



Education  
Funding  
Agency

# Academies Financial Handbook 2013

**For academy trustees, accounting  
officers, principal finance officers and  
auditors**

**Effective from 1 September 2013**

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## Foreword by Lord Nash



In 2012 the Department published a new Academies Financial Handbook. It was a step change over previous editions. It presented a system of financial accountability founded on key principles rather than detailed prescription. A system that was less bureaucratic and more efficient. And a system that reflected both the freedoms and the responsibilities that academy status brings. I want to maintain that approach and I am pleased that this revised edition of the Handbook does so.

Our role in government is to establish a framework so that public money invested in academies is spent wisely, honestly and transparently. Together with your funding agreement the Handbook is vitally important in setting out this framework in a clear and practical way. We must get this right, so that academies are confident about their financial duties and responsibilities.

The basic standards and principles of accountability that the public expects us to apply should be constant. But academies are well placed to tell us what works, and what does not work, in practice. I am delighted therefore that many of you have been able to help us develop this new edition of the Handbook. The wealth of experience that you bring has given us a document that provides academies with the system they need to do their jobs efficiently and effectively.

In the Handbook you will find information about the responsibilities of academy board members and accounting officers. I see these as important responsibilities that underpin the whole accountability system for academies. If you fulfil one of these roles, whether new or experienced, please ensure that you are familiar with what the Handbook has to say about your duties. It will tell you about the financial freedoms that you have, and clarifies when you must seek the Department's consent before proceeding. It also explains how these freedoms and responsibilities might be affected in cases where financial management and governance could be improved.

Above all the Handbook exists to help academies, so that they can make the best use of public resources and deliver the best education for our young people.

A handwritten signature in blue ink, appearing to read 'John Nash', written in a cursive style.

**John Nash**

Parliamentary Under Secretary of State for Schools

## Introduction to the current edition

Welcome to the Academies Financial Handbook.

This Handbook is a key document for academy trusts that sets out responsibilities and requirements relating to their financial governance and management. It is taken from the requirements in trusts' funding agreements with the Secretary of State, and compliance with the Handbook is a condition of these funding agreements.

The Handbook describes a financial framework for academy trusts that reflects their accountability to Parliament and the public, and the freedoms that they need over their day to day business. Ultimate responsibility and accountability for the financial framework for academy trusts is retained by the Department for Education (DfE).

## What has changed in this edition?

The main changes in the 2013 edition are as follows:

### Governance

- The meanings of the terms [member, trustee, director and governor](#) have been clarified and the relationship between them has been explained.
- Additional information has been introduced describing the **role of the accounting officer** to help trusts understand this key element of the financial framework [[part 1](#)].

### Financial control

- The delegated limit for trusts to self-approve **staff severance payments** and compensation payments has been clarified [[part 2](#)].
- The delegated limits for trusts to **dispose of fixed assets** have been relaxed [[part 2](#)].
- The delegated limits for trusts to take up **leases** have been relaxed [[part 2](#)].
- Additional information has been included to explain the possible reasons for, and consequences of, issuing a **Financial Notice to Improve** (FNtI) [[part 2](#)].
- The duty of trusts in relation to **payment to trustees, governors, employees and related parties** has been emphasised [[part 2](#)].
- The annual **value for money statement** by academy trusts' accounting officers, first announced in the 2012 Handbook, has been decoupled from trusts' annual accounts and will now be a separate return [[part 2](#)].
- The duty of trusts in relation to the **tax arrangements of senior employees** has been emphasised [[part 2](#)].

- Information has been introduced about the duty of trusts in relation to **goods or services provided by individuals or organisations connected to the trust**, including a **no-profit principle** for such transactions [[part 2](#)].
- The **contact point** that trusts should use when applying to the EFA for approval of financial transactions beyond their delegated authority has been clarified [[part 2](#)].
- The option for a **multi-academy trust to pool its GAG** into one central fund to meet costs at any of its academies has been introduced [[part 2](#)].
- The circumstances where **delegated authority** may not apply have been clarified [[part 2](#)].

## Audit

- The inclusion of the remit of an **audit committee** within the remit of a finance committee has been confirmed as permissible, subject to the size of the trust [[part 3](#)].
- The criteria for **establishing a dedicated audit committee** have been changed to focus more on size, rather than type, of academy trust [[part 3](#)].
- The appointment of a '**responsible officer**' has been confirmed as non-mandatory, but rather one of a number of options available to trusts when reviewing their financial controls [[part 3](#)].

## Usability

- A consolidated list of requirements (**the 'musts'**) has been included so that it is easier for trusts to identify the parameters within which they have to operate [[annex C](#)].
- The meaning of the word '**should**' in relation to financial requirements has been clarified [[part 1](#)].
- Changes have been made to the **format** of the Handbook, including hyperlinks from each item on the contents page.
- **Links** to external sources of guidance have been updated [[annex D](#)].

## The meaning of 'trustee', 'director' and 'governor'

In this document there are frequent references to trustees. This is taken to be the same body of people as both the directors of the company and the governors of the academy; the words are used interchangeably.

They are the people responsible under the academy trust's governing document for controlling its management and administration. They have responsibility for directing its

affairs, and for ensuring that it is solvent, well-run, and delivering the charitable outcomes for the benefit of the public for which it has been set up.

However, in a multi-academy trust, arrangements can be different because individuals who sit on a 'local governing body' at a constituent academy may not necessarily be trustees of the overall trust, even though they may have duties delegated to them by the trustees. All individuals involved in the governance of an academy trust, whether at trust level or constituent school level, should satisfy themselves that they know who the trustees are.

Individuals must ensure that they fully understand their duties as company directors and charity trustees. The duties of company directors are codified in sections 170 to 181 of the [Companies Act 2006](#). The role and duties of charity trustees are described by the Charity Commission in their leaflet [CC3: The Essential Trustee](#).

## **The meaning of 'member'**

The members of an academy trust are the subscribers to its memorandum of association, and any other individuals permitted under its articles of association. Their powers may include the authority to appoint trustees. Members may have a limited financial liability to the trust, if it is wound up, which will be set out in the trust's memorandum and articles of association.

The members of an academy trust have a different status to, and are not the same body of people as, the trustees although there can be some overlap.

# Part 1: General

## 1.1 Status

- 1.1.1 The Academies Financial Handbook (the 'Handbook') sets out the duties and obligations of academy trusts which have a funding agreement with the Secretary of State for Education. The Handbook, together with the funding agreement (of which this document forms part), describes the financial relationship between the EFA and academy trusts.
- 1.1.2 The Handbook covers all of the requirements under the financial accountability system for academy trusts. It sets out all of the areas of HM Treasury's [Managing Public Money](#) that directly apply to academy trusts and so all references to it provide further explanation and clarification of these areas.
- 1.1.3 It covers all variants of the academy model including single-academy trusts, multi-academy trusts, traditional sponsored academies, converter academies, free schools, studio schools, university technical colleges and special school academies.
- 1.1.4 The Handbook is aimed at academy trustees, academy accounting officers (principals and chief executives), academy principal finance officers (e.g. finance directors and business managers), clerks to the board of trustees, local governing bodies of multi-academy trusts and academy auditors.

## 1.2 Effective date

- 1.2.1 This Handbook is effective from 1 September 2013. Developments in the accountability framework for academy trusts may arise from time to time and will be reflected in the Handbook as appropriate.

## 1.3 Interpretation

- 1.3.1 The EFA exercises the rights, powers and remedies set out in this Handbook on behalf of the Secretary of State. If the EFA fails to use, or delays in using, any of its rights, powers and remedies this does not mean that it cannot do so at a later date.
- 1.3.2 In this Handbook:
- **“must”** - is used to identify that the item is a requirement for academy trusts. A list of these requirements is at annex C;



- “**should**” - is used for items regarded as minimum good practice, where there is no absolute requirement, but which the EFA expects to be applied unless an alternative approach exists that better suits the trust’s circumstances;
- “**may**” - is used where the trust has discretion as to whether it does something or not, taking into account what is appropriate in its circumstances.

## 1.4 Introduction

- 1.4.1 The relationship between the academy trust and the Secretary of State is set out in a legal document known as a funding agreement (FA). This Handbook contains information on the duties and obligations of academy trusts arising from their FAs.
- 1.4.2 The EFA requires academy trusts to take full control of their financial affairs. This Handbook does not include any requirement that the EFA considers trusts should not expect of themselves or would find unduly onerous.
- 1.4.3 As companies, and under their FAs, academy trusts must produce audited company accounts. The accounting period of an academy trust will usually be set out in its FA, with most trusts reporting to a 31 August year end. The audited accounts must be submitted to the EFA by 31 December each year.
- 1.4.4 As charities, academy trusts must maintain accounting records and provide publicly accessible accounts in line with the Statement of Recommended Practice ([SORP](#)) for Charities.
- 1.4.5 It is a condition of academy trusts’ company status that they must publish their accounts and provide a copy to anyone who requests it.
- 1.4.6 As public bodies, academy trusts must ensure regularity, propriety and value for money in their management of public funds.
- 1.4.7 The EFA will issue an annual [Accounts Direction](#) no later than three months prior to the end of the financial year to which it relates, to assist trusts in producing accounts in the required format and to ensure regularity. The Accounts Direction supplements the Handbook and has the same status as the Handbook in that it derives from requirements set out in trusts’ funding agreements.

