



Education & Skills  
Funding Agency

# **Academies financial handbook 2018**

**For academy trustees, members,  
accounting officers, chief financial  
officers and auditors**

**Effective from 1 September 2018**

**June 2018**

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## Executive summary by Lord Agnew

Making every pound count can maximise outcomes for our young people. Everyone involved has a role to play in ensuring this happens and in achieving the highest standards of financial management and governance.



I pay particular tribute to the chairs and non-executives of academy trusts who do this vital work unpaid. Having done it myself, I know the commitment needed, but hope that you too share in the satisfaction that it brings.

The Academies Financial Handbook is the main reference tool to help you apply good financial management, setting out the requirements you must follow and the freedoms you enjoy. Whether you are new to the academies sector or long-standing, please take time to digest the contents, as it will help make your job easier.

### 1. Roles and responsibilities

If you are a trustee, the handbook explains that you must oversee the trust's financial affairs and hold the executive leadership to account. You hold statutory duties as a company director to exercise care, skill and diligence and avoid conflicts of interest. The executive leader, as accounting officer, is required to ensure regularity, propriety and value for money. Their chief financial officer must ensure appropriate financial arrangements operate day to day. Where these personal responsibilities are properly carried out, in accordance with the framework, the Department's interaction with the trust will be limited; if not, the handbook explains that we may intervene.

I am keen that chairs of trusts reflect on their key role in promoting high standards of governance in their trust, set out in annex C. The ESFA will be working closely with chairs when there are concerns over issues such as executive pay and related party transactions, or where there is insufficient oversight or control of a trust's money.

### 2. Key financial and governance requirements

There are certain financial disciplines that any well-run organisation should be expected to deploy, including:

- having rigorous procedures for preparing and monitoring financial plans
- delivering effective operational controls
- maintaining a system of internal scrutiny to remain compliant

Effective deployment of financial resources can have a dramatic impact on raising educational outcomes. I urge boards to constantly challenge how effective your organisation is in this respect.

### **3. Delegated authorities**

Autonomy in the hands of well-run organisations can deliver dramatically positive results. The handbook describes a range of financial freedoms that apply, and their limits. But with freedom comes accountability. Careless or improper actions can cause significant damage, both financially and reputationally. You must be confident that the decisions taken when exercising your freedoms (for example when reviewing procurement options or when setting pay) can withstand public scrutiny.

### **4. Audit requirements**

The benefits of an independent audit are considerable. It provides transparent evidence about the quality of trusts' accounting and financial reporting systems. If you are an auditor, you play an important role in supporting our sector. Most academy audits show that standards are good. However, where concerns are identified auditors need to ensure they are communicated clearly. I want trusts to address any lessons learned from this process in a timely and constructive manner.

The changes in this latest edition of the handbook reinforce some of the areas I have mentioned, particularly around boards' responsibilities for effective oversight and robust challenge. I am grateful to those of you who have helped us develop it, particularly the members of the working group listed towards the end.

The Academies Financial Handbook should instil confidence in the handling of your financial and governance duties. This will enable you to make the best use of public money. In 2015/16, £18bn was paid out to academies to run a growing part of our educational system. Strong governance will ensure that the remarkable progress made in the past 8 years continues.

Thank you to all of you who are making this happen.

A handwritten signature in black ink, appearing to read 'Theodore Agnew', written over a light blue horizontal line.

**Theodore Agnew**

Parliamentary Under Secretary of State for the School System

## Introduction

The Academies Financial Handbook (the ‘handbook’) describes the financial responsibilities of academy trusts reflecting their status as companies limited by guarantee, [exempt charities](#) and public bodies. It balances the need for effective financial governance with the freedoms that trusts need over their day to day business. It sets out the areas of HM Treasury’s [Managing Public Money](#) that apply to trusts, and reflects the ‘[seven principles of public life](#)’ (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) to which public office holders **must** adhere.

The handbook is for academy trustees, members, local governors of multi-academy trusts (MATs), [accounting officers](#), [chief financial officers](#), clerks to the board and auditors.

It covers all types of academy including single academy trusts (SATs), MATs, free schools, studio schools, university technical colleges, alternative provision and special academies.

Compliance with the handbook is a requirement in trusts’ [funding agreements](#) with the Secretary of State.

In the handbook:

- ‘**must**’ - identifies requirements. A list can be found at [annex C](#)
- ‘**should**’ - identifies minimum good practice, where there is no absolute requirement, but which trusts should apply unless an alternative better suits their circumstances

## What has changed in this edition?

The main changes are as follows:

- Highlighting directions the Secretary of State may make in relation to members, trustees and other individuals [[1.2.7 and 1.2.8](#)].
- Referring to the Charity Commission’s role in addressing non-compliance [[1.2.9](#)].
- Greater emphasis on trustees applying high standards of governance, the role of the chair, working with ESFA, and updated references to church academies [[1.3.1 to 1.3.5](#)].
- Updating the description of the role of members to align with the [Governance Handbook](#) [[1.4.1 to 1.4.5](#)].
- Removing the term ‘ex-officio’ to avoid suggesting an academy trust’s senior executive leader would automatically act as a trustee [[1.5.1](#)].

- Explaining reporting requirements if the board meets less than six times a year [[2.1.2](#)].
- Confirming that trusts must apply robust cash management [[2.2.1](#), [2.3.3](#) and [2.3.5](#)].
- Setting clearer requirements for budgeting [[2.3.2 and 2.3.3](#)].
- Recommending the national deals for schools [[2.4.2](#)].
- Strengthening expectations about the process for setting executive pay and highlighting gender pay gap reporting [[2.4.4 and 2.4.5](#)].
- Clarifying the section on the risk protection arrangement [[2.6.2 and 2.6.3](#)].
- Emphasising the proper handling of whistleblowers [[2.7.1](#)].
- Confirming reporting requirements in relation to internal scrutiny [[2.9.7 to 2.9.9](#)].
- Explaining new requirements for related party transactions [[3.10.4, 3.10.6 and 3.10.7](#)] and arrangements with dioceses [[3.10.20](#)]. We are also moving to the conventional term 'related' parties.
- Focussing on the importance of acting on audit advice [[4.3.1](#)].
- Highlighting how ESFA may take action where trusts do not comply with requirements for submitting financial information [[4.8.4](#)].
- [Annex C](#) now identifies some 'musts' that are particularly relevant to boards.

## Contacting ESFA

If the academy trust needs to contact ESFA for guidance it should complete an [enquiry form](#).

# Part 1: Roles and responsibilities

This part of the handbook explains the responsibilities of the Department for Education, ESFA and academy trusts. Trustees and managers must have the skills, knowledge and experience to run the academy trust.

## 1.1 The Department for Education

1.1.1 DfE has ultimate accountability for the effectiveness of the financial system for academies. DfE is responsible for ensuring there is an adequate framework to manage resources in an effective and proper manner and that [value for money](#) is secured. There is a chain of accountability from each academy trust, through ESFA to DfE.

## 1.2 ESFA

1.2.1 ESFA is an executive agency of DfE and acts as agent of the Secretary of State. ESFA's accounting officer is accountable to Parliament for how ESFA uses its funds. ESFA's accounting officer is also personally responsible for the regularity and propriety of its expenditure and ensuring [value for money](#). To do this, ESFA's accounting officer must be satisfied that academy trusts have appropriate arrangements for sound governance, financial management and securing value for money and accounting, and that the way trusts use public funds is consistent with the purposes for which the funds were voted by Parliament.

