



Education & Skills
Funding Agency

Financial management and governance review

Tower Hamlets Enterprise Academy Ltd

November 2020

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Executive summary

1. Allegations were received by ESFA on 7 March 2019 in relation to Tower Hamlets Enterprise Academy Ltd, (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 financial management and governance visit to assess the validity of these 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) 2018 and validate the concerns raised. Key findings of the review have confirmed:

- the trust does not have a robust **control framework**, weak internal controls exist in a number of key areas, which breach the AFH and the trust's finance policy (paragraphs 17 to 21 refer)
- weak controls ultimately led to a **theft** occurring which remained undetected for 8 months (paragraphs 10, 11 and 17 to 21 refer)
- the trust's **audit committee** are not operating in line with AFH requirements (paragraphs 12 to 16 refer)
- sample testing identified non-compliance with the trust's finance policy in respect of (higher value) **procurement** and a failure to retain auditable evidence of the process, including approval (paragraphs 22 to 24 refer)
- in addition, the trust was unable to provide copies of 9 of the 10 routine **purchase invoices** requested for testing. The only invoice that could be provided had been posted in the wrong financial year, raising concerns over the accuracy of the current liabilities figure reported in the 2017/18 audited accounts (paragraphs 25 and 26 refer)
- trust staff are reclaiming expenditure incurred on behalf of the trust via **expense claims**, this expenditure has been approved after it was incurred, and instances of potentially irregular expenditure were observed (paragraphs 27 to 30 refer)
- a lack of transparency and consistency in reporting **governance** arrangements and business interests on the trust's website and Get Information About Schools (GIAS) were identified (paragraphs 31 to 36 refer)
- corporate **governance** arrangements are not consistent with the trust's articles and the AFH. The 2017/18 audited accounts were filed late and the board's approval of them and the July 2018 budget forecast (BFR) has not been minuted (paragraphs 37 to 41 refer)

- the trust has not published the **register of interests** for members and trustees on their website (paragraphs 42 to 44 refer)
- the number of pupils recorded on the **census** return as eligible for free school meals does not agree with the local authority's records (paragraphs 45 and 46 refer).

Background

3. Tower Hamlets Enterprise Academy Ltd is a single academy trust, free school, which opened on 1 September 2014. It has capacity for 600 pupils, with 408 currently on roll. The trust reported receiving revenue income of £3,956,348 in their 2017/18 audited accounts, of which £3,520,653 was general annual grant (GAG) funding.

4. 2 monitoring visits had been undertaken since the Ofsted inspection in April 2017, where the trust was rated as requires improvement. A visit in July 2018 commented that “Senior leaders and governors are taking effective action to tackle the areas requiring improvement identified at the last section 5 inspection in order for the school to become good”. However, prior to the visit being undertaken a further full inspection was carried out in April 2019, the inspection report was published in August 2019 and confirms that the trust has now been rated as inadequate. The report comments that “Leaders, including governors, do not evaluate the school’s strengths and weaknesses effectively. Leaders are reluctant to accept responsibility for the school’s failings”.

5. In March 2019, 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 7 to 9 May 2019.

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:

- governance
- internal audit
- finance policies and procedures
- procurement - all methods
- income accounting (other income) and banking
- expenses

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

In accordance with EFA investigation publishing policy (August 2020) the relevant contents of the report have been cleared for factual accuracy with Tower Hamlets Enterprise Academy Ltd.

Findings

8. Allegations were made in relation to poor financial controls, failure to adhere to finance procedures, the number of free school meal students not matching eligibility data and off payroll payments to self-employed staff. Our findings are detailed below and have upheld a number of these concerns. They also provide an insight into how a breakdown in controls led to the trust becoming a victim of theft which remained undetected for 8 months.

Theft

9. During the opening meeting of our review, the trust informed us that they had identified a theft of over £73,000, which had occurred between July 2018 and February 2019 and had remained undetected until March 2019. This had been perpetrated by finance staff, who no longer work for the trust, who had bypassed the trust's finance procedures in relation to changing supplier bank details, producing payment runs and subsequently authorising the payment of the runs. At the time of writing the report the trust is in the process of reporting the theft to Action Fraud, having had an initial referral rejected due to a lack of detail. The trust had also commissioned an independent review into the matter and now have a list of transactions, the bank details the amounts were paid into and the dates the thefts occurred to facilitate a further referral. They have therefore taken all necessary steps to ensure there is no further loss of funds.

