

# The Great Schools Trust

Report to the Governors and summary of audit findings

Year ended 31 August 2019

# 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
<b>(H)igh</b>	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>
<b>(M)oderate</b>	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>
<b>(L)ow</b>	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

### 1.3 Trust Wide

Observation/recommendation	Risk	Management response
<p><b>Month end procedures</b> The following month end procedures could be improved. Ensuring these procedures are followed will eliminate a number of the management letter points which are set out below.</p> <ol style="list-style-type: none"> <li>1. Review the purchase ledger aged report and make adjustments for old balances and debit balances where necessary. With the exception of Liverpool for which a separate point is raised in the Liverpool section of this report the old balances are relatively low as follows:- Hawthornes £5K credit and Warrington £3.7K debit.</li> <li>2. Credit card accounts should be reconciled to the statements on a monthly basis.</li> <li>3. Items posted to capital expenditure codes should be added to the fixed asset register and depreciated. A monthly depreciation charge should then be posted and the balances on the fixed asset register agreed to the Trial Balances.</li> <li>4. A report on old debt is produced from each school which details the actions being taken to recover the debts or recommends that debts are written off when recovery is not possible. Old balances are as follows Warrington £3K, Liverpool £3K &amp; Hawthornes £15K.</li> <li>5. The PAYE/NI creditor should be reconciled to the payroll for the month with any differences being investigated and corrected. Other than Liverpool for which a separate point is raised below the differences are relatively minor. Warrington £78 &amp; Hawthornes £2,174.</li> <li>6. The balances on the VAT accounts should be reconciled to the VAT126 returns with differences being resolved on a timely basis.</li> </ol>	M	<p><i>See individual academy section.</i></p> <p><i>This is reconciled and evidenced. This will be checked by the CFU and balances agreed.</i></p> <p><i>See individual academy section.</i></p> <p><i>CFU now has access to all payroll reports and will ensure that all differences are investigated. See individual academy section.</i></p>

Observation/recommendation	Risk	Management response
<p><b>Consistency of depreciation policies</b></p> <p>We note that the policies are more consistent across the Trust than in 2017/18, however, adjustments were requires to standardise the policies for Computer equipment for which the rates varied at Hawthornes (25%) and Central (20%) compared to the Trust policy of 33%.</p> <p>Assets are also being depreciated for a full year irrespective of when they are purchased. If depreciation is calculated on a monthly basis as recommended above this will be avoided.</p>	M	<p><i>Incorrect rates were used in Hawthornes and Liverpool. This was rectified before posting. All new assets will be depreciated from date of purchase.</i></p>
<p><b>Register of business interests</b></p> <p>During the year the Trust has paid £525 in respect of late filing penalties for Schools of Character Ltd. A company in which Sir Iain Hall is the director and Shane Ierston is the shareholder. There is also a company called Great Schools Education Ltd with the same director shareholder combination.</p> <p>Neither of the companies appears on the register of business interests.</p> <p>As the companies are not owned by the Trust it is questionable whether the Trust should paying the late filing penalties and the annual confirmation statement filing fees of £13 each.</p> <p>We recommend that the status of the Companies is reviewed and that if they are no longer required that applications to strike then off are filed at Companies House.</p>	M	<p><i>Dormant accounts to 31 March 19 have been submitted. Applications to strike them off have been completed.</i></p>
<p><b>Use of Inter- school accounts</b></p> <p>With the central pooling of funds in operation the correct use of inter-school accounts is essential. Without this there is no way of recoding the transactions owed by one school to another.</p> <p>Currently each trial balance across the trust has a balancing figure which represents the amount owed to/from other schools or central services across the Trust. If at any point in the future a school was to leave the Trust It would not be possible to provide an analysis of the balance owed/due.</p>	M	<p><i>Intra-company accounts issues have now been resolved. Individual academy TBs balance to 0 at 31 Aug 19 and at each month end since.</i></p>

