



**Lord Agnew Kt DL**

Parliamentary Under-Secretary of State for the School System  
Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT  
tel: 0370 000 2288 [www.education.gov.uk/help/contactus](http://www.education.gov.uk/help/contactus)

15 June 2018

Dear audit firm

As we approach the end of the academic year for the academies community, I wanted to write to you as one of the Programme's auditors to reflect on how we can increase awareness of best practice in financial management and governance that we have identified.

Having recently discussed this with some of your colleagues, I would like to share more widely across the audit sector several key points that will help boards govern more effectively and make best use of the freedoms they have. We are aware that a substantial proportion of trusts are still hesitant about implementing some of the freedoms and mechanisms to enable this. We would encourage you to discuss these issues with your clients. If this letter helps to generate a debate with your clients, we will feel that progress is being made.

**GAG pooling.** This is one of the greatest freedoms a MAT has. The opportunity to pool GAG is particularly valuable, in particular to simplify the provision of support to weaker schools in a MAT until they can grow their pupil numbers. It is worth remembering that a MAT is a single financial entity.

**Integrated Curriculum Financial Planning (ICFP).** A wider awareness of this fundamental tool in teacher deployment is helping many schools. The Department has been supporting weaker trusts by raising the profile of ICFP, but we believe more trusts could benefit from it. If you would like more information, we would be delighted to assist.

**Three year forecasting.** We have now made this a mandatory requirement in the latest version of the Academies Financial Handbook (AFH). However many smaller trusts could benefit from your financial expertise to ensure they get the most out of this exercise. In particular, it is important to ensure that an overly optimistic approach to pupil number projections is not used as a balancing item where funding pressures appear.

**Better use of KPIs and benchmarking.** Part of this can come from ICFP but trusts can also benefit from the work that the Department has done in creating an [excellent financial benchmarking tool](#). The 2016/17 data has now been uploaded. This provides a quick route to a trust by trust comparison on a per pupil basis. We are keen to see more interaction between trusts so that they can learn from the best practise of others.

**Best of breed templates.** We have seen a wide variety of different management account formats. We would encourage you to work with your clients to help them create a monthly reporting pack that is accessible to non-accountants (i.e. non-financial executive board members). Given that the requirements in the reporting returns to Education and Skills Funding Agency (ESFA) are clear, this should form the basis of internal reporting.

**Auditors' management letters.** These are extremely useful tools for a board. We would like to see the recommendations made by auditors being implemented in a timely manner with scrutiny at board level to ensure that this is the case.

**Internal audit requirements.** The AFH sets out requirements for trusts in terms of internal audit provision. I would encourage you to review the findings of internal audit as part of your risk assessment and planning. We have clarified in the latest version of the AFH, guidance on deployment of the internal audit mechanism.

**Operational challenge.** Simple changes of operation can yield impressive results. Areas you may wish to consider include:

- a. Are your clients using a standard employment contract for all teaching staff so that they can be cross deployed to different schools?
- b. Are they using the same exam boards in all their schools to enable cross school marking and also to optimise the point above?
- c. Do they have a central electronic purchase order system to ensure strong controls on expenditure?
- d. Do they have a central bank account that simplifies bank reconciliations and ensures that there is constant, easy visibility of the cash position?
- e. Are they benchmarking their supply costs and if over a number of years the level is constant have they considered employing permanent staff to fill some of this requirement thereby improving the quality and removing agency charges?
- f. Are they accessing the Department's procurement arrangements if they are providing better value than they can achieve on their own?

**The role of the chair and non-execs on a trust.** At departmental level, we have increased the level of engagement with chairs. There are training courses run by some audit firms aimed at non-exec board members. We would encourage you to think about this as an added service if you are not already doing it.

If, in the course of your work, you have identified other areas where you feel we can emphasise methods of improvement or best practise we would be keen to hear from you. As you know, the ESFA is holding a conference for auditors on 18 September and I look forward to seeing many of you there.

Yours faithfully



THEODORE AGNEW

Parliamentary Under-Secretary of State for the School System