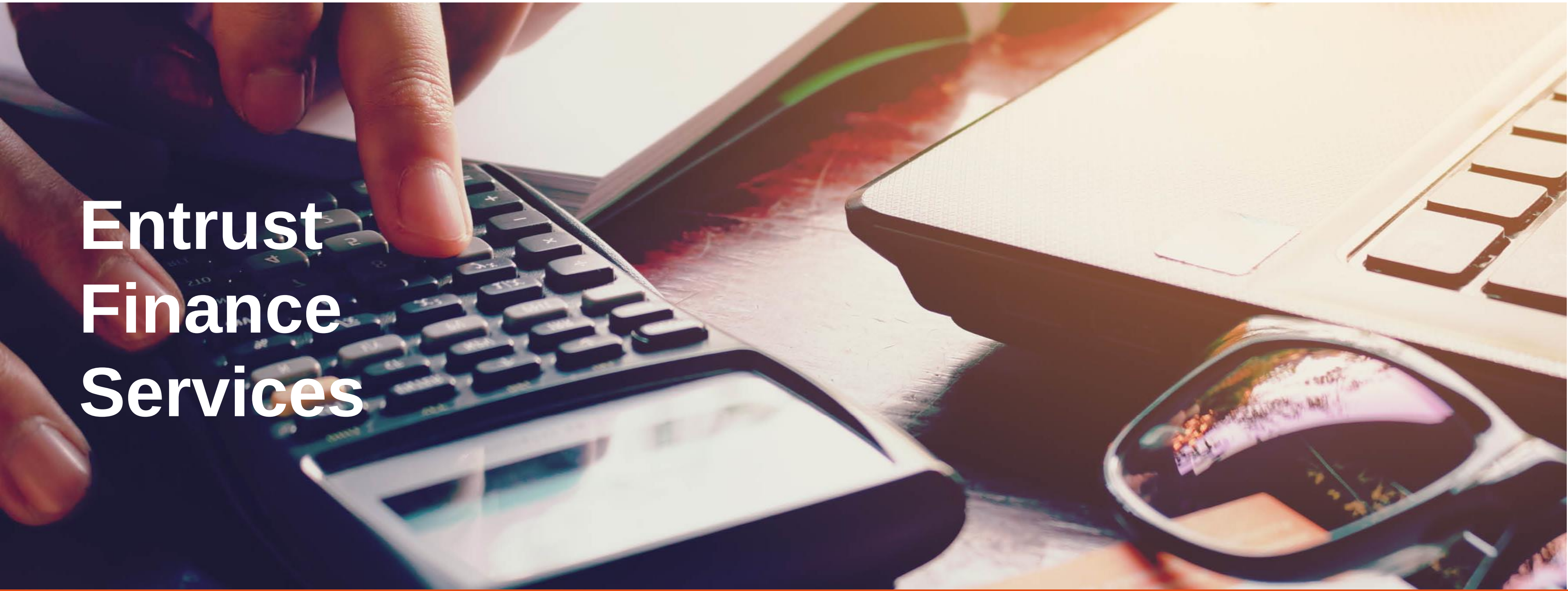

Entrust Finance Services

The Academies Financial Handbook 2020 – Bitesize Summary

Introduction

What is the Academies financial handbook (the ‘handbook’)?

- Describes the financial responsibilities of academy trusts
- Sets out areas of HM Treasury’s Managing Public Money that apply to Trusts
- Reflects the ‘seven principles of public life’ – selflessness, integrity, objectivity, accountability, honesty and leadership

Who is the handbook for?

- Trustees
- Members
- Local Governors
- Accounting Officers
- Chief Financial Officers
- Auditors

Important Points to Note

1) The handbook is updated in June every year, and contains a list of changes from the previous year. It is important to review these changes on an annual basis.

2) Compliance with the handbook is a requirement in trusts' funding agreements with the Secretary of State.

3) The handbook includes a list of 'musts' that identify requirements for all trusts.

4) The handbook includes a number of 'should' requirements that identify minimum good practice, but do not have to be applied if an alternative better suits a trusts circumstances.

5) A common theme is Value for Money.

