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# Galileo Multi Academy Trust

Report to The Trustees

Year ended 31 August 2022

Presented to The Trustees on 14 December 2022

## Strictly Private and Confidential

The Trustees  
Galileo Multi Academy Trust  
Room 201, The Innovation Centre  
Vienna Court, Kirkleatham Business Park  
Redcar  
TS10 5SH

Dear Sirs

I have pleasure in submitting our audit findings report for Galileo Multi Academy Trust (The Trust) for the year ended 31 August 2022. The primary purpose of this report is to communicate to the Trustees the significant findings arising from our audit that we believe are relevant to those charged with governance.

I look forward to discussing our report with you, as well as any further matters you may wish to raise with us, and I shall be attending the board meeting with Louise Baker.

I would like to take this opportunity to express our appreciation for the assistance provided to us by the finance team and the other staff during this year's audit.

Yours sincerely



Heather O'Driscoll FCA  
Director



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## 1. Executive summary

### Our report to you

We are pleased to present our Audit Findings Report to the board and we welcome the opportunity to discuss our findings with you at your meeting on 14 December 2022.

The primary purpose of this report is to communicate to The Trustees the significant findings arising from our audit that we believe are relevant to those charged with governance.

In accordance with International Standards on Auditing (UK) the matters in this report include:

- the results of our work on areas of significant audit risk
- our views about significant qualitative aspects of the Trust's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
- significant difficulties, if any, encountered during the audit
- any significant matters arising during the audit and written representations we are requesting
- unadjusted misstatement identified during the audit
- circumstances that affect the form and content of our auditor's report, if any
- any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process

We have included comments in relation to the above where relevant in the subsequent sections of this report.

We also report to you any significant deficiencies in internal control identified during our audit which, in our professional judgment, are of sufficient importance to merit your attention.

### Conclusions in relation to the areas of significant audit risk

In line with our audit plan, we focussed our work on the significant audit risks related to:

- Revenue recognition
- Management override of controls

Further details on each of these risks is included in [Section 2](#) of this report.

### Other audit findings

[Section 3](#) sets out various comments on other important matters which we have identified from our audit.

### Fraud and irregularities

[Section 4](#) sets out The Trustees' and our responsibilities in respect of fraud and irregularities.

### Audit materiality

The audit materiality for the financial statements set as part of our audit planning took account of the level of income received by the Trust. We have reviewed this level of materiality based on the draft financial statements for the year ended 31 August 2022 and are satisfied that it continues to be appropriate.

### Unadjusted misstatements

We report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose we have determined trivial to be £17,900.

We are pleased to report that there are no remaining unadjusted items identified from our audit in excess of the above trivial limit.

## **Audit completion and our Audit Report**

We have substantially completed our audit in accordance with our Audit Planning Report which was sent to you and the senior management team on date, subject to the matters below.

- Completion of the going concern and post-Balance Sheet events reviews.
- Review of the final financial statements.
- Receipt of the signed letter of representation.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from progressing these outstanding matters.

On the satisfactory completion of these matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the 2022 financial statements.

Our assurance report on regularity is expected to be unmodified.

## **Responsibilities and ethical standards**

We have prepared this report taking account of the responsibilities of The Trustees and ourselves set out in Appendix 3 of this report.

The matters included in this report have been discussed with the charity's management during our audit and at our closing meeting on 14 December 2022. The CFOO has seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant.

## 2. Significant audit risks

We reported in our Audit Planning Report a number of areas we identified as having specific audit risk including the potential risk from management override of controls. Significant risk is considered in the context of how, and the degree to which, inherent risk factors affect the likelihood and magnitude of a misstatement occurring. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors. We have commented below on the results of our work in these areas as well as on any additional significant risks, judgements or other matters in relation to the financial statements of the Trust identified during our audit.

To assist in the understanding of these risks we have identified one or more of six potential reasons, as defined by ISA 315, for the increased audit risk. In addition, we also consider other factors which may give rise to significant risks, such as a history of previous issues or the matter involves significant judgement.

