



Education
Funding
Agency

Lymm High School Academy Trust

**Review of financial propriety,
management and governance**

February 2014

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Executive summary

Issues arising

1. The Education Funding Agency's (EFA) External Assurance Team visited Lymm High School Academy Trust (the Trust) in September 2013. The team performed sample testing of financial transactions, reviewed supporting documentation made available to us and held discussions with Trust officials. A number of control weaknesses and issues in relation to financial management and governance were identified. These included:

- Internal controls within the Trust's finance function, such as segregation of duties in purchasing and procurement, had been weakened following the suspension of the principal finance officer, due to resource limitations. This presents the risk that inappropriate or unauthorised expenditure might be incurred.
- The Trust informed us that the individual employed in the principal finance role may not have been appropriately qualified nor have the relevant experience required of the post. We were not able to substantiate this as the individual's personnel file could not be located.
- Personnel files for a number of senior staff could not be located during the visit. The apparent loss of these files is of concern particularly as they included the records for the two staff currently suspended and under investigation.
- The loss of these files leaves the Trust exposed to the risk that personal data could be mis-used and data protection legislation may have been breached, with possible financial implications. We would expect the recovery of these files to feature in the on-going investigations.
- Evidence supporting other staff appointments where files were available was inadequate. We were advised that contracts of employment had not been issued for some staff appointed in 2012, but that this was being addressed.
- The Trust made us aware of the deletion of electronic records; these were in the process of being recovered.
- There were inadequate quotation / tendering records available at the time of the visit to fully support and explain the award of contracts or high value purchases.
- A declaration of interest was not available for all members of the Governing Body and Finance Committee
- Some minor items of expenditure were identified that may not be considered proper use of public funds and could leave governors and employees of the Trust open to criticism. Examples include cash and credit card expenditure on alcohol, flowers and hospitality.

Conclusion

2. The External Assurance visit was carried out against a backdrop of concerns about the Trust's performance and leadership, two senior staff suspensions and suggestions of financial irregularity. Whilst the work we carried out provided a snapshot of the situation at the time of our visit, we recognise that actions had already been put in train to address many of the issues raised.
3. The Trust had commissioned high level reviews of finance arrangements by its external auditors, who until early September fulfilled the Responsible Officer (RO) and Internal Audit functions. A new provider has now been appointed to deliver the role of RO in order to ensure adequate separation of responsibilities.
4. Two separate disciplinary investigations had also been commissioned. These are on-going and we expect the Trust to promptly inform us of the findings arising from the investigations once they are complete. The EFA will consider the need to carry out further work in light of those outcomes.
5. Urgent steps were also taken to put interim leadership in place to lead the Trust whilst disciplinary proceedings continued. An interim Executive Principal was selected in July 2013 and took on full-time responsibility from September 2013. This led to some immediate improvements in the system of internal management control over finance in particular, including the requirement that all expenditure must be initially approved by the Executive Principal.
6. Our work identified a number of control weaknesses and specific issues in relation to expenditure, outlined in the Detailed Findings section below. We also reviewed the Trust's wider governance arrangements and although we consider the Trust to be taking satisfactory action to ensure compliance with the mandatory requirements set by the Academies Financial Handbook, we identified a number of areas where further action needs to be taken.
7. We therefore make recommendations in this report to strengthen the system of internal controls, particularly around finance and resources and improve governance arrangements. These should supplement any other actions arising from the work being carried out by the Trust's auditors and HR support provider.
8. The recommendations are summarised in the action plan at Annex A (General) and Annex B (FMGS).

Lymm High School – background

9. Lymm High School has a long history dating back to 1601. Located in rural surroundings, it serves the communities in nearby villages. It is a successful non-selective 11-19 school which became an academy in September 2012. It was rated good at its last Ofsted inspection in December 2013.

10. With a growing 6th Form the number of pupils on roll has reached 1,900. It is a well-established Language College, with a second specialism Sports College and Training School.

11. The Trust has its own leisure centre that provides communal sports facilities, and a charitable foundation, the Lymm Grammar School Trust, which owns Tyn y Felin ('the Tynny'), an outdoor activity centre on Anglesey. The centre is used by the Trust but is also available to rent by other users. The Trust also has a number of other income streams including catering services, room hire and sales of school uniform (Cormorant Clothing) through the school shop.

Reasons for the review

12. In the early summer of 2013 concerns were raised about the Trust's performance and leadership. The Principal was suspended in June 2013 and an investigation had been commissioned by Governors. In July 2013 the Trust's principal finance officer was also suspended pending a separate disciplinary investigation.

13. Separate communications were received by the Department for Education and the EFA, including at least one direct to the Secretary of State, raising concerns including the suggestion of financial impropriety. These resulted in a two-day planned visit to the Trust by representatives of the EFA's External Assurance (EA) team on 12-13 September 2013.

14. The purpose of the visit was to review the financial management and governance arrangements at the Trust in order to provide assurance to the EFA Accounting Officer over the use of public funds. This was a review of the Trust's arrangements at the time of the visit and the report outlines the position at that point, although it was apparent that steps were being taken, following the appointment of the interim Executive Principal, to strengthen those arrangements.