## 1.5 Roles and responsibilities

### 1.5.1 Responsibilities of the Department for Education

- 1.5.2 The Department for Education (DfE) has ultimate responsibility and accountability for the effectiveness of the financial system for academies. In particular, the DfE is

responsible for ensuring there is an adequate framework in place to provide assurance that all resources are managed in an effective and proper manner and that value for money is secured. There is a clear chain of accountability from each academy trust, which has its own accounting officer, through the EFA's accounting officer, to the Department's principal accounting officer.

### **1.5.3 Responsibilities of the EFA**

1.5.4 The EFA acts as the agent of the Secretary of State within an agreed authority to take decisions on his behalf. The Chief Executive of the EFA has been designated as its accounting officer. The EFA's accounting officer is responsible and accountable to Parliament for how the EFA uses its funds. The EFA's accounting officer is also personally responsible for the regularity and propriety of all expenditure of its funds and for ensuring value for money in how they are used. To discharge these duties, the EFA's accounting officer must be satisfied that an academy trust has appropriate arrangements for sound governance, financial management, securing value for money and accounting, and that the way the trust uses public funds is consistent with the purposes for which the funds were voted by Parliament.

### **1.5.5 Responsibilities of trustees of the academy trust**

1.5.6 The board of trustees of the academy trust has wide responsibilities under statute, regulations and the FA, which are not repeated in detail here. However, it is specifically responsible for ensuring that the trust's funds are used only in accordance with the law, the board's powers under the FA (including the trust's articles of association which set out the powers of the trust and its governance arrangements), and this Handbook.

1.5.7 The board of trustees has wide discretion over its use of the trust's funds. It is responsible for the proper stewardship of those funds and for ensuring economy, efficiency and effectiveness in their use – the three key elements of value for money. It must also ensure that it uses its discretion reasonably, and takes into account any and all relevant guidance on accountability or propriety.

1.5.8 Academy trusts are companies limited by guarantee and, under the terms of the Academies Act 2010, exempt charities. Most academy governors, therefore, are subject to the duties and responsibilities of charitable trustees and company directors as well as any other conditions that the Secretary of State agrees with them. These responsibilities are mutually reinforcing and are there to ensure the proper governance and conduct of the trust. The key requirements are reflected in the FA (including the articles) and this Handbook, but the trust should be aware of the Charity Commission's guidance for academies in [Academy Schools: guidance on their regulation as charities](#) and two guidance notes which are relevant for academy trustees. These guidance notes are [CC3: The Essential Trustee](#) and

[CC8 - Internal Financial Controls For Charities](#). In addition the Charity Commission website is a good general resource on the proper operation of charities.

1.5.9 The members of the board of trustees of the academy trust should be aware of their statutory duties as company directors, which are set out in [sections 170 to 177 of the Companies Act 2006](#). These comprise the duties to:

- act within their powers;
- promote the success of the company;
- exercise independent judgment;
- exercise reasonable care, skill and diligence;
- avoid conflicts of interest;
- not to accept benefits from third parties; and
- declare interest in proposed transactions or arrangements.

1.5.10 The FA sets out further specific responsibilities of the board of trustees and the accounting officer of the trust. The accounting officer must take personal responsibility (which must not be delegated) for assuring the board that there is compliance with the Handbook, the FA and all relevant aspects of company and charitable law.

#### **1.5.11 Responsibilities of the academy trust's accounting officer**

1.5.12 Each academy trust must designate a named individual as its accounting officer. The individual must be a fit and suitable person for role. In trusts comprising a single school this should be the principal (the head teacher). In multi-academy trusts it should be the chief executive or executive principal of the trust.

1.5.13 Whilst the principal or chief executive has responsibility, under the board's guidance, for the trust's overall management and staffing, their appointment as accounting officer confers specific responsibilities for financial matters. In particular the accounting officer is personally responsible to Parliament, and to the accounting officer of the EFA, for the resources under their control, and must be able to assure Parliament and the public of high standards of probity in the management of public funds.

1.5.14 The essence of the role is a personal responsibility for:

- **regularity** - dealing with all items of income and expenditure in accordance with legislation, the terms of the trust's funding agreement and this Handbook, and compliance with internal trust procedures. This includes spending public money for the purposes intended by Parliament;
- **propriety** – the requirement that expenditure and receipts should be dealt with in accordance with Parliament's intentions and the principles of Parliamentary

control. This covers standards of conduct, behaviour and corporate governance;

- **value for money** – this is about achieving the best possible educational and wider societal outcomes through the economic, efficient and effective use of all the resources in the trust’s charge, the avoidance of waste and extravagance, and prudent and economical administration. A key objective is to achieve value for money not only for the academy trust but for taxpayers more generally.

1.5.15 The accounting officer also has responsibilities for keeping proper financial records and accounts, and for the management of opportunities and risks.

1.5.16 Whilst the accounting officer is accountable for the academy trust’s financial affairs, the delivery of the trust’s detailed accounting processes will be delegated to a principal finance officer, who will perform the role of finance director, business manager or equivalent.

1.5.17 The accounting officer must advise the board of trustees in writing if, at any time, in his or her opinion, any action or policy under consideration by them is incompatible with the terms of the Handbook or FA. Similarly, the accounting officer must advise the board in writing if the board appears to be failing to act where required to do so by the terms and conditions of the Handbook or FA. Where the board of trustees is minded to proceed, despite the advice of the accounting officer, the accounting officer must consider the reasons the board gives for its decision. If, after considering the reasons given by the board, the accounting officer still considers that the action proposed by the board is in breach of the Handbook or FA, the accounting officer must advise the EFA’s accounting officer of the position in writing.

1.5.18 More detailed guidance on the role of an accounting officer is set out in [chapter 3 of HM Treasury’s Managing Public Money](#). HM Treasury’s handbook, [Regularity, Propriety and Value for Money](#) describes what these concepts mean in a financial context. It also describes the ‘seven principles of public life’, to which accounting officers should adhere.

1.5.19 The EFA’s accounting officer will send a letter annually to all academy trust accounting officers, with updates for new accounting officers, setting out their key responsibilities and highlighting any changes from previous years.

## Part 2: Main financial and governance requirements

### Purpose

This part of the Handbook sets out the basic financial and governance requirements for academy trusts.

### 2.1 Financial oversight

**The academy trust's trustees and managers must have the skills, knowledge and experience to run the academy trust.**

- 2.1.1 The board of trustees of the AT must appoint a principal or chief executive who will act as an ex-officio trustee.
- 2.1.2 The principal or chief executive should be appointed as accounting officer, under the guidance of the board, and must ensure that there is appropriate oversight of financial transactions. In doing so, they must:
- ensure that bank accounts, financial systems and financial records are operated by more than one person;
  - ensure that all the trust's property is under the control of the trustees, and that measures are in place to prevent losses or misuse, including maintenance of adequate fixed asset registers;
  - keep full and accurate accounting records; and
  - prepare accruals accounts, giving a true and fair view of the trust's incoming resources and application of resources during the year, and the state of affairs at the year-end, in accordance with existing accounting standards.
- 2.1.3 The board and appropriate committees must meet at least once a term and conduct business only when the meeting is quorate.
- 2.1.4 The board should appoint a clerk who is someone other than a trustee, governor or the principal / chief executive of the trust.
- 2.1.5 The board should approve a written scheme of delegation of financial powers so that it is clear who is responsible for what.
- 2.1.6 In addition to the standard charitable controls, the EFA requires that an academy trust's finance staff must be appropriately qualified and/or experienced.
- 2.1.7 All academy trusts must have a principal finance officer (PFO), appointed by the trust's board, who is the trust's finance director or business manager or equivalent,

to lead the finance department. The EFA recognises that many PFOs combine their specific financial responsibilities with a range of other support and leadership responsibilities in which the existence of a formal accountancy qualification may be less relevant.

2.1.8 The PFO should play both a technical and leadership role in the trust. Whilst a formal accountancy qualification may often serve as a proxy for the necessary skills, experience and personal qualities required for this role, there is no presumption that this will always be a perfect match. Boards of trustees will need to consider the scale and complexity of financial operations within the trust when considering this key appointment. Key responsibilities for the PFO will include:

- the preparation of the annual accounts;
- the preparation and monitoring of the budget;
- technical advice; and
- liaison with auditors.

2.1.9 The PFO need not discharge all of these duties personally. The trust may decide that its needs are adequately served by employing staff or contractors with relevant skills and knowledge at the relevant time (e.g. when the accounts are being prepared).

2.1.10 Every academy trust should have a finance committee (the name of the committee may vary) to which the board may delegate the detailed scrutiny of the trust's finances. The board of trustees may decide to delegate parts of its responsibilities for financial oversight to the finance committee. However, the full board of trustees must approve the budget. This approval must be minuted.

