

Brooke Hill Academy Trust

Supplementary audit checks - Report from visit 15th August 2019



Supplementary audit checks – Report – 15th August 2019

This is the report for the second supplementary audit visit for the year ended 31 August 2019. The visit was to Brooke Hill Academy and this report details a review of March 2019 to July 2019 transactions, and the systems that are currently in place at the Academy. Our work is based on the 'Musts' and 'Shoulds' from the Academies Financial Handbook (AFH).

Risk Analysis Key:



No recommendations identified.



Minor – Improvements can be implemented throughout the year.



Moderate – Improvements should be in place before next supplementary audit visit.



High – Improvements need to be implemented immediately.

1. Governors

1.1 Review of board of trustees

Per AFH:

- Trusts must notify the DfE of the appointment or vacating of the positions of: 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 within 14 days of that change. Notification must be through the governance section of the DfE's Get Information About Schools (GIAS) register. All fields specified in GIAS for the individuals must be completed, and the trust must ensure its record on GIAS for the individuals remains up to date. (4.8.3)

Findings:

We have reviewed the current list of trustees, local governors and members against the lists held by the ESFA on the Get Information About Schools website (GIAS), and that held at Companies House. We have also reviewed the details held for the accounting officer and chief financial officer.

All current trustees are showing on the Companies House website. We have identified that the GIAS pages for the trust and individual academies are not up-to-date.



MODERATE

We recommend that the academy trust ensures that the information on GIAS is updated for all changes in trustees, members and local governors.

1.2 Review of attendance at meetings

Per AFH:

- 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). If the board meets less than six times a year it must describe in its governance statement, accompanying its annual accounts, how it maintained effective oversight of funds with fewer meetings. (2.1.2)

Findings:

We have reviewed the minutes of two meetings of the trustees during the current financial year. On average, 94% of governors have attended those meetings. This compares to an average across schools that we act for of 78%.

We have reviewed the minutes of eight meetings of the finance committee during the current financial year. On average, 69% of trustees have attended those meetings. This compares to an average across schools that we act for of 82%.



No recommendations identified.

1.3 Pecuniary interests

Per AFH:

- Academy trusts must be even-handed in their relationships with related parties by ensuring that:
 - trustees comply with their statutory duties as company directors to avoid conflicts of interest, not to accept benefits from third parties, and to declare interest in proposed transactions or arrangements.
 - all members, trustees, local governors of academies within a MAT and senior employees have completed the register of interests. (3.10.1)
- The academy trust's register of interests must capture relevant business and pecuniary interests of members, trustees, local governors of academies within a multi-academy trust and senior employees, including: directorships, partnerships and employments with businesses; trusteeships and governorships at other educational institutions and charities.
 - For each business: the name of the business; the nature of the business; the nature of the interest; and the date the interest began. (3.10.18)
- The register must identify any relevant material interests arising from close family relationships between the academy trust's members, trustees or local governors. It must also identify relevant material interests arising from close family relationships between those individuals and employees. (3.10.9)
- Trusts should consider carefully whether any other interests should be registered. Boards of trustees should keep their register of interests up-to-date. (3.10.10)
- Trusts must publish on their websites relevant business and pecuniary interests of members, trustees, local governors and accounting officers. (3.10.11)

Findings:

We have identified that pecuniary interests are being declared at the start of each trustee and resources committee meeting during the period.



No recommendations identified.

1.4 Previous supplementary audit visit reports

Per AFH:

- The trust should manage their programme of risk review and checking of controls in the way most appropriate to their circumstances. Options include: an internal audit service (in-house or external); a supplementary programme of work by the external auditor; a non-remunerated review by a non-employed trustee; a peer review by an appropriately qualified person at another academy trust. (2.9.6)
- The findings of the programme of work must be made available to all trustees promptly. (2.9.8)

Findings:

We have reviewed the minutes of finance committee meetings to identify where the previous supplementary audit report was considered by governors. We have not been able to identify where the April report was considered by governors.