Scope of work

15. Given the allegations the main focus for our work was the financial management and governance arrangements around the following:

- Income and expenditure
- Tendering and procurement
- Recruitment and performance management

16. During the course of our visit, a number of high risk issues came to our attention, including:

- high value income streams involving cash transactions
- deleted electronic data and missing personnel records.

As these presented an increased risk of financial irregularity or fraud, these areas were added to the scope of our work.

17. We also included a wider review of the Trust's financial management and governance arrangements to measure compliance with the Academies Financial Handbook (AFH) and funding agreement.

Next steps

18. The Trust has provided a full response to our draft report and amendments have been made, as appropriate, to ensure the factual accuracy of the report. The Trust has also completed the action plan in Annexes A and B, to confirm that steps have or are being taken to address the issues raised and the dates by which it is intended those actions will be fully implemented. This report is therefore the final, agreed version.

19. External Assurance will follow up the actions agreed in this report to confirm that the Trust has taken action to address our recommendations. This will include a follow up visit initially within one month of the last implementation date and further visits as considered appropriate. The Trust will be contacted to confirm the arrangements in due course.

Detailed findings

Finance Team – Capacity and capability

20. The principal finance officer role is a key appointment in all academies trusts and requires someone with sufficient knowledge, competence and experience to effectively guide the governing body on financial, audit and charity accounting matters.

21. The Academies Financial Handbook 2006, which was current at the time the school entered into its funding agreement with the DfE (May 2012) recommended that the person appointed into this role should be a qualified accountant, or equivalent, with experience in a senior position. More recent editions of the handbook do not stipulate that as a requirement.

22. We were advised by the Trust that the individual employed in this role was not a qualified accountant nor had equivalent senior educational finance experience. We were unable to confirm this as the personnel file could not be located. It is our view that the absence of these qualities in those occupying this critical role may increase the risk of loss through irregularity or fraud.

23. Following the suspension of the principal finance officer, the finance team largely consisted of the finance officer supported by a small team of administration staff. This has resulted in examples of inadequate separation of duties/responsibilities – as evidenced from our testing – and a weakening of internal management control.

24. Currently the finance officer conducts the day to day running of the Trust finance function with support from external accountants. It was noted from the minutes of recent governing body and Finance Committee meetings that a finance team representative does not routinely attend governor meetings where finances are discussed in detail.

25. It is our opinion that a finance team representative should attend relevant governing body meetings. This will aid in improving the financial and budgetary reporting skill sets at the Trust, allow finance staff to raise pertinent issues and also allow governors access to information around the day to day financial management of the Trust.

26. We make the following recommendations in order to improve controls in this area:

- the Trust should consider the scale and complexity of its financial operations when considering appointments to its principal finance officer post in future, to ensure an appropriately qualified or experienced person is appointed to the role.
- the Accounting Officer should consider putting more resource into the finance function to ensure adequate and effective separation of duties and responsibilities.
- a finance team representative should attend Governing Body meetings where finances are discussed in detail and budgets and financial policies are reviewed and approved.

These recommendations are included within Annex A.

Recruitment and personal records

27. It was established during our visit that a number of personnel files - including some of the senior leadership team - were missing from Trust premises. In the absence of personnel records we are unable to verify that those appointments, or any subsequent promotions or other enhancements, complied with appropriate guidelines. Neither was it possible to confirm that the most suitable candidates had been appointed to those posts. This was particularly relevant in relation to the appointment of the principal finance officer.

28. Due to the missing personnel files it was not possible to confirm that all appropriate safeguarding checks i.e. Criminal Record Bureau and independent references had been conducted for key personnel. These checks are designed to safeguard and promote the welfare of children and young people. Section 157 of the Education Act 2002 and The Education (Independent Schools Standards) (England) regulations 2003 – require proprietors of independent schools (including academies) to have adequate arrangements to safeguard and promote the welfare of children who are pupils at the school.

29. Failure to have arrangements in place as required by s157, or to have regard to the “Safeguarding children and safer recruitment in education” guidance, may be grounds for the Secretary of State to take action against the governing body. Failing to have arrangements in place also represents a significant potential risk to the reputation of the Trust. We would expect the recovery of these files to feature in the ongoing investigation being undertaken by the Trust’s HR support.

30. We were advised that staff appointed since conversion to academy status had not all been issued with contracts of employment – a breach of employment law that could present a risk of legal challenge. The Trust was aware of this at the time of the visit and had recently appointed a new human resource officer who was clearing the outstanding checks and issuing contracts.

31. Finally, the Trust did not have a formal and approved recruitment policy.

32. We make the following recommendations in order to improve controls in this area. The Trust should:

- inform the individuals concerned specifically around the information that has been lost
- notify the Information Commissioner of the loss, in accordance with the Data Protection Act 1998, and prepare a plan to recover the missing data and reconstruct the missing personnel files
- develop and approve a Recruitment and Selection policy and communicate this to all staff. This should provide sufficient controls and safeguards to ensure that any

future appointments follow the academies formal procedures, are transparent, fully documented and that the final result can be supported

- ensure all necessary checks on successful candidates are satisfactorily completed before they take up post.

These recommendations are included within Annex A.