Foreword by Baroness Berridge

“The Academies Financial Handbook is one of the key ways we set out what we expect from you in using public funds. I see it as the operationalisation of the contracts made by trusts in their funding agreements and we hold you to account by it.”

- Baroness Berridge, Parliamentary Under Secretary of State for the School System

Academies Financial Handbook

There are six main sections:

Part 1: Roles and responsibilities

Part 2: Main Financial requirements

Part 3: Internal Scrutiny

Part 4: Annual accounts and external audit

Part 5: Delegated authorities

Part 6: The regulator and intervention

Part 1: Roles and Responsibilities

This part of the handbook explains the responsibilities of the Department for Education, ESFA and academy trusts.

Department for Education (DfE): Ultimately responsible for the financial management of all academies

Education and Skills Funding Agency (ESFA): An agency of the DfE. Responsible to Parliament for how education funding is utilised. It can issue a Financial Notice to Improve if it has concerns about the financial management of an academy trust, which will place restrictions and limitations on the spending of an academy.

Part 1: Roles and Responsibilities

Members

Each academy must have a minimum of 3 members (recommendation 5) who must not be employees of the trust.

Should be independent from the trustees

Members should be ‘eyes on but hands off’ but should ensure that corrective action is taken should the board of trustees ‘become dysfunctional.’ Members do have the power to remove and appoint trustees.

Members are also responsible for appointing auditors and receiving the annual audited accounts.

Part 1: Roles and Responsibilities

Trustees (Company directors)

Focus should be

- Ensuring clarity of vision
- Holding leaders to account with regard to educational performance
- Ensuring effective financial performance

with duties as described by the Companies Act 2006

The CEO can be a trustee, other than that the DfE strongly prefers for no other employees to serve as trustees.

The Governance Handbook contains guidance on what skills a governing board should have, with it being the board's responsibility to address any gaps in skills and experience through recruitment or training.

The development and review of an academy's governance structure must be included in an academy's first set of financial statements, with an annual assessment being compulsory in subsequent years.

Part 1: Roles and Responsibilities

Accounting Officer *(Detailed guidance on role)*

- Trustees must appoint a senior executive leader (chief executive of MATs). This person should also be the accounting officer – these roles do not rotate.
- Accounting officers are personally financially responsible to Parliament and thus must have appropriate oversight of the academy's finances. They must complete statements in the accounts each year demonstrating compliance, and value for money.
- The accounting Officer should be employed by the trust and ESFA approval must be obtained if a trust is proposing in exceptional circumstances to appoint one who will not be an employee.

Chief Financial Officer

- Trustees must also appoint an appropriately qualified/experienced CFO (business manager) who deals with the detailed financial procedures of the trust.
- The CFO should be employed by the trust and ESFA approval must be obtained if a trust is proposing in exceptional circumstances to appoint one who will not be an employee.

Part 2: Main Financial Requirements

This part of the handbook sets out the financial requirements for academy trusts

Financial Oversight

Board meetings must be regular enough so that governance is robust and financial management is effective. This should be termly as a bare minimum; however should a board meet less than 6 times it will need to explain how it was able to be effective in the reports accompanying the financial statements.

Usually a finance committee is established which carries out financial oversight.

Internal Control

Financial areas requiring formal controls include segregation of duties, budgeting, cash flow, bank reconciliation, capital projects, asset management, value for money, and fraud prevention.

Part 2: Main Financial Requirements

Budgeting

Requirements in this area include

- Setting a balanced budget, approved and minuted by board of trustees
- Completion of ESFA form Budget Forecast Outturn Return (by 3rd week May)
- Completion of ESFA form Budget Forecast Return (by end July)

It is the board's responsibility to challenge the approaches taken in setting the budget in order to ensure the budgets set are as accurate as possible.

Monthly management accounts **must** be produced setting out the financial performance of the trust, and managers must act on these reports as appropriate. The chair of trustees will see each month's management accounts, with the board seeing the reports at least six times a year even if they do not meet for these.

Cash

The trust is responsible for managing its cash position to ensure it does not become overdrawn.

