



Education
Funding
Agency

Academies Financial Handbook

Statutory and regulatory guidance

September 2012

Foreword by the Secretary of State for Education Michael Gove MP

I am delighted that so many schools are now enjoying the freedoms of academy status. The numbers speak for themselves: over half of secondary schools are on course to become academies. In 2011, the GCSE results of all sponsored academies open for at least two years had improved at almost twice the rate of all state-funded schools.

Academy status brings greater freedom. But it also requires sharper accountability. Academy trusts are accountable for the standards they achieve and also for how they spend taxpayers' money. Accountability arrangements for academies are more robust than those for maintained schools. This Handbook sets out a system for financial accountability which is less bureaucratic and more efficient. The system set out in the Handbook and the Funding Agreements gives academies the freedom they need over day-to-day business, and makes sure their finances will be managed in a transparent and robust way. I am particularly pleased that the Handbook allows, for the first time, academies to carry forward any surplus balances they may have, to invest in future years' priorities for the children and young people they serve.

This is the right balance between ensuring academies make the most effective use of public funds and allowing them all the freedom they need to continue to raise educational standards.

Michael Gove MP, Secretary of State for Education

Academies Financial Handbook

This Academies Financial Handbook (Handbook) sets out the financial requirements for academy trusts (ATs). The Handbook, together with the funding agreement (of which this document forms part), sets out the financial relationship between the Education Funding Agency (EFA) and ATs.

The Handbook covers all of the requirements under the financial accountability system for ATs. It sets out all of the areas of HM Treasury's "Managing Public Money" that directly apply to ATs and so all references to "Managing Public Money" are to provide further explanation and clarification of these areas.

The Handbook will be of interest to academy principals, academy principal finance officers, chairs of governing bodies, chairs of finance and general purposes committees, chairs of audit committees, clerks to governing bodies, CEOs of federations of academies and the auditors of ATs' financial statements.

This document is effective from 1 September 2012 until further notice.

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Part 1 – General

1.1 Status

This Handbook sets out the duties and obligations of an academy trust (AT) which has a funding agreement with the Secretary of State for Education. It covers all variants of the academy model, including multi-academy trusts, Free Schools, Studio Schools and University Technical Colleges.

1.2 Effective date

The provisions of this Handbook come in to effect from 1 September 2012 and remain in force until further notice.

1.3 Interpretation

The Education Funding Agency (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.

In this Handbook, where the word “must” is used this means that it is a legal requirement for ATs. The word “should” is used for items regarded as minimum good practice, but where there is no absolute requirement. The word “may” is used where the AT has discretion as to whether it does something or not, taking into account what is appropriate in its circumstances.

1.4 Introduction

The relationship between the AT 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 ATs arising from that FA.

The EFA expects ATs to take full control of their own financial affairs. This Handbook does not include any requirement that the EFA considers ATs should not expect of themselves or would find unduly onerous.

As companies, and under their FAs, ATs must produce audited company accounts. The accounting period of an AT will usually be set out in its FA, with most ATs reporting to a 31 August year end.

As charities, ATs must maintain accounting records and provide publicly accessible accounts in line with the Statement of Recommended Practice ([SORP](#)) for Charities.

It is a condition of ATs’ charitable status that they must publish their accounts and provide a copy to anyone who requests it.

As public bodies, ATs must ensure regularity, propriety and value for money in their management of public funds.

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 ATs in producing accounts in the required format and to ensure regularity.

1.5 Roles and responsibilities

Responsibilities of the Department for Education

The Department for Education (DfE) has ultimate responsibility and accountability for the effectiveness of the financial accountability 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 AT, which has its own accounting officer, through the EFA's accounting officer, to the Department.

Responsibilities of the EFA

The EFA acts as the agent of the Secretary of State within the scope of the powers and discretions formally delegated to it. 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 AT has appropriate arrangements for sound governance, financial management, securing value for money and accounting; and that the way the AT uses public funds is consistent with the purposes for which the funds were voted by Parliament.

Responsibilities of trustees of the academy trust

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

The board of trustees has wide discretion over its use of the AT's funds. It is ultimately 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.

Legally, ATs 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 (ie unless any governors are not also trustees or directors), as well as any other conditions that the Secretary of State may require. These responsibilities are mutually reinforcing and are there to ensure the proper governance and conduct of the AT. The key requirements are reflected in the FA (including the articles) and this Handbook, but the AT 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 governors. These guidance notes are [CC3: The Essential Trustee - What You Need to Know](#) and [CC8 - Internal Financial Controls For Charities](#).