## 1.4 Kings Warrington

Observation/recommendation	Risk	Management response
<p><b>Month end procedures</b> The improvements which we recommend to the month end procedures are noted above in the Trust Wide section of the report.</p> <p>There are no additional points to note for Warrington.</p>	M	<i>Debit balance on creditors relates to Water Plus credit note. In discussion with them regarding refund.</i>

## 1.5 Kings Liverpool

Observation/recommendation	Risk	Management response
<p><b>PFI Payment</b> The payment for the 2016/17 PFI creditor was posted to the PFI expense leaving the PFI creditor from Liverpool City Council as outstanding on the purchase Ledger.</p> <p>The effects of this are as follow:</p> <ol style="list-style-type: none"> <li>1. Trade creditors are overstated in excess of £1m.</li> <li>2. The VAT has been claimed twice, once on the original invoice and once when the payment for the invoice was mis-posted. The amount over claimed is £166K.</li> <li>3. The management accounts for Liverpool are incorrect.</li> </ol>	M	<i>Duplicate invoice has been reversed. HMRC have been contacted and the amount over claimed has been paid. Management accounts are reviewed and additional accruals/prepayments processed by CFU each month before being issued.</i>
<p><b>PAYE/NI control</b> At 31.08.2019 the balance on the PAYE NI control account was a debit of £24,283. The effect of this is that wages are understated by the same. As noted above in the overall Trust points the account should be reconciled on a monthly basis.</p>	M	<i>CFU now have access to all payroll reports to check accuracy of postings and will ensure that accounts are reconciled.</i>
<p><b>Bank Reconciliation</b> The year end bank reconciliation showed a difference of £1,000 due to a credit card payment which had not been entered. We recommend that the bank reconciliations are only authorised for sign off when there is no difference to the trial balance.</p>	M	<i>All finance staff directed to follow this procedure.</i>

## 1.6 Hawthornes

Observation/recommendation	Risk	Management response
<p><b>Old Sales Ledger balances</b> The Aged debt report includes £15,211 of debt which is greater than 12 months old.</p> <p>We are advised that the debts are still recoverable though one balance for £4,720 dates back to June 2017.</p> <p>Please see monthly procedures above.</p>	M	<i>Assured by finance staff that debts are recoverable. CFU will monitor closely.</i>
<p><b>Old VAT debtor</b> There is a VAT debtor balance of £8,620 dating back to 2016 &amp; 2017. The balance may represent additional VAT which could be reclaimed, however, as access to the FMS system on which the records were maintained is no longer available a decision has been made to write of the balance.</p> <p>If the month end procedure referred to above is followed, this should not reoccur in the future.</p>	M	<i>This should have been written off last year but was rolled forward. VAT accounts are reconciled each month.</i>
<p><b>Bank Reconciliation</b> The year end bank reconciliation showed a difference of £145 due to a payment which had not been entered. We recommend that the bank reconciliations are only authorised for sign off when there is no difference to the trial balance.</p>	M	<i>All finance staff directed to follow this procedure.</i>

## 1.7 Prior year comments

School	Observation/recommendation	Risk	Management response
Trust	<p><b>Intercompany Accounts</b> 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><b>Register of Pecuniary Interest and 'At-Cost' Statement</b> 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><b>Review of Aged Debtors Report</b> 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

School	Observation/recommendation	Risk	Management response
All schools	<p><b>Depreciation Policies</b> 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><b>Fixed Asset Registers</b> 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><b>Tendering Policy/Quotes</b> 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.

School	Observation/recommendation	Risk	Management response
Hawthorne's & Liverpool	<p><b>Credit Card Balances</b> 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	<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</p>
Hawthorne's	<p><b>Bank Reconciliations</b> 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.  There was a receipt for £341.26 dated 25/03/2018 showing as un-presented at 31/08/2018.</p>	L	<p>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</p>
Trust	<p><b>Board Meetings</b> 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.)  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	<p>The board met six times last year including the meeting to approve the accounts. 6 dates have been agreed for 2018/9</p>

School	Observation/recommendation	Risk	Management response
All schools	<p><b>Regularity Issues</b> There were three issues noted during the regularity audit:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ 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.</li> <li>▪ 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.</li> </ul>	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><b>Management Accounts</b> 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