



Education & Skills  
Funding Agency

# **Investigation Report:**

## **Townfield Primary School**

**October 2020**

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## Glossary

<b>Title</b>	<b>Name of individual</b>
Chair of the Board	Ted Behan (resigned 27 September 2020)
Former Accounting Officer (AFH term) / Former Head teacher to December 2016	Kate Lee
Former Accounting Officer (AFH term) / Former Head teacher from February 2017 to November 2018	Douglas Stitcher
Current Accounting Officer (AFH term) / Current acting Head teacher from October 2018	Alison Durham
Chief Financial Officer (AFH) / School Business Manager	Philip Jones

## Executive summary

1. Between November 2018 and January 2019, the ESFA received allegations around financial management, governance and personnel issues at the Townfield Primary School (the trust), including conflicts of interest and misuse of public funds. As a result, an ESFA investigations team undertook a review visit between 21 May 2019 and 10 June 2019.

2. The review identified misuse of public funds and an instance where a former head teacher, in awarding a pay increase to a family member employed at the trust, had failed to manage the conflict of interest. The review also identified lack of board oversight of trust financial operations, breaches of the Academies Financial Handbook (AFH) and internal control weaknesses. Key findings include:

- the board of trustees failed to manage a conflict of interest in relation to a previous head teacher, Kate Lee. This includes a lack of independent oversight and scrutiny (Breach of AFH 2015, 2016 s1.5.10, s3.1.13)
- a previous head teacher and Accounting Officer, Kate Lee, awarded her daughter-in-law, who was employed by the trust as a Teaching Assistant, a significant pay rise in March 2015 without any due process or independent sign off. The value of the additional salary, paid from March 2015 to February 2017, was £13,248 (Breach of AFH 2015, 2016 s1.5.18, s3.1.13)
- the chair of the board gifted a number of items of IT devices to Kate Lee on her retirement. There was no evidence of full board approval to this action. Estimated value of the items was £1,000 (Breach AFH 2017 s1.5.12)
- Douglas Stitche, the head teacher and Accounting Officer from 27 February 2017 to 2 November 2018, purchased fuel for his private vehicle using the trust charge card. There was no documentary proof of business mileage or approved travel claims to support these transactions that were in breach of trust policies and should have been processed through payroll. Total value of the transactions was £385.21 (Breach AFH 2016 s1.5.10, s1.5.18, s2.1.7, s3.1.3)
- the review identified a number of instances of misuse of public funds during the period February 2017 to February 2018. The value of these transactions made using the trust charge cards was £5,636 (Breach AFH 2016 s1.5.10, s1.5.18, s2.1.7, s3.1.3)
- governance concerns were also identified which breached the AFH, including:
  - the board failed to ensure adequate oversight of the actions of the head teacher including compliance with trust policies, use of public funds and

management of conflicts (Breach of AFH 2015, 2016 s1.5.10, s2.1.1, s3.1.3)

- non-compliance with trust policies including travel and subsistence and security and use of trust charge cards (Breach AFH 2016 s2.3.1)
- inadequate segregation of financial duties and internal control weaknesses (Breach of AFH 2016 s2.3.1)
- not establishing an audit committee (Breach AFH 2018 s2.9.1)

## Background

3. Townfield Primary School (company no 09119526) was incorporated on 7 July 2014 and is a single academy trust. The school is a primary school converter that became an academy trust on 1 October 2014 having previously been a grant-maintained school under the control of Wirral local authority.
4. The trust's latest Ofsted inspection was on 6 July 2017, the judgment for which was Good.
5. The trust's 2017/18 financial statements confirmed the academy's annual revenue income was £2.5m of which £1.8m was general annual grant (GAG) funding received from the ESFA. It had a cumulative revenue surplus of £236,000 at the year end.
6. The governance structure at the academy comprises of 3 primary layers: the members, the board of trustees and the senior management team.
7. The ESFA wrote to the trust on 26 November 2018, following receipt of a range of anonymous allegations regarding governance and personnel issues.
8. The Chair of the trust responded on 5 December 2018 and provided assurances that, following investigation by the trust, there was no evidence to uphold the allegations. The case was closed by the ESFA, on the understanding that the trust would keep the ESFA apprised of further developments, involving the progress of ongoing disciplinary actions.
9. Soon after notifying the trust of its decision, on 16 January 2019, ESFA received additional, more detailed, anonymous allegations covering a wider range of financial, governance and personnel issues. In particular, conflicts of interest and misuse of public funds. As a result, an ESFA team undertook a review at the trust between 21 May 2019 and 10 June 2019.