1.2.2 ESFA's accounting officer will send a '[Dear Accounting Officer](#)' letter annually to all academy trust accounting officers, covering issues such as developments in the accountability framework and ESFA findings. Accounting officers **must** share it with their members, trustees, chief financial officer and senior leadership team, arrange for the board to discuss it and take action if necessary to strengthen financial controls.

1.2.3 ESFA exercises the rights, powers and remedies in this handbook on behalf of the Secretary of State. If ESFA fails to use, or delays in using, any of these, this does not mean that it cannot do so later.

### ESFA intervention powers

1.2.4 Where ESFA has concerns about financial management and/or governance in an academy trust it may issue, and publish, a [Financial Notice to Improve \(FNtI\)](#). The trust **must** comply with the FNtI. Failure to comply will be deemed a breach of the [funding agreement](#). In exceptional circumstances, the funding agreement may be terminated due to non-compliance with an FNtI.



- 1.2.5 An FNtl sets out what a trust must do to address concerns about financial management or governance. For example, an FNtl may be issued where there is an actual or projected deficit, cash flow problems, risk of insolvency, irregular use of public funds, or inadequate governance and management (including weak oversight by trustees, poor internal scrutiny and breaches of requirements over related parties).
- 1.2.6 If an FNtl is issued then the delegated authorities in sections [3.3. to 3.7](#) of this handbook are revoked, and all transactions of this nature **must** be approved in advance by [ESFA](#). The trust may also be prevented from entering into any transactions with related parties without approval. These delegated authorities shall be returned once the FNtl has been complied with, and improvement is sustainable.

### **Secretary of State directions**

- 1.2.7 Subject to the relevant provisions being present in the trust's funding agreement, the Secretary of State can require the trust to remove a member or trustee.
- 1.2.8 The Secretary of State can also make directions under section 128 of the [Education and Skills Act 2008](#) prohibiting individuals from taking part in academy trust management. This could prevent an individual from acting as a member, trustee or executive leader of a trust. The circumstances are prescribed in [regulations](#) but can include where the individual is subject to a caution or conviction or has engaged in relevant conduct, and the Secretary of State considers that because of that caution, conviction or conduct that individual is unsuitable to take part in the management of a school.

### **ESFA work with Charity Commission**

- 1.2.9 Where there is a concern, ESFA may refer trusts to the [Charity Commission](#), reflecting the Commission's interest in addressing non-compliance with legal or regulatory requirements or misconduct or mismanagement in the administration of any charity, and in ensuring that individuals acting in the administration of the charity (in particular, but not limited to, the charity trustees) do so in compliance with their legal duties. The Commission may use its regulatory powers as described in its [Memorandum of Understanding](#) with DfE.

### **ESFA approach to academy resource management**

- 1.2.10 Where ESFA has concerns about financial management of a trust, it may prescribe working with an expert in school resource management, such as a School Resource Management Advisor (SRMA). Trusts should make reasonable endeavours to implement improvements identified by an SRMA. Failure to do so may result in an FNtl being issued. Working with an SRMA may also be

prescribed as a condition of an FNtl. The Department has produced a range of information to help trusts improve their [resource management](#).

## 1.3 Trustees

1.3.1 The trustees of the academy trust are both charity trustees and company directors. This handbook refers to them as trustees. However, in some academy trusts, such as church academies, those on the board are known instead as 'directors'. In church academies, the term 'trustees' is reserved for those on the board of the separate trust that owns the land.

1.3.2 The trustees should focus on the three core functions of governance:

- ensuring clarity of vision, ethos and strategic direction
- holding executive leaders to account for the educational performance of the organisation and its pupils, and the performance management of staff
- overseeing and ensuring effective financial performance.

1.3.3 The trustees **must** apply the highest standards of governance and take full ownership of their duties. They **must** comply with the trust's charitable objects, with company and charity law, and with their [funding agreement](#). The duties of company directors are described in sections 170 to 181 of the [Companies Act 2006](#), but in summary are to:

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

The duties of charity trustees are described in the Charity Commission's guidance [CC3: the essential trustee: what you need to know, what you need to do](#). Trustees should also be aware of other [Charity Commission](#) guidance, including that in [annex D](#).

1.3.4 The trustees **must** ensure regularity and propriety in use of the trust's funds, and achieve [economy](#), [efficiency](#) and [effectiveness](#) – the three key elements of [value for money](#).

- 1.3.5 The chair of trustees is responsible for ensuring the effective functioning of the board and setting professional standards of governance. ESFA will help chairs and their boards to do this if required.
- 1.3.6 Whilst the members can decide whether to appoint the trust's senior executive leader as a trustee, the Department's strong preference is for no other employees to serve as trustees in order to retain clear lines of accountability.
- 1.3.7 The board may delegate functions to committees. Each committee (other than those in a MAT constituted as a local governing body) **must** contain a majority of trustees, but it may also include other people the board chooses to appoint.
- 1.3.8 Academy trusts **must** not have [de facto trustees](#) (as defined in appendix 1 of the [Charities SORP 2015](#)) or [shadow directors](#) (as defined in section 251(1) of the Companies Act 2006).
- 1.3.9 Trustees should follow the guidance in the [Governance Handbook](#).
- 1.3.10 The board should identify the skills and experience that it needs, and address any gaps through recruitment, and/or induction, training and other development activities. This is particularly important at key transition points. The board should also address this for any local governing bodies. The [Governance Handbook](#) identifies a range of training material to help trustees develop and engage fully with their role. This includes a [competency framework for governance](#) that trusts should refer to in determining whether they have skills gaps.
- 1.3.11 New trusts producing audited accounts for the first time **must** include in their first governance statement what they have done to review and develop their governance structure and the composition of the board. Subsequently, established trusts should include an annual assessment, including a review of the composition of the board in terms of skills, effectiveness, leadership and impact. Trusts should refer to the six key features of effective governance in the [Governance Handbook](#) (strategic leadership, accountability, people, structures, compliance and evaluation). They can also refer to the questions for governing bodies published by the All-Party Parliamentary Group on Education, Governance and Leadership. For single academy trusts, this provides [20 key questions for the governing board to ask itself](#), and for MATs [21 questions for multi-academy trust boards](#).

## 1.4 Members

- 1.4.1 As charitable companies limited by guarantee every trust has members who have a similar role to the shareholders of a company limited by shares. They:
- are the subscribers to the trust's memorandum of association (where they are founding members)

- may amend the articles of association subject to any restrictions in the articles, the funding agreement or charity law
- may, in certain circumstances, appoint new members or remove existing members
- have powers to appoint and remove trustees in certain circumstances
- may, by special resolution, issue direction to the trustees to take a specific action
- appoint the trust's auditors and receive the trust's audited annual accounts (subject to the Companies Act)
- have power to change the name of the company and, ultimately, wind up the academy trust.

1.4.2 The Department's minimum requirement before entering into a funding agreement is that academy trusts have at least three members, although the Department's strong preference is for trusts to have at least five members, as this:

- provides for a more diverse range of perspectives
- ensures members can take decisions via special resolution without requiring unanimity.

1.4.3 Employees of the trust **must not** be members unless permitted by their articles of association. The current [model articles](#) do not allow members to be employees.

1.4.4 The Department's view is that there should be a significant degree of separation between the individuals who are members and those who are trustees. If members sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's strong preference is for a majority of members to be independent of the board of trustees.

1.4.5 As responsibility to conduct the trust's business sits with the trustees, members should be 'eyes on and hands off' and avoid compromising the board's discretion. However if the governance of the trust by the board of trustees becomes dysfunctional the members will have a strong interest in ensuring the board has plans to address the issues or otherwise to remove the board or individual trustees and re-appoint trustees with the skills necessary for effective governance.