## **2.2 Financial planning**

**The academy trust must prepare financial plans so as to secure its short-term and long-term financial health.**

2.2.1 The board of trustees of the academy trust must approve a balanced budget for the financial year (usually to 31 August), which may draw on unspent funds brought forward from previous years.

2.2.2 The accounting officer of the EFA is required to provide assurance that the bodies that the EFA funds on behalf of the Secretary of State are in sound financial health. For this reason, the trust must submit to the EFA a copy of that final budget in a form specified by the EFA by a date to be notified.

- 2.2.3 The trustees of the academy trust must agree procedures so that any significant changes to the approved budget are notified to them, so that they may consider and decide whether to approve them. Similarly, significant changes to budget plans must be notified to the EFA.
- 2.2.4 The trust must obtain approval from the Secretary of State (through the EFA) before borrowing. However trusts will not generally be granted permission at interest rates above those available to central government.
- 2.2.5 In addition, the trust must obtain approval from the Secretary of State (through the EFA) before entering into certain liabilities. Section 2.4 sets out when approval is required for different liabilities such as leaseholds, tenancies and indemnities.

## **2.3 Internal control**

### **The academy trust must have in place sound internal control and risk management processes.**

- 2.3.1 Each academy trust should have arrangements for recognising, managing and tracking opportunities and risks. Each trust's board of trustees should make a considered choice about its desired risk profile, taking account of its legal obligations, its business objectives, and public expectations of what it should deliver.
- 2.3.2 It is for the trust to define its own standards within the control framework it sets and public expectations of public services, including openness about governance and public sector activities generally.
- 2.3.3 The academy trust's internal control framework must have regard to:
- co-ordinating the planning and budgeting processes;
  - applying discipline in financial management, including managing banking, debt and cash flow, with appropriate segregation of duties;
  - preparation of timely monthly management accounts, including income and expenditure reports on an accruals basis, cash flow forecasts and balance sheets as appropriate;
  - ensuring that delegated financial authorities are respected;
  - selection, planning and oversight of any capital projects;
  - the propriety and regularity of financial transactions;
  - the management and oversight of assets;
  - the risk of fraud and theft; and

- ensuring efficiency and value for money in the organisation's activities.

2.3.4 The main types of financial control required are set out in the Charity Commission publication [CC8 - Internal Financial Controls for Charities](#).

2.3.5 The trust must make a contingency and business continuity plan setting out what it would do to ensure the continued operation of the trust.

2.3.6 The trust must assess the risks arising from its operations (e.g. financial loss). This assessment should include the likelihood and materiality of each risk. The trust should maintain a register of these risks showing how they are being managed or mitigated, and review this regularly.

2.3.7 The academy trust must:

- ensure that it has adequate insurance cover. The trust should determine its own level of cover but should include buildings and contents, business continuity, employer's and public liability and any cover required for motor vehicles. This list is not exhaustive;
- notify the Secretary of State, via the EFA, of any instances of fraud or theft where the value exceeds any sum notified by the EFA or appears to be systematic;
- approve a set of accounting policies;
- maintain proper accounts;
- appoint a registered statutory auditor; and
- prepare annual financial statements (accounts).

2.3.8 The EFA's [Accounts Direction](#) sets out in more detail the requirements and timetable for the preparation and submission of academy trusts' annual reports and financial statements.

## 2.4 Financial monitoring and management

**The trustees and managers of the academy trust must monitor the academy trust's current and forecast financial position.**

2.4.1 The board of trustees, and any separate committee responsible for finance, should receive financial reports at least termly and take appropriate action to maintain a balanced budget.

2.4.2 The trust should manage cash appropriately, avoid going overdrawn, and abide by their contractual obligations. The trust should reconcile bank and control accounts regularly.



2.4.3 From time to time the trust may find it needs to perform transactions which are outside the usual planned range of activities:

- write-offs of unrecoverable debts or overpayments;
- recognising losses of stocks or other assets;
- taking on liabilities by issuing specific guarantees, or providing a letter of comfort; or providing indemnities;
- [special payments](#) (transactions outside the usual planned range); and
- gifts or hospitality received or given.

2.4.4 In principle:

- the trust should always pursue recovery of overpayments, irrespective of how they came to be made. In practice, however, there will be both practical and legal limits to how cases should be handled;
- the trust should only consider writing off losses after careful appraisal of the facts (including whether all reasonable action has been taken to effect recovery from the debtor or through insurers), and should be satisfied that there is no feasible alternative;
- before accepting any liability, the trust should appraise the proposal by performing an assessment of the costs and benefits of relevant options using an appropriate method, in order to secure value for money; and
- the trust should have a policy on the acceptance of gifts, hospitality, awards, prizes or any other benefit which might be seen to compromise their personal judgment or integrity; and should ensure that all members of staff are made aware of this. Where such benefits have been received they should be recorded in a register detailing, for each occasion, the nature of the benefit and the donor, in case of later complaint. When giving gifts, the trust must ensure that the decision is fully documented and has regard to the propriety and regularity of the use of public funds.

#### **2.4.5 Delegated authorities**

2.4.6 Academy trusts are independent institutions and the financial accountability system set out in the Handbook reflects this by providing trusts with increased autonomy over routine financial transactions. Details of trusts' delegated authority over the following categories of financial transaction are set out below:

- write-offs and liabilities;

- special payments;
- acquisition and disposal of fixed assets;
- leasing.

2.4.7 Where the academy trust is required to seek the approval of the Secretary of State for a transaction it should contact the EFA at [academy.questions@education.gsi.gov.uk](mailto:academy.questions@education.gsi.gov.uk). The EFA will provide any necessary application forms on a case by case basis. Circumstances where delegated authority is limited are set out at the end of part 2.

#### 2.4.8 Write-offs and liabilities

2.4.9 The trust may perform the following financial transactions up to the limits set out below:

- writing off debts and losses, including any uncollected fines; and
- entering into guarantees, indemnities or letters of comfort, excluding those relating to borrowing by the trust.

2.4.10 The delegated limits are:

- 1% of **total annual income** or £45,000 (whichever is smaller) per single transaction;
- cumulatively, 2.5% of **total annual income** in any one financial year per **category of transaction** for any academy trusts that have not submitted timely, unqualified financial returns for the previous two financial years. This category includes new academies that have not had the opportunity to produce two years of financial statements; and
- cumulatively, 5% of **total annual income** in any one financial year per **category of transaction** for any academy trusts that have submitted timely, unqualified financial returns for the previous two financial years.

2.4.11 In relation to these limits:

- the amounts for write offs are before any successful claims from an insurer;
- **total annual income** is defined as grant income as disclosed in the trust's last set of audited accounts. The EFA should be contacted if the trust has not yet produced audited accounts;
- the **categories of transactions** are defined as (a) write off of debts and losses, and (b) guarantees, indemnities and letters of comfort.

2.4.12 Beyond these limits the trust must seek and obtain explicit and prior approval of the Secretary of State, through the EFA, for the transaction.

#### **2.4.13 Special payments - staff severance payments and compensation payments**

2.4.14 **Special staff severance payments** are paid to employees outside of normal statutory or contractual requirements when leaving employment in public service whether they resign, are dismissed or reach an agreed termination of contract.

2.4.15 If an academy trust is considering making a staff severance payment above the statutory or contractual entitlements, it must consider the following issues:

- Whether such a payment is justified, based on a legal assessment of the chances of the academy trust successfully defending the case at tribunal. If the legal assessment suggests a better than even chance of winning, there is no rationale for settling the case. But where the case will be lost, there is a justifiable rationale for the settlement.
- If the settlement is justified, the trust would then need to consider the level of settlement. This must be less than the legal assessment of what the relevant body (e.g. an Employment Tribunal) is likely to award in the circumstances.

2.4.16 Special staff severance payments should not be made where they could be seen as a reward for failure, such as dismissal for gross misconduct or poor performance. The only acceptable rationale in the case of gross misconduct would be where legal advice is that the claimant is likely to be successful in an Employment Tribunal claim. In the case of poor performance, an acceptable comparison would be the time and cost of taking someone through performance management and improvement procedures.

2.4.17 **Compensation payments** are different to severance payments. Compensation payments are made to provide redress for personal injuries, traffic accidents, damage to property etc. If an academy trust is considering making a compensation payment it must consider whether the proposed payment is based on a careful appraisal of the facts, including legal advice and that value for money will be achieved.

2.4.18 It is also good practice to consider routinely whether particular cases reveal concerns about the soundness of control systems, and whether they have been respected as expected. It is also important to take any necessary steps to put failings right.

2.4.19 Academy trusts can self-approve individual special staff severance payments and compensation payments provided any non-statutory/non-contractual element is under £50,000. Where the trust is considering making a special staff severance

payment or compensation payment exceeding the statutory/contractual entitlement by £50,000 or more, prior approval must be sought from HM Treasury (HMT), via the EFA, for the non-statutory/non-contractual element. Academy trusts in this situation should contact the EFA at the earliest opportunity to discuss.