## Objectives and scope

10. The objective of this review was to establish whether the concerns received by the ESFA were evidence based and in doing so, identify whether any non-compliance or irregularity had occurred with regard to the use of public funds.

11. The scope of the investigation work included the following areas:

- review of relevant documentation, including governing body minutes and supporting policies
- testing of financial management information, specifically in relation to the allegations received
- interviews with key staff and trustees

12. In accordance with EFA investigation publishing policy (August 2014) the relevant contents of the report have been cleared for factual accuracy with the Townfield Primary School.

# Findings

## Management of conflicts of Interest

13. A previous head teacher, Kate Lee (KL) awarded her daughter-in-law a significant pay rise without due process or documented justification for the increase. Her daughter-in-law was employed at the trust as a Teaching Assistant (TA). An email was sent from KL to the School Business Manager (SBM), Philip Jones, in January 2015 instructing him to action the pay increase and attaching a payroll input form approved by KL. The increase from a pay band D, SCP15 to Pay band F, SCP22, provided a gross pay rise of £552 per month representing a 61% salary increase.

14. The SBM confirmed that there was no other available documentation to support why the increase was warranted.

15. KL has stated that the pay increase was the result of a re-organisation of Early Years Foundation 2 requested by the Head of Early Years that also resulted in a pay increase for another TA working in the same area. The investigation team confirmed through a check of trust records and interview that another TA did receive a similar pay rise. There was no documentation available to support this second pay rise and the investigation team were unable to identify the documented reason for the award.

16. KL has also stated that the chair of the board, Ted Behan, was aware of and had verbally authorised the pay increase for her daughter-in-law. When interviewed by the investigation team the chair denied any knowledge of the transaction. Alison Durham, who was the Head of Early Years at the time, has stated that she was not aware of any re-organisation of Foundation 2 or the award of any pay increases.

17. The chair and vice chair both confirmed that the board receives monthly reports from the head teacher which should include details of all staff changes. They were both unaware of the pay increases and have therefore concluded that notification was not included in the monthly report. The vice-chair confirmed that the board would expect to approve all significant staff changes and pay increases.

18. There was no evidence that KL had taken steps to manage the conflict of interest inherent in authorising a pay increase for her daughter-in-law and there was no independent sign off of the transaction. This represents a breach of the AFH by the former head teacher, who was the trust Accounting Officer and therefore had a personal responsibility for assuring high standards of probity in the management of public funds.

19. These findings breach the AFH (2015, 2016, and 2017) s3.1.13, s3.1.14.

20. The board of trustees must ensure that the requirements for managing connected party transactions are applied across the trust. The chair of the board of trustees and the Accounting Officer (as senior executive leader) must ensure that their capacity to control

and influence does not conflict with these requirements. They must manage personal relationships with connected parties to avoid both real and perceived conflicts of interest, promoting integrity and openness in accordance with the seven principles of public life.

## **Misuse of Public Funds**

### **Gifts Policy**

21. The trust external auditors in their 2017/18 management letter raised an issue regarding the purchase of gifts for staff using academy funds. The recommendation was that the trust should carefully monitor the level of gifts it was purchasing, should not include the purchase of alcohol and that the trust should strengthen its policy in relation to gifts and hospitality. The review identified transactions to the value of £319.88 between September 2016 and March 2018 on gifts. The current head teacher Alison Durham confirmed that it was no longer trust policy to purchase gifts from academy funds.