## 1.5 The accounting officer

1.5.1 The board of trustees **must** appoint, in writing, a senior executive leader who may be appointed as a trustee. In trusts comprising a single academy this should be the [principal](#). In MATs it should be the [chief executive](#) or equivalent.

1.5.2 The board **must** also appoint, in writing, a named individual as its accounting officer. This should be the senior executive leader. The individual **must** be a fit

and suitable person for the role. The roles of senior executive leader and accounting officer **must not** rotate.

- 1.5.3 The appointment of an accounting officer does **not** remove the responsibility of trustees for the proper conduct and financial operation of the trust.
- 1.5.4 The role of accounting officer includes specific responsibilities for financial matters. It includes a personal responsibility to Parliament, and to ESFA's accounting officer, for the financial resources under the trust's control. Accounting officers **must** be able to assure Parliament, and the public, of high standards of probity in the management of public funds, particularly [regularity](#), [propriety](#) and [value for money](#). Definitions are at [annex A](#). Accounting officers **must** also adhere to the '[seven principles of public life](#)'.
- 1.5.5 The accounting officer **must** have appropriate oversight of financial transactions, by:
- ensuring that the academy trust's property and assets are under the control of the trustees, and measures exist to prevent losses or misuse
  - ensuring that bank accounts, financial systems and financial records are operated by more than one person
  - keeping full and accurate accounting records to support their annual accounts
- 1.5.6 The accounting officer **must** complete and sign a [statement on regularity, propriety and compliance](#) each year and submit this to ESFA with the audited accounts. The accounting officer **must** also demonstrate how the trust has secured value for money via the governance statement in the audited accounts.
- 1.5.7 The accounting officer **must** take personal responsibility (which **must not** be delegated) for assuring the board that there is compliance with the funding agreement and handbook. The accounting officer **must** advise the board in writing if any action it is considering is incompatible with the [articles](#), [funding agreement](#) or handbook. Similarly, the accounting officer **must** advise the board in writing if the board fails to act where required by the funding agreement or handbook. Where the board is minded to proceed, despite the accounting officer's advice, the accounting officer **must** consider the board's reasons and if the accounting officer still considers the action proposed by the board is in breach of the articles, the funding agreement or handbook, the accounting officer **must** notify ESFA's accounting officer immediately in writing.
- 1.5.8 More detailed guidance on the role of an accounting officer is in chapter 3 of [Managing Public Money](#).

## 1.6 The chief financial officer

- 1.6.1 The trust **must** have a [chief financial officer](#) (CFO), appointed by the trust's board, who is the trust's finance director, business manager or equivalent, and to whom responsibility for the trust's detailed financial procedures is delegated. The CFO should play both a technical and leadership role.
- 1.6.2 The trust's finance staff **must** be appropriately qualified and/or experienced. Trusts should assess whether the CFO, and others holding key financial posts, should have a business or accountancy qualification and hold membership of a relevant professional body, dependent on the risk, scale and complexity of financial operations. While a formal accountancy qualification may serve as a proxy for the necessary skills and experience required for this role, there is no presumption that there will always be a perfect match. Many CFOs combine financial responsibilities with other support and leadership duties where a formal accountancy qualification may be less relevant. The Institute of School Business Leadership's [Professional Standards](#) indicate the main disciplines that the CFO role may cover.
- 1.6.3 The CFO need not discharge all of their duties personally. The trust may decide that its needs are adequately served by employing staff or contractors with the relevant skills and knowledge at the appropriate time.

## Part 2: Main financial and governance requirements

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

### 2.1 Financial oversight

**Trustees and managers must maintain robust oversight of the academy trust.**

- 2.1.1 The academy trust **must** take full responsibility for its financial affairs and use resources efficiently to maximise outcomes for pupils.
- 2.1.2 The board and its committees **must** meet regularly enough to discharge their responsibilities and ensure robust governance and effective financial management arrangements. Board meetings **must** take place at least three times a year (and business conducted only when quorate). Larger trusts should consider meeting more frequently. If the board meets less than six times a year it **must** describe in its governance statement, accompanying its annual accounts, how it maintained effective oversight of funds with fewer meetings.
- 2.1.3 While the board cannot delegate overall responsibility for the academy trust's funds, it **must** approve a written scheme of delegation of financial powers that maintains robust internal controls.
- 2.1.4 The academy trust should have a finance committee to which the board delegates financial scrutiny and oversight.
- 2.1.5 The academy trust should appoint a clerk to the board of trustees who is someone other than a trustee, principal or chief executive of the trust.

### 2.2 Internal control principles

**The academy trust must have sound internal control, risk management and assurance processes.**

- 2.2.1 The academy trust **must** establish a robust control framework that includes:
- ensuring delegated financial authorities are complied with
  - maintaining appropriate segregation of duties
  - co-ordinating the planning and budgeting process
  - applying discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations

- planning and oversight of any capital projects
- management and oversight of assets
- [regularity](#), [propriety](#) and [value for money](#) in the organisation's activities
- reducing the risk of [fraud and theft](#)
- independent checking of financial controls, systems, transactions and risks

## 2.3 Financial planning and monitoring

**The academy trust must prepare and monitor financial plans to ensure ongoing financial health.**

### Budgeting

2.3.1 The board of trustees **must** approve a [balanced budget](#), and any significant changes to that budget, for the financial year to 31 August, which can draw on unspent funds brought forward from previous years. The board **must** minute its approval.

2.3.2 The academy trust **must** submit to ESFA, in a form specified by ESFA:

- a [budget forecast return outturn](#) by 21 May
- a 3-year [budget forecast return](#) by 30 July

These **must** be approved by the trustees before submission. ESFA has produced [guidance](#) on both returns.

2.3.3 The board of trustees, and any separate committee responsible for finance, **must** ensure rigour and scrutiny in budget management.

- **Budget setting** – The board **must** ensure that budget forecasts, for the current year and beyond, are compiled accurately, based on realistic assumptions including any provision being made to sustain capital assets, and are reflective of lessons learned from previous years. It should challenge pupil number estimates as these will underpin revenue projections. Boards are encouraged to take [an integrated approach to curriculum and financial planning](#). Boards should also refer to DfE's material on [improving school resource management](#) including the [top ten planning checks for governors](#).
- **Budget monitoring** – The trust **must** prepare management accounts every month setting out its financial performance and position, comprising budget variance reports and cash flow forecasts with sufficient information to manage cash, debtors and creditors. Managers **must** take appropriate action to ensure ongoing viability.



Management accounts **must** also be shared with the chair of trustees every month irrespective of the size of the trust, and with the other trustees six times a year. The board **must** consider these when it meets. The board **must** ensure appropriate action is being taken to maintain financial viability including addressing variances between the budget and actual income and expenditure.

The format of management accounts should be adjusted to be suitable for different users including summaries and supporting narrative as appropriate.

The trust **must** select key financial performance indicators and measure its performance against them regularly, including analysis in its annual trustees' report as explained in the [Accounts Direction](#).

Where the board has concerns about financial performance, it should consider whether additional financial reporting is appropriate. ESFA may require additional financial reporting as a condition of an FNTI.

- 2.3.4 The board of trustees **must** notify [ESFA](#) within 14 days of its meeting if it is proposing to set a deficit revenue budget for the current financial year, which it cannot address after unspent funds from previous years are taken into account.