The members of the board of trustees of the AT should also be aware of the statutory duties of company directors, which are set out in the Companies Act and include the duties to:

- exercise their powers only for a proper purpose;
- promote the company's success;
- exercise independent judgement;
- exercise care and skill; and
- avoid conflicts of interest.

The FA sets out the respective responsibilities of the board of trustees and the accounting officer of the AT. 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.

Responsibilities of the academy trust's accounting officer

Each AT must designate a named individual as its accounting officer. In ATs comprising a single school, this should usually be the principal (who acts as the chief executive). In multi-academy trusts, this should be the chief executive or executive principal of the AT. The chief executive has responsibility, under the board of the AT's guidance, for the overall organisation, management, and staffing and for its procedures in financial and other matters, including conduct and discipline.

AT accounting officers are personally responsible to Parliament and to the accounting officer of the EFA for the resources under their control. The essence of the role is a personal responsibility for the propriety and regularity of the public finances for which they are answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; for ensuring value for money; and for the efficient and effective use of all the resources in their charge. Essentially accounting officers must be able to assure Parliament and the public of high standards of probity in the management of public funds.

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 the governing body 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 in writing the EFA's accounting officer of the position.

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.

The EFA's accounting officer will send a letter annually to all AT 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 oversights

Purpose

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

2.1 Financial oversight

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

The board of trustees of the AT must appoint a principal or chief executive who will act as an ex-officio governor.

The AT accounting officer, under the guidance of the board, 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 AT'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 AT'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.

The board and appropriate committees must meet at least once a term and conduct business only when the meeting is quorate.

The board should appoint a clerk who is someone other than a trustee, governor or the principal / chief executive of the AT.

The board should approve a written scheme of delegation of financial powers so that it is clear who is responsible for what.

The AT's principal or chief executive should be identified as accounting officer. As the principal or chief executive of the trust, an individual is responsible to the board for the day to day running of the AT, but as accounting officer, the principal or chief executive is personally responsible to the board, and through it to the Secretary of State and Parliament, for:

- ensuring regularity and propriety;
- ensuring prudent and economical administration;
- avoiding waste and extravagance;
- securing value for money through the efficient, effective and economic use of available resources; and
- the day to day organisation, staffing and management of the AT.

Further guidance on these responsibilities is set out in HM Treasury's "[Managing Public Money](#)".

In addition to the standard charitable controls, the EFA requires that an AT's finance staff must be appropriately qualified and/or experienced.

All ATs must have a principal finance officer (PFO), appointed by the AT's board, who is the academy's finance director or business manager or equivalent, to lead the finance department. 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.

The PFO should play both a technical and leadership role in the AT. 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 AT 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.

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

Every AT should have a finance committee (the name of the committee may vary) to which the board may delegate the detailed scrutiny of the AT'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 should prepare financial plans so as to secure its short-term and long-term financial health.

The board of trustees of the AT must approve a balanced budget for the financial year (usually to 31 August).

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 AT must submit to the EFA a copy of that final budget in a form specified by the EFA by a date to be notified.

The trustees of the AT should 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.

The AT must obtain approval from the Secretary of State (through the EFA) before borrowing.

In addition, the AT must obtain approval from the Secretary of State (through the EFA) before entering into certain liabilities. Section 2.4 sets out when the approval is required for different types of liability such as leaseholds, tenancies and indemnities.

The AT must manage tax affairs as efficiently as possible in regard to the application of EFA funding. This should include careful planning for PAYE and VAT consequences of any actions. Local advice from HMRC should be sought in complex cases.

2.3 Internal control

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

Each AT should have arrangements for recognising, managing and tracking opportunities and risks. Each AT's governing body 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.

It is for the AT 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.

The AT's internal control framework should 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;
- 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.

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

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

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

The AT must:

- ensure that it has adequate insurance cover;
- 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 auditor; and
- prepare annual financial statements.

The EFA publishes a separate accounts direction each year, setting out in more detail its requirements for the preparation of ATs' annual reports and financial statements. The accounts direction also sets out the timetable for ATs to submit their audited accounts (comprising the annual report and financial statements) to the EFA.

2.4 Financial monitoring and management

The governors and managers of the academy trust should monitor the academy trust's current and forecast financial position.

The governing body and finance committee should receive financial reports at least termly.