1. Fraud risk
2. Recent significant economic, accounting or other developments
3. Complexity of the transactions
4. Financial information involves a wide range of measurement uncertainty
5. Involves significant transactions with related parties
6. Significant transactions that are unusual / outside the normal course of business for the entity
7. Other specific factors

Significant risk identified	Risks	Key related judgements	Our response	Our conclusions / other comments
Revenue recognition	3	<p>International Standards on Auditing (ISA 240) presumes there is always a significant risk of material misstatement due to fraud in revenue recognition, unless this is rebutted.</p> <p>Galileo receives a substantial amount of its income from DFE/ESFA, in 2021 this was £13m</p> <p>The GAG funding is received under a funding agreement and it is based on census data provided by the Trust.</p> <p>Other grants are also based on data provided by the Trust.</p> <p>Given the complexities of the various funding streams we consider there to be a significant risk in respect of completeness and cut off.</p>	<p>Our audit work included the following:</p> <ul style="list-style-type: none"> <li>• reviewing Galileo’s income recognition policy in relation to grant income.</li> <li>• reviewing levels of grant debt held at the year end and ensure cut off is correct.</li> <li>• scrutinising funding agreements so as to understand income recognition, terms, reporting requirements, and claw back risk</li> </ul>	No issues have been identified from the testing carried out.
Management override of controls, including through journal adjustments	1	<p>Although the level of risk of management override of controls varies from entity to entity, Auditing Standards recognise that this risk is nevertheless present in all entities because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>We assessed the design of the controls in place around key accounting cycles and areas of judgement and reviewed and carried out sample testing on the Trust’s controls around the processing of journal adjustments in the preparation of the financial statements (how journals are initiated, authorised and processed). We also considered the risk of potential manipulation by journal entry to mask fraud.</p>	No issues have been identified from our substantive audit procedures on the relevant areas of judgement together with our assessment of the controls over journals operated by the charity that would suggest an inappropriate override of controls by management.

Significant risk identified	Risks	Key related judgements	Our response	Our conclusions / other comments
		<p>Due to the unpredictable way in which such override could occur, including to mask fraud, the override of controls is a significant risk for all audits.</p> <p>The Trustees must satisfy themselves that the control environment present within the entity is adequate to deter any inappropriate override of controls from management.</p>	<p>We reviewed accounting estimates for bias that could result in material misstatement due to fraud including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicated a possible bias on the part of management.</p> <p>We also performed a retrospective review of management's judgements and assumptions related to significant estimates reflected in last year's financial statements.</p>	



### 3. Other audit findings

In addition to matters relating to the significant audit risks as reported in Section 2, we have also noted the following matters from our audit work which we should bring to your attention.

#### 3.1 Report and Financial Statements

As noted in the Statement of Trustees' Responsibilities, The Trustees are responsible for preparing The Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

#### 3.2 Going concern

We explained in our Audit Planning Report that in preparing the financial statements to comply with Financial Reporting Standard 102 The Trustees and management are required to assess the Trust's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, The Trustees and management are required to consider all available information about the future of the Charity in the period of at least, but not limited to, twelve months from the date when the financial statements are approved and authorised for issue.

The Trustees' going concern assessment is a key area of emphasis and importance for our audit and, in accordance with the requirements of ISAs (UK), our audit report includes a specific reference to going concern.

Where Trustees identify possible events or scenarios, other than those with a remote probability of occurring, that could lead to failure, then these should be disclosed in the financial statements.

Trustees may consider and take account of realistic mitigating responses open to them, considering the likely success of any response.

We have discussed this with the Galileo Multi Academy Trust management and explained that our work on going concern includes the following:

- reviewing the period used by Trustees to assess the ability of Galileo Multi Academy Trust to continue as a going concern,

- examining budgets and forecasts prepared by management covering the period of the going concern assessment to ensure that these appropriately support The Trustees' conclusion,
- reviewing the accuracy of past budgets and forecasts by comparing the budget for the current year against actual results for the year, and
- reviewing any other information or documentation which The Trustees have used in their going concern assessment.

#### Our conclusions and other comments

We have completed the work as outlined above and have not highlighted any concerns with the Directors assumption of going concern.

#### 3.3 Judgements and estimates

ISA (UK) 540 Auditing Accounting Estimates and Related Disclosures requires additional audit focus over management's estimates, including undertaking separate risk assessments for both inherent and control risks. In respect of the former, consideration is required of the estimation uncertainty, the subjectivity and the complexity of the estimate. We are also required to consider whether the disclosures made in the financial statements are reasonable.

We paid careful attention to areas of the financial statements affected by management judgement and estimation. We identified the following for specific review.