10. The fact that the theft remained undetected for 8 months indicates that the trust are in breach of the AFH, which states in this respect at 4.9.1, that academy trusts must be aware of the risk of fraud, theft and irregularity and address this risk by putting in place proportionate controls. Although the trust have now taken appropriate action they must comply with the AFH requirement at 4.9.2, which states that the trust must notify ESFA, as soon as possible, of any instances of fraud, theft and/or irregularity exceeding £5,000 individually, or £5,000 cumulatively in any academy financial year. Any unusual or systematic fraud, regardless of value, must also be reported.

Audit committee and internal audit

11. The trust has an audit committee (Finance, Resources and Audit Committee) whose functions extend to appointing external auditors, reviewing the draft financial statements prior to audit and approval, and prior to submission to ESFA. Also, for receiving the external audit report and the reports of the Responsible Officer/internal auditor on the use of resources, systems of internal financial control and discharge of financial responsibilities.

12. Buzzacott are the trusts appointed internal auditors. Whilst it was noted that they provided the trust with scoping briefs for each review, we were informed that their engagement was on the basis they would decide which key controls to test but that the

audit committee would ask for extra areas to be included if they felt necessary. The AFH states in this respect, at 2.9.4, that the audit committee must agree a programme of work to provide its assurance on financial controls and risks. Although the trust audit committee has contributed to areas for review it has not fulfilled its requirement to agree the formal programme of works.

13. The trust's CEO informed us that the former CFO had failed to implement the required changes to strengthen controls, following receipt of the reports. The CEO as accounting officer, however, must ensure that they maintain appropriate oversight of financial transactions. The AFH states in this respect at 1.5.4 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. Further at 2.1, that trustees and managers must maintain robust oversight of the academy trust. The academy trust must take full responsibility for its financial affairs and use resources efficiently to maximise outcomes for pupils.

14. Findings from the internal audit reviews were:

Income and balance sheet review

- bank reconciliations - none being done, with a large difference being noted between the bank statement and cashbook
- cash receipts have not been banked for several months
- no controls in place to record school trip income and no follow up for unpaid amounts
- lettings income - fees not being charged/invoiced -contracts not in place
- special educational needs (SEN) income is not being claimed from the local authority (LA)
- all ESFA income coded to budget share - not split between the relevant funding stream
- debts over 90 days old on the ledger - not being chased on a regular basis
- no debtors/creditors reconciliations

Expenditure review

- the former school business manager (SBM) had linked her personal bank account to the trusts on her banking app. She could therefore access the trusts account information, even after leaving the trust
- transactions over £50,000 should be authorised by the Chair of Governors, however the SBM has access to authorise and process payments of any value
- during the year anyone could raise an order without prior authorisation
- invoices have been paid even if the relevant item hadn't been received
- goods going directly to the requisitioner, making it difficult for finance to track if received

- invoices not going into creditors in the general ledger

Payroll review

- an overpayment of salary of £4,500, which was written off
- missing and unsigned employment contracts
- final salary calculation – underpayment

15. Our review of the minutes for this committee, identified that:

- significant control weaknesses were reported by the internal auditors in the annual cycle of 3 reviews carried out in September 2018, however, there was no evidence that the reports had been presented to the audit committee or that the findings had been discussed
- the responses to the recommendations recorded in the reports action plans are not sufficient to confirm that the trust has fully considered and implemented the recommendations and taken all necessary steps to prevent reoccurrences

16. The trust cannot, therefore, demonstrate that this committee have provided appropriate assurances to the board. This is a breach of the AFH, which states at 2.9.1, that the academy trust must establish a committee, appointed by the board of trustees, to provide assurance to the board over the suitability of, and compliance with, its financial systems and operational controls, and to ensure that risks are being adequately identified and managed.

Control framework

17. The trust is in the process of redrafting their finance procedures to bring them in line with current AFH requirements and to reflect revised working practises. The current written procedures appear adequate. However, there is evidence that they have not been complied with, as detailed in the internal audit findings. Specifically, in respect of access to the trust bank account, month end reconciliations, a lack of segregation of duties and raising purchase orders and authorising payments not in accordance with the scheme of delegation.

18. The theft that occurred is indicative of a failure by the trust to maintain sound internal controls. Had the trust taken urgent steps to address the findings raised by their internal auditors, losses post September 2018 of £43,230.35, could have been prevented.