2.4.20 For the avoidance of doubt, the following examples illustrate where HMT approval would be required:

- statutory/contractual payment of £40k + enhancement of £20k = HMT approval not required;
- statutory/contractual payment of £60k + enhancement of £20k = HMT approval not required; and
- statutory/contractual payment of £60k + enhancement of £50k = HMT approval required for the £50k enhancement only.

#### **2.4.21 Acquisition and disposal of fixed assets**

2.4.22 Academy trusts must seek and obtain prior written approval from the Secretary of State, via the EFA, for the following transactions:

- acquiring a freehold on land or buildings;
- disposing of a freehold of land or buildings; and
- disposing of heritage assets beyond any limits set out in the trust's funding agreement in respect of the disposal of assets generally. Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture, as defined in applicable financial reporting standards.

2.4.23 Academy trusts may **dispose of any other fixed asset (i.e. other than land, buildings and heritage assets as described above)** without the approval of the Secretary of State.

2.4.24 Academy trusts must ensure that any disposal maintains the principles of regularity, propriety and value for money. This may involve public sale where the assets have a residual value.

2.4.25 Additional [guidance](#) is available to help trusts seeking consent for land and buildings transactions. Some property transactions may be novel or contentious and so require the consent of the Secretary of State on that basis (see 'novel and contentious transactions' later in this section).

## 2.4.26 Leasing

2.4.27 In considering leases, academy trusts need to be aware that there are two types of lease, as defined under relevant financial reporting standards. There are finance leases (which are a form of borrowing) and there are operating leases (which do not involve borrowing). Trusts that are in any doubt as to whether or not any particular lease does or does not involve an element of borrowing should resolve the issue by contacting their professional financial adviser and/or external auditor.

2.4.28 Academy trusts must seek and obtain prior written approval from the Secretary of State, via the EFA, for the following leasing transactions:

- taking up a finance lease on any class of asset for any duration from another party, as this would represent borrowing;
- taking up a leasehold or tenancy agreement on land or buildings from another party for a lease term of more than five years; and
- granting a leasehold interest, including a tenancy agreement, on land or buildings to another party, pursuant to the obligations on the academy trust in the Academies Act 2010.

2.4.29 Academy trusts may **take out and grant other types of lease (i.e. other than finance leases, leaseholds and tenancy agreements as described above)**, without the Secretary of State's approval. For the avoidance of doubt this means that operating leases on assets that are not land and buildings do not require the Secretary of State's approval. Leases should be disclosed in trusts' annual accounts in accordance with the Academies Accounts Direction.

2.4.30 If an academy trust does wish to enter into a lease that requires the Secretary of State's consent, then the trust will need to contact the EFA in the first instance. Trusts must ensure that any lease arrangement maintains the principles of regularity, propriety and value for money, whether or not the approval of the Secretary of State is required.

2.4.31 The DfE and the National Association of School Business Management has produced some useful [Tips for Successful Leasing in Schools](#).

## 2.4.32 Responsibilities of the academy trust

2.4.33 In all of the transactions covered in section 2.4, irrespective of whether the Secretary of State's approval is required, trusts should:

- obtain relevant professional advice where appropriate, including that of their external auditor where necessary;

- ensure that the decision represents value for money, and is justified as such;
- agree internal delegation levels within the trust; and
- disclose aggregate figures for transactions in each of the categories in section 2.4 as a note to their annual accounts. In addition, separate disclosure is required in the annual accounts of each transaction covered in section 2.4 above £5,000. Other than what is required under financial reporting standards, the Charities SORP and the Academies Accounts Direction, disclosure can be anonymised.

#### **2.4.34 Financial Notices to Improve**

2.4.35 Where the EFA has concerns about financial management and/or governance in an academy trust, including a multi-academy trust or school(s) within a multi-academy trust, the EFA **may** issue a Financial Notice to Improve (FNtl). For example an FNtl may be issued where there is a deficit, a projected deficit, cash flow problems, risk of insolvency or other financial difficulties (such as inappropriate use of public funds), or inadequate financial governance and management. This list is not exhaustive. Where there is actual financial failure requiring financial assistance we **will** normally issue an FNtl. An FNtl will set out the actions the EFA requires the trust to take in order to address the underlying cause(s) of the EFA's concerns about the financial management and/or governance of the trust.

2.4.36 If an academy trust is subject to an FNtl, all of the delegated authorities and other freedoms in part 2 of the Handbook are revoked in relation to that trust, and all transactions by the trust of this nature, regardless of size, must come to the EFA for approval. These delegated authorities shall be returned to the trust providing that the terms set out in the FNtl have been complied with and continue to be complied with.

2.4.37 It is a requirement of the Handbook that an academy trust complies with all terms of any FNtl issued to them. If a trust is subject to an FNtl, and fails to comply with the terms set out in that FNtl, this will be deemed to be a breach of the FA by virtue of the relationship between the FA and the Handbook.

2.4.38 In exceptional circumstances the FA may be terminated as a result of the breach of the terms of the FNtl. Any decision to terminate will depend on the nature and importance of the term(s) breached.

#### **2.4.39 Novel and contentious transactions**

2.4.40 Novel payments or other transactions are those in which the academy trust has no experience, or are outside the range of normal business activity for the trust.

Contentious transactions are those which might give rise to criticism of the trust by the public or the media. It is difficult to be specific about what might constitute novel or contentious payments; it is for trusts to use their judgement about when they should seek the prior advice of the EFA. Public money must always be spent prudently and in ways that command broad public support.

2.4.41 Novel and contentious transactions must always be referred to the EFA for explicit prior authorisation. If there is any doubt about the propriety of a payment an academy trust should ask the EFA in advance.

#### **2.4.42 Further information**

2.4.43 Further guidance on financial monitoring, published by the Charity Commission, is available at [CC8 - Internal Financial Controls for Charities](#).

2.4.44 The Charity Commission also publishes [CC14 - Investment of Charitable Funds - Basic Principles](#) which will be of use to trusts.

## **2.5 Proper and regular use of public funds**

**The academy trust must be able to show that public funds have been used as intended by Parliament.**

2.5.1 The academy trust has full authority to perform financial transactions which are deemed to be in the trust's normal course of business or within the delegated limits listed in part 2.4 of this Handbook.

2.5.2 Academy trusts must ensure that:

- spending has been for the purpose intended;
- no trustee, governor, employee or related individual or organisation gains from their position by receiving payment under terms that are preferential to those that would be offered to an individual or organisation with no connection to the trust;
- all trustees have completed the register of business interests kept by the trust and there are measures in place to manage any conflicts of interest;
- there are no payment(s) to any trustee by the trust unless such payment(s) is/are permitted by the Articles and (where applicable) comply with the terms of any relevant agreement entered into with the Secretary of State. Academy trusts will in particular need to consider these obligations where payments are made to other business entities who employ the trustee, are owned by the trustee, or in which the trustee holds a controlling interest;

- any payment provided to the persons referred to in section 2.6.2 satisfies the no-profit principles set out in sections 2.6.2 to 2.6.8;
- there is probity in the use of public funds;
- a competitive tendering policy is in place and applied; and
- there is no disposal of publicly funded assets (subject to the thresholds set out in part 2.4 of this Handbook) without the Secretary of State's consent, through the EFA.

In exceptional cases, where there is a clear and significant advantage to the trust, a trustee may be paid for acting as a trustee subject to prior Charity Commission approval

2.5.3 There is a range of public guidance available on public sector procurement requirements. This includes annex 4.4 of HM Treasury's [Managing Public Money](#). The DfE has also produced procurement guidance: [Buying goods and services - Schools](#). Advice on relevant contractual thresholds is provided in the Official Journal of the European Union ([OJEU](#)).

#### **2.5.4 Value for money statement**

2.5.5 The academy trust's accounting officer is required to complete and sign a short statement each year explaining how the trust has secured value for money. This must be sent to the EFA and be published on the academy trust's website. It will also be placed on the DfE's website. The [format of the statement and details of the submission arrangements](#) are published separately by the Department.

#### **2.5.6 Tax arrangements for senior employees**

2.5.7 Academy trusts must ensure that their senior employees' payroll arrangements fully meet their tax obligations and must comply with HM Treasury's guidance on this matter regarding the employment and contract arrangements of individuals on the avoidance of tax, as set out in the Treasury's [Review of the Tax Arrangements of Public Sector Appointees](#). Failure to comply with these requirements may result in a fine by HM Treasury, equivalent to five times the amount paid to the employee.