The AT should manage cash appropriately, avoid going overdrawn, and abide by their contractual obligations.

From time to time the AT 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;
- special payments (transactions outside the usual planned range);
- taking on liabilities by issuing specific guarantees, or providing a letter of comfort; or providing indemnities; and
- gifts or hospitality received or given.

In principle:

- The AT 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 AT should only consider writing off losses after careful appraisal of the facts (including whether all reasonable action has been taken to effect recovery), and should be satisfied that there is no feasible alternative.
- Before accepting any liability, the AT 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.
- The AT should have a policy on the acceptance of gifts, hospitality, awards, prizes or any other benefit which might be seen to compromise their personal judgement 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 AT must ensure that the decision is fully documented and has regard to the propriety and regularity of the use of public funds.

The AT may agree to give assets bought for a proper purpose, but which are no longer needed for the conduct of its business, to a charity, up to a maximum value of £1,000 per single donation. Residual value of assets is determined by the greater of the written down value or market value.

Delegated authorities

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

Liabilities and write-offs

The AT may perform the following financial transactions up to the limits set out below: writing off debts and losses (including any uncollected fines); entering into guarantees, indemnities or letters of comfort (excluding those relating to borrowing by the AT). The limits are:

- 1% of total annual income or £45,000 (whichever is smaller) per single transaction.¹
- Cumulatively, 2.5% of total annual income in any one financial year per category of transaction² for any ATs 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.
- Cumulatively, 5% of total annual income in any one financial year per category of transaction for any ATs that have submitted timely, unqualified financial returns for the previous two financial years.

Beyond these limits the AT must seek and obtain explicit and prior approval of the Secretary of State (through the EFA) to the transaction.

Staff severance payments and compensation payments

If an AT is considering making a staff severance payment³ above the contractual entitlement, it must consider the following issues:

- Whether such a payment is justified, based on a legal assessment of the chances of the AT 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 AT would then need to consider the level of settlement. This must be less than the legal assessment of what the relevant body (eg an Employment Tribunal) is likely to award in the circumstances.

Special 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 former case would be where the claimant will win an Employment Tribunal claim because of employment law procedural errors. In the latter, an acceptable comparison would be the time and cost of taking someone through performance management and improvement procedures.

¹ Grant income based on figure in last set of audited accounts. Please contact the EFA if your academy has not yet produced audited accounts.

² The transaction categories are: (1) writing off debts and losses, and (2) guarantees, indemnities and letters of comfort.

³ Special severance payments are paid to employees outside normal statutory or contractual requirements when leaving employment in public service whether they resign, are dismissed or reach an agreed termination of contract.

If an AT is considering making a compensation payment⁴ 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. It is also good practice to consider routinely whether particular cases reveal concerns about the soundness of the control systems; and whether they have been respected as expected. It is also important to take any necessary steps to put failings right.

Where the AT is considering making a special staff severance payment or compensation payment above the contractual entitlement of £50,000 or more, prior approval will need to be sought from HM Treasury, via the EFA, before any such payment can be made. ATs in this situation should speak to their EFA contact at the earliest opportunity to discuss.

Asset sales, leases and tenancy agreements

The AT must seek and obtain explicit and prior approval from the Secretary of State, via the EFA, before:

- entering into any freehold sales or purchases;
- granting any leasehold or tenancy agreement, regardless of length; or
- taking up any leasehold or tenancy agreement for more than three years.

Responsibilities of the academy trust

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

- obtain relevant professional advice where appropriate. This includes speaking with their external auditors where necessary;
- ensure that the decision represents value for money, and could be justified as such;
- agree internal delegation levels within the AT; and
- disclose aggregate figures for transactions in the each of the above categories 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. Please note, ATs are not required to disclose any confidential information in their accounts. Further detail on how confidential information is to be handled will be included in the Accounts Direction for that financial year.

Financial Notice to Improve

If an AT is subject to a Financial Notice to Improve, all of the delegated authorities listed above in this section will be revoked and all transactions of this nature (regardless of size) must come to the EFA for approval.

Novel and contentious transactions

Novel payments are those in which the AT has no experience; or are outside the range of normal business activity for the AT. Contentious payments are those which might give rise to criticism of the AT by the public or the media. It is difficult to be specific about what might constitute novel or contentious payments; it is for ATs to use their judgement about

⁴ Compensation payments are made to provide redress for personal injuries, traffic accidents, damage to property etc.

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.