Income and expenditure

33. Before our review began, a high level review of the Trust's financial systems had been carried out by its external auditors, acting as Responsible Officer, in August 2013. The testing was at a systems level and did not involve detailed testing of all key financial transactions. Our own testing was on a sample basis only, and assurance should not be taken from the results of that work.

34. We recommend the Trust commission an independent transaction level review of income and expenditure, from September 2012, to assure itself that all income has been correctly accounted for and all expenditure was legitimate. The EFA External Assurance team should be consulted on the draft scope of this review, prior to work commencing, and will require a copy of the final report. Further EFA work may follow based on the results of this independent review.

35. The Trust uses the SIMS FMS system to maintain its accounting records. Our detailed work involved sample testing of income and expenditure transactions recorded on the SIMS FMS system from September 2012 (when the school became an academy) to July 2013. Testing covered a sample of transactions selected from the Trust's bank statements, and debit/credit card statements.

Receipts and banking

36. The academy has numerous non-government income streams, including the Lymm Leisure Centre (LLC), catering services, room and facility hire, sales of school uniform and the Tynny rentals. The leisure centre alone has a turnover in the region of £400k per annum. Much of the income derived from these sources is in cash and not all income streams, such as school meals and vending machines are receipted. Given the time available to us it was not possible to validate the accuracy and completeness of all receipts.

37. Our testing of income therefore was at a high level and concentrated on bankings made rather than income received, covering receipts from the leisure centre and shop, kitchen and vending machines. We were able to confirm, for a sample, that those batch totals were correctly banked and accurately accounted for on the SIMS FMS system.

38. There is one main bank account which is used for the majority of income and expenditure at the Trust. Having one main account creates difficulty when attempting to separate out and track multiple income and expenditure streams.

39. The Trust should also be able to separately demonstrate that its different activities are viable concerns and private activities are not being subsidised by public funds. This is of particular importance in the case of LLC, which operates as a separate business. The Trust should therefore open a dedicated bank account for its major income streams, and account and report separately for their income and expenditure. This would keep income flows separate from the main Trust budget, making them more transparent and enable the Trust and its auditors to more easily identify whether those activities continued to be viable.

40. We make the following recommendations in order to improve controls in this area:

- Put in place arrangements for all income streams that will enable the Trust to monitor the ongoing viability of those concerns. This might involve:
- opening a separate bank account for LLC
- accounting for income separately from the main Trust I&E
- extending RO / Internal Audit checks to cover the main sources of income and their associated banking and accounting arrangements.

These recommendations are included within Annex A.

Purchases and payments

41. Testing covered a sample of expenditure items, selected initially from the Trust's bank statements, and debit/credit card statements.

42. As the Trust operates as a cheque book school, a sample of payments was selected at random from bank statements throughout the year. These were traced back to the SIMS FMS system in order to determine the details of the payment and then to the related purchase orders and invoices.

43. Our testing identified a number of significant control issues. The main issues were:

- Purchase orders were not always held or had been raised after an invoice was received. While in some instances this was unavoidable, for example where supply staff were required at short notice, there was one example where a non-urgent order, for gates and railings, had been placed verbally and the invoice paid without a Purchase Order
- Purchase orders had been approved by the finance officer, who also subsequently received and paid the invoice. This demonstrates inadequate segregation of duties and responsibilities – an essential management control.
- Examples of orders/payments where authorisation levels have been exceeded. One such was an order for flooring to the value of £29,865.79, for which quotes and tenders do not appear to have been obtained.

44. The Trust's policy and procedures for seeking competitive quotations, tendering and contracts are outlined in the Finance Manual 2012-13, and the Manual of Internal Procedures 2012. Discrepancies exist between the two documents (see Delegated Authority Levels in Finance Manual paragraph 1.7 and paragraph 10 of the Manual of Internal Procedures); extracts are summarised in Annex C.

45. We were advised that the Manual of Internal Procedures 2012 has been followed by the finance team, and that the £10,000 limit is used in practice. Hence the lower limits outlined in the Finance Manual have not been applied when considering whether quotes/tenders should have been obtained.

46. To test adherence to the policy guidance we tested eight high value (over £10,000) contracts for evidence of tendering and quotations. The following issues were identified:

- six contracts had inadequate evidence of quotations / tendering
- with two exceptions, available tender documents failed to adequately demonstrate the rationale for selection of a preferred supplier
- four out of eight contracts did not have a signed copy of the contract available
- both Manuals are out of date, for example they do not reflect the current Academies Financial Handbook
- the Trust was unable to provide an up to date and detailed register of all contracts / leases it has entered into.

47. We make the following recommendations in order to improve controls in this area:

- both Manuals should be updated (including incorporation of all applicable external guidance e.g. latest AFH, Managing Public Money) and brought into alignment, approved by the Finance Committee and Trust Board, and be re-issued for use by staff
- the Trust should put in place measures to ensure that the revised limits and the required tendering processes are adhered to. This should include greater governor scrutiny and may also include further work by the Responsible Officer.
- an up to date and detailed register of contracts should be produced and maintained. In addition all copies of signed contracts should be retained on site.

These recommendations are included within Annex A.