19. The trust is in breach of the AFH, which states in this respect at 2.2: Internal control principles, the academy trust must have sound internal control, risk management and assurance processes. At 2.2.1, the academy trust must establish a robust control framework that includes:

- ensuring delegated financial authorities are complied with
- maintaining appropriate segregation of duties
- applying discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations
- regularity, propriety and value for money in the organisation's activities
- reducing the risk of fraud and theft
- independent checking of financial controls, systems, transactions and risks

20. Additionally, concerns over bank reconciliations were raised by the trust's external auditors in the interim and final versions of the management letter for the 2017/18 audited accounts. A £315,526 difference between the nominal ledger and the bank balance was initially observed. The auditors raised this as a high priority issue, recommending that this be addressed as a matter of urgency. It should be noted that the trust did not formally respond to 6 of the 9 interim and all 4 final findings recorded in the management letter submitted to ESFA.

21. Testing of the month end process identified that monthly management accounts and bank reconciliations are still not being completed. There is also a lack of segregation of duties over procurement processes, detailed findings in respect of procurement are listed below.

Procurement

High value transactions

22. The trust provided us with a list of spend by supplier, extracted from their purchase ledger. We selected a sample of high value transactions (between £10,000 and £145,000) to test compliance with the trusts finance policy in relation to procurement. Of the 10 selected we found:

- the trust was unable to provide us with the 3 quotes required by the finance policy in respect of 2 from our sample
- only 2 quotes had been obtained for another
- the business cases and requisition forms could not be located for 2 within our sample, as required by the finance policy

23. Controls over expenditure are clearly documented in the trust's finance manual which appears to be adequate and covers the processes that should be adopted and delegated authority limits for purchases up to European Union (EU) threshold values. However, our testing provides further evidence of non-compliance with the finance manual. Failure to maintain an audit trail of paperwork to support spending decisions and transactions, represents further non-compliance with the AFH, which states in respect of purchasing at 2.4.1, that the academy trust must ensure that:

- spending has been for the purpose intended and there is probity in the use of public funds
- spending decisions represent value for money
- internal delegation levels exist and are applied within the trust
- a competitive tendering policy is in place and applied, and Official Journal of the European Union (OJEU) procurement thresholds are observed
- relevant professional advice is obtained where appropriate

24. 2.4.2 also confirms that the Department strongly recommends the deals for schools that make buying simpler and quicker and can provide better value for money in a range of categories. There is also guidance on how to plan and run an efficient procurement process. Additional guidance is in annex 4.6 of Managing Public Money. Advice on relevant procurement thresholds is provided in the OJEU.

Purchase invoice testing

25. We also chose a sample of 10 invoices from the period 1 September 2018 to April 2019, by visual inspection of the spreadsheet provided detailing all invoices processed, in descending order of value. 7 of the sampled items were chosen as those not requiring purchase orders, to investigate whether the purchase order procedure was being circumvented. The 3 remaining were processed with purchase orders and were chosen as a walk-through of the ordering system. Our findings were:

- from the data available from the ledger, it was clear that a significant number of invoices for goods and services for which a purchase order would be expected were paid outside the purchase ordering system, and hence without any order control and authorisation process
- of the 10 invoices chosen in the sample, only one of the actual documents could be located and this remains the case
- the single invoice that was examined was dated 9 August 2018, but the date recorded on the purchase ledger was 1 September 2018, putting it in the following financial year

26. We identified during our pre visit planning that an unusually low figure for current liabilities was reported in the 2017/18 audited accounts, £62,000 compared to £272,000 in 2016/17. The management letter for the 2017/18 audited accounts, refers to the trust having finalised the year end procedure within its accounting package before the final part of the audit had commenced. This meant that no further journals were able to be posted onto the software in relation to the year ended 31 August 2018. As a result, there is a risk that creditors may have been understated and that adequate records of the trusts liabilities have not been maintained. This is a breach of the 2017/18 accounts direction, which specifies at 6.2.5 – liabilities, that the academy trust should ensure that adequate schedules of creditors, accruals and deferred income are available to support the entries in the balance sheet.

Expenses

27. The trusts finance manual has a section covering travel and subsistence claims and their reimbursement to staff and governors. The procedures include appropriate controls and covers all expected areas. Previously claims were reimbursed directly into the claimant's bank account but more recently the trust has moved to reimbursing through payroll.

28. Controls include the requirement for individuals to claim expenses using the reimbursement form which must be supported by receipts for the goods/services received. Procedures confirm "reimbursement will be refused if inappropriate purchasing methods have been used, or the budget holder has already spent their full allocation and did not seek prior approval to exceed the funds available".