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

Further information

Further guidance on financial monitoring, published by the Charity Commission is available here: [CC8- Internal Financial Controls for Charities](#) and in Section 2.6.

The Charity Commission also publishes [CC14 - Charities and Investment Matters - a guide for Trustees](#) which will be of use to governors of the AT.

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.

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

ATs must ensure that:

- spending has been for the purpose intended;
- no trustee, governor, employee or related party has benefited personally from the use of funds;
- all trustees have completed the register of business interests kept by the AT and there are measures in place to manage any conflicts of interest;
- there are no payment(s) to any Trustee 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. The latter includes situations 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.
- their senior officers' payroll arrangements fully meet their tax obligations and comply with the Secretary of State's directions regarding the employment and contract arrangements of individuals on the avoidance of tax (Please see HM Treasury's Review of off-payroll payment to public servants);
- there is probity in the use of public funds;
- a competitive tendering policy is in place and applied; and
- there is no disposal of public 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).

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](#)).

The AT's accounting officer is required to complete and sign a short statement each year explaining how the AT has secured value for money. This should be completed as an annex to their annual accounting officer's statement (see section 3.1 of this Handbook for information on the accounting officer's statement). Both the accounting officer's statement and its annex on value for money will form part of the annual report accompanying the AT's accounts and so must be sent to the EFA and published on the AT's website.

2.6 Other matters

Irregular or improper transactions

All financial transactions should be regular, proper and afford value for money. Occasionally, however, situations may arise where it may appear to make sense to enter into a transaction which does not meet these requirements. In these circumstances the AT must seek prior, express permission from the EFA. Such transactions may additionally require HM Treasury approval dependent on the nature of the transaction involved.

Fees and charges

The AT 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"](#).

Academies with boarding facilities

The EFA may require some additional financial information from those ATs that provide a boarding facility. The details of this requirement will be communicated to the ATs concerned once the requirement has been determined.

Whistleblowing

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.

Borrowing

Any restrictions on an AT's power to borrow will be set out in the FA. ATs 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. However, the Secretary of State's general position is that ATs will not be granted permission for commercial borrowing at interest rates higher than those normally available in respect of central government borrowing.

Credit cards

Depending on its circumstances, purposes and risk profile, an AT 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 ATs, 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.

Leases

FAs impose distinct restrictions on ATs in relation to leases. Specifically, an AT needs the Secretary of State's consent if it wishes to take out a lease of more than three years' duration. However, governors need to be aware that certain types of lease may involve an element of borrowing and so would mean that, irrespective of the term of the lease, the Secretary of State's consent would in any event be required in respect of the borrowing element.

In relation to the borrowing restriction, any lease which falls within the definition of a "**Finance Lease**" (as defined under accounting relevant financial reporting standards) will involve borrowing. An "**Operating Lease**", however, would not involve borrowing and so would not require the Secretary of State's consent provided the lease was not for more than three years' duration.

If an AT does wish to take out a lease that does not involve borrowing but which does require the Secretary of State's consent, then the AT will need to contact their EFA representative in the first instance who will need to make an assessment of the merits of the case and, if appropriate, will seek the necessary consent. ATs 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 auditors. The DfE has [produced useful information](#) for ATs on leases available on the DfE website.

Managing surplus General Annual Grant (GAG)

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 sum of GAG that could be carried forward from one year to the next. These limits have now been removed so that ATs can keep money aside for when it is needed most and build up reserves, for example for long-term capital projects.

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

Where an AT has clauses in its funding agreement limiting the amount of carry forward (or requiring the Secretary of State to specify an amount or percentage of GAG which may be carried forward, or a purpose for which such carried forward amount may be used), the provisions in that funding agreement will prevail. The provisions in this section of the Handbook do not apply until such time as those clauses are amended by agreement between the parties to reflect the new arrangements.

The provisions in this section of the Handbook do not apply where an AT has clauses in its funding agreement that provide for a November estimate of pupils on roll for the purposes of GAG until such time as those clauses are amended by agreement between the parties to reflect the new clauses for requesting pupil estimates.

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

As set out in Part 2 of this Handbook, because ATs are required by law to produce audited accounts, the board of trustees 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 that the accounts are “true and fair”.

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.

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 members of the trust board. If the auditors resign, there must be a requirement for them to state their reasons.

The trust board 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.