## **2.6 Other matters**

### **2.6.1 Goods or services provided by individuals or organisations connected to the academy trust**



2.6.2 Academy trusts must pay no more than 'cost' for goods or services provided to it by the following persons ('services' do not include services provided under a contract of employment):

- any member or trustee of the academy trust;
- any individual or organisation **connected to** a member or trustee of the academy trust. For these purposes the following persons are **connected to** a member or trustee:
  - a relative of the member or trustee. A relative is defined as a close member of the family, or member of the same household, who may be expected to influence, or be influenced by, the person. This includes, but may not be limited to, a child, parent, spouse or civil partner;
  - an individual or organisation carrying on business in partnership with the member, trustee or a relative of the member or trustee;
  - a company in which a member or the relative of a member (taken separately or together), and/or a trustee or the relative of a trustee (taken separately or together), holds more than 20% of the share capital or is entitled to exercise more than 20% of the voting power at any general meeting of that company;
  - an organisation which is **controlled by** a member or the relative of a member (acting separately or together), and/or a trustee or the relative of a trustee (acting separately or together). For these purposes an organisation is **controlled by** an individual or organisation if that individual or organisation is able to secure that the affairs of the body are conducted in accordance with the individual's or organisation's wishes;
- any individual or organisation that is given the right under the trust's articles of association to appoint a member or trustee of the academy trust; or any body **related to** such individual or organisation;
- any individual or organisation recognised by the Secretary of State as a sponsor of the academy trust; or any body **related to** such individual or organisation.

2.6.3 A body is **related to** another individual or organisation if it:

- is **controlled by** the individual or organisation;
- **controls** the organisation; or

- **is under common control** with the individual or organisation.

For these purposes **control** means:

- holding more than 20% of the share capital (or equivalent interest); or
- having the equivalent right to control management decisions with regard to the body; or
- having the right to appoint or remove a majority of the board or governing body.

2.6.4 Academy trusts must ensure that any agreement with the individuals or organisations referred to in section 2.6.2 to supply goods or services to the trust is properly procured and is:

- supported by a **statement of assurance** from that individual or organisation to the trust confirming that their charges do not exceed the cost of the goods or services; and
- on the basis of an **open book agreement** including a requirement for the supplier to demonstrate clearly, if requested, that their charges do not exceed the cost of supply.

2.6.5 For these purposes the cost will be the **'full cost'** of all the resources used in supplying the goods or services. Full cost includes:

- all direct costs (the costs of any materials and labour used directly in producing the goods or services); and
- indirect costs (comprising a proportionate and reasonable share of fixed and variable overheads).

Full cost must not include an element of profit.

2.6.6 Should any staff/personnel of the individuals or organisations referred to in section 2.6.2 be based in, or work from the premises of, the academy trust the individual or organisation and the academy trust must agree an appropriate sum to be paid to the academy trust for such use/occupation of the premises, save to the extent that they are carrying out work for the academy trust.

2.6.7 The obligations set out in sections 2.6.2 to 2.6.6 apply to new and renewed contracts for goods and services agreed on or after 7 November 2013. The provisions do not affect contracts in place prior to this date, for which existing Tripartite Agreements will still apply.

2.6.8 Whilst these provisions do not apply to contracts of employment the same principles of securing value for money and using public money properly, including managing conflict of interest, will still apply. Salaries paid should be appropriate to the individual's skills and experience and the salary rates paid in the wider market.

### **2.6.9 Irregular or improper transactions**

2.6.10 Situations may arise where it may appear to an academy trust to make sense to enter into a transaction which is irregular, improper or does not provide value for money. In these circumstances the academy trust must seek prior, written permission from the EFA. Such transactions may additionally require HM Treasury approval dependent on the nature of the transaction involved.

### **2.6.11 Fees and charges**

2.6.12 The academy trust should normally set fees for its chargeable services at full cost, but it may include an additional rate of return, when in a commercial environment. The fees and charges to be charged should be determined in accordance with chapter 6 of HM Treasury's [Managing Public Money](#).

### **2.6.13 Academies with boarding facilities**

2.6.14 The EFA will require some additional financial information from those trusts that provide a boarding facility, which will be set out in the [Accounts Direction](#).

### **2.6.15 Whistleblowing**

2.6.16 Academies should ensure they have appropriate procedures in place for whistleblowing, including making sure that all staff are aware to whom they can report their concerns and the way in which such concerns will be treated.

### **2.6.17 Borrowing**

2.6.18 Any restrictions on an academy trust's power to borrow will be set out in the FA. Academy trusts must seek the Secretary of State's approval for both short-term borrowing (including overdraft facilities) and medium/longer term loans (including finance leases), where such borrowing is to be repaid from grant monies or secured on assets funded by grant monies, and regardless of the interest rate chargeable. However, the Secretary of State's general position is that academy trusts will not be granted permission for commercial borrowing at interest rates higher than those normally available in respect of central government borrowing.

2.6.19 For the avoidance of doubt, finance leases are deemed to be a form of borrowing and therefore require the approval of the Secretary of State. Operating leases are not a form of borrowing and do not require the Secretary of State's approval.

Academy trusts should ensure that they can identify the type of any lease they are taking out, and if necessary obtain professional advice.

#### **2.6.20 Credit cards**

2.6.21 Depending on its circumstances, purposes and risk profile, an academy trust may consider permitting staff to make payments by various electronic means, including credit cards. Guidance on the use of credit cards is contained in HM Treasury's [Managing Public Money](#). Parliament expects academy trusts, like other public sector bodies, to make shrewd and well-informed decisions based on sound commercial principles. This may include setting up direct debits so that credit card balances are repaid in full each month. This can also ensure that the trust's use of credit cards does not conflict with any restrictions on borrowing set out in their funding agreement.

#### **2.6.22 Managing surplus General Annual Grant (GAG)**

2.6.23 It is important that grant is spent as needed to avoid excess calls on Exchequer funding and public borrowing. The EFA previously set limits on the amount of GAG that could be carried forward from one year to the next. These limits have now been removed so that academy trusts have the freedom to keep money aside for when it is needed most and to build up reserves, for example for long-term capital projects.

2.6.24 The DfE expects academy trusts to use their allocated funding for the full benefit of their current pupils. Therefore, it is important that, if the trust has a substantial surplus, they have a clear plan for how it will be used to benefit their pupils.

2.6.25 Budget forecasts sent to the EFA must declare any unspent funds expected to be carried forward at the end of the financial year. The EFA will also verify the sums of unspent funds when it checks the trust's accounts and highlight and report, to the relevant DfE Boards, any cases where it has serious concerns about a long-term substantial surplus with no clear plans for use.

#### **2.6.26 Pooling of GAG by multi-academy trusts**

2.6.27 A multi-academy trust has the freedom to amalgamate a proportion of GAG funding for all its academies to form one central fund. This fund can then be used to meet the normal running costs at any of the academies within the multi-academy trust in accordance with the guidelines that govern the use of GAG funding.

2.6.28 The multi-academy trust must have due regard to the funding needs and allocations of each individual academy and they must have an appeals mechanism in place. If an individual academy's principal feels that the academy

has been unfairly treated in relation to pooling arrangements, they should first appeal to the trust. If the academy principal's grievance is not resolved, they may then appeal to the Secretary of State for Education, whose decision will be final and who may dis-apply the provisions for pooling in this Handbook in relation to the multi-academy trust.

## **2.6.29 Applicability of delegations and freedoms**

2.6.30 Some of the delegations and freedoms in part 2 of the Handbook that go beyond those in a trust's funding agreement do not apply to certain trusts. They do not apply to trusts that are subject to one or more funding agreements that:

- allow one or more of its academies to receive GAG based on estimated pupil numbers regardless of whether they are being funded on that basis; **and**
- allow the Secretary of State to recover GAG from those academies if estimated pupil numbers exceed census-based pupil numbers beyond a specified percentage; **and**
- do not require a move to pupil census-based funding permanently.

2.6.31 A move permanently means:

- the academy is subject to a funding agreement that moves it to pupil census-based funding within a specified number of years, after which the agreement provides for it to be funded only in that way; or
- in the case of a free school it is subject to a funding agreement that moves it to pupil census-based funding when all cohorts relevant to the age range have some pupils present; **and** allows the Secretary of State to recover all additional GAG from the free school if estimated pupil numbers exceed census-based pupil numbers.

2.6.32 The additional delegations and freedoms in the Handbook that do not apply to trusts on estimates-based GAG funding are those relating to:

- disposal of fixed assets;
- leaseholds and tenancy agreements on land and buildings;
- carry forward of unspent GAG from one year to the next;
- pooling of GAG by multi-academy trusts.

2.6.33 The freedoms do not apply until the trust's funding agreements are updated with the agreement of the Secretary of State, in a manner that will move all academies within the trust to pupil census-based funding permanently, as defined above.

2.6.34 For the avoidance of doubt, in the case of a multi-academy trust, if one or more of its academies does not meet the criteria above for access to the delegations and freedoms, all academies within the trust will be unable to access the delegations and freedoms.