29. We selected a sample of expense claims for testing. Findings were:

- trust staff have routinely been purchasing items for trust use from their own money and claiming for reimbursement via expense claims
- the expenditure has been authorised after it has been incurred
- not all claims are filed centrally in the staff reimbursement file, some were observed as filed in the purchase invoice files
- a nonstandard claim form is being used, whereby the date of approval has not always been captured and the payment date also not apparent
- the trust has reimbursed expenditure on the previous school business manager's personal credit card bill to include paying for Amazon Prime and late payment fees

30. The trust's finance manual does not cover the above types of reimbursements but does specify that the principles of probity, accountability and value for money should be adhered to in respect of procurement. The trust paid for 2 months' worth of Amazon prime, £15.98 and 2 months of late payment fees, £24.00 which we deem to be irregular.

Governance arrangements and structure

31. Prior to our visit, we reviewed the governance structure in operation at the trust as identified in the 2017/18 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:

- the audited accounts list 8 members and 13 trustees, this differs from GIAS, which shows 4 members (3 current) and 7 trustees (3 current)
- five of the members listed on the accounts are not named elsewhere
- one of the members listed on GIAS is not named elsewhere
- of the 7 trustees listed on GIAS, 3 are also members, one of which is also an employee (deputy principal) of the trust

- on GIAS, the former Chief Financial Officer (CFO) is listed as the current
- Companies House lists 8 current trustees, 3 of which are members
- the trusts website does not show the current governance structure and arrangements

32. Whilst the trust's articles do not prevent a member from being an employee the AFH confirms the Department's view at para 1.4.4, that there should be a significant degree of separation between the individuals who are members and those who are trustees. If members sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's strong preference is for a majority of members to be independent of the board of trustees.

33. In respect of GIAS, the trust is in breach of the AFH at 4.8.3, which states that the trust must notify DfE (within 14 days of that change) of the appointment or vacating of the positions of:

- chief financial officer including direct contact details
- member, trustee and local governor

34. Notification must be through the governance section of DfE's GIAS register, accessed via Secure Access. All fields specified in GIAS for the individuals must be completed. The trust must ensure its record on Get information about schools for the individuals remains up to date.

35. The GIAS website 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.

36. Not recording the trust's governance arrangements on its website is a breach of the AFH, which states at 2.10.1 that the trust must also publish on its website up-to-date details of its governance arrangements in a readily accessible format, including:

- the structure and remit of the members, board of trustees, its committees and local governing bodies (the trust's scheme of delegation for governance functions), and the full names of the chair of each
- 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, and relevant business and

pecuniary interests including governance roles in other educational institutions. If the accounting officer is not a trustee their business and pecuniary interests must still be published.

- for each trustee their attendance records at board and committee meetings over the last academic year
- for each local governor their attendance records at local governing body meetings over the last academic year

37. Our review of the governing body minutes at the trust identified that corporate governance arrangements are not consistent with the articles or the AFH. The trust's main governing body consists of both trustees, registered at Companies House as well as a number of non-trustee/director 'governors'. The trust treats all of these as voting members of the 'full governing body'.

38. Although the minutes reviewed provide evidence that the meetings of the full governing body were quorate, when counting only trustees, as registered at Companies House, it is clear that they are considering quoracy by including all attendees of this committee. According to article 114 of the Articles of Association, the quorum for a board meeting is 3 directors or one-third of the total number of directors holding office at the time.

39. The financial statements for 2017/18 were not signed off until January 2019 and were therefore, submitted after the ESFA set deadline of 31 December 2018. The AFH states at 2.8.4, that the audited accounts must be:

- submitted to ESFA by 31 December each year

40. The AFH states at 2.3.1, that the board of trustees must approve a balanced budget, and any significant changes to that budget, for the financial year to 31 August, which can draw on unspent funds brought forward from previous years. The board must minute its approval. Neither the July 2018 budget forecast return or the 2017/18 financial statements were approved at a meeting of the board of trustees and therefore there was no formal minute of approval recorded. The trust provided us with evidence that they had been approved by email which does not comply with the conditions required in the AFH.

41. Further, section 419 of the Companies Act 2006 requires that the trustee's report in the audited accounts must be approved by the board of directors and signed on their behalf by one of the directors or the company secretary. In an academy trust the directors are the trustees and so one of the trustees should sign (usually the chair). The date of approval must be stated, together with the name of the trustee who has signed it. As there was no formal minuted approval that was dated the trust have breached section 419 of the Companies Act.