22. The review confirmed that on her retirement in December 2017 the former head teacher KL received a gift of a number of IT devices including an iPad Pro and an Apple Mac book pro. These were items that had been purchased by the trust over the previous 2 years to support her in her role as head teacher. The estimated current value of the items was £1,000. The items had been formerly gifted to KL by the chair of the trust Ted Behan. There was no evidence that formal approval to this action had been given by the full trust board.

23. This is a breach of AFH (2015, 2016, 2017) s3.1 Proper and regular use of public funds. The academy trust must be able to show that public funds have been used as intended by Parliament.

### **Use of trust charge cards**

24. The review identified misuse of public funds in relation to charge card expenditure during the period February 2017 to February 2018. DS was head teacher and Accounting Officer from 27 February 2017 to 2 November 2018 and had been a trustee of Townfield Primary School since July 2014.

25. During that period, charge cards were assigned to DS as head teacher and Philip Jones, SBM. The trust credit card policy states that card holders should:

- ensure cards are held securely
- PIN numbers should be kept secure and should not be disclosed to other persons
- supply receipts for every transaction to the School Business Manager

26. Transaction testing identified inappropriate and irregular expenditure, missing receipts and evidence that cards had been used off site out of school hours by both the cardholders and by other staff from the finance office. The total value of these transactions between February 2017 and February 2018 was £5,636.
27. Credit card statements were reconciled by the SBM, even though he was the holder of one of the cards. There was no independent oversight or check of this reconciliation. Expenditure that was not supported by appropriate receipts, in some cases expenditure relating to the SBM's charge card, was not challenged as part of the reconciliation.
28. During this period, the trust senior leadership team held 3 away days at hotels local to the school in Liverpool and Chester. For each event the Senior Leadership Team (SLT) stayed overnight on the evening prior to the event and meals and alcoholic drinks were purchased using DS's charge card.
29. A further overnight stay at a hotel in Liverpool on 17 March 2017 was for 8 people and included dinner and drinks at a total cost of £1,387. In this case, there was no evidence that an event took place the following day although we have received statements that on this occasion the SLT met in the hotel public area.
30. There were no business cases for any of these events. DS has stated that the reason why staff needed to stay overnight in local hotels on the evenings prior to the events was for team building and staff well-being. The investigation team were however told that the overnight stays were not optional and in at least one case caused additional worry to a member of staff who had young children. The total cost to the trust of all 4 events was £5,366. By comparison, the daily conference costs for the events, including refreshments totalled £656, the balance £4,710 was solely expenditure on meals, alcohol and bed and breakfast overnight stays.
31. An analysis of the value of the spend on evening meals and drinks at each event identified that the purchases had also breached the trust expenses policy which allows individual staff to claim up to £25 for an evening meal.
32. Included in the above events was an overnight stay on 27 November 2017, attended by 9 people. This was to celebrate KL's retirement. It was attended by the chair and vice chair of the board, members of the school SLT, the head teacher's PA and a school improvement consultant. In total 9 people had dinner at a cost of £404.25, 8 people had overnight bed and breakfast stays at a cost of £848.00. Only 5 of the people staying overnight attended the SLT event the next day.
33. The trust chair and vice chair attended at least one of these events. It is a requirement of the Academies Accounts Direction that all trustee expenses are declared in the trust financial statements. There was no record in the 2017/18 financial statements of the expenses incurred in attending this event, including the cost of dinner and an overnight stay on the evening prior to the event.

34. The trust chair, SBM and current acting head teacher (AD) gave examples of the purposes for these events and the areas of work that were covered but were unable to supply full documented details for each event or who had attended them.

35. This is a breach of the AFH (2015, 2016, 2017) s2.3.1 which requires trusts to maintain a sound internal control framework including:

- appropriate segregation of duties
- a process for independent checking of financial controls, systems, transactions and risks

36. This is also a breach of AFH (2015, 2016, 2017) s3.1 Proper and regular use of public funds. The academy trust must be able to show that public funds have been used as intended by Parliament.

## **Purchase of fuel**

37. On a number of occasions DS purchased diesel for his personal vehicle. While receipts were supplied by DS for the expenditure there was no record of approval for business mileage, evidence that the trust had checked whether the head teacher was insured for business use and no record of authorised business travel. The trust expense policy states that the chair should authorise all expenses for the head teacher.