- The assumptions adopted by management and used by the actuary to calculate the pension liability.

We considered whether these have high or low estimation uncertainty. Where there is high estimation uncertainty (primarily, if there is a range of reasonable outcomes which exceeds our materiality) this indicates a

“significant risk”. We also compared the estimates and judgments made in the prior period with actual outcomes.

We reviewed management’s assessment of this and specifically considered whether the estimates and judgments arrived at by management indicate any “management bias”.

We performed a review of the pension assumptions proposed by management against those used by other actuaries for the same period.

It is important that you are satisfied that the assumptions used by management are appropriate and we have asked you to provide written representation to us to confirm this.

### **Our conclusions and other comments**

We have not identified any instances of management override in the judgements and estimates used, which appear reasonable.

There have been some large changes in the pension assumptions and these are discussed below.

### **3.4 Payroll**

Payroll is the largest single expenditure item for Galileo.

We note that you use Xentrall HR to process your payroll. This outsourcing did not have a significant impact on our audit work.

As part of our audit we reviewed the controls in place over monthly processing including the reconciliation of the payroll to the nominal ledger.

We also performed analytical procedures that considered gross pay, deductions and staff numbers year on year to ensure that all trends and relationships appeared reasonable and that the totals agreed with the ledger, and we verified a sample of staff between the payroll and other HR records and agreed their costs to supporting documentation on a sample basis.

### **Our conclusions and other comments**

No issues have been identified from the testing carried out.

### **3.5 Funds**

Galileo operates a number of different funds subject to various restrictions. You must ensure that all movements on funds are correctly identified and accounted for. This requires careful consideration of the various terms and conditions which may be applied to income.

As part of our audit testing we:

- Traced restricted donation and grants found in our income testing to the relevant fund account.
- Reviewed a sample of expenses allocated to restricted funds to ensure that the expenditure was spent in accordance with the objects of the fund.
- Reviewed the analysis of net assets to ensure that it has been correctly allocated across the funds.
- Reviewed the processes in place to ensure that restricted transactions are completely and accurately captured and reported within the organisation and reviewed year end balances to ensure that they appropriately reflect the restrictions that should be in force.

### **Our conclusions and other comments**

No issues have been identified from the testing carried out.

### **Valuation of Pension**

The Trust is required to obtain an FRS 102 Valuation in respect of the LA Pension Fund and actuaries were appointed to carry out work. They provided reports directly to yourselves and we had sight of

- The terms of reference
- The assumption to be used and
- The FRS 102 valuation.

We have discussed with you the requirement for the board to review the assumptions being used to ensure that they are relevant to your membership. We considered the impact of the deficit and any funding

issues on the going concern position and also ensured the correct accounting entries and disclosures are included in the financial statements.

### **Our conclusions and other comments**

The pension scheme deficit has reduced significantly in this year, from £9,506k to £199k.

This is as a result in a change to the assumptions used by the actuary in response to the current economic climate.

The reduction is in line with other Trusts that we are involved with. We compared the assumptions used to those in place across other Trusts and can confirm that similar changes have been seen across the sector.

## 4. Fraud and irregularities and our audit reporting

### Audit reporting on detecting irregularities, including fraud

In line with ISA (UK) 700 our audit report includes an additional comment to explain to what extent the audit was considered capable of detecting irregularities, including fraud.

Irregularities are acts of omission or commission which are contrary to the prevailing laws or regulations. Fraud includes both fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our responsibility is to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The additional reporting requirements this year placed increased emphasis on our understanding of the risks to the Trust from fraud and irregularities. Our audit included discussions with management to obtain their assessment of the risk that fraud may cause a significant account balance to be materially misstated as well as other procedures to obtain sufficient appropriate audit evidence.

We obtained an understanding of the legal and regulatory frameworks within which the charity operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Charities Act 2011, the requirements of the Academies Accounts Direction and Financial Handbook together with the Charities SORP (FRS102). We assessed the required compliance with these laws and regulations as part of our audit procedures on the related financial statement items.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which might be fundamental to the Trust's ability to operate or to avoid a material penalty. We also considered the opportunities and incentives that may exist within the charity for fraud. The laws and regulations we considered in this context for the UK operations were General Data Protection Regulation and those in respect of industry specific reporting such as compliance with the Academies Accounts Direction and Financial Handbook

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be within the timing of recognition of income and the override of controls by management. Our audit procedures to respond to these risks included:

- testing manual journal entries and other adjustments
- evaluating the business rationale in relation to significant or unusual transactions and transactions entered into outside the normal course of business
- challenging judgments and estimates
- reviewing income transactions around the year end to look for potential "window dressing".

