



Education & Skills
Funding Agency

Financial management and governance review

Shrewsbury Academies Trust

August 2018

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Executive Summary

1. In May 2018 the ESFA commissioned a financial management and governance review of Shrewsbury Academies Trust (hereafter referred to as the trust). The trust had suffered from financial difficulties for a number of years and had required £2.2m additional funding from DfE to continue as a going concern against income of £7.2m. The review was commissioned to establish whether there were specific weaknesses in governance and financial management that had contributed significantly to the trust's deteriorating financial position.

2. It is our view that the interim board of trustees appointed by the Regional Schools Commissioner (RSC) in May 2018, together with the interim chief executive officer (CEO) and chief financial officer (CFO), have the appropriate level of expertise and experience to move the trust forward to achieve the best outcome for all stakeholders, including pupils and staff. They have already started to make the changes necessary to address the weaknesses that have led to the trust's current situation.

3. The review has, however indicated that before the appointment of the interim board of trustees, the following specific breaches took place:

- failure to agree a programme of work to address and provide assurance on risks to internal **financial control** (Academies Financial Handbook (AFH) 2.4.4)
- **budgetary control** failure to produce monthly budget monitoring reports (AFH 2.3.3)
- failure to set up an effective **audit committee** (AFH 2.4.1)
- the misapplication of **capital** condition improvement funds (CIF) funds to support cash flow at the trust (CIF funding conditions)
- the application of General Annual Grant (GAG) funds for **capital** expenditure whilst the trust was operating with a cumulative revenue deficit (Master Funding Agreement (MFA), clause 41A; AFH 3.10.2)
- The original board failed over a number of years to exercise proper oversight and control over the trust.

Background

4. Shrewsbury Academies Trust (SAT) was incorporated in February 2013. It consisted of two primary schools; Longlands Primary School and Grange Primary, and two secondary schools; Sundorne School and Sports College, and The Grange School.
5. From 1 September 2016, the trust's two secondary schools, Grange and Sundorne schools merged to form Shrewsbury Academy (SA).
6. SA has continued to operate on both sites of the original schools. Since the merger, the trust has been in discussions with EFA/ESFA and the local authority about moving the school onto a single site.
7. As early as 2014, the trust has required significant financial support from DfE to manage its cash flow and revenue deficit operation. Since then, the department has provided sums totalling £2.2m to the trust to meet payroll commitments as well as for merger-related restructuring.
8. At various points during the last few years the trust has been in negotiations with ESFA/EFA and the Regional Schools Commissioner regarding possible mergers with other trusts or re-brokerage of its existing academies; as well as recovery/turnaround plans to return the trust to financial viability.
9. The then board of trustees, including chair Rachel Wintle, stepped down on 2 May 2018 and was replaced by an interim board appointed by the RSC.
10. Since its appointment, the board has appointed an interim CEO and CFO, both of whom are specialists experienced in turning around failing trusts.
11. The ESFA undertook an on-site review of the trust between 9 and 12 July 2018.

Objectives and scope

12. The objective of this review was to establish whether there were any identified weaknesses about the financial management and governance at the trust before the interim board and CEO were appointed, and in doing so to establish whether any improprieties had taken place, including potential:

- misappropriation of funds
- deliberate financial mismanagement
- breaches of the AFH or the trust's MFA.

13. In accordance with ESFA investigation publishing policy (August 2014) the relevant contents of the report have been cleared for factual accuracy with Shrewsbury Academies Trust.

Findings

Financial controls

14. Testing of a sample of transactions from the trust's purchase ledger did not identify any material weaknesses in the operations of controls over the authorisation of purchases.

15. We noted that separation of duties was maintained at local level, with all requisitions and orders being signed off by the head as well as the suggested payments run report.

16. In addition, the suggested payments reports were reviewed again, by the central finance team and all payments were authorised by the chief financial officer.

17. It is noted that although all purchases ordered directly by the then CEO (Mr Geoff Pettengell) were processed according to the internal controls outlined above, there appeared to be no effective process for challenging or reviewing his spending decisions, or for ensuring that expenditure which exceeded the agreed budget was independently authorised by the board.

18. We also note that the trust's scheme of delegation did not clearly set out any financial limits for expenditure which should be referred to the board for approval.

19. We tested a sample of payroll transactions to establish whether adequate controls were in place to ensure salary payments were not made without the appropriate authority.

20. From examining records, to the extent to which they were available, and discussions with trust officers, we identified the following weaknesses in the operation of payroll processing procedures:

- Although the former CEO has indicated that pay awards were always signed off in accordance with the trust's pay policy, we found no evidence of a clear audit trail of discussions or approvals by the appropriate committee to authorise individual or collective pay progression following performance management reviews.
- Appropriate overtime and expense forms were not always used.
- There was no evidence that payroll reconciliations were being checked and signed off by the CFO (Mr David Edwards), as set out in the trust's finance policy.