38. The chair stated he was unaware that the head teacher had completed any business mileage and was not aware that purchases of diesel had been made using the trust charge card. While there was evidence of business mileage by DS it was not possible to verify the validity of the amounts charged to the trust due to the lack of documented expense claims. The total amount of expenditure for the period April 2017 to February 2018 was £385.12.

39. This is a breach of the AFH (2015, 2016, 2017) s2.3.1 which requires trusts to maintain a sound internal control framework including:

- appropriate segregation of duties
- a process for independent checking of financial controls, systems, transactions and risks

40. Other items of inappropriate expenditure totalling £438 were identified. This expenditure included the purchase of alcohol for a school event, a purchase made in a Pandora jewellery shop in Chester and refreshments and alcohol for KL's retirement party. In the majority of cases, there were no supporting receipts.

41. This is a breach of AFH (2015, 2016, 2017) s3.1 Proper and regular use of public funds. The academy trust must be able to show that public funds have been used as intended by Parliament.

## Governance

42. The AFH requires trusts to have in place a process for checking its financial systems, controls, transactions and risks (AFH 2.4). Townfield Primary School did not have an audit committee or committee that carries out the functions of an audit committee, in breach of AFH 2.4.1. There has also been no Responsible Officer in place during 2017/18 and until recently, due to illness. The trust has now contracted with their external auditors BDO to provide this function.

43. This is a breach of the AFH 2018 s2.9.1

44. The academy trust must establish a committee, appointed by the board of trustees, to provide assurance to the board over the suitability of, and compliance with, its financial systems and operational controls, and to ensure that risks are being adequately identified and managed.

## Conclusion

45. Following receipt of allegations relating to management of conflicts and misuse of public funds at Townfield Primary School a visit was undertaken by the ESFA to review trust arrangements. Our work on site and the evidence considered and documented has upheld those concerns.

46. The review identified an incident of failure to manage conflicts of interest by a previous head teacher, Kate Lee, that resulted in estimated potential irregular expenditure of £13,248 plus any additional on-costs. The review also identified instances of misuse of public funds totalling £5,636 during the period February 2017 to February 2018.

47. There was a lack of board oversight regarding trust financial operations and compliance with trust policies. This is evidenced through the review's identification of non-compliance with the trust travel and subsistence policy and security and usage of charge cards policy. Additionally, the review found poor financial control over the management and reconciliation of credit card expenditure. In general, record keeping and filing was poor with missing or incomplete supporting documentation, which greatly hampered the investigation. In a number of cases, the team were unable to substantiate claims or evidence actions due to poor or missing records.

48. The trust needs to take urgent action to resolve these issues. Annex A includes a table of findings, breaches of frameworks and specific recommendations.

## Annex A

Para No.	Finding	Breach of AFH/ framework	Recommendation
<b>Management of Conflicts of Interest</b>			
14	<p>The trust does not have a policy and robust procedures on managing conflicts of interest.</p> <p>The board failed to manage the conflict of interest presented by the employment at the trust of a previous head teacher's daughter-in-law as a Teaching Assistant. In this case, the head teacher was able to authorise a pay increase for her daughter-in-law without independent approval or oversight.</p>	<p>These findings breach the AFH (2015, 2016, 2017) s3.1.13</p> <p>The board of trustees must ensure that the requirements for managing connected party transactions are applied across the trust. The chair of the board of trustees and the Accounting Officer (as senior executive leader) must ensure that their capacity to control and influence does not conflict with these requirements. They must manage personal relationships with connected parties to avoid both real and perceived conflicts of interest, promoting integrity and openness in accordance with the seven principles of public life.</p>	<p>The trust must conduct a review of all key areas of operation to determine any gaps in policies and procedures.</p> <p>Any identified gaps must have robust policies and procedures completed, including around dealing with connected parties and conflicts of interest.</p>