We note that there are still some points raised from the previous supplementary audit report which are outstanding.



MINOR

We recommend that the review of supplementary audit reports is included within the finance committee minutes, and that the governors consider whether the points raised by the previous supplementary audit report require an action plan.

1.5 Review of related/connected parties

Per AFH:

- Academy trusts must be even-handed in their relationships with related parties by ensuring that:
 - there are no payments to any trustee by the trust unless permitted by the articles, or by authority from the Charity Commission, and comply with any relevant agreement with the Secretary of State. Trusts will need to consider these obligations where payments are made to other business entities who employ the trustee, are owned by the trustee, or in which the trustee holds a controlling interest. (3.10.1)
- Trusts must report all transactions with related parties to the ESFA in advance of the transaction taking place, using ESFA's on-line form for all transactions on or after 1 April 2019. (3.10.4)
- Trusts must obtain ESFA's approval for transactions with related parties that are novel, contentious and/or repercussive. Trusts should carefully consider the impact of this requirement and its relevance to transactions involving the chair of the board and the accounting officer. (3.10.5)
- Trusts must obtain ESFA's prior approval, using ESFA's online form, for contracts for the supply of goods or services to the trust by a related party agreed on or after 1 April 2019 where the following limits arise: a contract exceeding £20,000; a contract of any value which would take the total value of contracts with that related party beyond £20,000 in that financial year; a contract of any value if there have already been £20,000 of contracts cumulatively (3.10.6)
- An academy trust must pay no more than cost for goods or services provided to it by related parties subject to provisions 3.10.17 to 3.10.20. (3.10.12)
- The trust must agree an appropriate sum to be paid to the trust for use/occupation of the premises where any staff/personnel of a related party is based in, or works from, the premises of the academy trust. (3.10.16)
- Where a contract takes the trust's cumulative annual total with a connected party beyond £2,500, the element above £2,500 must be at no more than cost. (3.10.18)
- In relation to dioceses, the contributions made by an academy trust to its diocese for services it receives associated with securing the academy trust's religious character and ethos, which only the diocese can provide, are regarded as meeting the 'at cost' requirement. (3.10.20)
- Academy trusts must ensure that any agreement with a connected party is properly procured through an open and fair process, is supported by a statement of assurance from the connected party confirming that their charges do not exceed the cost of the goods or services, and is on the basis of an open book agreement. (3.10.21)
- Full cost must not include an element of profit, but includes all direct costs and a proportion of indirect costs. (3.10.22)

Findings:

We have reviewed transactions with related parties, as defined in the Academies Financial Handbook. Our enquiries have not identified any related parties which have total transactions above £2,500 in the financial year. The process for procurement for related parties is the same process as that for non related parties.



No recommendations identified.

1.6 Review of correspondence from ESFA and DfE

Per AFH:

- Accounting officers must share the "Dear Accounting Officer" letter with their members, trustees, chief financial officer and other members of the senior leadership team, arrange for it to be discussed by the board of trustees and take action where appropriate to strength the trust's financial systems and controls. (1.2.2)

Findings:

We have reviewed correspondence received from the ESFA for the year. There were three letters sent out by the ESFA during the year that we are aware of. We have been made aware that the trust has received these letters. Our enquiries have identified that the first two letters have been circulated to the accounting officer, chair of trustees, chair of the resources committee, the business manager and the accounts administrator. The third letter was received by the academy after the end of the summer term, so has not yet been distributed. We are aware that this is intended to be distributed in the autumn term.



MINOR

We recommend that the trust ensures that any correspondence received from the ESFA and Department for Education, other than funding advices, is shared with all of the relevant people in accordance with the guidelines in the Academies Financial Handbook, which includes members, all trustees and the senior leadership team.