21. In the four months since being appointed, the interim team has put plans in place to address historical failings in financial management.

Budgetary control

22. The AFH (2017) sets out requirements for a trust to establish a robust internal control framework. AFH 2.3.3 it states that this framework *must* include the preparation of monthly budget monitoring reports.

23. From reviewing minutes of meetings of the board of trustees and discussions with staff available at the trust, there was no evidence that budgetary monitoring reports were produced on a monthly basis, but only at the end of each term.

24. Minutes confirm that the inability for the trust's finance function to produce monthly management accounts was challenged at board level. It is noted, however, that while 'operational difficulties' both at the centre and the academies were cited as the reason for the weakness, there was no evidence of any action plan to be put in place to rectify the situation, or any recognition that the trust was in breach of AFH 2.3.3 requirements.

25. Details of financial reports presented at board meetings were not available to the review team, but review of the limited reports that we were able to view indicated a general weakness in the overall quality of management information produced.

26. At various points during the last three years, the EFA/ESFA had required the trust to produce financial recovery plans, as a condition of continuing financial support from the agencies. Although there was some reference to these in the minutes, there was no indication either at board or finance committee level of any routine monitoring process to compare performance and to instigate corrective actions to manage variances.

27. It is noted that the trust made an in-year revenue deficit of £1,348k in 2015/16 and a revenue deficit of £1,448k in 2016/17. The trust owed the ESFA £1,538k at 31 August 2017; being the total of loans advanced to fund its deficit at that date.

28. Minutes of the trust's finance committee ('Finance and Resources'), raised no concerns or challenges at the budget monitoring reports presented at its March 2016 or July 2016 meetings, suggesting that the full extent of the trust's financial difficulties had not been accurately reported or understood at these times.

29. In subsequent meetings of the committee, minutes do not accurately record the extent of financial information provided, nor do they indicate the extent to which the financial position was addressed or reported to the board of trustees.

30. During the review and from discussions with the heads at Grange Primary and Longlands Primary, it would appear that before the interim board CEO, and CFO were put in place, in May 2018, little or no routine financial and budgetary information was being provided formally to the leadership team at these schools. The former CEO confirmed that although the former CFO met with the finance committees in the schools, and provided up to date information, this may not have been in the best format.

31. The previous CEO has stated that he kept the heads of schools informed of the trust's ongoing financial position and the reasons for re-brokerage. However, due diligence work undertaken during potential re-brokerage revealed that the academies within the trust appeared unaware of its financial position.

32. As noted at 52 below, the trust used Condition Improvement Funding (CIF) to support its cash flow position during 2015/16.

Board oversight

33. In order to form a judgement about the effectiveness of the board of trustees, all available board minutes were obtained dating back to February 2016. It is noted that, as the officer responsible for maintaining records of committee meetings was no longer working at the trust at the time of our visit, it was necessary to rely on documentation that the current officers were able to locate from archived digital records.

34. We noted that most of the minutes available still bore the 'Draft' watermark and there were a number of duplications, which appeared to be different drafts of the same minutes.

35. A review of the minutes supported the findings above; that there was little or no challenge or oversight of the spending decisions of the former CEO.

36. The pattern of operation of the board appears to have been to be notified of decisions and actions made by the CEO, rather than any discussion prior to their having been carried out.

37. An example is the unauthorised use of CIF grant funding to support the trust's cash flow position, as noted at 52 below.

38. Minutes indicate that the breach was noted at the board meeting on 7 December 2016 as a technical issue. There is no evidence that any committee gave prior approval for this use of the funds.

39. There was no evidence of the trust board having approved the financial statements for the years 2015/16 or 2016/17.

40. It is clear that the trust's practice was to delegate considerable responsibility to the local governing bodies (LGBs) at its academies, and that there was little or no evidence of LGB decisions being reported to, or ratified by, the board of trustees.

Payroll review

41. Minutes of the board, and of the trust's Salaries and Personnel Committee, would indicate formal discussion about increases in the salary of the former CEO had taken place at various times during the period that minutes were available for our review.

42. Minutes also indicate that all staff, including the CEO were excluded from portions of meetings where the CEO's salary was discussed. Separate confidential minutes were prepared by the clerk to record these discussions.

43. One of these confidential minutes, from the meeting of the Salaries and Personnel Committee on 21 January 2016, details the proposal to increase the CEO's salary to £101k. The minutes do not record whether or not this was agreed, however this may well be due to inadequacies of minute taking.

44. Other minutes and documentation reviewed indicate that the former CEO's salary was linked to a performance review process which was undertaken by an independent consultant.

45. As noted at 20 above, we did identify weaknesses in the retention of an audit trail for annual pay increases, however there is no indication of any impropriety in the processing of salary increases for the former CEO.