Part 2: Main Financial Requirements

Investments

The board of trustees may make investments, but **must** ensure risk is properly managed. Security of funds takes precedence over revenue maximisation.

Spending

The overriding aim for spending is that the trust is able to show that its funds have been used as intended by Parliament. It must also display value for money, tendering procedures are in place, and levels of delegation are in place internally. A Trust's funds must not be used to purchase alcohol for consumption, except where it is to be used in religious services.

Executive pay

The board is responsible for the setting of executive pay, and no individual should be involved in deciding their own salary.

A clear process should be in place, the whole procedure should be documented, pay should be proportional to similar bodies, and any inappropriate pay can be challenged by the ESFA.

Part 2: Main Financial Requirements

Risk Management
The trust is responsible for managing its risks, which includes business continuity planning. A risk register **must** be maintained and must be reviewed at least once a year. Risk management covers the full operations and activities of the trust, not only financial risk. Insurance cover is essential.

Whistleblowing
It is compulsory to have appropriate whistleblowing procedures, and ensure that all staff are aware of them.

Part 2: Main Financial Requirements

Provision of information

The ESFA will occasionally require additional information form the trust, which must be provided of sufficient quality, when and how it is requested.

Any changes to governance information must be notified to ESFA via the Get information about schools (GIAS) register.

Failure to provide ESFA with required information may result in investigation from ESFA where costs for the investigation may be recovered from the Trust.

Transparency

Trusts are required to provide details of its governance arrangements both in its year end accounts and on its website. Details provided Must include member names, position on the board, and their attendance records. This includes Both Trust, Local governing boards and the accounting officer (if not a trustee).

Part 3: Internal Scrutiny

This part of the handbook sets out the requirements for internal scrutiny of academy trusts

Purpose and approach
The trust must have in place a programme of internal scrutiny to provide independent assurance that financial and other controls, and risk management procedures, are operating effectively.

The trust must identify on a risk-basis the areas it will review each year with a focus on evaluating the suitability of controls, offering advice and insight on how to address weaknesses, and ensuring all areas of risk are being identified, reported and managed.

Independence and objectivity
Independence must be achieved by establishing reporting lines directly to a committee of the board.

Part 3: Internal Scrutiny

Audit committee

A committee that deals specifically with the audit must be established. For trusts with annual income over £50 million this must be a dedicated audit committee. Other trusts may combine the audit committee with another committee.

The role of this committee must include directing the programme of internal scrutiny over all academies within the trust, and ensure information submitted to DfE and ESFA is accurate.

Employees of the trust should not be members of the audit committee, however the accounting officer and chief financial officer should be in attendance.

Part 3: Internal Scrutiny

Delivering internal scrutiny

The trust has the following options to deliver internal scrutiny:

- Employ an in-house auditor
- Utilise a bought-in internal audit service
- Appoint a non-employed trustee
- Obtain a peer review by a member of the finance team of another academy trust.

The above options may be combined. The trust will need to ensure those carrying out the programme of work are suitably qualified/experienced. The approach to internal scrutiny must also be kept under review to ensure it is suitable for the trust's circumstances.

The trust must confirm in it's governance statement which options it has applied and why. The trust must also submit an annual summary report of internal scrutiny to ESFA by 31 December each year with its audited annual accounts.

Part 4: Annual accounts and external audit

This part of the handbook sets out how trusts must report on their finances to give assurance to parliament and the public about the use of resources

Preparation and audit of accounts

Accounts must be prepared to 31 August in line with the SORP and the Accounts Direction. These accounts must be audited. Submissions deadlines have been extended for accounts are as follows:

Submitted to ESFA	31st January 2020
Published on trust website	28th February 2020
Filed with Companies House	31st May 2020

The accounts must also be audited, and must also be provided to every member and anyone who requests a copy.

NB: We would recommend that you adhere to the original annual deadlines where possible.

Part 4: Annual accounts and external audit

External Auditor

Trusts must appoint an auditor under the Companies Act 2006 (i.e. by members).

The auditors must provide the trust with an engagement letter that covers only the external audit. Additional services from the auditor must be included in a separate letter of engagement that must specify the requirements of the work, and the fee.

