

The Great Schools Trust

Report to the Governors and summary of audit findings

Year ended 31 August 2018

1 REPORT OF SIGNIFICANT WEAKNESSES IN INTERNAL CONTROL

1.1 Introduction

We set out below the significant matters we became aware of during our audit, which relate to the effectiveness of the company's accounting and financial control systems. We have used the following grading system to indicate the significance of the issues we have raised and the priority that we believe should be given to our recommendations:

Rating	Description
(H)igh	Should be urgently attended to by the directors and management. <i>These are significant issues that may result in a qualification in the audit report in future periods if not satisfactorily addressed.</i>
(M)oderate	Issues requiring the attention of the directors and management. <i>Issues ranked as moderate require close monitoring by the Board and senior management to ensure timely resolution.</i>
(L)ow	Issues requiring management attention and correction. <i>Issues ranked as low are generally routine in nature and should be resolved by general management. The Board and senior management should be aware of these issues to enable monitoring of progress with their resolution. These issues may be reported to management in less detail than more highly rated issues.</i>

1.2 Issues noted

School	Observation/recommendation	Risk	Management response
Trust	<p>Intercompany Accounts There was £281k of income and £281k of costs incorrectly recognised in KLA Liverpool from Aspire and separately, incorrect inclusion of debtors in KLA Liverpool and creditors in KLA Hawthorne's totalling £72k, both due to improper treatment of recharges.</p> <p>The use of intercompany accounts to process salary recharges and other transfers between schools would prevent this duplication.</p>	M	All recharges between academies are now carried out via journal. No invoices are raised.
Trust	<p>Register of Pecuniary Interest and 'At-Cost' Statement The register of pecuniary interests is not maintained and is out-of-date on the Trust's website. These are Academy Financial Handbooks (AFH) 'musts'.</p> <p>The statement of 'at-cost', for transactions in excess of £2,500 with related parties in which a trustee or member has significant control, should be in place before related party transactions commence.</p> <p>When requested, the statements were not available suggesting that the Trustees have not previously ensured that these transactions are occurring at no more than cost, which is another AFH 'must'.</p>	H	Up to date register of pecuniary interests is now on the GST website. Statements were received from related parties and passed to the auditors.
Hawthorne's & Liverpool	<p>Review of Aged Debtors Report There is £10k of old debt on KLA Hawthorne's aged debtors report. The oldest outstanding invoice is from November 2016. In addition, when the aged debt report was initially received for Liverpool, there were a number of old outstanding balances. The report was "tidied up" after being requested, however, the fact that this action was necessary is indication of a lack of control during the year.</p> <p>The age of the debts brings into question their recoverability. It may be the case that some of these debts have been received with the receipt being posted to income instead of being matched to the outstanding debtor. A month end review of the aged debtors report would prevent this build-up of old debt.</p>	M	Revised Trust Finance Policy contains and internal control tick list to be completed each month. Steps 6 and 7 on this tick list involved the production of aged debtor and creditor reports and an investigation into any balances over 30 days old. This will be monitored by CFO

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All schools	<p>Depreciation Policies There is a variety of depreciation policies across the Trust for the same class of assets.</p> <p>It is recommended that a review is performed, the most appropriate policy for the class of asset selected and then applied Trust-wide.</p>	L	There is a Trust depreciation policy and the CFO will ensure that this is used across all academies.
Hawthorne's & Liverpool	<p>Fixed Asset Registers KLA Liverpool and KLA Hawthorne's are not maintaining fixed asset registers.</p> <p>This lack of tracking of assets leads to an increased risk of misappropriation and loss of assets and misstatement of financial information if additions, disposals and depreciation are not being recorded.</p>	M	<p>This has now been rectified and both academies now have registers.</p> <p>Trust Finance Policy now clearly define what purchases should be treated as assets, recorded as capital expenditure and entered on to the relevant asset register.</p> <p>This will be monitored by the CFO</p>
All schools	<p>Tendering Policy/Quotes In certain circumstances the nature of the expenditure is such that there are few suppliers able to provide the required goods or services resulting in less than the usual 3 quotes being obtained.</p> <p>Where this is the case please ensure that the issue is discussed by the trustees and the reason for selecting the supplier is noted in the minutes.</p>	M	This has been noted and trustees will be informed if this occurs in the future.

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Hawthorne's & Liverpool	<p>Credit Card Balances The credit card balance is a debit at two of the schools at the year end. This should be reconciled monthly and all invoices posted to the SOFA so that a debit balance does not occur.</p>	L	As part of the Financial Procedures credit card expenditure should be recorded each month and, along with all other control accounts, the credit card control account should be reconciled. This will be monitored by the CFO
Hawthorne's	<p>Bank Reconciliations When performing the bank reconciliation, un-cleared items should be reviewed, investigated and adjusted once more than 1 month old to prevent the build-up of old items which are no longer valid.</p> <p>There was a receipt for £341.26 dated 25/03/2018 showing as un-presented at 31/08/2018.</p>	L	Revised Trust Finance Policy contains and internal control tick list to be completed each month. Step 10 relates to monthly bank account reconciliation and states that entries over 2 months old should be investigated. This will be monitored by the CFO
Trust	<p>Board Meetings From the minutes received during the audit, it appeared that the Board met 4 times in full in 2017/18 (and one further abbreviated meeting to approve the accounts.)</p> <p>In the Academies Financial Handbook 2018, applicable for 2018/19, there is a requirement for the Board to meet at least 6 times a year or it is required to disclose how it has maintained effective oversight with fewer meetings.</p>	L	The board met six times last year including the meeting to approve the accounts. 6 dates have been agreed for 2018/9

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All schools	<p>Regularity Issues There were three issues noted during the regularity audit:</p> <ul style="list-style-type: none"> ▪ One of the samples selected in the credit card testing was an invoice for £237.50 for a meeting held at Liverpool Airport. A satisfactory explanation as to why school facilities could not be used was not obtained and therefore this could be considered as potentially irregular expenditure. ▪ There were two instances where there was no invoice on file to back up credit card expenditure, which is required in the Academies Financial Handbook. ▪ The structure of the Board Meeting minutes does not clearly demonstrate when the Governors challenge the Trust management team. This is a format recommendation from the EFSA. 	M	Board challenges were not recorded in a recognisable manner prior to September 2018. This has now been changes as evidenced by the minutes of the three sets of minutes published since September
Trust	<p>Management Accounts The management accounts reviewed for October 2018 do not include a balance sheet or a cash flow statement.</p> <p>The EFSA recommends that Trusts should be producing monthly management accounts including all three financial statements and in light of the Trust's forecast cash position on the Recovery Plan, we would advise that an monthly updated cash flow forecast would highlight any increased risk caused by deviation from the budget before the problem occurs.</p>	H	Management accounts are now produced monthly and include both balance sheet and cash flow summaries