Register of interests

42. We compared the business interests of members and trustees from Companies House records to the register of interests and individual declarations made as held by the trust. The following was identified:

- business interests are not published on the trust's website
- individual declaration forms were not available for 2 members and 2 trustees
- the forms for 3 members are dated 2014

43. The trust is in breach of the AFH at 2.10.1, which states that the trust must also publish on its website up-to-date details of its governance arrangements in a readily accessible format, including:

- 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, and relevant business and pecuniary interests including governance roles in other educational institutions. If the accounting officer is not a trustee their business and pecuniary interests must still be published

44. The trust is also in breach of the AFH at 3.10.10, which states "Trusts should consider whether any other interests should be registered. Boards of trustees should keep their register of interests up-to-date."

Census data

45. An allegation was made in respect of free school meal pupil numbers. It was claimed that the numbers reported on the census return did not match the list provided by the LA, Tower Hamlets council. We requested a list of current students recorded on the census as being in receipt of free school meals and compared this to the latest list provided by the LA and confirmed that the 2 do not correlate. The trust's list contains 141 names and the LA, 121.

46. The relevant guidance for LA's, maintained schools, academies and free schools specifies that a pupil is only eligible to receive a free school meal when a claim for the meal has been made on their behalf, and their eligibility has been verified by the school where they are enrolled or by the LA.

Conclusion

47. A number of significant findings and breaches of the AFH have been identified, including weak internal controls in respect of procurement, processing and authorising payments, banking and reconciliations, management accounting and a lack of transparency in respect of reporting governance arrangements.

48. The trust needs to take urgent action to resolve the issues, including greater consideration of 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

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

	Finding	Breach of AFH / framework	Recommendation
Theft			
1.	<p>The trust has not adequately assessed the risk of fraud, theft or irregularity by ensuring it had in place proportionate controls. The trust has been the subject of a theft of over £73,000, which had occurred over a period of 8 months, prior to being discovered. This had been perpetrated by finance staff who had bypassed the trust's finance procedures in relation to changing supplier bank details, producing payment runs and subsequently authorising the payment of the runs.</p> <p>At the time of writing the report a revised referral to Action Fraud has been made and a claim has been made via Risk Protection Arrangement (RPA), for a loss to the trust due to employee/third party dishonesty.</p>	<p>This is a breach of the AFH, which states at 4.9.1, that academy trusts must be aware of the risk of fraud, theft and irregularity and address this risk by putting in place proportionate controls.</p> <p>Also, of 4.9.2, which states that the trust must notify ESFA, as soon as possible, of any instances of fraud, theft and/or irregularity exceeding £5,000 individually, or £5,000 cumulatively in any academy financial year. Any unusual or systematic fraud, regardless of value, must also be reported.</p>	<p>The trust must take urgent action to ensure that appropriate controls are put in place to prevent a reoccurrence.</p> <p>In accordance with AFH requirements, the trust should formally notify ESFA of the theft. Progress of the Action Fraud referral and the RPA claim can then be monitored on a monthly basis.</p>
Audit committee and internal audit			