This letter must provide for the removal of auditors, before the expiry of term of office, in exceptional circumstances.

Proposals to remove auditors require a majority vote, and must provide reasons of the decision to the board.

If an auditor wishes to resign, they must provide an explanation to the trust within 14 days of resignation.

Part 4: Annual accounts and external audit

External Auditor (continued)

DfE consolidates the annual accounts of each trust into a sector annual report and accounts (SARA).

SARA is audited by the National Audit Office (NAO) in accordance with HM Treasury's Financial Reporting Manual.

A Trust's auditors will be required by DfE to audit certain information that should be incorporated within the terms of the engagement letter.

The NAO must reach an opinion on regularity for ESFA's own accounts, and will therefore draw on the regularity opinions expressed by trusts' auditors.

Part 4: Annual accounts and external audit

Review of regularity

A Trust's annual accounts must include a statement on regularity, propriety and compliance from the accounting officer. It includes a responsibility to ensure that:

- There is effective and efficient use of resources (value for money)
- public money is spent for the purposes intended by Parliament (regularity)
- appropriate standards of conduct, behaviour and corporate governance are maintained (propriety)

The format of this statement is given in the Accounts Direction.

The accounting officer also has responsibility to advise the board of trustees and ESFA of any instances of irregularity, impropriety or non-compliance with the funding agreement or handbook.

Auditors must review the accounting officers statement, and their conclusions must be addressed jointly to the Trust and ESFA.

Part 4: Annual accounts and external audit

Audit findings

The audit process can support the trust by helping identify key areas that may require improvement.

The board of trustees must ensure there is an appropriate, reasonable and timely response to any findings by auditors.

This should be seen as a tool to strengthen the trust's systems of financial management and control.

Part 5: Delegated Authorities

This part of the handbook sets out how trusts must report on their finances to give assurance to parliament and the public about the use of resources

Requirement to obtain ESFA approval

The Trust has autonomy over financial transactions arising in the normal course of business. However, some transactions have delegated authority limits beyond which trusts must obtain approval from ESFA.

The Trust must disclose aggregate figures for transactions of any amount, and separate disclosure for individual transactions above £5,000, in it's audited accounts for the following transactions:

Special payments – compensation	Special payments – ex Gratia
Writing off debts and losses	Guarantees, letters of comfort and indemnities
Acquisition or disposal of a freehold of land and buildings	Disposal of heritage assets
Taking up or granting a leasehold on land and buildings	Gifts by the trust

Special staff severance payments of any value must be disclosed in total and individually in the audited accounts.

Other than what is required under financial reporting standards, the charities SORP and the accounts direction, these disclosures can be anonymised.

Part 5: Delegated Authorities

Novel, contentious and repercussive transactions

These types of transactions must always be referred to ESFA for approval.

Novel transactions are those of which the trust has no experience, or are outside its range of normal activities.

Contentious transactions are those that might cause criticism of the trust by parliament, the public or the media.

Repercussive transactions are those likely to cause pressure on other trusts to take a similar approach and hence have wider financial implications.

Part 5: Delegated Authorities

Special payments

These include:

- Non-Statutory or Non-contractual staff severance payments
- compensation payments
- ex gratia payments

Special staff severance payments

Before making one of these a binding commitment, a trust must consider the following:

- That the payment is in the interest of the trust.
- That the payment is justified – for example if there is a significant chance of losing the case, and maintaining a defence will carry high costs. If a legal assessment suggests that the case will be won, then settlement should not be offered.
- The settlement amount must not be more than the legal assessment of what the relevant body (e.g employment tribunal) is likely to award.

In short, the trust must obtain value for money.

Part 5: Delegated Authorities

Special payments (continued)

These payments should not be made where they can be seen as a reward for failure.

Trusts have authority to approve severance payments where the special element is below £50,000. For any severance payments where the special element is above £50,000 ESFA approval must be obtained.

