trust 	The trust must ensure that they can demonstrate that spending decisions represent value for money and can be justified as such. The trust must ensure that its established delegation limits are adhered to.
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 also ensure that spending decisions are made in line with their finance policy and that EU procurement threshold requirements are observed and complied with.
4.	Purchase orders not being raised on all occasions, in line with the trust's finance policy.	Non-compliance with the trust's finance policy.	The trust should ensure that it complies with its finance policy and raises an appropriately approved, paper or electronic purchase order on each occasion.

5.	It is not clear from the invoices and the accompanying schedules reviewed by ESFA, if all work by consultants was necessary and does not represent any duplication.	Potential duplication of tasks and services paid for by the trust.	The trust should confirm to ESFA exactly what services the consultants were providing and if there was any overlap or duplication of tasks.
Related party transactions			
6.	Related party issues in relation to a high value procurement exercise.	<p>This is a breach of the AFH at 3.1.12, which states that academy trusts, must be able to show that public funds have been used as intended by Parliament. They must ensure the following principles are applied:</p> <ul style="list-style-type: none"> • that they are even-handed in relationships with connected parties, and ensure 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 • that no member, trustee, local governor, employee or related individual or organisation uses their connection to the academy trust for personal gain <p>Also of the academies accounts direction 2016-17 which states at 7.6.1:</p> <ul style="list-style-type: none"> • FRS 102 requires all transactions with related parties to be disclosed in accounts so that users of the accounts can gain a full 	<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>

		<p>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.</p> <ul style="list-style-type: none"> • 7.6.2 The SORP states that the disclosure of related party transactions is an important element of transparency in financial reporting because: <ul style="list-style-type: none"> ○ 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 	
Role of chief financial officer			
7.	<p>Non-compliance with off-payroll working rules legislation and managing tax affairs of senior employees through the payroll.</p> <p>The trust has not deducted tax and national insurance from the payments made to either company.</p>	<p>Breach of the AFH at 3.1.22, which states 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</p>	<p>Given that the trust has not deducted tax and NI contributions from the payments made to the consultant holding the post of chief financial officer, the trust should provide ESFA with assurances or otherwise over the tax arrangements for both consultants' companies.</p>

		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 six months.	
Governance arrangements and structure			
8.	Membership of the trust is unclear and not in line with recommendations. The trust website shows one member and two vacancies, GIAS shows four members.	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. In addition, the trust should consider the recommendation to have at least five members wherever possible.
9.	Insufficient disclosure of the business interests of a member. Anomalies with dates of appointments and terminations on GIAS compared to Companies House. Members and trustees serving in the last 12 months not being recorded on GIAS.	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. 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. In addition, of 4.7.4, which states that the trust must notify DfE of the	The trust must publish all relevant business and pecuniary interests of members, trustees, local governors and accounting officers on their website. 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. The trust must also notify DfE of the appointment or vacating of the positions

		<p>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>	<p>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>
10.	<p>Three of the four members listed on GIAS are also trustees.</p>	<p>The AFH states that, 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.</p>	<p>The trust should consider the Department's recommendation in relation to robust governance structures in ensuring that trust members are able to maintain objectivity and independence.</p>
11.	<p>The previous chair (the consultant) attended three further board meetings, after his resignation on 2 October 2017, as an observer but the trust did not declare his interest.</p> <p>In the meeting of 27 November 2017, it was noted that he was issued with an action relating to his CFO role indicating</p>	<p>Potential breach of the AFH at 3.1.12, which states that academy trusts must be even-handed in their relationships with connected parties by ensuring that:</p> <ul style="list-style-type: none"> trustees understand and comply with their statutory duties as company directors to avoid conflicts of interest, not to accept benefits from third parties, and to declare interest in 	<p>The trust must ensure that trustees understand and comply with their statutory duties as company directors to avoid conflicts of interest.</p>

	that he participated in the meeting when he was recorded as an observer only.	proposed transactions or arrangements	
12.	The previous chair of trustees was a member of the resources committee, whilst also fulfilling the staff role of chief financial officer. He was present at, contributed to and made proposals to discussions about audit matters.	<p>This is a breach of the AFH which states at 2.4.3, that audit committee functions should be established in such a way as to achieve internal scrutiny which delivers objective and independent assurance, which means that:</p> <ul style="list-style-type: none"> • where the trust operates a combined finance and audit committee, staff may be members but should not participate as members when audit matters are discussed; they may remain in attendance to provide information and participate in discussions • the accounting officer and other relevant senior staff should routinely attend the committee in the capacity set out directly above 	<p>The trust must ensure that audit committee functions are established in such a way as to achieve internal scrutiny, which delivers objective and independent assurance.</p> <p>They should also ensure that whilst staff may be members of such a committee, they should not participate as members when audit matters are discussed; they may remain in attendance to provide information and participate in discussions.</p>
Register of interests			
13.	Three staff and two parent trustees have not completed the trust's register of interests on an annual basis. However, there is no evidence to suggest that they had any relevant interests.	<p>The AFH states at 3.1.19, that trusts should consider carefully whether any other interests should be registered. Boards of trustees should keep their register of interests up-to-date through regular review.</p>	The trust should consider updating their register of interests at least annually.



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