### **Cash management**

- 2.3.5 The trust **must** manage its cash position robustly. It **must** avoid becoming overdrawn. It may be required to report on its cash position to ESFA where there are concerns about financial management.

### **Investments**

- 2.3.6 The board of trustees may invest to further the trust's charitable aims, but **must** ensure that investment risk is properly managed. When considering an investment the board **must**:

- act within its powers to invest as set out in its [articles](#)
- have an investment policy to manage and track its financial exposure, and ensure [value for money](#)
- exercise care and skill in investment decisions, taking advice as appropriate from a professional adviser
- ensure that exposure to investment products is tightly controlled so that security of funds takes precedence over revenue maximisation
- ensure that investment decisions are in the best interests of the trust
- review the trust's investments and investment policy regularly

2.3.7 The board should follow the Charity Commission's guidance: [CC14 Charities and investment matters: A guide for trustees](#). ESFA's approval **must** be obtained for investment transactions that are [novel, contentious and/or repercussive](#).

## 2.4 Spending

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

### Procurement controls

2.4.1 The academy trust **must** ensure that:

- spending has been for the purpose intended and there is probity in the use of public funds
- spending decisions represent [value for money](#)
- internal delegation levels exist and are applied within the trust
- a competitive tendering policy is in place and applied, and Official Journal of the European Union ([OJEU](#)) procurement thresholds are observed
- relevant professional advice is obtained where appropriate

2.4.2 The Department strongly recommends the [deals for schools](#) that make buying simpler and quicker, and can provide better value for money in a range of categories. There is also guidance on [how to plan and run an efficient procurement process](#). Additional guidance is in annex 4.6 of [Managing Public Money](#). Advice on relevant procurement thresholds is provided in the [OJEU](#).

### Executive pay

2.4.3 The board of trustees **must** ensure its decisions about levels of executive pay follow a robust evidence-based process and are reflective of the individual's role and responsibilities. No individual can be involved in deciding his or her remuneration.

2.4.4 The board **must** discharge its responsibilities effectively, ensuring its approach to pay is transparent, proportionate and justifiable, including:

- process - that the procedure for determining executive pay is agreed by the board in advance and documented
- independence - decisions about executive pay reflect independent and objective scrutiny by the board and that conflicts of interest are avoided

- decision-making - factors in determining pay are clear, including whether performance considerations, and the degree of challenge in the role, have been taken into account
- proportionality – pay is defensible relative to the public sector market
- documentation - the rationale behind the decision-making process, including whether the level of pay reflects value for money, is recorded and retained
- a basic presumption that non-teaching pay should not increase at a faster rate than that of teachers, in individual years and over the longer term
- understanding that inappropriate pay can be challenged by ESFA, particularly in any instance of poor financial management of the trust.

2.4.5 The trust is reminded of the requirements under the [Equality Act 2010 \(Specific Duties and Public Authorities\) Regulations 2017](#) to publish information on its website about the gender pay gap in their organisation.

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

2.4.6 The academy trust **must** ensure that its senior employees' payroll arrangements fully meet their tax obligations and comply with HM Treasury's guidance about the employment and contract arrangements of individuals on the avoidance of tax. This is set out in HM Treasury's [Review of the Tax Arrangements of Public Sector Appointees](#). Failure to comply with these requirements can result in a fine by HM Treasury.

## **2.5 Income generation**

2.5.1 The academy trust should set fees for its chargeable services at full cost, but can apply an additional rate of return when in a commercial environment. For the provision of mainstream boarding places, trusts **must** charge on a full cost recovery basis applying a rate of return of 8% on boarding charges. Fees and charges should be determined in accordance with ESFA's guidance on [Managing boarding provision](#) and annex 6.1 of [Managing Public Money](#).

## **2.6 Risk management**

2.6.1 The trust **must** manage risks to ensure its effective operation. The trust should maintain a risk register. The trust's management of risks **must** include contingency and business continuity planning.

2.6.2 The academy trust **must** have adequate insurance cover in compliance with its legal obligations or be a member of the academies [risk protection arrangement](#) (RPA). Not all risks are covered in the RPA.

2.6.3 The trust should consider the RPA unless commercial insurance provides better value for money. If the trust is not a member of the RPA, it should determine its own level of commercial insurance cover to include buildings and contents, business continuity, employers' and public liability insurance and any other cover required.

2.6.4 The trust **must** cooperate with risk management auditors and risk managers, and implement reasonable [risk management audit recommendations](#) made to them.

## 2.7 Whistleblowing

2.7.1 The academy trust **must** have appropriate procedures in place for [whistleblowing](#), making sure all staff are aware of the process and how concerns will be managed. The trust **must** ensure that all concerns raised with them by whistleblowers are responded to properly and fairly. ESFA has published [procedures for dealing with complaints about academies](#).

## 2.8 Annual accounts

2.8.1 The academy trust **must** maintain adequate accounting records and prepare an annual report and accounts in line with the Charity Commission's [Statement of Recommended Practice](#) (SORP) and ESFA's [Accounts Direction](#). The accounts **must** be audited.

2.8.2 ESFA will issue the Accounts Direction by the end of May prior to the end of the financial year to which it relates. It supplements the handbook and derives from requirements in trusts' [funding agreements](#).

2.8.3 The accounting period of an academy trust will usually end on 31 August as set out in its [funding agreement](#).

2.8.4 The audited accounts **must** be:

- submitted to ESFA by 31 December each year
- published on the trust's website by 31 January
- filed with Companies House in accordance with company law requirements, usually by 31 May
- provided to anyone who requests a copy

## 2.9 Internal scrutiny

**The trust must have a process for checking its financial systems, controls, transactions and risks.**

## **Audit committees**

- 2.9.1 The academy trust **must** establish a committee, appointed by the board of trustees, to provide assurance to the board over the suitability of, and compliance with, its financial systems and operational controls, and to ensure that risks are being adequately identified and managed.
- 2.9.2 Trusts with an annual income over £50 million **must** have a dedicated audit committee. Other trusts can either establish a dedicated audit committee or include the functions of an audit committee within another committee.
- 2.9.3 Employees should not be members of an audit committee but the accounting officer and other relevant staff should routinely attend to provide information and participate in discussions. Where the trust operates a combined finance and audit committee, employees may be members but should not participate as members when audit matters are discussed; they may remain in attendance to provide information and participate in discussions.
- 2.9.4 The committee **must** agree a programme of work to provide its assurance on financial controls and risks. In MATs, the audit committee's oversight **must** extend to the financial controls and risks at constituent academies.
- 2.9.5 Oversight **must** ensure that information submitted to DfE and ESFA that affects funding, including pupil number returns and funding claims completed by the trust and (in the case of MATs) by constituent academies, is accurate and in compliance with funding criteria.

### **Delivering assurance through independent challenge (internal audit)**

- 2.9.6 The trust should manage this programme of risk review and checking of controls in the way most appropriate to their circumstances. Options include:
- the appointment of an internal audit service (either in-house, bought-in or provided by a sponsor)
  - a supplementary programme of work by the external auditor
  - the appointment of a non-employed trustee with an appropriate level of qualifications and/or experience to check the trust's internal controls, who neither charges nor is paid by the trust for their work
  - a peer review, with the work being performed by the [chief financial officer](#) , or a suitably qualified or experienced member of the finance team, from another academy trust
- 2.9.7 The trust may combine the above options. The trust **must** confirm in its governance statement, accompanying its annual accounts, which of the options it

has applied and why. The outcome of the work should also inform the accounting officer's statement of regularity in the annual accounts.