2. Financial Processes and Procedures

2.1 Review of control over fixed assets

Per AFH:

- The accounting officer must have oversight of financial transactions by:
 - Ensuring that all the academy trust's property/assets are under the control of the trustees and measures are in place to prevent losses or misuse. (1.5.5)

Findings:

Your depreciation policies:

- Computer equipment - 4 years straight line
- Fixtures and fittings - 4 years straight line
- Buildings - 50 years straight line

The academy trust calculates depreciation on a regular basis for management accounts, and we have identified that the depreciation is calculated in line with these policies.

There is not currently a process to identify any assets which have been scrapped from the fixed asset register.



MINOR

We recommend that the academy trust reviews the fixed asset register on at least an annual basis for disposals.

2.2 Review of budget setting process

Per AFH:

- The board of trustees must approved a balanced budget for the financial year to 31 August and such approval must be minuted. Any significant changes to the budget must also have trustee approval and be minuted. (2.3.1)
- The board must ensure that budget forecasts, for the current year and beyond, are compiled accurately, based on realistic assumptions including any provision being made to sustain capital assets, and are reflective of lessons learned from previous years. It should challenge pupil number estimates as these will underpin revenue projections. (2.3.3)
- The board of trustees must notify ESFA within 14 days of its meeting if it is proposing to set a deficit revenue budget for the current financial year, which it cannot address after unspent funds from previous years are taken into account. (2.3.4)

Findings:

We have reviewed the budget setting process. The budget for the financial year to 31 August 2020 is set to give an in-year deficit, but this is forecast to be covered by the brought forward position. The budget was approved by the resources committee meeting on 8 July 2019.



No recommendations identified.

2.3 Review of procedures for fraud, theft and irregularity

Per AFH:

- Academy trusts must be aware of the risk of fraud, theft and irregularity and address this risk by putting in place proportionate controls. Trusts must take appropriate action where fraud, theft and/or irregularity is suspected or identified. (4.9.1)
- The academy 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 systemic fraud, regardless of value, must also be reported. (4.9.2)

Findings:

Our enquiries have not identified any instances of alleged, suspected or actual fraud, theft or irregularity. We have identified that the academy trust is complying with at least the minimum requirements of the Academies Financial Handbook with relation to addressing the risk of fraud, theft and irregularity.



No recommendations identified.

3. Bank accounts

3.1 Review of bank reconciliations and bank balances

Per AFH:

- The trust must manage its cash position robustly. It must avoid becoming overdrawn. (2.3.5)
- The academy trust must establish a robust control framework that includes: applying discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations. (2.2.1)

Findings:

We have reviewed the bank statements for the period. None of the bank accounts have gone overdrawn in the period. Account balances are being reconciled on a regular basis, and outstanding items are being cleared on a timely basis.



No recommendations identified.

3.2 Review of investments

Per AFH:

- The board of trustees must ensure that investment risk is properly managed. When considering an investment, the board must:
 - Act within its powers to invest as set out in its articles;
 - Have an investment policy to manage and track its financial exposure, and ensure value for money;
 - Exercise care and skill in investment decisions, taking advice as appropriate from a professional advisor;
 - Ensure that exposure to investment products is tightly controlled so that security of funds takes precedence over revenue maximisation;
 - Ensure that investment decisions are in the best interests of the trust; review the trust's investments and investment policy regularly. (2.3.6)
- ESFA's approval must be obtained for investment transactions which are novel, contentious and/or repercussive. (2.3.7)

Findings:

The academy trust does not hold any investments, nor has any plans to in the near future.



No recommendations identified.

3.3 Review of cash balances

Per AFH:

- The trust must manage its cash position robustly. (2.3.5)

Findings:

We have reviewed the petty cash balance for Brooke Hill Academy at the date of our visit. We have agreed the balance held to that showing on the financial reporting system at the same date.



No recommendations identified.

4. Management accounts

4.1 Review of control accounts

Per AFH:

- The academy trust must establish a robust control framework that includes:
 - applying discipline in financial management, including managing debtors, creditor, cashflow and monthly bank reconciliations. (2.2.1)

Findings:

We have reviewed the VAT control and payroll control reconciliations for July 2019. The reconciliations are being done on a monthly basis. We have identified that the reconciliation for the payroll control account does not agree to the nominal ledger by £602. This is due to a timing difference of paid advances and them going through the payroll.