Audit committee functions

46. The AFH 2.4.2 states that academy trusts *must* establish a committee to provide assurance over the suitability of, and compliance with, its financial systems and operational controls. For a trust of this size the AFH does not require that there is a dedicated audit committee, but it does require that these functions be included in the remit of another committee.

47. Minutes of the board of trustees and other committees make reference to an audit committee, but only one set of minutes was available for review. From discussions with current trust officers there was no indication of any routine audit committee function.

48. The single set of minutes available, for 7 December 2016, indicated that both the CEO and CFO were members of the committee. The AFH states that staff employed by the trust should not be members of an audit committee, but may attend to provide information and participate in discussions.

49. The AFH 2.4.4 states that the work of the committee functioning as an audit committee, *must* include the review of risks to internal financial control and agreeing a programme of work to address and provide assurance on, those risks.

50. We understand from discussions with the interim trustees and CFO that, until their appointment there was no internal audit or equivalent function to review internal control risks, and that the trust relied on the limited controls work conducted by the external auditors as part of their final accounts audit. We found no evidence of any such review function during our examination of available documents. This is a breach of the AFH 2.4 as the trust did not have in place a process for checking its financial systems, controls transactions and risks.

51. It is a concern too that the minutes that were available for any committee did not demonstrate any detailed review of the weaknesses identified in the auditor's management letter for either 2015/16 or 2016/17, or of the agreement of an action plan to address these weaknesses.

Regularity of capital transactions

52. During 2015/16, the trust misapplied CIF grant funding to support its cash flow position. This was declared as a breach in the AO's Statement on Regularity and Compliance in the financial statements for that year.

53. During 2016/17 the trust applied General Annual Grant (GAG) funds for capital expenditure, in breach of requirements of the AFH 3.10 and its MFA whilst operating with cumulative revenue deficit.

54. Once the ESFA had been made aware of this breach in September 2017, the trust was issued with a notice to cease further such expenditure and a warning that it was in breach of its MFA, as it continued to operate with a cumulative revenue deficit.

55. As with the use of CIF grants, there is no evidence of any prior board authorisation for diverting GAG funds to capital expenditure.

56. In addition to this, no minutes of board or finance committee minutes indicate that the issue had been reported to or discussed with trustees.

57. ESFA is already aware that a breach has taken place in respect of the use of GAG funds for capital expenditure. A detailed examination of the trust finance system was therefore not undertaken during the review, as this would have duplicated the work the auditors had already completed and would involve an unacceptable level of disruption to the work of the trust finance function at the time. In addition, the categorisation of transactions between revenue and capital would inevitably involve an element of subjective judgement which would be completed more effectively by the trust's external auditors as part of their work on the 2017/18 financial statements.

Actions by interim board

58. Since its appointment by ARDG in May 2018, the interim board of trustees has taken the following actions to address the financial, educational and governance issues facing the trust. These include:

- returning all powers previously delegated to LGBs to the board
- appointing a new interim CEO and CFO, who are experienced specialists in turning round failing trusts
- instigating detailed monthly budget monitoring reports
- setting up an audit committee function

- implementing an internal audit process
- bringing all purchase ordering functions to the central finance team with oversight by the interim CFO
- instigating a governance review
- revising the membership structure at the trust to ensure good governance in line with AFH recommendations
- revising clerking arrangements
- setting up regular meetings with academy staff and visits to schools
- revising the trust's financial policies and procedures manual
- ensuring regular financial performance information is provided for head teachers
- developing a school improvement priorities framework
- proceeding with the plan to move Shrewsbury Academy onto a single site
- commencing the drafting of a new strategic plan for the trust in partnership with local stakeholders.

59. From discussions with the interim chair and vice chair, the review team was given a high level of assurance that the new board has the appropriate range of skills and experience to make the necessary changes to governance, education and financial management to move the trust forward in the best interests of its pupils, staff and the public purse.

60. It is noted that, although the interim board would hope to be able to turn the trust round as an independent entity, should re-brokerage be the best course of action, this would be actively pursued, in consultation with the ESFA and Regional Schools Commissioner.

Conclusion

61. There have been significant failures in governance and financial management at Shrewsbury Academies Trust, including breaches of AFH and MFA requirements, which have contributed to its current financial position.

62. We found no evidence of any deliberate impropriety by former trustees or officers of the trust or instances of the misappropriation of public funds for the personal gain of any individuals.

63. Since the appointment of the interim board and senior leadership team from May 2018, the trust is making plans to move forward, either as an independent multi-academy trust or as part of another existing trust through re-brokerage.

64. As the trust's current governors and management are fully aware of the issues set out above and have already instigated a programme of work to address them, we have no further recommendations to make at this time.



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