Credit card transactions

48. During the period September 2012 to July 2013 there were three credit cards held by senior members of Trust staff. A review of credit card records during that period highlighted four key issues:

- the Trust does not have a formal credit card policy for staff to follow
- each of the three cardholders had signed “debit” card agreement forms. However the agreement form for the principal finance officer had not been approved by the AO or the chair of the Governing Body
- four purchases of alcohol were identified - this expenditure could be deemed to be improper use of public funds, or expose the Trust to criticism. Please see section on *Expenditure on staff benefits* for further clarification.
- all transactions tested were supported by receipts and also showed evidence of approval by the principal finance officer. However, only one of the sample had documentary evidence confirming that the appropriate budget was checked prior to purchasing and none had a SIMS purchase order attached.

49. It is acknowledged that the Trust has encountered some difficulty in using purchase orders for credit card transactions due to the limitations of FMS SIMS functionality. Use of purchase orders and formally evidencing budget checks helps to ensure commitment accounting is applied.

Recommendations relevant to this area are contained in Annex A.

Petty cash

50. A review of petty cash transactions, selected from the petty cash file, from September 2012 till July 2013 highlighted the following issues:

- a petty cash float of £500 is maintained; replacement cash is withdrawn and carried by finance office staff from the bank. This presents a significant safety concern for Trust staff withdrawing and transporting cash.
- a small number of instances of expenditure on alcohol, hospitality (restaurants) and flowers were identified. This could be deemed to be inappropriate use of public funds, as highlighted in the credit card section. In addition regular small monthly payments were also identified for referee’s fees where there was no receipt attached. Please see section on *Expenditure on staff benefits*.
- petty cash request cover sheets were authorised by the Finance Officer (FO), who also processed petty cash on a daily basis, representing inadequate segregation of duties. The FO also conducts the petty cash count which again demonstrates inadequate segregation of duties.
- there was evidence of a petty cash count having taken place in only four of the eleven month’s records that we examined and the count sheets did not detail whether the count was reconciled to SIMS.

Recommendations related to this area are included in Annex A.

Expenditure on staff benefits

51. Our testing found several examples of expenditure upon items which do not clearly relate to the running of an educational body (see sections on *Credit Card Transactions* and *Petty Cash*). These include alcohol, flowers and external hospitality. The Academies Financial Handbook states that “Public money must always be spent prudently and in ways that command broad public support”. Spending on alcohol and gifts for staff may not meet these criteria. The Trust should review its rules on expenses, petty cash and credit cards to cover the purchase of items which could be seen as for personal benefit, so as to protect public funds and the reputation of the Trust.

52. Financial management and governance arrangements

53. In addition to the risk-focussed work outlined above, we also undertook an evidence based evaluation of the Trust’s wider financial management and governance arrangements, measuring compliance with the mandatory requirements of the Academies Financial Handbook and funding agreement.

54. Our evaluation allowed the accuracy of the trust’s financial management and governance self-assessment (FMGS), which it completed in March 2013, to be validated. Based on the evidence provided by the Trust we concur with the self-assessment of the Trust that, at the time of completion, it was progressing towards compliance with the mandatory requirements set by the Academies Financial Handbook.

55. It is also clear that good progress has subsequently been made towards achieving compliance with the mandatory requirements but in order to ensure full compliance the following issues need to be addressed:

- A completed declaration of interest form was not available for six members of the Governing Body and three members of the Finance Committee.
- The Trust’s budget from September 2012 to August 2013 does not appear to have been formally approved by the Governing Body prior to the start of the period. In addition multiple versions (with no version control) of this budget were provided to the EA team, one of which showed a projected £19k deficit at year end.
- The Governing Body does not appear to have formally approved the appointment of its statutory auditors. Although there is an engagement letter dated 19/03/13, Governing Body minutes prior to this do not demonstrate sufficient discussion or formal approval of the appointment.

56. Annex B to this report highlights all key areas where financial management and governance arrangements could be further improved and provides recommendations to address those areas.

Annex A – General recommendations

Para No	Issues	Recommendations for improvement and/or best practice	Academy response	Responsible Person	Target implementation date
23	Finance Team – Capacity and capability The absence of sufficient resources in the finance function has resulted in inadequate segregation of duties in finance procedures.	The Trust should ensure it appoints someone with the appropriate skills and experience to the principal finance officer post.	The ongoing investigation into senior staff members of the Academy has delayed possible 'senior' appointments to the Finance Team. When this is resolved appropriate steps will be taken immediately. Interim control measures are in place.	EP / GB	ASAP
		The Accounting Officer should consider putting more resource into the finance function to ensure adequate and effective separation of duties and responsibilities.	As noted above, permanent steps will be taken when possible. Interim support is in place via subcontract arrangements and the Senior Finance Officer (SFO) is to be supported by the appointment of a Finance Assistant imminently.	EP	Feb'14
		A representative of the Trust's finance team should attend	The SFO is now attending any such meetings. In light	EP / SFO	Implemented