Group auditors and Whole of Government Accounts

The financial accounts of each AT will be consolidated into Whole of Government Accounts (WGA), through the EFA. The EFA will use a combination of audited accounts, financial 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 AT is a component of the consolidation and the AT management have a responsibility to prepare the financial information requested by the EFA for this purpose. AT auditors will be requested by the EFA to audit certain information, and this requirement should be incorporated within the terms of engagement.

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 AT auditors.

Funding audit

A system of funding audit has been introduced to give direct assurance to the EFA in respect of the data provided by ATs for their grant calculations. This audit focuses on the key raw data provided by an AT 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.

The scope and timing of the EFA's funding audit approach will be determined annually and will be communicated to ATs once finalised. This work is sample-focused and so, in any one year, only a small minority of ATs will be affected by the programme.

Accounting officer's statement

An accounting officer's statement on governance, regularity, propriety and compliance must be included in the AT's annual report. This is a formal declaration by the AT'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 governing body and the EFA of any instances of irregularity or impropriety, or non-compliance with the terms of the AT's funding agreement. The format of the statement is included within the Accounts Direction which is issued annually.

Regularity audit

A review of the accounting officer's statement must be included within the remit of ATs' external auditors. This opinion will be addressed jointly to the AT 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 Annual Accounts Direction to ATs.

Self-assessment of financial management and governance

As the EFA will place reliance on the regularity audit it will replace the Financial Management and Governance Evaluation (FMGE) for those ATs producing financial statements. FMGEs are therefore no longer required from ATs where timely audited financial statements are produced.

New ATs that will not be producing financial statements will be asked to complete a revised, shorter, FMGE for their first year only or to agree an alternative method of providing assurance for this interim period.

Financial management reviews

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 AT meet the requirements set out in the Handbook.

Internal audit, the responsible officer and peer review

Every AT must have in place a process for independent checking of financial controls, systems, transactions and risks.

Ideally this process should be driven by an audit committee appointed by the governing body, but the EFA recognises that this may not be a practical position for every AT, especially for those that are smaller or where there is a limited pool of potential governors to provide the necessary direction. The EFA has, therefore, provided for a system which allows some flexibility as to how any particular AT discharges these requirements.

All ATs must establish either an audit committee or a committee which fulfils the functions of an audit committee (ie it could be an addition to the terms of reference to an existing committee, other than the finance committee, and have an overlapping or fully integrated membership). The decision will be for the governing body, and should reflect the size and complexity of the organisation.

The EFA's expectations are that:

- all ATs that are a multi-academy federation must have a dedicated audit committee;
- all ATs with an income of over £10m or capitalised asset value of over £30 million should consider having a dedicated audit committee; and
- all other ATs may have a dedicated audit committee.

The relevant committee must review the risks to internal financial control at the AT and must agree a programme of work that will address these risks, inform the statement of internal control and, so far as is possible, provide assurance to the external auditors.

ATs may manage this programme of risk review 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 AT's external auditors.
- The work of a responsible officer (ie an individual who is a non-employed governor with an appropriate level of qualifications and/or experience), and who neither charges nor is paid by the AT for their work.
- Completing the work by peer review (ie the work being performed by the PFO, or a suitably qualified or experienced member of the finance team, from another AT, as an "independent reviewer").

Any AT 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 AT 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.

3.2 National Audit Office and Public Accounts Committee

FAs 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 AT for inspection *or* for the carrying out of value for money studies. The AT 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.

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 AT, to give account for the proper use of public funds.

3.3 Audit access rights

The EFA may from time to time carry out audits at the AT or its sub-contractors. The AT 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 AT reasonable advance notice in writing of its proposed audits.

The AT 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.

3.4 Provision of information

The AT 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 AT must provide the information when and how the EFA and its agents request it. The EFA will consider the impact on AT business of the deadlines it specifies for the provision of information.

On occasion, the EFA will require urgent information from the AT, 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 AT 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 AT gathers to meet its own needs.

In the event that the AT 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 AT. The EFA may, as appropriate, deduct all or part of the cost of the investigations from the EFA's recurrent funding of the AT.

The AT must notify the EFA's chief executive in writing of the vacating or filling of the positions of chair of the governing body, principal as accounting officer and PFO.

3.5 Investigation of fraud and irregularity

The personal responsibilities of an accounting officer of an AT to secure the funds and assets of an AT 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 AT are also responsible for preventing such losses of public funds, and this means that ATs must be aware of the risk of fraud and irregularity to occur 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. ATs are also responsible for ensuring appropriate action is taken where fraud and irregularity is suspected or identified.