2.9.8 The findings from the above programme of work **must** be made available to all trustees promptly. The trust **must** also provide ESFA, on request, with the findings.

2.9.9 The requirements in section 2.9 apply to all trusts.

## 2.10 Transparency

### The trust must be transparent with its governance arrangements.

2.10.1 The trust **must** provide details of its governance arrangements in the governance statement published with its annual accounts, including what the board has delegated to its committees and, in MATs, to local governing bodies. The trust **must** also publish on its website up-to-date details of its governance arrangements in a readily accessible format, including:

- the structure and remit of the members, board of trustees, its committees and local governing bodies (the trust's scheme of delegation for governance functions), and the full names of the chair of each
- for each member who has served at any point over the past 12 months, their full names, date of appointment, date they stepped down (where applicable), and relevant business and pecuniary interests including governance roles in other educational institutions
- for each trustee and local governor who has served at any point over the past 12 months, their full names, date of appointment, term of office, date they stepped down (where applicable), who appointed them, and relevant business and pecuniary interests including governance roles in other educational institutions. If the accounting officer is not a trustee their business and pecuniary interests **must** still be published.
- for each trustee their attendance records at board and committee meetings over the last academic year
- for each local governor their attendance records at local governing body meetings over the last academic year

## Part 3: Delegated authorities

This part of the handbook sets out financial freedoms and limits that apply to academy trusts.

### 3.1 Autonomy and approval

3.1.1 The academy trust has autonomy over financial transactions arising in the normal course of business. However, some transactions have delegated authority limits beyond which trusts **must** obtain approval from [ESFA](#). A schedule of delegated authorities is at [annex B](#).

#### Disclosure

3.1.2 Irrespective of whether ESFA approval is required, the academy trust **must** disclose aggregate figures for transactions of any amount, and separate disclosure for individual transactions above £5,000, in its audited accounts for the following transactions:

- special payments – compensation [\[3.3.8\]](#)
- special payments – ex gratia [\[3.3.11\]](#)
- writing off debts and losses [\[3.4\]](#)
- guarantees, letters of comfort and indemnities [\[3.4\]](#)
- acquisition or disposal of a freehold of land and buildings [\[3.5\]](#)
- disposal of heritage assets [\[3.5\]](#)
- taking up or granting a leasehold on land and buildings [\[3.6\]](#)
- gifts by the trust [\[3.9\]](#)

3.1.3 The following transactions **must** be disclosed in total, and individually:

- special payments – staff severance, of any value [\[3.3.2\]](#)

3.1.4 Other than what is required under financial reporting standards, the [Charities SORP](#) and the [Accounts Direction](#), disclosure can be anonymised.

### 3.2 Novel, contentious and repercussive transactions

3.2.1 Novel, contentious and/or repercussive transactions **must** always be referred to [ESFA](#) for approval. ESFA may need to refer such transactions to HM Treasury for approval, so trusts should allow sufficient time for proposals to be considered.

- Novel transactions are those of which the academy trust has no experience, or are outside its range of normal business.
- Contentious transactions are those that might cause criticism of the trust by Parliament, the public or the media.
- Repercussive transactions are those likely to cause pressure on other trusts to take a similar approach and hence have wider financial implications.

### 3.3 Special payments

3.3.1 Certain transactions by public bodies may fall outside their usual planned range of activity, and may exceed statutory and contractual obligations. HM Treasury refers to these as special payments, (see annex 4.13 of [Managing Public Money](#)), and are subject to greater control than other payments. They include:

- staff severance payments
- compensation payments
- ex gratia payments

#### Special staff severance payments

3.3.2 Special staff severance payments are paid to employees outside of normal statutory or contractual requirements when leaving employment in public service. They are different to ex gratia payments.

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

- that the proposed payment is in the interests of the trust
- whether such a payment is justified, based on a legal assessment of the chances of the trust successfully defending the case at [employment tribunal](#). If there is a significant prospect of losing the case a settlement may be justified, especially if the costs incurred in maintaining a defence are likely to be high. Where a legal assessment suggests that the trust is likely to be successful, a settlement should not be offered
- if the settlement is justified, the trust would 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

3.3.4 Staff severance payments should not be made where they could be seen as a reward for failure, such as 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 because of employment law procedural errors. In the case of poor performance, an acceptable comparison would be the time and cost of taking someone through performance management and capability procedures.

3.3.5 The academy trust has delegated authority to approve individual staff severance payments provided any non-statutory/non-contractual element is under £50,000 gross (i.e. before income tax or other deductions). Where the trust is considering a non-statutory/non-contractual payment of £50,000 or more, (gross, before deductions), [ESFA's](#) approval **must** be obtained before the trust makes any binding offer to staff. ESFA will also need to refer such transactions to HM Treasury and so trusts should allow sufficient time for proposals to be considered. Examples of approval requirements are as follows:

Statutory/contractual payment		Non-statutory/non-contractual payment	<a href="#">ESFA</a> /HM Treasury approval required?
£30,000	+	£30,000	No
£60,000	+	£30,000	No
£30,000	+	£50,000	Yes – for £50,000

3.3.6 Academy trusts should demonstrate [value for money](#) by applying the same level of scrutiny to a payment under £50,000 as if it were over the £50,000 delegation and have a business case justifying the settlement. Settlements **must** not be accepted unless they satisfy the conditions in this handbook and in ESFA's [guidance and submission template](#).

### Use of confidentiality clauses

3.3.7 Academy trusts **must** ensure that the use of confidentiality clauses associated with staff severance payments do not prevent an individual's right to make disclosures in the public interest ([whistleblowing](#)) under the [Public Interest Disclosure Act 1998](#).

### Compensation payments

3.3.8 Compensation payments provide redress for loss or injury, for example personal injuries, traffic accidents or damage to property. If an academy trust is considering making a compensation payment, it **must** base its decision on a careful appraisal of the facts, including legal advice where relevant, and ensure that [value for money](#) will be achieved.

3.3.9 Academy trusts have delegated authority to approve individual compensation payments provided any non-statutory/non-contractual element is under £50,000. Where the trust is considering a non-statutory/non-contractual payment of £50,000

or more [ESFA's](#) approval **must** be obtained. ESFA will also need to refer such transactions to HM Treasury.

3.3.10 Trusts should consider whether cases reveal concerns about the effectiveness of internal control systems, and take steps to put failings right.

### **Ex gratia payments**

3.3.11 Ex gratia payments are another type of transaction that go beyond statutory or contractual cover, or administrative rules. Annex 4.13 of [Managing Public Money](#) provides examples, including payments to meet hardship caused by official failure or delay, and to avoid legal action due to official inadequacy.

3.3.12 Ex gratia transactions **must** always be referred to [ESFA](#) for approval. HM Treasury approval may also be needed. If trusts are in any doubt about a proposed transaction, they should seek [ESFA](#) advice.

## **3.4 Write-offs and entering into liabilities**

3.4.1 The academy trust **must** obtain [ESFA's](#) approval for the following transactions beyond the delegated limits set out below:

- writing-off debts and losses
- entering into guarantees, letters of comfort or indemnities

3.4.2 The delegated limits, subject to a maximum of £250,000, are:

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

3.4.3 In relation to these limits:

- the trust should always pursue recovery of amounts owed to it, including overpayments, or payments in error. In practice, however, there will be 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, the trust's insurers, or the risk protection arrangement, and should be satisfied there is no feasible alternative
- the amounts for write-offs are before any successful claims from an insurer or the risk protection arrangement
- total annual income is defined as grant income as disclosed in the trust's last audited accounts. [ESFA](#) should be contacted if the trust has not yet published their first audited accounts

3.4.4 Before accepting any liabilities by issuing guarantees, a letter of comfort or indemnity, the trust should secure [value for money](#) by appraising the proposal through an assessment of the costs and benefits of relevant options.