		Governing Body and Finance Committee meetings	of the above, when any further appointments are made, attendees will be reviewed,		
29	Recruitment and personal records There is no formal recruitment and selection policy. It is not possible to confirm procedures have been followed, due to several personnel files being missing.	Inform the individuals concerned specifically around what information has been lost.	Legal advice is being sought on informing and dealing with this matter. Staff members will be informed accordingly and actions taken.	EP	Feb'14
		Notify the Information Commissioner of the loss, in accordance with the Data Protection Act 1998, and prepare a plan to recover the missing data and reconstruct the missing personnel files.	The Information Commissioner will be notified in due course.	EP	Feb'14
		Develop and approve a Recruitment and Selection policy and communicate this to all staff.	A revised Recruitment and Selection Policy is being tabled at the forthcoming People Committee (PC) Meeting.	PC / GB	Feb'14
		Put in place sufficient controls and safeguards to ensure that any future appointments follow the academies formal procedures, are transparent, fully documented and that the	The Academy's HR Officer has put in controls, under instruction from the EP, to ensure procedures are adhered to for new starters.	HR / EP	Already actioned.

		final result can be supported.			
		Ensure all necessary checks on successful candidates are satisfactorily completed before they take up post.	As above re-general procedures. New employees are recruited subject to satisfactory references being received. If in exceptional circumstances and time prohibits such a reference being obtained a risk assessment is completed and the Education Authority are contacted for information as required.	HR / EP	Already actioned.
33	Responsible Officer (RO) review The RO review of financial systems in August 2013 did not involve detailed testing of all key financial transactions.	Commission an independent transaction level review of income and expenditure, from September 2012 to March 2013, to assure itself that all income has been correctly accounted for and all expenditure is legitimate.	A full external audit was completed by our auditors for the year ended 31 st August 2013. A clean report was presented. New accountants were appointed in September 2013 to undertake the RO role and a series of planned reviews covered assessed risk areas are being undertaken. Actions will be reviewed and	EP / GB	Already actioned.

			implemented on an ongoing basis.		
36	<p>Receipts and banking</p> <p>The Trust has only one main bank account. All income and expenditure is accounted for through the Trust's SIMS FMS system. Other income e.g. from the leisure centre are banked and accounted for within the main account.</p>	<p>Put in place arrangements for all income streams that will enable the Trust to monitor the ongoing viability of those concerns. This might involve:</p> <p>a) Opening a separate bank account for LLC</p> <p>b) Accounting for and reporting income separately from the main Trust I&E</p> <p>c) c) Extending RO / Internal Audit checks to cover the main sources of income and their associated banking and accounting arrangements.</p>	<p>a) A separate bank account for LLC has been actioned.</p> <p>b) Separate reporting has always been in place for LLC.</p> <p>C) RO checks and audit work covering LLC being undertaken as noted above.</p>	<p>EP / SFO</p> <p>SFO</p> <p>EP / GB</p>	<p>Already actioned.</p>
44	<p>Financial procedures</p> <p>There is disparity between the Trust's Finance Manual 2012-13, and the Manual of Internal Procedures 2012. Both Manuals are out of date.</p>	<p>Both Manuals should be updated (including incorporation of all applicable external guidance e.g. latest AFH, Managing Public Money) and brought into alignment, approved by the Finance Committee and Trust Board, and be re-issued for use by staff.</p>	<p>The Manual of Internal Procedures has been updated and approved by the Finance & Audit Committee on the 4th November 2013. The Financial Regulations are in the process of being updated to reflect such changes on the Manual of</p>	<p>EP/SFO/GB</p>	<p>Feb'14</p>

			Internal Procedures.		
		Put in place measures to ensure that the revised limits and the required tendering processes are adhered to. This should include greater governor scrutiny and may also include further work by the Responsible Officer (further detail around this area is included within Annex B).	Contained within the above.	EP/SFO/GB	Feb'14
		The trust should ensure an up to date and detailed register of contracts is produced and maintained. In addition all copies of signed contracts should be retained on site.	The SFO will collate and present such a register at the next Finance & Audit Committee.	EP/SFO/FC	Feb'14
48	<p>Credit cards Credit cards were used to purchase items that may be considered improper use of public funds.</p> <p>The Academy does not have a formal credit card policy in place.</p>	<p>The Trust should ensure a credit card policy and guidance is in place and applied. Its approval should be formally minuted.</p> <p>The guidance should detail the types of expenditure the Trust deems acceptable or not. Any unusual /contentious items should have business case</p>	<p>The Trust has a Credit Card Policy that was updated and approved within the Finance & Audit Committee meeting of the 4th December 2013.</p> <p>All requests made for credit card purchases will be made on a school order request form, and be subject to the</p>	EP/SFO/FC	Already actioned.

	<p>One of the “debit” card agreement forms had not been signed by the Accounting Officer or the chair of the Governing Body.</p> <p>Only 1 of the 13 purchases tested had documented evidence showing the appropriate budget was checked prior to ordering and none of the 13 had a SIMS purchase order attached. There is no documented independent review of credit card usage.</p>	<p>documentation completed and authorised prior to purchase, to demonstrate good reason for purchase.</p> <p>The Trust should ensure credit card user agreements are formally authorised.</p> <p>Appropriate budgetary checks should be carried out and documented and purchase orders used for all purchases.</p> <p>Credit card transactions should be independently reviewed – perhaps included in Responsible Officer checks.</p>	<p>same rules for authorisation and funds checking as any other type of transaction. Such requisitions, authorisations, and budget checking processes will be recorded and retained to form part of the audit trail.</p> <p>The SFO, Executive Principal and the chair of the GB has signed the user agreement. All purchases must be approved by the Executive Principal.</p> <p>Budgetary checks are carried out in accordance with the reviewed Manual of Internal Procedures.</p> <p>Internal checks are carried out as required and a request will be presented to RO for risk assessment and action as required.</p>		
51	<p>Petty cash</p> <p>Arrangements for</p>	<p>The Trust should review arrangements for cash collection</p>	<p>Arrangements have been reviewed following a risk</p>	EP/SFO/FC	<p>Already actioned.</p>