No recommendations identified.

4.2 Review information given to Governors

Per AFH:

- The board of trustees, and any separate committee responsible for finance, must ensure rigour and scrutiny in budget management. (2.3.3)
- The trust must prepare management accounts every month setting out its financial performance and position, comprising budget variance reports and cash flow forecasts with sufficient information to manage cash, debtors and creditors. Managers must take appropriate action to ensure ongoing viability. (2.3.3)
- Management accounts must also be shared with the chair of trustees every month irrespective of the size of the trust, and with the other trustees six times a year. The board must consider these when it meets. The board must ensure appropriate action is being taken to maintain financial viability including addressing variances between the budget and actual income and expenditure. (2.3.3)
- The trust must select key financial performance indicators and measure its performance against them regularly, including analysis in its annual trustees' report. (2.3.3)
- The format of management accounts should be adjusted to be suitable for different users including summaries and supporting narrative as appropriate. Where the board has concerns about financial performance, it should consider whether additional financial reporting is appropriate. (2.3.3)

Effective from 1st September 2019:

- The format of management accounts must include an income and expenditure account, variation to budget report, cash flows and balance sheet. (Academies Financial Handbook 2019 2.21)
- The trust must select key financial performance indicators and measure its performance against them regularly, including analysis in its annual trustees' report as explained in the Accounts Direction. (Academies Financial Handbook 2019 2.22)

Findings:

We have reviewed the reports presented to governors at the meeting on 8 July 2019. These reports include actuals vs budget for June 2019, and the budget report for 2019-20 and are created from the accounting system, budget for the year and explanations of any variances.

We have identified that accruals and prepayments are being prepared on a monthly basis.

We have reviewed the actual expenditure compared to that budgeted for. When overspend has occurred, the trustees are aware, as they are presented with the report, along with reasons for the overspend.

We have identified that the chair of trustees is receiving monthly management reports. We have identified that the other trustees are receiving the management reports on a half termly basis. We have identified, through a review of the minutes, that the management reports are being discussed by trustees at their meetings.



No recommendations identified.

5. Income

5.1 Review of other income

Per AFH:

- The accounting officer must have oversight of financial transactions by:
 - Keeping full and accurate accounting records to support their annual accounts. (1.5.5)

Findings:

We have traced three other income receipts to their original source documentation to ensure that they have been correctly analysed within the accounting system. The receipts reviewed were for a Salvation Army clothing collection, takings from a book fair and use of the school as a polling station. The other income receipts traced were banked in a timely manner.



No recommendations identified.

5.2 Review of income and VAT status

Per AFH:

- The academy trust must establish a robust control framework that includes:
 - The regularity, propriety and value for money in the organisation's activities. (2.2.1)

Findings:

We have reviewed the academy trust's income nominals, and have not identified any new types of income being received which have not had their VAT status considered.



No recommendations identified.

5.3 Review of debtor balances

Per AFH:

- The trust should always pursue recovery of amounts owed to it, including overpayments, or payments in error. The trust should only consider writing-off losses after careful appraisal of the facts. (3.4.3)
- The trust must obtain ESFA's prior approval for certain transactions beyond the delegated limits. These transactions include writing off debts and losses, and entering into guarantees, letters of comfort or indemnities. (3.4.1)

Findings:

We have reviewed the aged debtor listing and identified two balances which are outside the normal terms of payment. Through enquiry, we have ascertained that the academy trust is actively chasing these debts, and considers them still to be recoverable.



No recommendations identified.

5.4 Review of chargeable services policy

Per AFH:

- The academy trust must establish a robust control framework that includes:
 - The regularity, propriety and value for money in the organisation's activities. (2.2.1)
- Academy trusts should set fees for their chargeable services at full cost, but can apply an additional rate of return when in a commercial environment. (2.5.1)

Findings:

We have reviewed the academy trust's lettings policy. The policy is dated 2019. We have identified that the policy sets rates for chargeable services at a level at least that of full cost.