<p>2.</p>	<p>The trust has an audit committee (Finance, Resources and Audit Committee) whose functions extend to appointing external auditors, reviewing the draft financial statements prior to audit and approval, and prior to submission to ESFA. Also, for receiving the external audit report and receiving the reports of the RO/internal auditor on the use of resources, systems of internal financial control and discharge of financial responsibilities.</p> <p>The trust’s internal auditors, Buzzacott, provided the trust with scoping briefs for each review they conducted in 2018, however, we were informed that that the auditors decided which key controls to test but the audit committee would ask for extra areas to be included if they felt necessary.</p> <p>Our review of the minutes for this committee, identified that:</p> <ul style="list-style-type: none"> • significant control weaknesses were reported by the internal auditors in the three reviews carried out in September 2018, however, there was no evidence that the reports had been presented to 	<p>This is a breach of the AFH, which states in this respect, at 2.9.4, that the audit committee must agree a programme of work to provide its assurance on financial controls and risks.</p> <p>This is also a breach of the AFH, which states at 2.9.1, that the academy trust must establish a committee, appointed by the board of trustees, to provide assurance to the board over the suitability of, and compliance with, its financial systems and operational controls, and to ensure that risks are being adequately identified and managed.</p>	<p>The trust must ensure that its audit committee fulfils the AFH required functions and that the minutes for this committee demonstrate this.</p> <p>The trust must ensure that the accounting officer, trustees and managers maintain robust oversight of the academy trust. The academy trust must take full responsibility for its financial affairs and use resources efficiently to maximise outcomes for pupils.</p> <p>The accounting officer should be clear that their role 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.</p>
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	<p>the audit committee or that the findings had been discussed</p> <ul style="list-style-type: none"> • the responses to the recommendations recorded in the reports action plans are not sufficient to confirm that the trust has fully considered and implemented the recommendations and taken all necessary steps to provide reoccurrences <p>The trust cannot, therefore, demonstrate that this committee have provided appropriate assurances to the board.</p>		
Control framework			
3.	<p>The trust is in the process of redrafting their finance procedures to bring them in line with current AFH requirements and to reflect revised working practises. The current procedures appear adequate however, there is evidence that they have not been complied with. Specifically, in respect of access to the trust bank account, month end reconciliations, a lack of segregation of duties and raising purchase orders and authorising payments not in accordance with the scheme of delegation.</p>	<p>This is a breach of the AFH, which states in this respect at 2.2: Internal control principles, the academy trust must have sound internal control, risk management and assurance processes. Also, at 2.2.1, the academy trust must establish a robust control framework that includes:</p> <ul style="list-style-type: none"> • ensuring delegated financial authorities are complied with maintaining appropriate segregation of duties 	<p>The trust must ensure that sound internal control and risk management and assurance processes are in place, this must include:</p> <ul style="list-style-type: none"> • ensuring delegated financial authorities are complied with maintaining appropriate segregation of duties • co-ordinating the planning and budgeting process • applying discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations • planning and oversight of any capital projects

	<p>The fact that the theft occurred is indicative of a failure by the trust to maintain sound internal control processes. Had the trust taken urgent steps to address the findings raised by their internal auditors, losses post September 2018 could have been prevented.</p> <p>In addition to the above, concerns over bank reconciliations were raised by the trust's external auditors in the management letter for the 2017/18 audited accounts.</p> <p>Testing of month end process identified that monthly management accounts and bank reconciliations are still not being completed.</p>	<ul style="list-style-type: none"> • co-ordinating the planning and budgeting process • applying discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations • planning and oversight of any capital projects • management and oversight of assets regularity, propriety and value for money in the organisation's activities • reducing the risk of fraud and theft • independent checking of financial controls, systems, transactions and risks 	<ul style="list-style-type: none"> • management and oversight of assets regularity, propriety and value for money in the organisation's activities • reducing the risk of fraud and theft • independent checking of financial controls, systems, transactions and risks <p>In addition, the trust should provide ESFA with evidence that their bank account has been fully reconciled, clearing the difference identified by the external auditors.</p> <p>Also, that month end processes have now been fully implemented, to include producing monthly management accounts.</p> <p>The trust should ensure that they provide an adequate response to their auditor's recommendations including a timescale for action and implementation.</p>
Procurement			
4.	<p>Controls over expenditure are clearly documented in the trust's finance policy, however our testing provides further evidence of non-compliance with this. Not maintaining an audit trail of paperwork to support spending decisions and transactions and not being able to locate</p>	<p>The AFH states in respect of purchasing at 2.4.1, that the academy trust must ensure that:</p> <ul style="list-style-type: none"> • spending has been for the purpose intended and there is probity in the use of public funds 	<p>The trust must ensure that it can demonstrate compliance with the AFH in respect of procurement processes. Also, that they have complied with their own procurement procedures, their scheme of delegation and that they retain documentary evidence to support spending decisions.</p>