<p>withdrawing and transporting cash present a safety risk to staff.</p> <p>A small number of transactions were identified where the type of expenditure could be deemed to be inappropriate use of public funds.</p> <p>Petty cash counts were only evident for four of the 11 month's tested.</p> <p>There is inadequate segregation of duties between the daily processing of petty cash, authorisation of petty cash requests and petty cash counts.</p> <p>Of the 11 months' records tested, only 4 months showed evidence of a petty cash count, and the count sheets did not record that the count was reconciled to SIMS.</p>	<p>and ensure staff are not exposed to significant safety risks. This review and risk discussion should form part of the regular risk review and be incorporated onto risk registers.</p> <p>The policy and guidance on petty cash should clarify the types of expenditure deemed acceptable and the requirement for receipts to verify expenditure.</p> <p>The finance manual / manual of internal procedures should include further detail around procedures for petty cash counts and reconciliations. This should include timings, staff responsibilities and have regard to segregation of duties.</p> <p>It is also suggested that detailed transactional testing by the Responsible Officer should include petty cash.</p>	<p>assessment. It is proposed that petty cash reimbursements will be carried out by two employees going to the local bank for collection. Cash will be transported in a discrete bag that doesn't make the contents obvious.</p> <p>Insurance is in place to cover staff and the loss of cash. The risks will be reviewed annually.</p> <p>A Petty Cash policy is adopted and in place.</p> <p>Reconciliations are carried out and documented. These are approved in accordance with the revised Manual of Internal Procedures.</p> <p>Internal checks are carried out as required and a request will be presented to RO for risk assessment and</p>		
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			action as required.		
52	<p>Expenditure on staff benefits</p> <p>Our testing found several examples of expenditure upon items which do not clearly relate to the running of an educational body (see section on <i>Credit Card Transactions and Petty Cash</i>). These include alcohol, flowers and external hospitality.</p>	<p>The Trust should review its rules on expenses, petty cash and credit cards to cover the purchase of items which could be seen as for personal benefit, so as to protect public funds and the reputation of the Trust.</p>	<p>The Manual of Internal Procedures has been updated and approved by the Finance & Audit Committee on the 4th November 2013. The Financial Regulations are in the process of being updated to reflect such changes on the Manual of Internal Procedures. Sensitive areas such as those noted are covered and an ongoing vigil noted.</p> <p>All expenditure is scrutinised and items such as alcohol, flowers and hospitality are only authorised in exceptional circumstances and then can only be authorised by EP. A full audit trail is maintained as with all other transactions.</p>	EP/FC/GB	Already actioned.

Agreed with Trust 27 January 2014

Key:

EP	Executive Principal	RO	Responsible Officer
GB	Governing Body	PC	People Committee
SFO	Senior Finance Officer	HR	Human Resources Officer
FC	Finance & Audit Committee		

Annex B – Financial management and governance recommendations (mandatory areas)

AFH Ref	Issues	Recommendations for improvement and/or best practice	Academy response	Responsible Person	Target implementation date
2.1	<p>Accounting Officer</p> <p>The Academy Trust (the Trust) has recently appointed an interim Executive Principal who will be the Accounting Officer (AO).</p>	<p>The board of trustees must formally minute the appointment of the new AO. The appointment must also be formally notified to the Education Funding Agency (EFA).</p>	<p>The appointment has been formalised by way of a contract between the school and the Dean Trust (AO's employer), which explicitly states that the executive principal will assume the role of AO from 1/9/2013. This contract was formally approved at a full governing body meeting on 25/9/2013.</p> <p>The appointment has been formally notified to EFA.</p>	GB / EP	Already actioned.
2.5 1.5	<p>Competitive tendering</p> <p>The Trust's finance manuals and guidance on the financial limits for use of quotations and tendering is inconsistent and the higher limits contained in the Manual of Internal Procedures is being followed.</p> <p>A register of contracts was not</p>	<p>These matters are dealt with in Annex A, recommendations 10, 11 and 12.</p>	<p>As per responses within Annex A 10, 11, 12</p>	EP/SFO/GB	Already actioned

	<p>maintained and a number of signed contracts were not available at time of the review.</p> <p>The Academies Financial Handbook (AFH) 2013 states, “Academy Trust’s must ensure that a competitive tendering policy is in place and applied.”</p> <p>The AFH also states, “The board of trustees is responsible for the proper stewardship of Academy Trusts funds, and for ensuring economy, efficiency and effectiveness in their use.</p>				
2.1	<p>Bank Reconciliations</p> <p>The EA team were advised that bank reconciliations are completed by the Finance Officer. They were previously reviewed by the principal finance officer, but are now reviewed by the new AO. However only the Finance Officer signs and dates the reconciliation sheet and there was no signature or date on the</p>	<p>The Trust should ensure all control account reconciliations, are completed on a regular basis with key accounts reconciled monthly e.g. bank and VAT control accounts.</p>			
		<p>The reconciliation should be signed and dated by both preparer and reviewer. It is strongly suggested that the reviewer should be the AO.</p>	<p>In line with the Manual of Internal Procedures such reconciliations are being performed, checked and witnessed as required.</p> <p>Reconciliations are performed</p>	EP / SFO	Already actioned