No recommendations identified.

6. Expenditure and payroll

6.1 Review of payroll authorisation

Per AFH:

- The academy trust must establish a robust control framework that includes:
 - Maintaining appropriate segregation of duties;
 - Independent checking of financial controls, systems, transactions and risks;
 - Reducing the risk of fraud and theft. (2.2.1)

Findings:

We have reviewed two months of the final payroll print and have identified that it is signed by the Executive Headteacher as authorised. We have also reviewed the supporting evidence for two amendments to the payroll in the period under review.



No recommendations identified.

6.2 Review of staff severance payments, compensation and ex gratia payments

Per AFH:

- If an academy trust is considering making a staff severance payment above the statutory or contractual entitlements, before making any binding commitments, it must consider:
 - That trustees reasonably consider the proposed payment to be in the interests of the trust;
 - Whether such a payment is justified, based on a legal assessment of the chances of the trust successfully defending the case at employment tribunal;
 - If justified, the trust would need to consider the level of the settlement, which must be less than the legal assessment of what the relevant body is likely to award in the circumstances. (3.3.3)
- Staff severance payments should not be made where they could be seen as a reward for failure, such as gross misconduct or poor performance. (3.3.4)
- Where the trust is considering a non-statutory/non-contractual payment of £50,000 or more (gross), ESFA's prior approval must be obtained before the trust makes any binding settlement offer. (3.3.5 and 3.3.9)
- Academy trusts should demonstrate value for money by applying the same level of scrutiny to a payment under £50,000 as if it were over the £50,000 delegation and have a business case justifying the settlement. (3.3.6)
- A trust must base its decision, when considering a compensation payment, on a careful appraisal of the facts, including legal advice where relevant, to ensure that value for money will be achieved. (3.3.8)
- Trusts should consider whether cases for compensation payments reveal concerns about the effectiveness of internal control systems, and take steps to put failings right. (3.3.10)
- Ex gratia payments must always be referred to ESFA for prior authorisation. (3.3.12)

Findings:

We have not identified any severance payments made to staff during the year. Our enquiries have not identified any incidents in the year which the trust believes could give rise to a compensation claim. There have been no compensation payments for settled claims. We have not identified any ex gratia payments in the year.



No recommendations identified.

6.3 Expenses and gifts & hospitality policies

Per AFH:

- When making gifts, the trust must ensure the value is reasonable, is within its scheme of delegation of financial powers, the decision is documented, and has due regard to propriety and regularity in the use of public funds. (3.9.1)
- The academy trust should have a policy and register on the acceptance of gifts, hospitality, awards, prizes or any other benefit that might be seen to compromise their judgment or integrity, and should ensure all staff are aware of it. (3.9.1)

Findings:

We have reviewed the academy trust's expenses and gifts & hospitality policies, and have identified that they are in line with other academies that we act for. Through enquiry, we have identified that these policies are available to all members of staff, and that the business manager intends to email staff as a reminder at the start of the new school year.



No recommendations identified.

6.4 Review of expenses

Per AFH:

- The accounting officer must have oversight of financial transactions by:
 - Keeping full and accurate accounting records to support their annual accounts. (1.5.5)
- The academy trust must establish a robust control framework that includes:
 - Ensuring that delegated financial authorities are complied with
 - The regularity, propriety and value for money in the organisation's activities. (2.2.1)

Findings:

We have reviewed a sample of credit card claims. All those reviewed were authorised by an appropriate person. We note that the heads of school approve all credit card claims, and do not have their own credit cards. The business manager approves all claims at Brooke Hill Academy, including those on his own credit card, but these are also approved by the head of school for Brooke Hill Academy.



No recommendations identified.

