

PROTECTING YOUR ACADEMY FROM FRAUD WITH STRONGER INTERNAL CONTROLS

FINANCE SERVICES



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There have been dozens of examples of financial weaknesses in academy trusts over the past few years.

Sixty eight trusts notified the Education and Skills Funding Agency (ESFA) of fraud, theft or irregularity exceeding £5,000 in 2018–19, compared to 49 during the previous academic year. The value of frauds totalled £2.3m, up from £976,950 in 2017–18. In one case, more than £73,000 was stolen from a single academy trust, but the loss went unnoticed for eight months.

How did this happen? And could it be happening to you right now?

There are actually very few cases of fraud or irregularity in academies. But no system or control can completely protect you against people who are determined to commit a crime. So, to reduce your risk as much as possible, it's critical to have strong controls and the right systems in place, remain vigilant as to what's going on around you, and have staff members who are committed to carrying out their roles diligently and ethically.

We've put together some practical checks and balances that you can use to protect your academy trust against fraudsters.



First things first, ask yourself:

- Is your procurement process open and transparent, and does it follow the processes set out in your procurement policy?
- Do you carry out monthly bank reconciliations, and are your cash flows reflecting actual activity?
- What payroll checks do you have in place to ensure that only 'real' employees are being paid?
- Can you incorporate segregation of duties and responsibility into all your finance functions?
- Do you train and support your finance staff to understand the importance of following internal controls and processes and the value of money, and do you encourage them to alert senior members of staff if something seems wrong or if a system could be improved?
- Is your Register of Interest up to date and is it a fixed item on your agenda?
- How well do you know your senior staff members and trustees? How confident are you that the systems you have in place would prevent anyone from making a private, personal, commercial or financial gain due to their position?
- Are your procedures for recording, documenting and monitoring major spends adequate?
- What arrangements do you have in place for internal audit? Do you report any findings to your trustees, and are recommended actions agreed and monitored?
- Do you regularly review your systems and controls, and are you confident that they're being followed and not undermined by short cuts?
- Do you have a whistleblowing policy, and does everyone know who to report suspicious activity to?
- If you've had a real or suspected case of fraud, did you review the processes that resulted or could have resulted in it? What controls are needed to prevent it from happening again?

If you've ticked the boxes to all these questions, you can be sure that you're on the right track. And if you haven't, make those your first priority.

The behavioural signs of fraud

The next step is to keep an eye on any behavioural changes among your staff members. Although they're no doubt trustworthy and you've already done all your initial checks, personal situations – and people – change. Early detection will help to significantly reduce your loss, because fraudsters typically get braver and steal larger amounts of money the longer their criminal activity goes unnoticed.

So, what are the signs that you should be looking out for?

- New cars, expensive holidays, designer clothes – generally anyone living beyond their means
- Loans, calls from people chasing money, a partner's redundancy or other changes in personal circumstances that could put their personal finances under strain
- Socialising with customers and suppliers
- Not wanting to share control or take holidays
- Being indifferent to other people's questionable behaviour.

The importance of identifying fraud early on

Remember that internal controls and processes are there to protect your staff and your academy from financial mismanagement. So, while they may be time consuming and an administrative burden, it's far better to focus on them up-front than to become embroiled in an internal investigation or, worse, a police investigation.

Investigations cause significant time pressures and emotional stress too, even if the staff members involved are found to be innocent. This can have a lasting effect on team morale and the culture of your academy, so it's imperative to avoid this.

For more advice

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