



Education
Funding
Agency

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Dear Finance Director / School Business Manager

Preparations for 2012 to 2013 financial statements and audit

I would like to welcome you back as we start the new academic year and hope that this year brings your academy, staff and pupils every success. I realise the start of a new term is a busy period for you and to support you in the vital work you do as part of the academy team, I thought it would be helpful if I shared some lessons from our work reviewing academy trusts' 2011 to 2012 audited financial statements and auditor management letters, and some questions to consider when preparing your 2013 submission. I also wanted to take this opportunity to remind you of academy trusts' responsibilities with regard to fraud and irregularity.

Audited financial statements

We form a view of the quality of financial management in individual academy trusts and the overall academies programme partly from the timeliness of submission of financial statements. For the submission of 2011 to 2012 audited financial statements, the majority (87%) of academy trusts and their auditors achieved the deadline of 31 December 2012. This was a welcome improvement on the previous year, however, it means a significant proportion submitted accounts late, some because of inadequate management of the process within the trust. Because the production of financial statements is one of the most basic requirements of a company, charity or public body, it is essential that academy trusts make this a high priority as part of their accountability to the community as well as to prevent damage to their own reputation and the programme as a whole.

You may find it helpful to consider the following questions in preparation for your academy trust's 2013 submission.

- Does your academy trust have the necessary skills to prepare high quality financial statements? Ideally the financial statements should be prepared by a qualified accountant.
- Do you have an accounts preparation timetable and quality assurance process in place that will enable your academy trust to prepare its financial statements promptly after the year end and before submission to the board of trustees and auditor?

- Are there any issues that might impact on your academy trust's ability to meet the submission deadlines, for example, staffing issues, going concern or governance issues?
- Have you started talking to your auditor? It is essential to agree their programme of work and a timetable that will enable them to complete their work before the submission deadline.
- Have you scheduled the academy's trustee meetings at a time that will enable them to review and sign off the financial statements before the deadline?
- Are arrangements in place to publish your financial statements on your website? The Academies Accounts Direction requires you to publish your 2012 to 2013 audited financial statements by 31 May 2014.

Key findings from our review of 2011-12 accounts

We observed an overall improvement in the quality of financial statements received for 2011 to 2012, with good evidence of compliance with guidance. In addition, the proportion of academy trusts reporting significant financial health and/or management process concerns is reassuringly low, with only 2% of academy trusts receiving qualified financial statements and/or matters raised in their regularity assurance reports.

One of the main reasons for the qualification of academy financial statements was non-compliance with the disclosure requirements for staff trustees' remuneration. Disclosure of trustee remuneration is a requirement of the Charity Commission and we cannot waive it. We have, however, established a working group of academy representatives to review reporting requirements and, based on their advice, in May we updated the [Academies Accounts Direction](#) to provide greater clarification of the disclosure requirements.

Auditor reports on regularity assess whether there is any indication that academy trusts have not applied funds for the purposes intended. This year, the main matters raised in regularity reports highlighted transactions requiring Secretary of State approval that had not been notified to us, for example, ex-gratia and severance payments. You can find the latest guidance on transactions and thresholds requiring approval in the [Academies Financial Handbook 2013](#).

Auditor Management Letters

All academy trusts are required to submit their full auditor's management letter to us at the same time as they submit their audited financial statements, i.e. by 31 December. The vast majority of academy trusts submitted the management letter on time.

Key pointers for this year are:

- Ensure all recommendations made by the auditor in their 2012 management letter are considered as part of the accounts preparation for the year ended 31 August 2013.

- Agree an audit timetable with your auditor and agree who will submit the management letter. It is important to ensure the board of trustees agree the auditor's findings before submitting the management letter to us.

Please ensure the full management letter is submitted and not just appendices. The management letter provides a useful insight into financial management and governance issues at academy trusts that we might not become aware of from the audit opinion and regularity assurance report.

Key findings

We reviewed auditor management letters for any indications of significant weaknesses in internal control that may lead to error, fraud, theft or irregularity. The key themes auditors reported on were:

- reconciliations of key control accounts;
- fixed asset registers and accounting; and
- application of good accounting and regular management information.

Fraud and irregularity

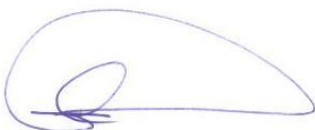
Cases of fraud or irregularity in academies are very few and I am well aware that no system can completely protect against individuals who are determined to commit a criminal act. I would like to take this opportunity to remind you that academy trusts are responsible for:

- addressing the risk of fraud in the academy trust's internal control and assurance arrangements by putting in place proportionate controls;
- ensuring appropriate action is taken where fraud and irregularity is suspected; and
- reporting to the EFA all instances of fraud or theft committed against the trust, whether by employees or trustees or third parties, above £5,000. Trusts must also report any unusual or systematic fraud, regardless of value.

You can find further information in the [Academies Financial Handbook 2013](#).

If you have any questions about this letter, please contact me at academyquestions@efa.education.gov.uk

Yours faithfully



Simon Parkes
Chief Financial Officer