

The Great Schools Trust

Management Report

Year ended 31 August 2020



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
Hawthornes	<p>Evidence of obtaining 3 quotes and the process for selecting the supplier for the Room 38 capital project could not be found.</p> <p>It is recommended that responsibility over the record-keeping be given to one person across the whole Trust and it be stored electronically and centrally, this would prevent disparities between schools or issues with locating documents in the absence of the member of staff who was responsible the project.</p>	M	<i>Only one contractor provided quote. Central team will now monitor this and ensure quotes are obtained and stored.</i>
Liverpool	<p>A corrective journal was made to the PFI, as the invoices were not recorded on the system on receipt.</p> <p>Invoices, even if disputed, should be recorded onto the ledger to prevent this. As a consequence of not being recorded promptly, the VAT of £323k was not reclaimed on these invoices immediately, adversely affecting cashflow.</p>	M	<i>Invoices were processed in September and VAT claimed.</i>
Warrington & Hawthornes	<p>There was an instance of £13k of uniform income being received in August but not banked until September being treated as accrued income.</p> <p>The correct treatment for this is to be recorded as an uncleared lodgement in the bank.</p>	L	<i>Accepted that this was an error in recording.</i>
Liverpool & Hawthornes	<p>There are a few minor old and unallocated debts on the sales ledgers at Liverpool and Hawthorne's (£980 and £2,307 respectively.)</p> <p>We recommend a monthly review and tidy up of the ledger, however this process has notably improved from last year.</p>	L	<i>Hawthornes – one invoice outstanding, assured that this will be paid. Liverpool – 2 old invoices, will be credited.</i>

1.3 Prior Year Points

School	Observation/recommendation	Risk	Management response
Trust wide	<p>Month end procedures 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"> 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. 2. Credit card accounts should be reconciled to the statements on a monthly basis. 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. 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 & Hawthornes £15K. 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 & Hawthornes £2,174. 6. The balances on the VAT accounts should be reconciled to the VAT126 returns with differences being resolved on a timely basis. 	M	<p><i>See individual academy section.</i></p> <p><i>This is reconciled and evidenced.</i></p> <p><i>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.</i></p> <p><i>See individual academy section.</i></p>

School	Observation/recommendation	Risk	Management response
Trust wide	<p>Consistency of depreciation policies</p> <p>We note that the policies are more consistent across the Trust than in 2017/18, however, adjustments were required 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>
Trust wide	<p>Register of business interests</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 be 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 them 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>

School	Observation/recommendation	Risk	Management response
Trust wide	<p>Use of Inter- school accounts 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	<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>
Warrington	<p>Month end procedures 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>
Liverpool	<p>PFI Payment 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"> 1. Trade creditors are overstated in excess of £1m. 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. 	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>

School	Observation/recommendation	Risk	Management response
Liverpool	<p>PAYE/NI control</p> <p>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>
Liverpool	<p>Bank Reconciliation</p> <p>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>
Hawthornes	<p>Old Sales Ledger balances</p> <p>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>
Hawthornes	<p>Old VAT debtor</p> <p>There is a VAT debtor balance of £8,620 dating back to 2016 & 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>
Hawthornes	<p>Bank Reconciliation</p> <p>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>