## Part 3: Audit requirements

**Academy trusts are subject to audit and review to give assurance to Parliament and the public that public funds are being used for the purpose intended.**

### 3.1 Statutory audit

- 3.1.1 As set out in part 2 of this Handbook, because academy trusts are required by law to produce audited accounts, the members of the trust (or the board of trustees as company directors, to the extent permitted under the Companies Act) must appoint statutory auditors who are registered under the requirements of the Companies Act, to conduct an audit (which is in compliance with the requirements of the Companies Act) and certify whether the accounts are “true and fair”.
- 3.1.2 The contract for the audit must be in writing. This must take the form of a letter of engagement. The letter of engagement must only cover the external audit. If additional services are to be purchased, a separate letter of engagement must be obtained which must specify the precise requirements of the work and the fees to be charged.
- 3.1.3 The letter of engagement must provide for the removal of auditors before the expiry of the term of office in exceptional circumstances, notwithstanding the other terms of the contract. Proposals to remove auditors must require a majority vote of the members. If the auditors resign, there must be a requirement for them to state their reasons.
- 3.1.4 The board of trustees must notify the EFA immediately of the removal or resignation of auditors. In the case of removal, the trust board must notify the EFA of the reasons for the removal. In the case of resignation, auditors must copy to the EFA a statement of their reasons.
- ### 3.1.5 Group auditors and consolidation
- 3.1.6 The financial accounts of each academy trust will be consolidated into those of the EFA and the DfE. The EFA will use a combination of audited accounts, “accounts returns” and other information to generate the consolidated accounts, and these accounts will be audited by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG). The NAO will audit the consolidated accounts in accordance with International Standards on Auditing, and will undertake appropriate procedures in accordance with that framework to satisfy the C&AG that these accounts are true and fair. To this end, each academy trust is a component of the consolidation and the trust’s management have a responsibility to prepare the financial information requested by the EFA for this purpose.

Academy trust auditors will be requested by the EFA to audit certain information, and this requirement should be incorporated within the terms of engagement.

- 3.1.7 The C&AG is also required to reach an opinion on regularity for the EFA and DfE accounts, and this will draw on the regularity opinions expressed by trusts' auditors.

## **3.2 Regularity audit**

### **3.2.1 Accounting officer's statement**

- 3.2.2 An accounting officer's statement on regularity, propriety and compliance must be included in the academy trust's annual report. This is a formal declaration by the trust's accounting officer that they have met their personal responsibilities to Parliament for the resources under their control during the year. It includes a responsibility to ensure that public money is spent for the purposes intended by Parliament (regularity) and a responsibility to ensure that appropriate standards of conduct, behaviour and corporate governance are maintained when applying the funds under their control (propriety), a responsibility to ensure good value for money and for the efficient and effective use of all the resources in their charge. The accounting officer also has a responsibility to advise the board of trustees and the EFA of any instances of irregularity or impropriety, or non-compliance with the terms of the trust's funding agreement. The format of the statement is included within the EFA's [Accounts Direction](#) which is issued annually.

### **3.2.3 Auditor's review of regularity**

- 3.2.4 A review of the accounting officer's statement must be included within the remit of academy trusts' external auditors. The auditor's conclusions on regularity will be addressed jointly to the trust and to the Secretary of State through the EFA. The EFA will draw formal assurance from this regularity audit. Further information is included in the [Accounts Direction](#).

## **3.3 Self-assessment of financial management and governance**

- 3.3.1 New academy trusts that are not yet producing financial statements will be asked to complete a short Financial Management and Governance Self-assessment (FMGS) for their first year only, and submit it to the EFA, or to agree an alternative method of providing assurance for this interim period.



- 3.3.2 Established trusts that are already producing timely audited financial statements and undergoing a regularity audit will not be required to submit an FMGS, as the EFA will place reliance on the work of the regularity auditor.
- 3.3.3 In order to gain assurance over the adequacy of financial arrangements governing the use of public funds by academies, the EFA may choose to conduct financial management reviews. These will examine whether the systems and control mechanisms that exist in each trust meet the requirements set out in the Handbook.

## **3.4 Funding audit**

- 3.4.1 A system of funding audit is used to give direct assurance to the EFA in respect of the data provided by academy trusts for their grant calculations. This audit focuses on the key raw data provided by a trust which drives the calculation of recurrent funding grants, and whether this data is accurate, complete and supported by evidence. The focus, therefore, is on the key funding drivers.
- 3.4.2 The scope and timing of the EFA's funding audit approach will be determined annually and will be communicated to academy trusts once finalised.

## **3.5 Internal audit, the responsible officer and peer review**

- 3.5.1 Every academy trust must have in place a process for independent checking of financial controls, systems, transactions and risks.
- 3.5.2 Ideally this process should be driven by an audit committee appointed by the board of trustees, but the EFA recognises that this may not be a practical proposition for every trust, especially for those that are smaller or where there is a limited pool of potential trustees to provide the necessary direction.
- 3.5.3 The EFA has, therefore, provided for a system which allows some flexibility as to how trusts discharge these requirements. This means that all trusts must establish either:
- a dedicated audit committee; or
  - a committee whose remit includes the functions of an audit committee. This could be an addition to the terms of reference to an existing committee, such as a finance committee, and have an overlapping or fully integrated membership.
- 3.5.4 Within these principles the EFA's expectations are that:

- all academy trusts with an income of over £10 million or capitalised asset value of over £30 million must have a dedicated audit committee;
- all academy trusts that are a multi-academy trust, and do not exceed the above size criteria, should consider having a dedicated audit committee; and
- all other academy trusts may have a dedicated audit committee.

3.5.5 The relevant committee must review the risks to internal financial control at the trust and must agree a programme of work that will address these risks, to inform the governance statement that accompanies the trust's annual accounts and, so far as is possible, provide assurance to the external auditors.

3.5.6 Academy trusts may manage this programme of risk review and checking of financial controls in the way that they deem most appropriate to their circumstances. Options include:

- the work of an **internal audit service** (either in-house, bought-in or provided by a sponsor);
- the performance of a supplementary programme of work by the trust's **external auditor**;
- the work of a '**responsible officer**' who will be a non-employed trustee with an appropriate level of qualifications and/or experience, and who neither charges nor is paid by the trust for their work. The appointment of a responsible officer is not mandatory but is one of the options that trusts can use to conduct their internal checks;
- completing the work by **peer review** (i.e. the work being performed by the PFO, or a suitably qualified or experienced member of the finance team, from another academy trust, as an independent reviewer).

3.5.7 Any academy trust may commission this programme of work combining the above options. For example, a responsible officer may delegate some of the detailed checking to an external contractor or peer reviewer. The adequacy of the arrangements at each trust will be established as part of the process leading to the accounting officer's annual statement, or, where appropriate, through the self-assessment review of financial management and governance.

## 3.6 National Audit Office and Public Accounts Committee

3.6.1 Funding agreements establish the right of officers of the [National Audit Office](#), on behalf of the Comptroller and Auditor General (C&AG), who is an officer of the House of Commons, to access the books of accounts and all relevant records,

files and reports of an academy trust for inspection or for the carrying out of value for money studies. The academy trust must give NAO officials and contractors reasonable help with their enquiries and to provide such information and explanation as are reasonable and necessary for that purpose.

- 3.6.2 The NAO's findings are considered by the [Public Accounts Committee](#) (PAC). The PAC has the power to call anyone, including the accounting officer of an academy trust, to give account for the proper use of public funds.

### **3.7 Audit access rights**

- 3.7.1 The EFA or its agents may from time to time carry out audits at the academy trust. The trust must provide the EFA with access to all books, records, information, explanations, assets and premises, and the EFA may take copies of any relevant documents. The EFA may conduct interviews during its audits at any reasonable time. The EFA will give the trust reasonable advance notice in writing of its proposed audits.
- 3.7.2 The trust must retain all records necessary to verify the provision delivered by it or its sub-contractors in relation to this Handbook and the FA six years after the end of the period to which funding for the provision relates.

### **3.8 Provision of information**

- 3.8.1 The academy trust must provide the EFA, or agents acting on the EFA's behalf, with the information the EFA requires in exercising its responsibilities and to meet funding requirements. This information must be of sufficient quality to meet the purposes for which it has been requested. The trust must provide the information when and how the EFA and its agents request it. The EFA will consider the impact on academy trust business of the deadlines it specifies for the provision of information.
- 3.8.2 On occasion, the EFA will require urgent information from the trust, usually as a result of requests to the EFA to fulfil its duties to provide information to the Secretary of State and account to Parliament. The EFA will act reasonably in its requests for information and will have regard to the costs and timescales of providing the information, and where appropriate to its confidentiality. In requesting information, the EFA will also consider information previously supplied by the trust to the EFA or other stakeholders with whom the EFA is realistically able to share information. The EFA will also seek to request information that the trust gathers to meet its own needs.

- 3.8.3 In the event that the trust does not return the information the EFA requires by the specified deadline, or that the information is not of an acceptable quality, the EFA may carry out whatever investigations it deems necessary to collect the information, where appropriate in consultation with the trust. The EFA may, as appropriate, deduct all or part of the cost of the investigations from the EFA's recurrent funding of the trust.
- 3.8.4 The trust must notify the EFA's chief executive in writing of the vacating or filling of the positions of chair of the board of trustees, chief executive or principal as accounting officer and PFO.