All instances of fraud or theft committed against the AT, whether by employees or governors or third parties, above £5,000 must be reported by the AT to the EFA. Any unusual or systematic fraud, regardless of value, must also be reported.

The EFA reserves the right to conduct or commission its own investigation into actual or potential fraud, theft or irregularity in any AT either as the result of a formal notification from the AT itself or as the result of other information received.

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 (AT)	The company which has entered into a funding agreement with the Secretary of State to run one or more academy schools
Accounting officer	A senior executive of the academy trust who has been designated as accountable for propriety, regularity and value for money. In most academies, this will be the principal.
Accounting officer’s statement	<p>The AT’s accounting officer is required to complete and sign a statement on governance, regularity, propriety and compliance each year. This must include, as an annex, a short statement explaining how the AT has secured value for money.</p> <p>This statement and annex should be included in the AT’s annual report and so submitted to the EFA at the same time as the annual accounts.</p>
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” (eg cash) or “capital” (eg a building).
Capital	Capital assets or funding are those from which an AT can expect to derive a benefit for more than one year: typically land, buildings, vehicles, etc.
Chief executive	The senior executive of the AT and head of the management team.
Consolidated accounting return	<p>ATs have been required to provide a “return for consolidation into government financial reporting” since 2009-10.</p> <p>The EFA will collect these returns from ATs in scope in a format, and by a date, to be notified.</p>
DfE	The 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.
Federation	A form of organisation which allows for more than one academy school to be run under a common leadership structure. Federations may be “hard” (ie a single company) or “soft” (separate companies but with overlapping leadership).
Financial year	For ATs, this is usually the same as the academic year. For most other public sector bodies (such as the EFA) it means the period from 1 April to 31 March.
FMGE self-assessment return	A self-assessment return for completion by new ATs that will not be producing financial statements. Returns need to be sent to the EFA by a notified date.
GAG	General Annual Grant: the main source of income for ATs.
Governing body	Usually the senior committee of an AT. This will often also be the board of trustees and the company board of directors.
Principal	The headteacher of an AT.
Propriety	The requirement that expenditure and receipts should be dealt with in accordance with Parliament’s intentions and the principles of Parliamentary control. This includes standards of conduct, behaviour and corporate governance.
Public funds	Funds which, ultimately, derive from Parliamentary authority. All ATs’ 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 for all items of income and expenditure to be dealt with in accordance with the legislation authorising them, and any applicable delegated authority.
Secretary of State	The Secretary of State for Education.

SORP	The Charity Commission's statement of recommended accounting practice.
Value for money	The educational and wider societal outcomes achieved in return for the taxpayer resources received.

Annex B

Key documents

Item	Comment
Budget forecast	The document by which an academy notifies the EFA of its budget for the forthcoming academic year.
Annual accounts	The statutory requirement for all academy trusts. This needs to be completed to a 31 August year-end and then submitted to the EFA no later than 31 December.
Additional accounts return	A summarised version of the Annual Accounts in spreadsheet format. This needs to be with the EFA no later than 31 December.
FMGE self-assessment return	A self-assessment return for completion by ATs and return to the EFA by a notified date.
Consolidated accounting return	ATs have been required to provide a “return for consolidation into government financial reporting” since 2009-10. The EFA will collect these returns from ATs in scope in a format, and by a date, to be notified.

Annex C

Links to key sources of information

Education Funding Agency

[Budget Forecast](#)

[Annual Accounts Direction](#)

[Advances of Funding](#)

Department for Education

[Guidance for converting schools with deficits](#)

[Internal Investigations Charter](#)

[Tips for Successful Leasing](#)

[Buying goods and services - Schools](#)

Charity Commission

[Charity Commission published material](#)

[SORP, Charity Accounts and Reports: What you need to know](#)

[Academy Schools: guidance on their regulation as charities](#)

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

[CC14 - Charities and Investment Matters - A guide for Trustees](#)

[CC26 - Charities and Risk Management.](#)

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

HM Treasury

[Managing Public Money - HM Treasury](#)

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

[Clear Line of Sight - Frequently Asked Questions](#)

HMRC

VAT Refund Scheme for Academies

VAT Thresholds

HM Revenue & Customs: Waiting for VAT registration and what to do in the meantime

HMRC- Money Laundering Regulations

Main 2011 Budget announcements for business

Other

Academies Finance Director Forum

Crescent Purchasing Consortium

Official Journal of the European Union

National Audit Office

Public Accounts Committee



Education
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