



Education & Skills  
Funding Agency

# **Financial Management and Governance Review**

**Matrix Academy Trust**

**September 2017**

V5

# Contents

Executive summary	3
Background	4
Objectives and scope	5
Findings	6
Oversight, independence and challenge	6
Personnel	7
Development of Multi Academy Trust Arrangements	8
Conclusion	10

## Executive summary

1. The Education and Skills Funding Agency (ESFA) received anonymous allegations about the Matrix Academies Trust (MAT) in October 2016. The allegations related to potentially inappropriate use of public funds and breaches of the Academies Financial Handbook (AFH).
2. In response to the allegations, the ESFA undertook a review of financial management and governance at the trust between 16 and 18 May 2017.
3. The review identified some weaknesses in governance arrangements that impact upon the adequacy of internal control and compliance with best practice guidelines set out in the AFH. Key findings have confirmed:
  - from incorporation all trust members have always been directors, this includes the Accounting Officer (AO). This is not in line with best practice arrangements set out in the AFH, which states that governance structures, in which members are also employees, are not considered by the Department for Education (DfE) to be best practice and that there should be separation between the 2 layers of the governance function
  - the trust incurred expenditure of £17,205 in 2015 and £16,075 in 2016 on development days for staff and a further £2,440 in July 2016 a residential trip abroad for its newly qualified teachers (NQTs). Whilst the trust advised the expenditure related to business activities there was no formal documentation to support those activities. The trust need to review and better document how this type of expenditure achieves value for money for the public purse to avoid potential criticism
  - sample testing of a number of employee files show that some contracts of employment are missing and there was no documented evidence of recent performance management for certain senior staff, including the Accounting Officer
  - a review of MAT central staffing showed that although staff had financial expertise and experience, none held a full accountancy qualification
  - the trust's audit committee only comprises 2 members who are also directors. The current composition does not allow for independent and objective scrutiny of the trust's activities.

## Background

4. The MAT is based in the West Midlands and comprises 3 secondary academies and an all through 3-18 academy: The Barr Beacon School, Etone College, Dame Elizabeth Cadbury School and Bloxwich Academy. The Barr Beacon School was rated Outstanding by Ofsted in January 2014, Etone College was rated Good in January 2017 and Bloxwich Academy entered Special Measures in July 2017. Dame Elizabeth Cadbury School converted to an academy in 2016, the previous maintained school was rated Good in November 2012. The academies have a combined pupil capacity of 4637 and had 3483 pupils on roll recorded in the autumn 2016 census.
5. The Evolve Teaching School Alliance based at Barr Beacon School has been hosted by the trust since September 2014. The Alliance partnership offers a network of primary and secondary schools that collaborate to share first hand training and best practice in a number of different specialisms.
6. Following background checks and review of the allegations, it was agreed that a review of financial management and governance would be undertaken at the trust. The visit was conducted over 3 days between 16 to 18 May 2017.

## Objectives and scope

7. The objective of the review was to seek assurance that the trust's financial management, internal controls and governance arrangements are compliant with the AFH 2016 and its Funding Agreement.

8. The scope of the review was to assess the financial controls and management within the trust; to assess the adequacy and effectiveness of governance, risk management and control, including propriety, regularity, and value for money. Work was undertaken in the following areas:

- relevant trust policies and procedures, particularly those pertinent to financial management and financial controls, including the financial policy and scheme of delegation
- relevant trust information, including the Funding Agreement, governing body and relevant committee minutes, recruitment and payroll information, financial management information including bank statements, credit card statements and procurement documentation
- adequacy of trustee oversight and challenge
- the review covered limited transactional testing and included interviews with the Chief Finance Director and the Human Resource Director.

# Findings

## Oversight, independence and challenge

9. The MAT 2015/16 financial statements (FS) confirm the trust had 3 members and a further 2 trustees, all of whom are directors of the trust. The current structure where members are also directors, is not in line with best practice as set out in the AFH 2015 (p6), which states that retaining some distinction between the two layers of the governance function ensures that members, independent of trustees, provide oversight and challenge. This is especially important in multi-academy trusts in which trustees are responsible for a number of academies.

10. Whilst the trust has three members, DfE encourages trusts to have at least five members in total, as this ensures enough members can take decisions via special resolution (which requires 75% of members to agree) without requiring unanimity, and facilitates majority decisions being taken by ordinary resolution (which requires a majority of members to agree). Furthermore, the trusts AO is currently denoted as a member of the trust. Governance structures in which members are also employees are not considered by DfE to be best practice.

11. A review of MAT central staffing showed that whilst staff had financial expertise and experience, none held a full accountancy qualification. The AFH s2.1 confirms trustees and managers must have the skills, knowledge and experience to run the academy trust.

12. The audit committee is currently composed of two directors, who are also members of the trust board. This potentially breaches the AFH 2016 s2.4, which confirms that audit committee functions should be established in such a way as to achieve internal scrutiny that delivers objective and independent assurance. Using the same directors on the audit committee and trust board means it is difficult for the audit committee to independently scrutinise board decisions.

13. Analysis of trust financial reports presented to the board in 2016/17 highlighted the majority of financial reporting is still done at academy level with a very high-level annual consolidated summary at year-end. Certain cost centres were not reported separately e.g. leisure facilities, Evolve Teaching Alliance or the school-centred initial teacher training (SCITT).

14. The trust must ensure comprehensive multi-academy trust level financial reporting is produced and formally reviewed on a regular basis, both at board and senior management team (SMT) level. This should include variance analysis and adequate separation of relevant cost centres to allow identification of any which may be running at a loss.

15. The individual academy level forecasts suggested the trust may enter a cumulative deficit within the next 4 years. The Chair of the board confirmed the trust has started to look at different ways of consolidated reporting, that long-term forecasts are still in early stages of drafting and that revised forecasts would confirm no cumulative deficits were forecast.