### **3.9 Investigation of fraud and irregularity**

- 3.9.1 The personal responsibilities of an accounting officer of an academy trust to secure the funds and assets of the trust are set out in part 1 of this Handbook. These responsibilities extend to the prevention of loss through fraud and irregularity. However, in addition to the accounting officer's responsibilities, the board of trustees of an academy trust are also responsible for preventing such losses of public funds, and this means that trusts must be aware of the risk of fraud and irregularity occurring within their organisations and they must, as far as possible, address this risk in their internal control and assurance arrangements by putting in place proportionate controls. Academy trusts are also responsible for ensuring appropriate action is taken where fraud and irregularity is suspected or identified.
- 3.9.2 All instances of fraud or theft committed against the trust, whether by employees or trustees or third parties, above £5,000 must be reported by the trust to the EFA. Any unusual or systematic fraud, regardless of value, must also be reported.
- 3.9.3 The EFA will not tolerate fraud. It reserves the right to conduct or commission its own investigation into actual or potential fraud, theft or irregularity, in any academy trust either as the result of a formal notification from the trust itself or as the result of other information received. The EFA may involve other authorities, including the police, as appropriate.
- 3.9.4 The EFA will publish reports into investigations it undertakes.

## Annex A: Definitions

For the purposes of this Handbook, the following definitions will apply.

Academic year	The “school year” starting 1 September and ending 31 August.
Academy trust	The company which has entered into a funding agreement with the Secretary of State to run one or more academy schools
Accounting officer	The senior executive of the academy trust who has been designated as accountable for regularity, propriety and value for money. In single-academy trusts this should be the principal. In multi-academy trusts it should be the chief executive or executive principal of the overall trust.
Accounting officer’s statement on regularity, propriety and compliance	The academy trust’s accounting officer is required to complete and sign a statement on regularity, propriety and compliance each year. This statement must be included in the trust’s annual report and so be submitted to the EFA at the same time as the annual accounts.
Accounting officer’s statement on value for money	The academy trust’s accounting officer is required to complete and sign a statement describing how the trust has delivered value for money each year. This statement must be submitted to the EFA but does not form part of the trust’s annual accounts.
Accounts Direction	The EFA’s guide for academies on preparing their annual report and accounts.
Accounts return	A return of key financial information in spread sheet format based on academy trusts’ annual accounts, to be used for consolidation of trusts’ accounts into the EFA’s accounts and for the collection of benchmarking data. The EFA will collect these returns from those academy trusts in scope in a format, and by a date, to be notified. The Accounts Return replaces the <a href="#">Consistent Financial Reporting (CFR)</a> return for maintained schools.
Asset	Anything that is capable of being owned or controlled to produce value and that is held to have positive economic value. Can be “revenue” (e.g. cash) or “capital” (e.g. a building).
Board of trustees	The senior committee of an academy trust. This will also be the board of governors and the company board of directors.
Capital	Capital assets or funding are those from which an academy trust can expect to derive a benefit for more than one year: typically land, buildings, vehicles, etc. Capital assets are usually referred to as fixed assets.

Chief executive	The senior executive of the academy trust and head of the management team.
DfE	Department for Education.
Economy	Obtaining an outcome for the least possible input of resources.
EFA	The Education Funding Agency: an executive agency of the Department for Education that acts as the agent of the Secretary of State.
Effectiveness	Obtaining the desired outcome.
Efficiency	Obtaining the best possible outcome for the resources input.
Financial Management and Governance Self-assessment (FMGS)	A checklist for completion and return to the EFA by a notified date, by new academy trusts that are not yet preparing financial statements and not yet subject to a regularity audit. The return asks trusts to self-assess their financial management arrangements in several specified areas.
Financial year	For academy trusts, this is usually the same as the academic year, from 1 September to 31 August. For most other public sector bodies (such as the EFA) it means the period from 1 April to 31 March.
GAG	General Annual Grant: the main source of income for academy trusts.
Principal	The head teacher of an academy.
Principal Finance Officer	The member of staff in the academy trust who leads the finance department, such as the finance director, business manager or equivalent.
Propriety	The requirement that expenditure and receipts should be dealt with in accordance with Parliament's intentions and the principles of Parliamentary control. This covers standards of conduct, behaviour and corporate governance.
Public funds	Funds which, ultimately, derive from Parliamentary authority. All academy trusts' income, expenditure, assets and liabilities are consolidated into the accounts of the DfE and will be considered by Parliament to be public unless otherwise demonstrated.
Regularity	The requirement to deal with all items of income and expenditure in accordance with legislation, the terms of the trust's funding agreement and this Handbook, and compliance with internal trust procedures. This includes spending public money for the purpose intended by Parliament.

Secretary of State	The Secretary of State for Education.
SORP	The Charity Commission's document <a href="#">Accounting and Reporting by Charities: Statement of Recommended Practice</a> , which describes the form and content of charity accounts.
Special payments	Payments outside the normal range of activities approved by Parliament and therefore requiring greater control. They include ex-gratia payments, staff severance payments, compensation payments and other extra-statutory or extra-contractual payments. See annex 4.13 of HM Treasury's <a href="#">Managing Public Money</a> .
Value for money	Achieving the best possible educational and wider societal outcomes through the economic, efficient and effective use of all the resources in the trust's charge, the avoidance of waste and extravagance, and prudent and economical administration. A key objective is to achieve value for money not only for the academy trust but for taxpayers more generally.

## Annex B: Key documents

Budget forecast	The document by which an academy trust notifies the EFA of its budget for the forthcoming academic year.
Annual accounts	A statutory requirement for all academy trusts. Properly called financial statements. These need to be completed to a 31 August year-end, submitted to the EFA no later than 31 December, and published on the trust's website by 31 May.
Accounts return	A return of key financial information in spread sheet format based on academy trusts' annual accounts, to be used for consolidation of trusts' accounts into the EFA's accounts and for the collection of benchmarking data. The EFA will collect these returns from academy trusts in scope in a format, and by a date, to be notified. The Accounts Return replaces the <a href="#">Consistent Financial Reporting (CFR)</a> return for maintained schools.
Financial Management and Governance Self-assessment (FMGS)	A checklist for completion and return to the EFA by a notified date, by new academy trusts that are not yet preparing financial statements and not yet subject to a regularity audit. The return asks trusts to self-assess their financial management arrangements in several specified areas.



## Annex C: Schedule of requirements (the ‘musts’)

This annex brings the requirements discussed throughout the Handbook together. Some requirements are referred to in more than one section of the Handbook. They are included in the annex only once, under the most appropriate heading. This annex is not a substitute for the full Handbook.

### Financial oversight

- **Must ensure trustees and managers have the skills, knowledge and experience to run the academy trust. [section 2.1]**
- Must appoint a **principal or chief executive** who will act as an ex-officio trustee. [2.1.1]
- Must designate a named individual as the academy trust’s **accounting officer** (usually the principal or chief executive) who must take personal responsibility for regularity, propriety and value for money, and for assuring the board of trustees that there is compliance with the Handbook, the FA and all relevant aspects of company and charitable law. [1.5.10 to 1.5.17, 2.1.2 and 3.2.2]
- Must ensure there is **appropriate oversight** of financial transactions and in doing so must:
  - ensure that bank accounts, financial systems and financial records are operated by more than one person;
  - ensure that all the academy trust’s property is under the control of the trustees, and that measures are in place to prevent losses or misuse;
  - keep full and accurate accounting records; and
  - prepare accruals accounts, giving a true and fair view of the academy trust’s incoming resources and application of resources during the year, and the state of affairs at the year-end, in accordance with existing accounting standards. [2.1.2]
- Must ensure that the **board of trustees (governors) and appropriate committees** meet at least once a term and conduct business only when the meeting is quorate. [2.1.3]
- Must have **finance staff** that are appropriately qualified and/or experienced. [2.1.6]
- Must have a **principal finance officer**, who is the finance director, business manager or equivalent, to lead the finance department. [2.1.7]
- Must ensure **regularity, propriety and value for money** in relation to the management of public funds. [1.4.6 and 1.5.6]

- Must use its **discretion** reasonably, and take into account all relevant guidance on accountability and propriety. [1.5.7]

## Financial planning

- **Must prepare financial plans so as to secure the academy trust's short-term and long-term financial health. [2.2]**
- Must have the full board of trustees **approve a balanced budget** for the financial year (usually to 31 August) and must minute the approval. [2.1.10]
- Must **submit the budget to the EFA**. [2.2.2]
- Must agree procedures for notifying **significant changes to budgets** to the trustees, and must notify such changes to the EFA. [2.2.3]
- Must obtain approval from the Secretary of State before **borrowing, including finance leases** of any duration. [2.2.4 and 2.6.18]
- Must declare in their budget sent to the EFA **any unspent funds** expected to be carried forward at the end of the financial year. [2.6.25]