Statutory/ Contractual Payment		Non-Statutory/ Non-Contractual Payment	ESFA/HM Treasury approval required?
£30,000	+	£30,000	No
£60,000	+	£30,000	No
£30,000	+	£50,000	Yes – for £50,000

Part 5: Delegated Authorities

Special payments (continued)

Compensation payments

These payments provide redress for loss or injury, for example personal injuries, traffic accidents or damage to property. Trusts must ensure that any of these payments achieve value for money.

As with special severance payments any compensation payments over £50,000 must be referred to ESFA for approval.

Trusts will need to consider whether the need for such payments reveals concerns about the effectiveness of internal controls, and take steps to put failings right.

Ex gratia payments

These are payments made where the trust is under no obligation to make such a payment. Examples include payments to meet hardship caused by official failure or delay, and to avoid legal action due to official inadequacy.

All of these payments must be referred to ESFA for approval.

If trusts are in any doubt about a proposed transaction, they should seek ESFA advice.

Part 5: Delegated Authorities

Write-offs and entering into liabilities

Delegated limits are as follows:

- 1% of total annual income or £45,000 (whichever is smaller) per single transaction.
- For Trusts that have not submitted timely, unqualified audited accounts for the previous two years, 2.5% of total annual income cumulatively per type of transaction.
- For trusts that have submitted timely, unqualified audited accounts for the previous two years, 5% of total income cumulatively per type of transaction. This includes trusts that have not yet produced two years of accounts.
- £250,000 cumulatively per type of transaction.

All avenues of recovery should be fully explored and considered before the decision to make any write-offs.

Trusts should ensure value for money when issuing guarantees, a letter of comfort or indemnity.

Part 5: Delegated Authorities

Acquisition and disposal of fixed assets
A Trust must obtain ESFA approval in order to acquire or dispose of freehold land and buildings, and dispose of heritage assets.

All other assets can be acquired or disposed without ESFA approval, however Trusts must ensure that disposals achieve the best price, and maintain the principles of regularity, propriety and value for money

Part 5: Delegated Authorities

Leasing

There are two types of lease – finance leases (a form of borrowing) and operating leases (not borrowing).

Trusts must obtain ESFA approval for the following leases:

- All finance leases.
- taking up a leasehold or tenancy agreement on land and buildings for a term of seven or more years.
- granting a leasehold interest, including a tenancy agreement, of any duration on land and buildings.

All other operating leases do not need ESFA approval, however trusts must ensure the principles of value for money, regularity and propriety are maintained.

It is important to note that leasing companies may describe something as an operating lease, however it might meet the definition of a finance lease. Always take advice before entering into a lease.

Part 5: Delegated Authorities

Managing General Annual Grant (GAG)
Currently there are no limits on the amount of General Annual Grant (GAG) carried forward by trusts, except where funding agreements provide a limit.

ESFA will however report to DfE any trusts where it has serious concerns about a long-term substantial surplus with no clear plans for its use.

MATs have the freedom to amalgamate a proportion of GAG to form one central fund. A MAT must not pool PFI.

The MAT must consider the funding of each constituent academy, and must have an appeals mechanism.

If a constituent academy feels it has been treated unfairly, it should appeal to the trust first. If the grievance is not resolved they can appeal to ESFA whose decision will be final, and who can dis-apply the provision for pooling.

Part 5: Delegated Authorities

Gifts

The Trust should have a policy and register on the acceptance of gifts that might be seen to compromise their judgement or integrity.

All staff should be aware of this policy.

When making gifts, the trust must ensure the value is reasonable, is within its scheme of delegation, is documented, and has due regard to propriety and regularity.

Part 5: Delegated Authorities

Borrowing

Trusts must obtain ESFA approval for borrowing from any source (including finance leases and overdraft facilities.

The general position of the Secretary of State is that borrowing will only be allowed in exceptional circumstances.

From time to time the Secretary of State may introduce limited schemes, e.g Salix loans for efficiency savings.

Credit cards must only be used for business expenditure, and balances cleared before any interest accrues.

Part 5: Delegated Authorities

Related party transactions

What is a related party?

A relative of a member/trustee – A relative is defined as a close member of the family, or member of the same household. This includes, but is not limited to a child, parent, spouse or civil partner.

An individual carrying on business in partnership with a member/trustee.