	<p>reconciliation sheets to demonstrate an independent supervisory review. It was also confirmed with the Trust auditors, that some control account reconciliations, e.g. VAT control account had not been completed on a regular basis.</p> <p>The AFH (2012 and 2013) states, “the Academy Trust accounting officer (AO) must ensure full and accurate accounting records, and must also ensure that bank accounts, financial systems and financial records are operated by more than one person.”</p>		on a monthly/timely basis.		
2.1	<p>Approval of budgets The 2013/14 trust budget was approved by the GB on 27/07/13, however a signed final copy of the 2012/2013 Trust budget (relating to the first year as an academy), approved by the Governing Body (GB) was unavailable at the time of our</p>	<p>The Trust must ensure that the board of trustees clearly approves the annual budget. This approval should be minuted, along with detailed discussion around estimates / assumptions used in budget preparation and governor questioning / challenge.</p>	<p>Moving forward more detailed minutes will be taken and kept on record to clearly demonstrate the challenge of and approval thereof any budgets of the Trust by the GB. Such minutes will make matters explicit in this respect.</p>	GB / EP & Clerk to the Governors	Already actioned

	<p>review. GB approval for the 12/13 budget was also unclear within the minutes.</p> <p>The GB minutes for 11/06/12 made reference to approval of budget (p4) but referred to the 11/12 budget, not the 12/13 budget. In addition there was no detailed discussion around the 12/13 budget, estimates, assumptions used, critical challenge from Governors and predicted out turn.</p> <p>Furthermore different versions of the 12/13 budget (in excel), with no clear version/date control, were provided to the EA team, which had varying out turn figures, ranging from a £19k deficit to £552 surplus.</p> <p>The AFH (2012 and 2013) states, “the full board of trustees must approve the budget. This approval must be minuted.”</p>	<p>The Trust should also ensure any virements made are appropriately authorised in line with financial procedures and delegated authorities. Future revisions to the original approved budget should be formally version controlled.</p>	<p>As noted above, recording of decisions and control over supporting documentation has been improved.</p>	<p>SFO/EP/FC</p>	<p>Already actioned</p>
		<p>The Trust should identify the most suitable SIMS report formats for annual budgeting and use these rather than excel spreadsheets. Where the use of separate excel budgetary reports is deemed necessary, supporting SIMS reports should be provided to trustees, clearly annotated to show how the figures vouch across between the two.</p>	<p>Additional SIMS reporting ‘bolt-ons’ have been obtained (academy specific) and base data is maintained on this ‘source’ ledger.</p> <p>It is not considered appropriate to routinely provide trustees with detailed reconciliations of this type. It is proposed that the RO role and external auditors will carry out testing to give trustees assurance over the accuracy of excel reports.</p>	<p>SFO/EP/FC</p>	<p>Already actioned</p>

	The EA team and Trust Finance Officer were unable to vouch SIMS financial reports to copies of the excel Trust budget. As a result, virements could not be identified and tested for approval.				
2.3	<p>Contingency and business continuity</p> <p>The AFH 2013 states, “The trust must make a contingency and business continuity plan setting out what it would do to ensure the continued operation of the trust.”</p> <p>We requested the Trust’s contingency and business continuity plan; the EA team were provided with a draft critical incident plan (v2).</p> <p>It was noted this plan does not cover roles/responsibilities and guidance for specific emergencies e.g. fire / flood / police incident / major vandalism. Without specific</p>	<p>The Trust must review its critical incident plan to ensure it includes sufficient detail covering different scenarios. Possible emergency scenarios at the Trust should also be tied into risk discussions and production of the Trust risk register.</p> <p>The Trust should ensure regular drills are conducted for emergency scenarios once the plan is finalised.</p>	<p>The Trust’s Business Continuity Plan has been further reviewed and updated as required ensuring roles and responsibilities are noted. The plan will be approved at the next GB meeting.</p> <p>Noted and planned drills are diarised. Significant learning points from drills will be considered by the SLT and incorporated into future revisions of the BCP if deemed necessary.</p>	EP/GB	Already actioned
				EP/GB	Summer Term ‘14

	guidance, staff may be unclear about their responsibilities and emergency drills for specific situations may not be effective.				
2.5	<p>Declarations of interest The AFH 2013 states, "Trust's must ensure all trustees have completed the register of business interests kept by the trust and there are measures in place to manage any conflicts of interest."</p> <p>A review of declarations of interest highlighted six members of the GB and three Finance Committee members who appeared not to have completed declaration of interest forms.</p> <p>The Trust indicated in its March 2013 FMGS return that all trustees had completed a register of business interests and that measures were in place to manage conflicts of interest.</p>	<p>The Trust must ensure declaration of interest forms are completed annually and retained for all trustees and staff members.</p> <p>The Trust should incorporate checks on completion of declarations, along with checks around conflicts of interest within work completed by the Responsible Officer.</p>	<p>Noted for current members and will be actioned at the next GB meeting and annually thereafter action. New members will be required to complete the forms upon appointment and annually thereafter.</p> <p>Noted. A risk review of this area will be presented to the RO for action as they deem fit.</p>	<p>Clerk to the Governors/G B</p> <p>RO/EP/SFO</p>	<p>Already actioned</p> <p>Already actioned</p>
3.1	Appointment of statutory auditors	The appointment of statutory auditors should be formally	A formal tendering process was completed and made	GB / EP / Clerk to the	Already actioned