## 3.5 Acquisition and disposal of fixed assets

3.5.1 Academy trusts **must** obtain approval from [ESFA](#) for the following transactions:

- acquiring a freehold of land or buildings
- disposing of a freehold of land or buildings
- disposing of heritage assets, as defined in financial reporting standards, beyond any limits in the funding agreement for the disposal of assets generally

3.5.2 Other than land, buildings and heritage assets, trusts can dispose of any other fixed asset without [ESFA's](#) approval. Trusts **must** ensure that disposal achieves the best price that can reasonably be obtained, and maintains the principles of [regularity](#), [propriety](#) and [value for money](#).

3.5.3 Additional [guidance](#) is available to help trusts seeking consent for land and buildings transactions.

## 3.6 Leasing

3.6.1 There are two types of lease:

- finance leases: these are a form of borrowing
- operating leases: these are not borrowing

3.6.2 Trusts **must** obtain [ESFA's](#) approval for the following leasing transactions:

- taking up a finance lease on any class of asset for any duration from another party

- taking up a leasehold or tenancy agreement on land or buildings from another party for a term of seven or more years
- granting a leasehold interest, including a tenancy agreement, of any duration, on land and buildings to another party

3.6.3 Other than the above, trusts do not require ESFA's approval for operating leases.

3.6.4 Trusts **must** ensure that any lease maintains the principles of [value for money](#), [regularity](#) and [propriety](#) whether or not ESFA's approval is required. Trusts should seek advice from their professional adviser and/or external auditor if they are in doubt over whether a lease involves borrowing.

## 3.7 Managing General Annual Grant (GAG)

### Managing surplus GAG

3.7.1 ESFA previously set limits on the amount of [GAG](#) that could be carried forward by trusts from year-to-year. These limits have now been removed for eligible academy trusts (see section [3.11](#)). ESFA will report to DfE any trusts where it has serious concerns about a long-term substantial surplus with no clear plans for its use.

### Pooling of GAG by MATs

3.7.2 A MAT has freedom to amalgamate a proportion of GAG for its academies to form one central fund. This fund can then be used to meet the normal running costs at any of its constituent academies within the trust. In accordance with its funding agreement a MAT **must not** pool [PFI funding](#).

3.7.3 The MAT **must** consider the funding needs and allocations of each constituent academy, and **must** have an appeals mechanism. If a constituent academy's principal feels that the academy has been unfairly treated, they should appeal to the trust. If the principal's grievance is not resolved, they can appeal to the Secretary of State, via ESFA, whose decision will be final and who can dis-apply the provisions for pooling.

## 3.8 Borrowing

3.8.1 Academy trusts **must** obtain [ESFA's](#) approval for borrowing (including finance leases and overdraft facilities) from any source, 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. Credit cards **must** only be used for business expenditure, and balances cleared before interest accrues.

3.8.2 The Secretary of State's general position is that academy trusts will only be granted permission for borrowing in exceptional circumstances. From time to time, however, the Secretary of State may introduce limited schemes to meet broader policy objectives. For example, the Department's [Condition Improvement Fund](#) for capital projects, and the [Salix](#) scheme designed to support energy saving, are available to trusts.

## 3.9 Gifts

3.9.1 The academy trust should have a policy and register on the acceptance of gifts, hospitality, awards, prizes or any other benefit that might be seen to compromise their judgment or integrity, and should ensure all staff are aware of it. When making gifts, the trust **must** ensure the value is reasonable, is within its scheme of delegation of financial powers, the decision is documented, and has due regard to [propriety](#) and [regularity](#) in the use of public funds.

## 3.10 Transactions with related parties

**This part of the handbook deals with goods or services provided by or to individuals or organisations related to the academy trust**

### Principles applying to related party relationships

3.10.1 Academy trusts **must** be even-handed in their relationships with related parties by ensuring that:

- trustees comply with their statutory duties as company directors to avoid conflicts of interest, not to accept benefits from third parties, and to declare interest in proposed transactions or arrangements
- all members, trustees, local governors of academies within a MAT and senior employees have completed the register of interests, in accordance with sections [3.10.8 to 3.10.11](#) of this handbook
- no member, trustee, local governor, employee or related individual or organisation uses their connection to the trust for personal gain, including payment under terms that are preferential to those that would be offered to an individual or organisation with no connection to the trust
- there are no payments to any trustee by the trust unless permitted by the [articles](#), or by authority from the Charity Commission, and comply with any relevant agreement with the Secretary of State. Trusts will 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

- the Charity Commission's approval is obtained where the trust believes a significant advantage exists in paying a trustee for acting as a trustee
- any payment provided to the persons referred to in section [3.10.12](#) satisfies the 'at cost' requirements in this handbook

The trust should be aware of the Charity Commission's guidance for trustees [CC11: Trustee expenses and payments](#).

3.10.2 The board of trustees **must** ensure requirements for managing related party transactions are applied across the trust. The chair of the board and the accounting officer **must** ensure their capacity to control and influence does not conflict with these requirements. They **must** manage personal relationships with related parties to avoid both real and perceived conflicts of interest, promoting integrity and openness in accordance with the [seven principles of public life](#).

3.10.3 Trusts **must** recognise that some relationships with related parties may attract greater public scrutiny, such as:

- transactions with individuals in a position of control and influence, including the chair of the board and the accounting officer
- payments to organisations with a profit motive, as opposed to those in the public or voluntary sectors
- relationships with external auditors beyond their duty to deliver a statutory audit

The trust **must** keep sufficient records, and make sufficient disclosures in their annual accounts, to show that transactions with these parties, and all other related parties, have been conducted in accordance with the high standards of accountability and transparency required within the public sector.

### **Reporting of related party transactions to ESFA**

3.10.4 Trusts **must** report all transactions with related parties to ESFA in advance of the transaction taking place, using ESFA's on-line form. This requirement applies to transactions made on or after 1 April 2019.

### **Approval of related party transactions by ESFA**

3.10.5 Trusts **must** obtain ESFA's approval for transactions with related parties that are [novel, contentious and/or repercussive](#). Trusts should carefully consider the impact of this requirement and its relevance to transactions involving the chair of the board and the accounting officer.

3.10.6 Trusts **must** obtain ESFA's prior approval, using ESFA's on-line form, for contracts for the supply of goods or services to the trust by a related party agreed on or after 1 April 2019 where any of the following limits arise:

- a contract exceeding £20,000
- a contract of any value that would take the total value of contracts with the related party beyond £20,000 in the same financial year ending 31 August
- a contract of any value if there have been contracts exceeding £20,000 individually or cumulatively with the related party in the same financial year ending 31 August.

3.10.7 For the purposes of reporting to, and approval by, ESFA, transactions with related parties do not include salaries and other payments made by the trust to a person under a contract of employment through the trust's payroll.

### **Register of interests**

3.10.8 The academy trust's register of interests **must** capture relevant business and pecuniary interests of members, trustees, local governors of academies within a MAT and senior employees, including:

- directorships, partnerships and employments with businesses
- trusteeships and governorships at other educational institutions and charities
- for each interest: the name of the business; the nature of the business; the nature of the interest; and the date the interest began

3.10.9 The register **must** identify any relevant material interests from close family relationships between the academy trust's members, trustees or local governors. It **must** also identify relevant material interests arising from close family relationships between those individuals and employees. 'Close family relationships' is defined in section [3.10.12](#) (third bullet).