A company in which a member/trustee, or their relative holds more than 20% of the share capital or is entitled to exercise more than 20% of the voting rights at any general meeting.

An organisation which is controlled by a member/trustee or their relative.

Relationships that may attract greater public scrutiny

Payments to organisations with a profit motive; transactions with individuals in a position of control and influence; relationships with auditors beyond their duty to deliver a statutory audit.

Part 5: Delegated Authorities

Related party transactions (continued)

Reporting and approval of related party transactions

Any transactions made on or after 1 April 2019 must be reported to ESFA via their on-line form before the transaction takes place.

Trusts must obtain ESFA approval for any related party transactions that are novel, contentious and/or repercussive.

From 1 April 2019 any contracts with related parties exceeding £20,000 must have prior approval from the ESFA.

From 1 April 2019 any contracts that would take the cumulative value of all contracts with the related party beyond £20,000 and any subsequent contracts in the same financial year must have prior approval from the ESFA.

Salaries and employment contracts with related parties do not require ESFA approval.

Part 5: Delegated Authorities

Related party transactions (continued)

Register of interests

Trusts must have a register of pecuniary interests for all members, trustees, local governors, and senior leadership team.

This must capture relevant business and pecuniary interests including: directorships, partnerships and employments with businesses; trusteeships and governorships at other educational institutions and charities. For each interest, the name of the business, the nature of the business, the nature of the interest, and the date the interest began must be recorded.

This should be kept up to date.

The register must be published on the trusts website for members, trustees, local governors and accounting officers. Trusts have discretion over the publication of any other named individuals on the register.

Part 5: Delegated Authorities

Related party transactions (continued)

Payments to related parties

Trusts must pay no more than cost to related parties for goods and services from a related party exceeding £2,500 cumulatively in a financial year.

In relation to Dioceses, payments by the trust to the diocese for services it receives associated with the religious character and ethos, are regarded as meeting the at cost requirement.

Cost includes direct costs and indirect cost, but must not include a profit element.

Any agreement with a related party to supply goods and services must be shown to be procured through an open and fair process.

Part 5: Delegated Authorities

Related party transactions (continued)

Other principles applying to related parties

Trustees must comply with their statutory duties as company directors to avoid conflicts of interest, not to accept benefits from third parties, and to declare interests in proposed transactions or arrangements.

Trusts must ensure that no member, trustee, local governor, employee or related individual uses their connection to the trust for personal gain, including payment under terms that would be preferential to those that would be offered to an individual or organisation with no correction to the trust.

Trusts must ensure that no payments (excluding employment contracts) are made to any trustee unless permitted by the articles, or by authority from the charity commission.

Salaries and employment contracts with related parties are allowable, however the trust must demonstrate value for money, and the salary must be based on the persons skill/experience, and at market rates.

Part 5: Delegated Authorities

Applicability of delegations and freedoms

If one or more of the academies within a trust is subject to an agreement that allows the academy to receive GAG based on estimated pupil numbers rather than pupil census based funding, the following delegations and freedoms do not apply to the trust:

- acquisition and disposal of fixed assets (5.22)
- leaseholds and tenancy agreements of land and buildings (5.25)
- carry forward of unspent GAG from one year to the next (5.28)
- Pooling of GAG by MATs (5.29)

Access to these delegations and freedoms will occur when all relevant funding agreements are updated.

The funding agreement overrides the handbook in individual areas.

Part 6: The regulator and intervention

This part of the handbook sets out how ESFA oversees academy trusts nd may intervene where concerns arise.

ESFA oversight

ESFA's accounting office is accountable to Parliament for how ESFA uses its funds. At least annually they will send out letters that cover issues such as developments in the accountability framework and ESFA findings which must be shared with members, trustees, CFO and senior leadership team.

ESFA exercises the rights, powers and remedies in this handbook on behalf of the secretary of state. If they fail to use, or delay in using, these this does not mean they cannot do so later.

Part 6: The regulator and intervention

Audit access rights
ESFA or its agents may carry out audits at the academy trust.

The trust must provide ESFA with access to all books, records, information, explanations, assets and premises, and ESFA may take copies of relevant documents.

