



17 November 2017

## To accounting officers in academy trusts

Dear colleague

It is over 7 years since I became an accounting officer with the Young People's Learning Agency, then with the Education Funding Agency and Skills Funding Agency, and latterly with ESFA. During this period, I have written from time to time to academy trust accounting officers about the important matter of standards of financial management and governance. As many of you know, I am about to retire from the ESFA, so this will be the last occasion I do that. I would like therefore to set out how accountability across the sector has developed during the period and to highlight issues that all accounting officers should address.

First, I want to remind you that your personal responsibilities as an accounting officer are described in the [Academies Financial Handbook](#) and form part of a chain of accountability for public money through me to Parliament. You must ensure that your trust has strong controls and be able to assure Parliament and the public of high standards of financial management. In performing your role, you should hold three questions in your mind:

- Can I demonstrate that the trust's funds have been spent for the purposes that Parliament intended?
- Am I satisfied that appropriate standards of conduct have been applied to all spending decisions, and that conflicts of interest have been handled appropriately?
- Has the trust managed its resources efficiently and achieved value for money?

In my role as the accounting officer for ESFA, I hold exactly the same responsibilities for the agency and must be confident of defending my actions in public – including in particular at the Public Accounts Committee. Please view your role in the same light. Due to the importance of these responsibilities, I expect the accounting officer in a trust to be its senior executive leader and to be directly employed by the trust.

## Development of academy accountability

The change in size and character of the sector has been significant in recent years, with a more than 30-fold growth in the number of academies since 2010, and an increasing shift towards joining multi-academy trusts. Developing the accountability framework to its current level of maturity has been the result of close collaboration with academy trusts to ensure changes continue to work in a school setting. I am grateful to the academy representatives on the Academies Finance and Assurance Steering Group for their help with much of this work over several years and to the many academy accounting officers

and business managers who have provided feedback as we have developed the framework.

One area of real year on year improvement I would like to thank you for is the timeliness of the financial returns you submit to us. Getting this basic requirement right is incredibly important for demonstrating financial performance and accountability at individual academy trust level and across the sector. In the past year, we received 95% of academy trust financial statements by the deadline of 31 December 2016 and 96% of budget forecast returns by the due date of 28 July 2017, both improvements over preceding years. I am grateful for your efforts, particularly given the challenges you have faced this year with changes to some of our reporting timetables and systems. It will not surprise you to know that ESFA is keen to push on to 100% of returns being received on time – something that is all the more important with the introduction of the new sector annual report and accounts ([SARA](#)) that I wrote to you about last December.

Reflecting on other issues you have helped us improve, I want to highlight the following themes:

- **Standards of governance:** Good governance and leadership gives me the evidence to underpin the case for maintaining academy freedoms. Our work with trusts indicates that governance in the great majority of trusts is operating well. For this to continue it is important that everyone involved in governance understands the different roles they perform (the Handbook tells you about this) and have the right skills to support and challenge the direction and performance of the trust. Avoiding concentrations of power in your governance arrangements without suitable checks and balance is particularly important and should promote better challenge and decision-making.
- With your board, you should consider the six key features of effective governance - strategic leadership, accountability, people, structures, compliance and evaluation. The first two features are the core pillars of the board's role and purpose. The second two are about the way in which governance is organised, and the last two are about ensuring and improving the quality of governance.
- **Balancing freedoms and accountabilities:** ESFA has an important regulatory role but the primary responsibility for the oversight of your academy trust rests with you and your board. The framework has therefore evolved to set out the principles of financial management and governance that you must apply, but not to provide detailed prescription. This means you have the freedom, but also the responsibility, to design internal financial procedures and checks yourself. If your trust does this well, our interaction with you will largely be limited to routine returns.
- **Promoting transparency:** Being transparent about how money is managed and spent, and what has been achieved with it, is an important means of demonstrating accountability. You should publish your annual financial statements on your website as soon as they have been signed off, but also think how best to use your accounts to describe the trust's objectives, achievements, and future plans, your approach to risk management and what your trust has done to improve its

governance during the year. More information about these requirements is in the Academies Accounts Direction. I also want to remind you of the need to keep your governance details up to date on Get Information About Schools for members, trustees, local governors, your chief financial officer and yourself.

- **Managing relationships:** Many of you will know that from time to time attention has focussed on related party transactions by academy trusts. Improvements to the framework mean that we generally see very few irregular transactions, but this is an area for close vigilance and you should still ensure that everyone in your trust applies our requirements in this area. This includes keeping a register of business interests, applying the 'at cost' policy and disclosing related party transactions in your financial statements.