3.10.10 Trusts should consider whether any other interests should be registered. Boards of trustees should keep their register of interests up-to-date.

3.10.11 Trusts **must** publish on their websites relevant business and pecuniary interests of members, trustees, local governors and accounting officers. Trusts have discretion over the publication of interests of any other individual named on the register. The Charity Commission offers guidance in [Manage a conflict of interest in your charity](#) and [CC29: Conflicts of interest: a guide for charity trustees](#).

### **At cost requirements**

3.10.12 Subject to sections [3.10.17](#) to [3.10.20](#) a trust **must** pay no more than 'cost' for goods or services provided to it by the following persons ('services' do not include contracts of employment):

- any member or trustee of the academy trust
- any individual or organisation related to a member or trustee of the academy trust. For these purposes the following persons are related 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 is not 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 given the right under the trust's [articles of association](#) to appoint a member or trustee of the academy trust; or any body connected 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 connected to such individual or organisation

3.10.13 A body is connected to another individual or organisation if it is controlled by the individual or organisation, or 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 of the body, or
- having the right to appoint or remove a majority of the board or governing body



- 3.10.14 The 'at cost' requirement does not apply to the trust's employees unless they are also one of the parties described in section [3.10.12](#).
- 3.10.15 While these provisions do not apply to contracts of employment, the same principles of securing [value for money](#) and using public money properly, including managing conflicts of interest, still apply. Salaries should be appropriate to the individual's skills and experience and to rates in the wider market.
- 3.10.16 Should any staff/personnel of an individual or organisation in section [3.10.12](#) be based in, or work from the premises of, the academy trust, that individual/organisation and the trust **must** agree an appropriate sum to be paid to the trust for such use/occupation of the premises, save to the extent that they are carrying out work for the trust.
- 3.10.17 The 'at cost' requirement applies to contracts for goods and services from a related party agreed on or after 7 November 2013.
- 3.10.18 The 'at cost' requirement applies to contracts for goods and services from a related party exceeding £2,500, cumulatively, in any one financial year. For these purposes, where a contract takes the trust's cumulative annual total with the related party beyond £2,500, the element above £2,500 must be at no more than cost.
- 3.10.19 In relation to organisations supplying legal advice or audit services to the academy trust, the 'at cost' requirement applies where the organisation's partner directly managing the service is a member or trustee of the trust but not in other cases for those organisations. The published [ethical standards](#) for auditors also prevent partners or employees of the audit firm from acting as a trustee of their client trust, but not of other trusts.
- 3.10.20 In relation to dioceses, the contributions made by an academy trust to its diocese for services it receives associated with securing the academy trust's religious character and ethos, which only the diocese can provide, are regarded as meeting the 'at cost' requirement.
- 3.10.21 Academy trusts **must** ensure that any agreement with an individual or organisation referred to in section [3.10.12](#) to supply goods or services to the trust is properly procured through an open and fair process and is:
- supported by a statement of assurance from that individual or organisation to the trust confirming 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

3.10.22 For these purposes the cost will be the ‘full cost’ of all the resources used in supplying the goods or services, and **must not** include any profit. Full cost includes:

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

### 3.11 Applicability of delegations and freedoms

3.11.1 Some of the delegations and freedoms in part 3 of this handbook that go beyond the terms of an academy trust’s [funding agreement](#) do not apply to those trusts. They do not apply to trusts that are party 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

3.11.2 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

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

- acquisition and disposal of fixed assets ([3.5](#))
- leaseholds and tenancy agreements of land and buildings ([3.6](#))
- carry forward of unspent GAG from one year to the next ([3.7.1](#))
- pooling of GAG by MATs ([3.7.2](#))

3.11.4 The freedoms do not apply until the trust's funding agreements are updated to move all academies within the trust to pupil census-based funding permanently, as defined above.

3.11.5 In the case of a MAT, if one or more of its constituent 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 4: Audit requirements

This part of the handbook explains how academy trusts are scrutinised to give assurance to Parliament, and the public, that funds are used for the purposes intended.

### 4.1 Statutory audit

#### Appointment of external auditors

- 4.1.1 Under the [Companies Act 2006](#), academy trusts **must** appoint an auditor to certify whether their annual accounts present a true and fair view of the trust's financial performance and position (appointment being by the members, other than where the Companies Act permits the trustees to appoint - for example for the trust's first period of account)
- 4.1.2 The audit contract **must** be in writing. This letter of engagement **must** only cover the external audit. If additional services are purchased, a separate letter of engagement **must** be obtained specifying the requirements of the work and the fee.

#### Removal of external auditors

- 4.1.3 The letter of engagement **must** provide for the removal of auditors, before the expiry of the term of office, in exceptional circumstances. Proposals to remove auditors **must** require a majority vote of the members who **must** provide reasons for their decision to the board. There **must** be a requirement in the letter of engagement for the auditors to provide the trust with an explanation if the auditors resign, within 14 days of their resignation.
- 4.1.4 The board of trustees **must** notify [ESFA](#) immediately of the removal or resignation of the auditors. For removal, the trust **must** notify [ESFA](#) of the reasons for the removal. For resignation, the trust **must** copy to [ESFA](#) a statement of explanation from the auditors. A change in auditor at the expiry of their agreed term of office does not require notification to ESFA.

#### Group auditors and sector account

- 4.1.5 DfE will consolidate the annual accounts of each academy trust into a sector annual report and accounts (SARA). DfE will use audited [accounts returns](#) and other information to generate the SARA, which will be audited by the [National Audit Office](#) (NAO). The NAO will audit the SARA in accordance with HM Treasury's [Financial Reporting Manual](#), which largely follows [International Standards on Auditing](#), and will undertake procedures in accordance with that framework to satisfy NAO that these accounts are true and fair. As each trust is a

component of the SARA, the trust **must** prepare the financial information requested by DfE for this purpose.

4.1.6 Academy trusts' auditors will be required by DfE to audit certain information, and this requirement should be incorporated within the terms of engagement.

4.1.7 The NAO must reach an opinion on regularity for ESFA's own accounts, and for this will draw on the regularity opinions expressed by trusts' auditors.

## 4.2 Regularity audit

### Accounting officer's statement

4.2.1 An accounting officer's [statement on regularity, propriety and compliance](#) **must** be included in the academy trust's annual accounts. This is a declaration by the [accounting officer](#) that they have met their responsibilities to Parliament for the resources under their control during the year. It includes a responsibility to ensure that:

- there is efficient and effective use of resources in their charge ([value for money](#))
- public money is spent for the purposes intended by Parliament ([regularity](#))
- appropriate standards of conduct, behaviour and corporate governance are maintained when applying the funds under their control ([propriety](#))

4.2.2 The format of the statement is in ESFA's [Accounts Direction](#). The accounting officer also has responsibility to advise the board of trustees and ESFA of any instances of irregularity or impropriety, or non-compliance with the funding agreement or handbook.

### Auditor's review of regularity

4.2.3 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 **must** be addressed jointly to the trust and to ESFA. ESFA will draw assurance from this. Further information is in the [Accounts Direction](#).

## 4.3 Audit findings

4.3.1 The audit process can support trusts by helping identify key areas that may require improvement. The board of trustees **must** ensure there is an appropriate, reasonable and timely response by the trust to any findings by auditors, taking opportunities to strengthen the trust's systems of financial management and control.