	<p>auditable documents, represents further non-compliances with the AFH.</p>	<ul style="list-style-type: none"> • spending decisions represent value for money • internal delegation levels exist and are applied within the trust • a competitive tendering policy is in place and applied, and Official Journal of the European Union (OJEU) procurement thresholds are observed relevant professional advice is obtained where appropriate <p>Also, at 2.4.2, that the Department strongly recommends the deals for schools that make buying simpler and quicker and can provide better value for money in a range of categories. There is also guidance on how to plan and run an efficient procurement process. Additional guidance is in annex 4.6 of Managing Public Money. Advice on relevant procurement thresholds is provided in the OJEU.</p>	<p>Auditable documents must be retained and stored adequately, so that they can be located and provided when requested.</p>
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5.	<p>The trust was only able to locate 1 of the requested 10 routine purchase invoices, we identified that this had been posted in the wrong financial year.</p> <p>We also identified during our pre visit planning that an unusually low figure for current liabilities was reported in the 2017/18 audited accounts, £62,000 compared to £272,000 in 2016/17.</p> <p>The management letter for the 2017/18 audited accounts, refers to the trust having finalised the year end procedure within its accounting package before the final part of the audit had commenced. This meant that no further journals were able to be posted onto the software in relation to the year ended 31 August 2018. There is therefore a risk that creditors may have been understated and that adequate records of the trust's liabilities have not been maintained.</p>	<p>This is a breach of the 2017/18 accounts direction, which specifies at 6.2.5 – liabilities, that the academy trust should ensure that adequate schedules of creditors, accruals and deferred income are available to support the entries in the balance sheet.</p>	<p>The trust must provide ESFA with assurances that the creditors figure reported in the audited accounts is accurate. If the figure is found to be inaccurate, full details of the differences should be supplied.</p> <p>The trust must ensure that accurate records are provided to their auditors, in order to ensure that the audited accounts present a true and fair view of the state of affairs of the charitable company and of its incoming resources and application of resources, including its income and expenditure, for the accounting period.</p>
6.	<p>In addition, from the data available from the ledger, it was clear that a significant number of invoices for goods and services for which a purchase order would be expected were paid outside the purchase ordering system, and hence</p>	<p>This is a breach of the AFH at 2.2.1, which states that the academy trust must establish a robust control framework that includes:</p>	<p>The trust must take urgent action to address the weaknesses in its procurement practises.</p>

	<p>without any order control and authorisation process.</p>	<ul style="list-style-type: none"> • ensuring delegated financial authorities are complied with maintaining appropriate segregation of duties • applying discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations • management and oversight of assets regularity, propriety and value for money in the organisation's activities • reducing the risk of fraud and theft 	
<p>Expenses</p>			
<p>7.</p>	<p>Sample testing of expense claims identified:</p> <ul style="list-style-type: none"> • trust staff have routinely been purchasing items for trust use from their own money and claiming for reimbursement via expense claims • the expenditure has been authorised after it has been incurred • not all claims are filed centrally in the staff reimbursement file, some were 		<p>The trust must ensure that expenditure is approved before it is incurred, in line with its finance manual and scheme of delegation.</p> <p>Purchases made by staff on behalf of the trust, using their own money should therefore no longer be permitted.</p> <p>Such payments should have been deemed as irregular and should not have been reimbursed.</p>

	<p>observed as filed in the purchase invoice files</p> <ul style="list-style-type: none"> • a nonstandard claim form is being used, whereby the date of approval has not always been captured and the payment date also not apparent • the trust has reimbursed expenditure on the previous school business manager's credit card bill to include paying for Amazon Prime and late payment fees <p>The trust's finance manual does not cover the above types of reimbursements but does specify that the principles of probity, accountability and value for money should be adhered to in respect of procurement.</p>		
Governance structure and arrangements			
8.	<p>Prior to our visit, we reviewed the governance structure in operation at the trust as identified in the 2017/18 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:</p>	<p>Whilst the trust's articles do not prevent a member from being an employee, the Department's current model articles do not allow this. 1.4.3 of the AFH refers and states that employees of the trust must not be members unless permitted by their articles of association.</p>	<p>The trust should consider the Department's current model articles as best practise, the Department's view that there should be a significant degree of separation between the individuals who are members and those who are trustees.</p> <p>That members sitting on the board of trustees may reduce the objectivity with which the members can exercise their powers.</p>