6.5 Review of gifts register

Per AFH:

- The academy trust should have a policy and register on the acceptance of gifts, hospitality, awards, prizes or any other benefit that might be seen to compromise their judgment or integrity, and should ensure all staff are aware of it. (3.9.1)
- When making gifts, the trust must ensure the value is reasonable, is within its scheme of delegation of financial powers, the decision is documented, and has due regard to propriety and regularity in the use of public funds. (3.9.1)

Findings:

We have reviewed the academy trust's gift register. There have been no gifts declared as received. We have identified that there have been gifts given in the year to departing trustees and staff of between £40 and £116. The academy trust's policy states "Our approach to giving gifts to staff is that this amount will not exceed £25 and gifts will only be given at the discretion of the Governing Board."



MINOR

We recommend that the academy trust ensures that all gifts made using public funds are in line with the trust's policy.

6.6 Review of leasing arrangements

Per AFH:

- Trusts must obtain ESFA's prior approval for the following leasing transactions:
 - Taking up a finance lease on any class of asset for any duration from another party.
 - Taking up a leasehold or tenancy agreement on land or buildings from another party for a term of seven or more years.
 - Granting a leasehold interest, including a tenancy agreement, of any duration, on land and buildings to another party. (3.6.2)
- Trusts must ensure that any lease arrangement maintains the principles of value for money, regularity and propriety. (3.6.4)

Findings:

Through enquiry, we have ascertained that there have been two new leases entered into during the year. Both of these are operating leases so no ESFA approval is required.



No recommendations identified.

7. Filing and miscellaneous

7.1 Budget forecasting return

Per AFH:

- The academy trust must submit to ESFA, a budget forecast return outturn by 21 May, and a 3-year budget forecast return by 30 July. (2.3.2)

Findings:

The budget forecast return outturn was reviewed and approved by trustees at their meeting on 8 May 2019. It was submitted to the ESFA on 20 May 2019.

The budget forecast return was reviewed and approved by trustees at their meeting on 8 July 2019. It was submitted to the ESFA on 15 July 2019.



No recommendations identified.

7.2 Transparency

Per AFH:

- The board of trustees must provide details of the academy trust's governance arrangements in the governance statement published within its annual accounts, and on its website.
 - This includes the scheme of delegation for governance functions, setting out what the board has delegated to its committees and/or to local governing bodies. (2.10.1)
- An academy trust must publish on its website up-to-date details of its governance arrangements in a readily accessible format. This must include:
 - The structure and remit of the members, board of trustees, committees and local governing bodies, as well as the full names of the chair for each.
 - The full names, date of appointment/resignation and relevant business and pecuniary interests (to include governance roles in other educational institutions) for any member, trustee or local governor who has served at any point over the last 12 months.
 - The term of office and who appointed (in accordance with the trust's articles) each trustee and local governor who has served at any point over the last 12 months.
 - The trust's accounting officer's relevant business and pecuniary interests (regardless of whether or not they are a trustee).
 - The attendance records of each trustee at board and committee meetings over the last academic year.
 - The attendance records of each local governor at local governing body meetings over the last academic year. (2.10.1)

Findings:

We have reviewed the governance arrangement information published on the academy trust's website and on the websites of the component academies.

We were unable to find the following information in a readily accessible format on the academy trust's website:

- The structure and remit, including the name of the chair, of the sub committees of trustees.
- The dates of appointment and resignation of members, trustees and local governors who have served at any point over the last 12 months.
- The terms of office for trustees and who appointed them (in accordance with the trust's articles).
- The attendance records of each trustee at board and committee meetings over the last academic year.
- The attendance records of each local governor for Edith Weston Academy over the last academic year.
- The pecuniary interests for members, trustees and local governors. We note that there is a document for 2018-19 on the websites for South Witham Academy and Brooke Hill Academy which lists all the members, trustees and local governors, however there are several individuals with "TBC" next to their names under pecuniary interests.



MODERATE

We recommend that the academy trust ensures that all required information regarding governance arrangements is made readily accessible on the trust's website or on the relevant component academy's website.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our supplementary audit visits in accordance with the remit agreed with the governing body and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by this function should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify circumstances of fraud or irregularity.