16. A review of the current trust finance manual highlighted key elements setting out the delegated limits and powers from the AFH were not included. In addition, the manual was at an academy level and not at a multi-academy trust level. The trust should ensure its financial policies and procedure documents also cover multi-academy trust operations and are reviewed regularly to ensure applicable frameworks are included.

17. It was noted that a number of other trust policies were presented as academy policies rather than trust wide applicable documents. Policies should be presented and applied consistently across the trust.

## Personnel

18. Comparing data in the 2015/16 trust financial statements to current data provided by the trust, 23 staff left the trust out of a total compliment of 448. This year on year change equates to a reduction of 5%. This is lower than the national average, DfE's School Workforce analysis has calculated the leaver rate at 10% across the education sector

19. During the review evidence confirmed that existing experienced staff were re-deployed across the trust to raise standards and give support to academies within the chain. Further evidence of the back filling of vacant posts from across the trust was provided to show how the trust supports the progression of its staff.

20. Testing of 5 senior management personnel files highlighted that in 2 instances, specifically the AO and Finance Manager, the signed contract of employment was not held. Furthermore, evidence for performance management covering the last 3 years was not present for all personnel files tested. The trust must ensure it demonstrably adheres to its HR policies and procedures.

21. The trust confirmed that it occasionally uses self-employed contractors for teaching services. However, no documented contracts are held for these contractors by the trust. The trust must ensure adequate contractual documentation is maintained to protect the trust and ensure compliance with internal control requirements set out in the AFH s2.3.2. Ensuring a robust documented contract is in place for goods / services purchased helps to ensure both parties are clear on their roles and responsibilities. Without this, the trust would also struggle to pursue any non-delivery or contractual default.

## **Staff Development / Corporate Expenses**

22. The trust hold an annual corporate activity and staff development day where a number of leisure activities alongside a meal are paid for by the trust. Expenditure in 2016 was £16,075 for 366 staff, at an average cost of £43.92 per head. Expenditure in 2015 equated to £17,205 for 358 staff, at an average cost of £48.06 per head.
23. The trust also incurred expenditure of £2440 for 4 days NQT residential accommodation and flights for 16 staff in July 2016. Trust staff indicated that this was included as part of the NQT package to support enrolment and retention. Attendance is contingent on the staff member remaining at the trust for 3 years otherwise the cost will have to be repaid.
24. Evidence confirmed that the trust board had sight of the intention to undertake the staff development days and NQT residential in the reports provided to the them. However, the board were not required to approve this expenditure as the values are within the delegated limit for the Accounting Officer.
25. Whilst the trust confirmed the expenditure relates to staff development and business activities, and authorisation procedures were complied with there was no formal record of business activity undertaken. ESFA considers that the trust needs to review these arrangements and formally document in a business case how this type of expenditure achieves value for money for the public purse.

## **Development of Multi Academy Trust Arrangements**

26. The trust is progressing the centralisation of its procurement and contracting arrangements, such as agreeing a trust level contract for the catering provision across all academies. However, more needs to be done to ensure that the centre are fully sighted on local contracting arrangements at each of the academies and are in a position to take advantage of the economies of scale presented by trust wide procurement.
27. The trust has no central register of contracts, therefore reducing its ability to consolidate its approach to procurement and drive efficiencies in expenditure. The trust should ensure that information relating to all live contracts is collated centrally and reviewed to ensure that the combined purchasing power of the trust can be used to obtain better value for money in future contracting arrangements.
28. Currently, academy income is received directly by the individual academies and multi-academy trust recharges are then claimed by the centre. No pooling of GAG is undertaken. The trust board should formally discuss and consider the best way for the trust to receive and allocate funds that also helps to build contingency funds and support struggling cost centres.

29. The trust uses a common financial system in each of its academies however, these are not linked into a central system. This makes the consolidation of financial/accounting information more difficult to achieve and reduces the level of oversight. The trust has confirmed that a new finance system will be deployed in September to address this issue.

## Conclusion

30. A review of the latest financial statements prior to our visit confirmed the trust's accounts were unqualified, there were no regularity issues and that the trust is in a relatively healthy financial position.
31. Our work on site identified some weaknesses in financial management and governance, and that impact upon the adequacy of internal control and compliance with best practice guidelines set out in the AFH. The findings have been raised and discussed with senior management at the trust, and the Chair of the board of trustees.
32. The trust has acknowledged that these issues need to be urgently addressed to ensure internal control arrangements within the trust are operating effectively and assure the safeguarding of public funds.
33. The trust must undertake a full independent review of governance arrangements by 1 December 2017. The review should include the issues highlighted during our work in this report. The commissioning process, terms of reference and scope for the review of governance should be agreed with the ESFA in advance. This should be submitted no later than 16 October 2017. Following the review, the trust must confirm in an action plan to ESFA how the required improvements will be managed and implemented. All actions should be completed by 20 December 2017. The ESFA would recommend that the trust move to the latest set of academy articles of association as part of strengthening governance, and in line with the AFH 2015 (p6).



© Crown copyright [2017]

This publication (not including logos) is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

To view this licence:

visit [www.nationalarchives.gov.uk/doc/open-government-licence/version/3](http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3)

email [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

write to Information Policy Team, The National Archives, Kew, London, TW9 4DU

About this publication:

enquiries [www.education.gov.uk/contactus](http://www.education.gov.uk/contactus)

download [www.gov.uk/government/publications](http://www.gov.uk/government/publications)

Reference: [000-000-000]



Follow us on Twitter:  
[@educationgovuk](https://twitter.com/educationgovuk)



Like us on Facebook:  
[facebook.com/educationgovuk](https://facebook.com/educationgovuk)