In accordance with International Auditing Standards, we planned our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records including any material misstatements resulting from fraud, error or non-compliance with law or regulations.

However, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected even though the audit is properly planned and performed in accordance with the ISAs (UK). No internal control structure, no matter how effective, can eliminate the possibility that errors or irregularities may occur and remain undetected. In addition, because we use selective testing in our audit, we cannot guarantee that errors or irregularities, if present, will be detected. Accordingly, our audit should not be relied upon to disclose all such misstatements or frauds, errors or instances of non-compliance as may exist.

We have also included in Appendix 4 some fraud risks that Trustees and management should be aware of.

### Trustee responsibilities

The primary responsibility for safeguarding the Trust's assets and for the prevention and detection of both irregularities and fraud rests with The

Trustees and management of the organisation. It is important that management, with oversight of those charged with governance, place a strong emphasis on fraud prevention and fraud deterrence. This involves a commitment to creating a culture of honest and ethical behaviours which can be reinforced by an active oversight by those charged with governance.

As in past years, the following statements will be included in the letter of representation which we require from The Trustees when the financial statements are approved.

- The Trustees acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and errors.
- The Trustees have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The Trustees are not aware of any fraud or suspected fraud affecting the Charity involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements.
- The Trustees are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the Trust's financial statements.

We draw your attention to bullet point 2 above which presupposes that an assessment has been made. We have not been made aware of any actual or potential frauds which could affect the 2022 financial statements, or in the period since the previous year end.

## Appendix 1 - Reporting audit adjustments

### Unadjusted misstatements

International Standards on Auditing (UK) require that we report to you all misstatements which we identified as a result of the audit process but which were not adjusted by management, unless those matters are clearly trivial in size or nature.

We are pleased to report that there are no remaining unadjusted items identified from our audit in excess of the above trivial limit.

### Adjusted misstatements

The following misstatements, which have been corrected by management, were also identified during our audit work and up to the date of this report. No further adjustments to the financial statements are required for these items and this information is provided to assist you in understanding the financial statements completion process and to fulfil your governance responsibilities.

<b>Adjusted misstatements</b>	<i>Net income increase/ (decrease)</i>	<i>Assets increase/ (Decrease)</i>	<i>Liabilities increase/ (Decrease)</i>	<i>Reserves increase/ (Decrease)</i>
	£	£	£	£
Net position per management accounts	(56,772)			
<b><u>Accounting adjustments</u></b>				
Correct fixed assets brought forward	(378)	(378)		
Depreciation charge	(401,960)	(401,960)		
Capitalise assets	801,421	801,421		
Correct accrual reversed twice in error	(33,200)		33,200	
FRS102 pension adjustment	9,307,000		(9,307,000)	
Reverse brought forward asset accrual as purchased in year	147,566		(147,566)	
<b>Total adjustments</b>	<b>9,820,449</b>	<b>399,083</b>	<b>(9,421,366)</b>	<b>0</b>
<b>Net results per financial statements presented to the Directors</b>	<b>9,763,677</b>	<b>399,083</b>	<b>(9,421,366)</b>	<b>0</b>

## Appendix 2 - Systems and controls

We have set out below certain potential improvements to the Trust's processes and controls which we noted during our audit work and which we believe merit being reported to you.

Our evaluation of the systems of control at Galileo Multi Academy Trust was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

In order to provide you with a clearer picture of the significance of issues raised, we have graded the issues raised by significance/priority before any corrective actions are taken:

Risk	Description
High	Serious matters or weaknesses which result in material financial, regulatory or reputational risk.
Medium	Areas where management action should be taken to improve the robustness of controls.
Low	Best practice recommendations.
Information	Provided for information purposes only.