## Internal control

- **Must have in place sound internal control and risk management processes. [2.3]**
- Must have regard, in the trust's **internal control framework**, to:
  - co-ordinating the planning and budgeting processes;
  - applying discipline in financial management, including managing banking, debt and cash flow, with appropriate segregation of duties;
  - preparation of timely monthly management accounts, including income and expenditure reports on an accruals basis, cash flow forecasts and balance sheets as appropriate;
  - ensuring that delegated financial authorities are respected;
  - selection, planning and oversight of any capital projects;
  - the propriety and regularity of financial transactions;
  - the management and oversight of assets;
  - the risk of fraud and theft; and
  - ensuring efficiency and value for money in the organisation's activities. [2.3.3]
- Must make a **contingency and business continuity plan** setting out what the academy trust would do to ensure the continued operation of the trust. [2.3.5]
- Must assess the **risks** arising from the academy trust's operations. [2.3.6]

- Must have in place a process for independent **checking of financial controls**, systems, transactions and risks. [2.3.6 and 3.5.1]
- Must ensure the academy trust has adequate **insurance** cover. [2.3.7]
- Must notify the Secretary of State, via the EFA, of any instances of **fraud or theft** where the value exceeds any sum notified by the EFA (currently £5,000 in the Handbook), or which appears to be systematic. [2.3.7 and 3.9.2]
- Must maintain proper **accounting records and accounts**. [1.4.4 and 2.3.7]

## Financial monitoring and management

- **Must ensure trustees and managers monitor the academy trust's current and forecast financial position. [2.4]**
- Must ensure that any **gifts given** by the academy trust have the reason fully documented and have regard to propriety and regularity in the use of public funds. [2.4.4]
- Must seek the Secretary of State's approval, via the EFA, for **writing off debts and losses**, and entering into **guarantees, indemnities and letters of comfort** beyond limits specified by the Secretary of State. [2.4.9 to 2.4.12]
- Must consider the following issues when making a **staff severance payment**:
  - whether a payment is justified, based on a legal assessment of the case;
  - if a payment is justified, must consider the level of settlement which must be less than the legal assessment of what the relevant body (e.g. an employment tribunal) is likely to award in the circumstances. [2.4.15]
- Must consider, when making a **compensation payment**, whether the proposed payment is based on a careful appraisal of the facts, including legal advice and that value for money will be achieved. [2.4.17]
- Must seek and obtain **HM Treasury's prior approval**, via the EFA, for any element of a staff severance payment or compensation payment which is more than £50,000 above contractual entitlement. [2.4.19]
- Must obtain the Secretary of State's approval, via the EFA, before entering into the **acquisition and disposal of fixed assets** beyond limits specified by the Secretary of State. [2.4.22 to 2.4.23]
- Must obtain the Secretary of State's approval, via the EFA, before entering into **lease arrangements** beyond limits specified by the Secretary of State. [2.4.28]
- Must waive the right to delegated authorities and come to the EFA for approval if the academy trust is subject to a **Financial Notice to Improve**. [2.4.36]
- Must comply with all terms of any **Financial Notice to Improve** issued to the academy trust. [2.4.37]

- Must spend public money **prudently** in ways that command broad public support. [2.4.40]
- Must refer any **novel or contentious transaction** to the EFA for prior authorisation. [2.4.41]

## Proper and regular use of funds

- **Must be able to show that public funds have been used as intended by Parliament. [2.5]**
- Must ensure there is **probity** in the use of public funds. [2.5.2]
- Must ensure that no trustee/governor, employee or related party **gains from their position** by receiving payments under preferential terms. [2.5.2]
- Must ensure that all trustees/governors have completed the **register of business interests** and there are measures in place to **manage any conflicts of interest**. [2.5.2]
- Must ensure there are **no payments to any trustee/governor** unless such payment is permitted by the Articles of Association and comply with the terms of any relevant agreement with the Secretary of State. [2.5.2]
- Must ensure a **competitive tendering policy** is in place and applied. [2.5.2]
- Must complete an annual statement explaining how the academy trust has secured **value for money**. [2.5.5]
- Must ensure that senior officers' **payroll arrangements fully meet tax obligations** and comply with HM Treasury's guidance regarding employment and contract arrangements of individuals on the avoidance of tax. [2.5.7]
- Must ensure that goods or services provided by individuals or organisations connected to the trust are provided at **no more than cost**, in accordance with the no-profit principles in this Handbook. [2.6.2]
- Must seek prior written permission from the EFA before entering into financial transactions that are **irregular, improper or do not afford value for money**. [2.6.10]
- Must adhere to the levels of **financial delegation** set out in this Handbook. [2.6.29]
- Multi-academy trusts must have due regard to the funding needs of their individual academies if they **pool GAG**, and must have an appeals mechanism in place. [2.6.28]

## Audit requirements

- Must approve a set of **accounting policies**. [2.3.7]
- Must **produce audited company accounts** in line with the 'Statement of Recommended Practice' (SORP) for charities.[1.4.3 and 2.3.7]
- Must **appoint a statutory auditor**, registered under the requirements of the Companies Act 2006 to certify whether the accounts are true and fair. [2.3.7 and 3.1.1]
- Must put the **audit contract** in writing as a letter of engagement. [3.1.2]
- Must provide in the audit contract for the **removal of the auditors** before the expiry of the term. [3.1.3]
- Must notify the EFA immediately of the **removal or resignation of auditors**, and the reasons. [3.1.4]
- Must **publish the accounts** and provide a copy to anyone who requests it. [1.4.5]
- Must **submit the audited accounts to the EFA** by 31 December each year. [1.4.3]
- Must include a **statement on regularity, propriety and compliance**, signed by the academy trust's accounting officer, in the annual report that accompanies the accounts. [3.2.2]
- Must include a **review of the accounting officer's statement on regularity, propriety and compliance** within the external auditor's remit. [3.2.4]
- Must establish an **audit committee**, or a committee which fulfils the functions of an audit committee, dependent upon the size of the trust [3.5.2 to 3.5.4]
- Must have the relevant committee **review the risks** to internal financial control at the academy trust and agree a programme of work that will address those risks. [3.5.5]
- Must give the NAO's officials and contractors reasonable help with their **enquiries** and provide such information and explanation as is reasonable and necessary. [3.6.1]
- Must provide the EFA with **access** to all books, records, information, explanations, assets and premises to assist the EFA from time to time with its audits. [3.7.1]
- Must **retain all records** necessary to verify its position in relation to the Handbook and the funding agreement, six years after the end of the period to which funding relates. [3.7.2]
- Must provide the EFA or its agents with information of sufficient **quality**, necessary to meet funding requirements as and when required. [3.8.1]

- Must notify the EFA's chief executive in writing of the **vacating or filling** of the positions of chair of trustees, chief executive or principal as accounting officer and principal finance officer. [3.8.4]
- Must be aware of the risk of **fraud and irregularity** and, as far as is possible, **address this risk** in their internal control and assurance arrangements by putting in place proportionate controls. [3.9.1]

## Annex D: Further sources of information

### Charity Commission

[Accounting and Reporting by Charities: Statement of Recommended Practice \(the 'Charities SORP'\)](#)

[Academy Schools: Guidance on their Regulation as Charities](#)

[CC3: The Essential Trustee: What you Need to Know](#)

[CC8: Internal Financial Controls for Charities](#)

[CC11: Trustee Expenses and Payments](#)

[CC14: Investment of Charitable Funds: Basic Principles](#)

[CC25: Managing Charity Assets and Resources: an Overview for Trustees](#)

[CC26: Charities and Risk Management](#)

[CC35: Trustees, Trading and Tax: How Charities may Lawfully Trade](#)

[Charities and Charity Trustees: An Introduction for School Governors](#)

[Charity Accounts and Reports: What you Need to Know](#)

[Detailed guidance Home Page](#)

### CIPFA

[Education Finance and Academies](#)

### Department for Education

[Academies Procurement Resource](#)

[Accounting Officer Accountability System Statement for Education and Children's Services](#)

[Buying Goods and Services - Schools](#)

[Guidance for Converting Schools with Deficits](#)

[Internal Investigations Charter](#)

[School Governance](#)

[Tips for Successful Leasing](#)

## **Education Funding Agency**

[Academies Accounts Direction](#)

[Property Information Notes](#)

## **HM Revenue and Customs**

[Corporation Tax and Charities](#)

[Employers: Home Page](#)

[Employers: Employed or Self-employed?](#)

[Money Laundering Regulations](#)

[VAT: How and When to Register](#)

[VAT: Rates and Thresholds](#)

[VAT: Refund Scheme for Academies](#)

[VAT: Waiting for registration and what to do in the meantime](#)

## **HM Treasury**

[Audit Committee Handbook](#)

[Management of Risk - Principles and Concepts](#)

[Managing Public Money](#)

[Regularity, Propriety and Value for Money](#)

[Review of the Tax Arrangements of Public Sector Appointees](#)

## **Other**

[Academies Act 2010](#)

[Code of Conduct for Board Members of Public Bodies](#)

[Crescent Purchasing Consortium](#)

[Fraud Act 2006](#)

[Official Journal of the European Union](#)

[National Audit Office](#)



[Public Accounts Committee](#)

## **Partner Organisations**

[Academy Finance Directors Forum](#)

[Association of School and College Leaders \(ASCL\)](#)

[Freedom and Autonomy for Schools - National Association \(FASNA\)](#)

[National Association of School Business Management \(NASBM\)](#)

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