<p>There was no evidence that the appointment of external auditors had been formally approved by the trustees or that they had oversight of the selection process.</p> <p>Finance Committee meeting minutes of 18/03/13 refer to the newly appointed accountants but not to their formal approval, nor the consideration of other suppliers. There is a letter of engagement dated 19/03/13.</p> <p>The AFH 2012 states, “the board of trustees must appoint statutory auditors...” This approval should be minuted.</p> <p>The Trust indicated in its March 2013 FMGS return that the GB had approved the appointment of statutory auditors who also provided services including Responsible Officer, monthly financial reporting / bursarial</p>	<p>approved by the Board and minuted.</p>	<p>available during your inspection.</p> <p>However, moving forward more detailed minutes will be taken and kept on record to clearly demonstrate the formal appointment of statutory auditors.</p> <p>The RO work is currently completed by an independent accountancy firm unrelated to the auditors.</p> <p>Payroll is similarly conducted by an independent organisation.</p> <p>Audit/accounts teams are independent and from separate legal entities.</p> <p>Self review threat/reliance is considered minimal.</p> <p>As staffing matters change within the Trust, such</p>	<p>Governors</p>	
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	<p>support and external audit.</p> <p>There is a risk around loss of independence and conflicts of interest. Where trustees are required to review outcomes of competitive procurement (including quotations/tendering) prior to decision making, these reviews and discussions should be formally minuted.</p> <p>In addition the board should formally consider risks to auditor independence and conflicts of interest when sourcing multiple services from their auditors.</p>		relationships will be reviewed.		
		The consideration of risks should be formally recorded within risk registers and form part of the GB's annual risk discussion.	Remaining risks will be logged on the risk register and presented to the GB for annual discussion and review	AO/SFO/GB	Already actioned
3.1	<p>Audit Committee</p> <p>The EFA requires that all trusts must establish either:</p> <ul style="list-style-type: none"> • a dedicated audit committee; or • a committee whose remit includes the functions of an audit committee. <p>The Finance Committee at the</p>	<p>The Terms of Reference for the Finance Committee should be formally reviewed and amended to include the requirements of an audit committee.</p> <p>Examples of audit committee Terms of Reference can be found within the AFH 2006, p24, and HMTs Audit Committee Handbook, Annex D</p>	The Terms of Reference for all committees were reviewed and approved on academy conversion.	GB/Sub Committees	Already actioned

	<p>trust also acts as the Audit Committee.</p> <p>A review of the Terms of Reference for the Finance Committee highlighted some significant omissions in relation to its responsibilities as an audit committee.</p> <p>This presents a risk to the effectiveness of the Trust's financial governance and management arrangements.</p>	<p>All Terms of Reference should be formally reviewed annually by the Trust to ensure they are up to date and reflect all duties/responsibilities.</p>	<p>A review of these terms has been conducted in September 2013.</p>		
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Agreed with Trust 27 January 2014

Key:

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|-----|---------------------------|----|-------------------------|
| EP | Executive Principal | RO | Responsible Officer |
| GB | Governing Body | PC | People Committee |
| SFO | Senior Finance Officer | HR | Human Resources Officer |
| FC | Finance & Audit Committee | | |

Annex C – Extracts from Finance Manual and Manual of Internal Procedures 2012

Finance Manual		Manual of Internal Procedures	
Para 7.1	<p>For supplies and services above £160,000 the European Union directives apply and invitations to tender should be advertised in the Official Journal of the European Union (OJEU).</p> <p>NB: This limit has now increased and should be reflected in the Finance Manual.</p>	8.2	Contracts greater than £100,000 will not be entered into without appropriate technical advice from WBC.
7.2.1	<p>Wherever practicable, the Trust will obtain at least three competitive tenders or quotations for the supply of any article, goods or service, or the carrying out of work where the value is greater than £2,500 but</p> <p>Verbal quotations are acceptable for values between £1,500 - £2,499</p> <p>Where values are in excess of £2,500 the tenders or quotations should be evidenced in writing</p>	8.3	For orders between £10,000 and £50,000 the Headteacher must seek at least three quotations unless it is impractical.
7.4.2	The GB may delegate to the Headteacher acceptance of tenders up to £30,000 and then only if the tender is the lowest. Tenders in excess of the sum determined may only be accepted by the GB or Committee to whom that power has been delegated.	8.2	The GB can delegate acceptance of quotations from £10,000 to £50,000. Above £50,000 acceptance is by tender.
		8.3	For orders up to £10,000 the Headteacher can order without reference.



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