Para No.	Finding	Breach of AFH/ framework	Recommendation
<b>Misuse of Public Funds</b>			
22	<p>The trust external auditors raised the issue of purchasing gifts for staff from academy funds in their 2017/18 management letter. They recommended that the trust strengthen its policy in this area. This review identified £319.88 expenditure on staff gifts between September 2016 and March 2018.</p>	<p>This is a potential breach of AFH (2015, 2016, 2017) s3.1 Proper and regular use of public funds. The academy trust must be able to show that public funds have been used as intended by Parliament.</p>	<p>The trust must review its gifts and hospitality policy and ensure that they are kept to a minimum and are only provided for specified events and to an agreed value. Policy to be approved by the trust board.</p>
<b>Use of Trust Charge Cards</b>			
25	<p>The trust does not have a separate charge card policy but does include procedures to be followed in using trust charge cards within the financial regulations. The review found non-compliance with these procedures relating to both the security of the cards and also their usage.</p> <p>The review identified inappropriate expenditure on the charge cards that represented a misuse of public funds. There were also a number of items of expenditure that did not have receipts.</p>	<p>This is a breach of the AFH (2015, 2016, 2017) s2.3.1 which requires trusts to maintain a sound internal control framework including:</p> <ul style="list-style-type: none"> <li>- appropriate segregation of duties</li> <li>- a process for independent checking of financial controls, systems, transactions and risks</li> </ul> <p>This is also a breach of AFH (2015, 2016, 2017) s3.1 Proper and regular use of public funds. The academy trust must be</p>	<p>The trust must review and strengthen its charge card policy. It is recommended that a separate policy is developed that clearly specifies the security arrangements for cards and the policy for usage of the cards including securing approval prior to incurring expenditure.</p> <p>The trust must strengthen its financial regulations to ensure that charge card statements are reconciled and checked by 2 separate individuals. The trust must also ensure that cards</p>

Para No.	Finding	Breach of AFH/ framework	Recommendation
	<p>These items of expenditure had not been challenged by the SBM.</p> <p>The charge card statements are checked and reconciled by the SBM. There is no separate, independent check of this reconciliation, including where the SBM is reconciling his own charge card statement.</p>	<p>able to show that public funds have been used as intended by Parliament.</p>	<p>allocated to the SBM and the head teacher are independently reconciled.</p> <p>Charge card expenditure should be included in internal audit checks to provide assurance over compliance with policies and procedures.</p>
<b>Staff Travel Expenses</b>			
29/38	<p>The review identified staff travel expenses paid to the head teacher and other individuals outside of the trust travel and subsistence policy. In the instances, rather than staff claiming expenses and being reimbursed through payroll, payment of the expenses had been made using the trust charge cards. There was no evidence of prior approval for these expenses and no authorised claim forms to substantiate that the expenditure had been verified as appropriate and within the policy.</p> <p>This expenditure on the charge cards had been checked and reconciled by the SBM</p>	<p>This is a breach of the AFH (2015, 2016, 2017) s2.3.1 which requires trusts to maintain a sound internal control framework including:</p> <ul style="list-style-type: none"> <li>- appropriate segregation of duties</li> <li>- a process for independent checking of financial controls, systems, transactions and risks</li> </ul>	<p>The trust must ensure it has a sound procedure for claiming staff travel and subsistence. All expenditure should be approved prior to incurring the cost and staff should submit an approved claim form giving full details of the expenditure. Claim forms should be authorised by the individual's line manager.</p> <p>Travel and subsistence expenditure should be included in internal audit checks to provide assurance over compliance with policies and procedures.</p>

Para No.	Finding	Breach of AFH/ framework	Recommendation
	who had not raised any issues regarding this non-compliance with policy.		Any expenses incurred by the head teacher should be authorised and approved by the chair of the trust board.
<b>Governance</b>			
43	The trust does not have an audit committee or a separate sub-committee of the board that fulfils the functions of an audit committee.	This is a breach of the AFH 2018 s2.9.1.  The academy trust must establish a committee, appointed by the board of trustees, to provide assurance to the board over the suitability of, and compliance with, its financial systems and operational controls, and to ensure that risks are being adequately identified and managed.	The trust board must establish an audit committee appointed by the board of trustees.



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