Current year issues		Management Response
2.1	Pupil premium	
<p><b>Issue</b> An expenditure breakdown was not found on the school website of Ings Farm School and Lakes Primary School. This is a regularity issue as you are required to show how the schools have used the pupil premium income.</p> <p><b>Recommendation</b> We recommend that the school websites are updated to show the expenditure incurred with pupil premium income.</p>		<p>A reminder has been sent to all head teachers to remind them to add the 2022 pupil premium statement to their website before the 31 December and to ensure that the previous year's statement is left as a comparison.</p>

## Appendix 3 - Responsibilities and ethical standards

### Audit purpose and approach

Our audit work has been undertaken for the purposes of forming our audit opinion on the financial statements of the Galileo Multi Academy Trust prepared by management with the oversight of The Trustees and has been carried out in accordance with International Standards on Auditing (UK) ('ISAs').

Our work combined substantive procedures (involving the direct verification of transactions and balances on a test basis and including obtaining confirmations from third parties where we considered this to be necessary) with a review of certain of your financial systems and controls where we considered that these were relevant to our audit.

### Financial statements

The Trustees of Galileo Multi Academy Trust are responsible for the preparation of the financial statements on a going concern basis (unless this basis is inappropriate). The Trustees are also responsible for ensuring that the financial statements give a true and fair view, that the process your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

### Legal and regulatory disclosure requirements

In undertaking our audit work we considered compliance with the following legal and regulatory disclosure requirements, where relevant.

- Companies Act 2006
- Financial Reporting Standard 102 (FRS 102)
- The Charities SORP (FRS 102)
- Academies Accounts Direction as issued by the Education and Skills Funding Agency

### Trustees' responsibilities

Under the provisions of the Companies Act, The Trustees' Report is required to include a statement confirming for each director who was a director at the time of the approval of the financial statements that:

- they have each taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Trust's auditor is aware of that information; and
- so far as they are aware there is no relevant audit information of which the Trust's auditor is unaware.

### Ethical Standard

We are required by the Ethical Standard for auditors issued by the Financial Reporting Council ('FRC') to inform you of all significant facts and matters that may bear upon the integrity, objectivity and independence of our firm.

Waltons Business Advisers Limited has procedures in place to ensure that its Trustees and professional staff comply with both the relevant Ethical Standard for auditors and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

As explained in our audit planning report, in our professional judgement there are no relationships between Waltons Business Advisers Limited and Galileo Multi Academy Trust or other matters that would compromise the integrity, objectivity and independence of our firm or of the audit partner and audit staff. We are not aware of any further developments which should be brought to your attention.

### Independence

International Standards on Auditing (UK) require that we keep you informed of our assessment of our independence.

We confirm that we have carried non-audit services as detailed below. We have not identified any other issues with regards to integrity, objectivity



and independence and, accordingly, we remain independent for audit purposes.

In communicating with those charged with governance of the parent Charity and group we consider those charged with governance of the subsidiary entities to be informed about matters relevant to them.

The matters in this report are as understood by us as at December 2022. We will advise you of any changes in our understanding, if any, during our meeting prior to the financial statements being approved.

### **Non-audit services**

We have considered the non-audit services we have provided in the period and have concluded that there are no facts or matters that bear upon the integrity, objectivity and independence of our firm or of the audit director and audit staff related to the provision of such services which we should bring to your attention. Our fees for non-audit services in the year have been as follows.

Assistance with preparation of financial statements £2,625

### **Use of this report**

This report has been provided to the Board of Trustees to consider and ratify in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

## Appendix 4 - Fraud risks

As part of our audit procedures, we make enquiries of management to obtain their assessment of the risk that fraud may cause a significant account balance to contain a material misstatement. However, we emphasise that the responsibility to make and consider your own assessment rests with yourselves and that The Trustees, and management should ensure that these matters are considered and reviewed on a regular basis.

A fraud risk assessment is an objective review of the fraud risks facing an organisation to ensure they are fully identified and understood. This includes ensuring:

- fit for purpose counter fraud controls are in place to prevent and deter fraud and minimise opportunity, and
- action plans are in place to deliver an effective and proportionate response when suspected fraud occurs including the recovery of losses and lessons learnt.

Good practice suggests that to be most effective the risk assessment should be undertaken at a number of levels within the organisation:

- Organisational – to assess the key policy, awareness raising and behavioural (including leadership commitment) requirements that need to be in place to build organisational resilience to counter fraud.
- Operational – a detailed analysis of the fraud risk and counter fraud control framework at the operational level – by function (activity) or individual business unit (including programmes and projects).