ESFA may conduct interviews during these audits.

Trusts will be given reasonable notice in writing of proposed audits.

The Trust must retain records necessary to verify provision delivered by it in relation to the handbook and the funding agreement for at least six years after the period to which the funding relates.

Part 6: The regulator and intervention

Financial management and governance self-assessment

New trusts, or newly-formed academies joining a trust, must complete a Financial Management and Governance Self-assessment (FMGS) and submit this to ESFA within 4 months of opening.

ESFA will review whether the systems and controls in trusts meet the requirements in the handbook.

Funding Audit

These allow ESFA to gain assurance on the data provided by an academy trust to calculate its recurring funding, and whether this data is accurate, complete and supported by evidence.

The scope and timing of these audits is determined annually.

Part 6: The regulator and intervention

Fraud, theft and irregularity

Trusts must be aware of the risk of fraud, theft and irregularity and put proportionate controls in place to address these risks.

Any instances of fraud, theft and/or irregularity exceeding £5,000 individually, or £5,000 cumulatively in any financial year must be reported to ESFA.
The following information is required:

- full details of the event(s) with dates
- The financial value of the loss
- measures taken by the trust to prevent recurrence
- whether the matter was referred to the police (and if not why)
- whether insurance or the RPA have offset any loss

ESFA may carry out its own investigation into actual or potential fraud, theft or irregularity and they may involve other authorities including the police. Any reports on these investigations will be publicised.

ESFA also publishes guidance on reducing fraud.

Part 6: The regulator and intervention

ESFA intervention powers

Where ESFA has concerns about financial management and/or governance in an academy trust it may issue and publish a Financial Notice to Improve (FNtI).

If a trust is subject to an FNtI, it must publish this on it's website within 14 days of it being issued.

An FNtI will describe what a trust must do to address any financial management or governance concerns. It will also revoke some of the delegated authorities covered in section 5 of the handbook, whereby all transactions of this type must be approved in advance by ESFA.

ESFA may require the trust to submit additional information such as monthly income and expenditure accounts, cashflow statements and balance sheets where they have issued an FNtI

Part 6: The regulator and intervention

Secretary of State directions

Where the Secretary of State has concerns about an individual managing an academy trust, he may take action to address those concerns. The action taken can include removing, a member or Trustee, or prohibiting a person from taking part in management if they are considered unsuitable to take part in management of the academy trust.

ESFA work with the Charity Commission

ESFA may refer trusts to the charity commission where it is deemed appropriate to do so.

ESFA work with the Insolvency Service

ESFA may refer academy trustees, as directors, to the Insolvency Service to consider whether the conduct of a director is such that they are unfit to be involved in management of a company.

Part 6: The regulator and intervention

ESFA approach to academy resource management
Where ESFA has concerns about financial management of a trust, they may require a trust to work with a School Resource Management Advisor (SRMA). Trusts should implement improvements identified by an SRMA as a failure to do so may result in an FNtI being issued.

National Audit Office and Public Accounts Committee
The National Audit Office (NAO) has right to access the accounts and relevant records of a trust for inspection, or for value for money studies.

The Trust must cooperate with NAO and provide help, information and explanation as is reasonable and necessary.

NAO's findings are considered by Public Accounts Committee (PAC).

The PAC has power to call anyone including past and current officers.

Further information

Part 7: Definitions
Part 7 (p56 of the Handbook) provides a useful glossary of some of the terms used elsewhere in the Handbook as well as in this guide.

Part 8: Schedule of requirements (the ‘musts’)
Part 8 (p60 of the Handbook) provides a summary of the requirements of the handbook in list form, along with a link to the complete section. Just like the above information, it should not be used as a substitute for the full handbook, but some users will find it a helpful reference tool.

It contains sections on Top 10 musts for chairs and other trustees, roles and responsibilities, main financial requirements, Internal scrutiny, annual accounts and external audit, delegated authorities and the regulator and intervention.

Part 9: Further reading
Part 9 (p67 of the Handbook) Links to more information and guidance that can be used in certain areas including, but not limited to Accountability, Charities, Financial management etc.