### **Maintaining vigilance**

Whilst the number of academy trusts that need to strengthen their financial management or governance remains small, it is important that you remain vigilant to the issues that can arise. In serious cases, we will conduct an investigation into a trust and publish a [report](#) of our findings. These reports provide a valuable resource for learning lessons and offer a means of protecting your own trust. Please ensure that you are familiar with these reports. It is always better to learn from mistakes made by others!

### **Reflections from our recent assurance work**

I also want to give you some key points from our work with trusts over the past year.

- **Financial statements:** Our reviews of trusts' financial statements for the year ended 31 August 2016 found that 98% received an unqualified opinion from their auditor, consistent with numbers across recent years. Auditors reported wide compliance with the financial framework and made fewer recommendations than in previous years. Whilst this is a good achievement, we should continue to aim for full compliance. This will demonstrate that the sector is controlling its money well and will help deliver the sector annual report and accounts (SARA). Making a success of the SARA will reduce the risk of having to implement other options such as additional financial reporting by trusts.
- Please consider any points raised by your auditors and ensure they are addressed promptly. Items that auditors have identified with some trusts include financial viability, and disclosure issues with land and buildings and staff remuneration. More broadly, auditors have pointed to internal checks, internal financial reporting and procurement processes that could be strengthened in the small number of non-compliant cases.
- **Assurance visits:** Each year we select a proportion of both new and established academy trusts to review their financial management and governance arrangements directly. Whilst our visits have reinforced that overall trusts have sound procedures in place, the areas that I would like all trusts to keep under review include ensuring strong challenge of their financial position by trustees and

maximising value for money - for example that levels of executive pay follow a robust evidence-based process and reflect the individual's role and responsibilities, that there is regular review of all procurement contracts and that centralised purchasing arrangements are considered to achieve economies of scale.

- **Sector financial health and efficiency:** The vast majority (94%) of academy trusts reported a cumulative surplus in their financial statements at 31 August 2016, indicating the sector has continued to work hard to manage cost pressures. When the Secretary of State announced on 17 July an additional £1.3 billion for schools and high needs across 2018-19 and 2019-20, she made it clear that it was vital that school leaders maximise the efficient use of their resources, to achieve the best outcomes for pupils.

The Department provides [guidance, tools and training](#) to help maximise your efficiency and long-term financial health. This includes advice on financial planning, data to support self-assessment and advice on procurement - national deals are available that can secure better value goods and services, for example saving on average 10% on energy bills, or 40% on printers.

We are also providing efficiency experts to trusts. This additional support will be focussed on providing practical advice to help trusts recognise and address efficiency issues. We will be piloting this approach over the coming months, focusing first on those trusts who will benefit most. These experts will work with trusts to identify opportunities to reduce unnecessary costs and free up additional money to invest in improving pupil outcomes. I view educational performance and strong financial management as two sides of the same coin.

The experts will also work with trusts on integrated curriculum and financial planning<sup>1</sup> (ICFP), an approach trusts have found to be of significant benefit in balancing efficiency with educational outcomes and releasing funds to invest in additional improvement. We will extend the reach of this support over this term and through the rest of the academic year. I encourage you to make full use of these resources if they are offered to you.

## **Changes at ESFA**

Finally, as I prepare to hand over the reins at ESFA, I want to say that I shall miss my involvement with academies immensely but will follow your progress with great interest! Many of you will already know that Eileen Milner has been appointed as my successor as chief executive and accounting officer of ESFA. Eileen brings a wealth of experience from the Care Quality Commission, where she was the Executive Director of Customer and Corporate Services. She began her career in education and has worked in a range of roles across government, as well as the public and private sectors. I am sure Eileen will want to meet as many of you as possible and hear your views.

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<sup>1</sup> ICFP is the process through which trusts/school integrate the planning of the curriculum with their budget planning, in order to ensure their resources are maximised in a way which delivers their intended educational outcomes. It draws together the well-established principles which underpin the seven pillars of efficiency and top ten tips for governors.

In the meantime, please ensure that you share this letter with your board of trustees and arrange for it to be discussed at your next meeting.

Thank you for all your hard work and I wish you every success in the future.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Lauener', with a long, sweeping flourish extending to the right.

**Peter Lauener**

Chief Executive, Education and Skills Funding Agency