Any fraud risk assessment should not be seen as a standalone exercise but rather an ongoing process that is refreshed on a regular basis. Carrying out the fraud risk assessment may reveal instances of actual or suspected fraud. Should this happen next steps will be determined on circumstances, the existing control framework (including any response plan(s)), and in consultation with the key members of the organisation's management team.

### Considering risks of fraud

There is evidence that during times of economic instability there is an increased risk of fraud. This may be because resource constraints can reduce internal controls and oversight and also because individuals facing hardship may be more likely to consider fraudulent practices.

The following provides further information on the three kinds of fraud that Galileo Multi Academy Trust should consider.

### Frauds of extraction

This is where funds or assets in possession of the charity are misappropriated. Such frauds can involve own staff, intermediaries, or partner organisations since they require assets that are already in the possession of the entity being extracted fraudulently. This could be by false invoices, overcharging or making unauthorised grant payments.

Essentially such frauds are carried out due to weaknesses in physical controls over assets and system weaknesses in the purchases, creditors, and payments cycle. The cycle can be evaluated by considering questions such as who authorises incurring a liability and making a payment. On what evidence? Who records liabilities and payments? Who pays them and who checks them?

The close monitoring of management accounts, ledger entries and strict budgetary controls are also generally seen as an effective way of detecting and deterring frauds in this area.

Staff should be made aware of the increasing use of mandate fraud. This is where the fraudster gets the organisation to change a direct debit, standing order or bank transfer mandate by purporting to be a supplier or organisation to which the charity makes regular payments.

Insufficient due diligence around requests to amend supplier or payroll details has led to payments to unauthorised individuals so sufficient checks in these areas is of increasing importance.

Some companies have also been victims of what is being termed CEO fraud, although it does not involve the CEO. In this case cyber criminals

spoof charity email accounts and impersonate executives to try to fool an employee in accounting or HR into executing unauthorised wire transfers or sending out confidential information.

This type of phishing scam is a sophisticated scam targeting businesses working with foreign suppliers and/or businesses that regularly perform wire transfer payments. The scam is carried out by compromising legitimate business e-mail accounts through social engineering or computer intrusion techniques to conduct unauthorised transfers of funds. Action Fraud, the UK's national fraud and cyber-crime reporting centre has reported an increase in fraud and scams, including a rise in phishing emails where the fraudster attempts to trick people into opening malicious attachments which could lead to fraudsters stealing people's personal information, email logins and passwords, and banking details.

Companies should therefore ensure that they reiterate their procedures to employees and raise awareness of fraud preventions across their organisations. All employees should exercise real scepticism and not make any payments which are not properly supported and outside the normal payment mechanisms. To paraphrase Action Fraud's recommendations:

- Ensure all staff, not just finance teams, know about current frauds and scams.
- Have a system in place which allows staff to properly verify contact from their CEO or senior members of staff; for example, having two points of contact so that the staff can check that the instruction which they have received from their CEO is legitimate.
- Always review financial transactions to check for inconsistencies/errors, such as a misspelt charity name.
- Consider what information is publicly available about the business and whether it needs to be public.

- Ensure computer systems are secure and that antivirus software is up to date.

All employees should exercise real scepticism and not make any payments which are not properly supported and / or outside the normal payment mechanisms.

### **Backhanders and inducements**

There is also an inherent risk that individuals who are able to authorise expenditure or influence the selection of suppliers can receive inducements to select one supplier over the other. This risk can be mitigated by robust supplier selection and tendering procedures.

There is also the risk that once money has been authorised and released in the UK, this could be diverted, probably into the underground economy, as a result of inducements paid in the destination country. Companies should be aware of the requirements and extent of the UK Bribery Act 2010, as this extends their liability to actions beyond the shores of the UK and to cover the actions of their intermediaries and agents. Organisations are required to put in place proportionate measures to prevent backhanders and inducements from being paid, either by their workers, agents or intermediaries or to their workers, agents or intermediaries.

### **Frauds of diversion**

This is where income or other assets due to the Trust are diverted before they are entered into the accounting records or control data. Essentially, it is easy to check what is there but very difficult to establish that it is all there. Therefore, ensuring the completeness of income provided to a charity becomes difficult.

It is important to consider the different income streams and when and how they are received. So income received directly into the Trust's bank account will be a lower risk than income being received by home based fundraisers.

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Waltons Business Advisers Limited is a limited company in England and Wales, Number 08931751.  
A full list of current directorships and details about our audit registration can be found on our website.



**Building value, together**