<ul style="list-style-type: none"> • the audited accounts list 8 members and 13 trustees, this differs from GIAS, which shows 4 members (3 current) and 7 trustees (3 current) • five of the members listed on the accounts are not named elsewhere • one of the members listed on GIAS is not named elsewhere • of the 7 trustees listed on GIAS, 3 are also members, one of which is also an employee (deputy principal) of the trust • on GIAS, the former Chief Financial Officer (CFO) is listed as the current • Companies House lists 8 current trustees, 3 of which are members • the trusts website does not show the current governance structure and arrangements. 	<p>It further states at 1.4.4 that the Department's view is also that there should be a significant degree of separation between the individuals who are members and those who are trustees. If members sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's strong preference is for a majority of members to be independent of the board of trustees.</p> <p>In respect of GIAS, the AFH at 4.8.3, states that the trust must notify DfE of the appointment or vacating of the positions of:</p> <ul style="list-style-type: none"> • accounting officer and chief financial officer including direct contact details • chair of trustees and chairs of local governing bodies including direct contact details • member, trustee and local governor 	<p>Also, that the Department's strong preference is for a majority of members to be independent of the board of trustees.</p> <p>The trust must ensure that it complies with the AFH requirements in respect of keeping GIAS up to date and publishing its governance arrangements on its website.</p>
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		website is a breach of the AFH, which states at 2.10.1 that the trust must also publish on its website up-to-date details of its governance arrangements in a readily accessible format.	
9.	<p>Our review of the governing body minutes at the trust identified that corporate governance arrangements are not consistent with the articles or the AFH. The trust's main governing body consists of both trustees, registered at Companies House as well as a number of non-trustee/director 'governors'. The trust treats all of these as voting members of the 'full governing body'</p> <p>Although the minutes reviewed provide evidence that the meetings of the full governing body were quorate, when counting only trustees, as registered at Companies House, it is clear that they are considering quoracy by including all the members of this committee.</p>	<p>The trusts articles specify at 114 of that the quorum for a board meeting is 3 directors or 1/3 of the total number of directors holding office at the time.</p> <p>The AFH specifies at 2.1.2, that the board and its committees must meet regularly enough to discharge their responsibilities and ensure robust governance and effective financial management arrangements. Board meetings must take place at least three times a year (and business conducted only when quorate).</p>	The trust must ensure that it complies with AFH requirements and only conducts business when quorate, as determined by its adopted articles.
10.	The financial statements for 2017/18 were not signed off until January 2019 and were therefore submitted after the ESFA set deadline of 31 December 2018.	This is a breach of the AFH, which states at 2.8.4, that the audited accounts must be:	The trust must ensure that it complies with AFH submission deadlines.

		<ul style="list-style-type: none"> • submitted to ESFA by 31 December each year 	
12.	<p>The board minutes reviewed did not record the approval of the July 2018 budget forecast return or the 2017/18 financial statements.</p> <p>Although evidence of their approval by email was provided.</p>	<p>This is a breach of the AFH, which states in this respect at 2.3.1, that the board of trustees must approve a balanced budget, and any significant changes to that budget, for the financial year to 31 August, which can draw on unspent funds brought forward from previous years. The board must minute its approval.</p> <p>Further, section 419 of the Companies Act 2006 requires that the trustee's report in the audited accounts must be approved by the board of directors and signed on their behalf by one of the directors or the company secretary.</p>	<p>The trust must ensure that approval of the budget forecast and audited accounts is minuted, as required by the AFH and to comply with section 419 of the Companies Act.</p>
Register of interests			

<p>13.</p>	<p>Our review of Companies House records compared to the trust’s register of interests and individual declarations identified the following:</p> <ul style="list-style-type: none"> • business interests are not published on the trust’s website • individual declaration forms were not available for two members and two trustees • the forms for three members are dated 2014 	<p>This is a breach of the AFH which states in this respect at 2.10.1, that the trust must also publish on its website up-to-date details of its governance arrangements in a readily accessible format, including:</p> <ul style="list-style-type: none"> • 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, and relevant business and pecuniary interests including governance roles in other educational institutions. If the accounting officer is not a trustee 	<p>The trust must ensure it complies with AFH requirements in respect of publishing its governance arrangements on its website, along with any pecuniary interests of the members, trustees and local governors.</p> <p>It would be good practise to request that all members, trustees and local governors update their declarations annually, to ensure that the register of interests is as up to date as possible.</p>
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		<p>their business and pecuniary interests must still be published</p> <p>The AFH also states at 3.10.10 Trusts should consider whether any other interests should be registered. Boards of trustees should keep their register of interests up to date.</p>	
Census data			
13.	<p>We requested a list of current students recorded on the census as being in receipt of free school meals and compared this to the latest list provided by the LA and confirmed that the 2 do not correlate. The trust's list contains 1410 names and the LA's, 121.</p>	<p>The relevant guidance for LAs', maintained schools, academies and free schools specifies that a pupil is only eligible to receive a free school meal when a claim for the meal has been made on their behalf, and their eligibility has been verified by the school where they are enrolled or by the LA.</p>	<p>A reconciliation between the LA records and the trust's census data should be undertaken. The trust should then confirm to ESFA how many pupils should be recorded as eligible for free school meals, as verified by the LA.</p>



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