## 4.4 Financial management and governance self-assessment

- 4.4.1 New academy trusts or constituent academies joining a MAT **must** complete a financial management and governance self-assessment ([FMGS](#)) and submit it to ESFA within four months of opening. Some constituent academies can agree an alternative method of providing assurance. Further details are contained within the [FMGS template](#).
- 4.4.2 To gain assurance over financial arrangements at academy trusts, ESFA will conduct financial management reviews. These will examine whether the systems and control in trusts meet the requirements in the handbook.

## 4.5 Funding audit

- 4.5.1 Funding audits allow ESFA to gain assurance on the data provided by an academy trust to calculate its recurrent funding, and whether this data is accurate, complete and supported by evidence. The scope and timing of funding audits is determined annually.

## 4.6 National Audit Office and Public Accounts Committee

- 4.6.1 The NAO has the right to access the accounts and relevant records of an academy trust for inspection, or for value for money studies. The trust **must** cooperate with NAO and their contractors and provide help, information and explanation as is reasonable and necessary.
- 4.6.2 The NAO's findings are considered by the [Public Accounts Committee](#) (PAC). The PAC has power to call anyone, including past and current accounting officers of a trust, to account for proper use of public funds.

## 4.7 Audit access rights

- 4.7.1 ESFA or its agents may carry out audits at the academy trust. The trust **must** provide ESFA with access to all books, records, information, explanations, assets and premises, and ESFA may take copies of any relevant documents. ESFA may conduct interviews during its audits. ESFA will give reasonable notice in writing of proposed audits.
- 4.7.2 The trust **must** retain records necessary to verify provision delivered by it, or its sub-contractors, in relation to this handbook and its funding agreement, at least six years after the end of the period to which funding relates.

## 4.8 Provision of information

4.8.1 The academy trust **must** provide ESFA, or its agents, with information ESFA requires to meet funding requirements. This information **must** be of sufficient quality. The trust **must** provide the information when and how ESFA and its agents request it. ESFA will consider the impact on academy trust business in the deadlines it specifies.

4.8.2 On occasion, ESFA will require urgent information from the trust, usually as a result of requests to ESFA to fulfil its duties to provide information to the Secretary of State and account to Parliament. ESFA will act reasonably in requests for information and have regard to costs and timescales of providing it, and its confidentiality. In requesting information, ESFA will also consider information previously supplied by the trust to ESFA or other stakeholders with whom ESFA is able to share information.

4.8.3 The trust **must** notify DfE of the appointment or vacating of the positions of:

- [accounting officer](#) and [chief financial officer](#) including direct contact details
- chair of trustees and chairs of local governing bodies including direct contact details
- member, trustee and local governor

within 14 days of that change. Notification **must** be through the governance section of DfE's [Get information about schools](#) register, accessed via [Secure Access](#). All fields specified in [Get information about schools](#) for the individuals **must** be completed. The trust **must** ensure its record on [Get information about schools](#) for the individuals remains up to date.

4.8.4 If the trust does not return the information ESFA requires by the specified deadline, or that the information is not of acceptable quality, ESFA may conduct investigations to collect it. ESFA may deduct the cost of the investigations from the trust's recurrent funding. ESFA may take further actions it deems necessary, such as publication of the names of late returners, to enforce compliance where trusts fail to fulfil their duties to provide information.

## 4.9 Investigation of fraud, theft and/or irregularity

4.9.1 Academy trusts **must** be aware of the risk of fraud, theft and irregularity and address this risk by putting in place proportionate controls. Trusts **must** take appropriate action where fraud, theft or irregularity is suspected or identified.

4.9.2 The trust **must** notify [ESFA](#), as soon as possible, of any instances of fraud, theft and/or irregularity exceeding £5,000 individually, or £5,000 cumulatively in any

academy financial year. Any unusual or systematic fraud, regardless of value, **must** also be reported. The following information is required:

- full details of the event(s) with dates
- the financial value of the loss
- measures taken by the trust to prevent recurrence
- whether the matter was referred to the police (and if not why)
- whether insurance or the RPA have offset any loss

4.9.3 ESFA may conduct or commission its own investigation into actual or potential fraud, theft or irregularity in any academy trust, either as the result of a notification from the trust itself or from other information received. ESFA may involve other authorities, including the police. ESFA will publish [reports about its investigations](#) and about [financial management and governance reviews](#) at academy trusts.

4.9.4 ESFA also publishes guidance on [reducing fraud](#). Trusts should refer to this and to the findings from ESFA's investigation reports, as part of its risk management approach.



## Annex A: Definitions

Academic year	The 'school year' starting 1 September and ending 31 August.
Academy trust	The company that has entered into a <a href="#">funding agreement</a> with the Secretary of State to run one or more academies.
Accounting officer	The senior executive leader of the academy trust, accountable for <a href="#">value for money</a> , <a href="#">regularity</a> and <a href="#">propriety</a> . In SATs, this should be the principal. In MATs, it should be the chief executive or equivalent.
Accounting officer's statement on regularity, propriety and compliance	The accounting officer must complete and sign this statement in the trust's annual accounts.
<a href="#">Accounts Direction</a>	ESFA's guide for academies on preparing their annual accounts.
<a href="#">Accounts return</a>	A return based on academy trusts' annual accounts, incorporating additional data required for the sector annual report and accounts, and for collecting benchmarking data.
<a href="#">Articles of association</a>	The articles set out the trust's charitable object(s) and governance arrangements.
Asset	Anything capable of being owned or controlled to produce value and held to have positive economic value. Can be 'revenue' (e.g. cash) or 'capital' (e.g. a building).
Balanced budget	A budget plan setting out projected income and expenditure drawing on unspent funds from previous years as necessary. Trusts do not have to balance income and expenditure in each year to zero and can carry forward unspent <a href="#">GAG</a> (if eligible).
Capital	Capital assets or funding are those from which an academy trust expects to derive benefit for more than one year: typically land, buildings, vehicles, and information technology. Capital assets are usually called fixed assets.
Chief executive	The senior executive leader and head of the management team of a MAT. Trusts may use alternative descriptions for this post such as executive principal.
Chief financial officer	The individual leading the finance department: e.g. finance director, business manager or equivalent.
Companies House	The UK's Registrar of Companies whose functions are to incorporate and dissolve companies, examine and store company information and accounts, and make this publicly available.

De facto trustee	A person not validly appointed as a trustee but exercising the functions that could only be properly discharged by a trustee. See also <a href="#">shadow directors</a> .
Economy	Obtaining an outcome for the least possible input of resources.
<a href="#">Education and Skills Funding Agency (ESFA)</a>	An executive agency of the DfE acting as agent of the Secretary of State.
Effectiveness	Obtaining the desired outcome.
Efficiency	Obtaining the best possible outcome for the resources input.
Exempt charity	An <a href="#">exempt</a> charity does not have to register with the <a href="#">Charity Commission</a> . The principal regulator of exempt trusts is DfE. Exempt trusts still need Charity Commission's approval for some transactions e.g. trustee payment for work as trustee.
<a href="#">Financial Management and Governance Self-assessment (FMGS)</a>	A return to ESFA by new academy trusts that are not yet preparing annual accounts, where trusts self-assess their financial management arrangements in specified areas.
<a href="#">Financial Reporting Manual</a>	HM Treasury's accounting guide for preparing accounts in government departments and other entities consolidated within Whole of Government Accounts.
Financial year	For academy trusts, usually the same as the academic year, from 1 September to 31 August.
<a href="#">Funding agreement</a>	The agreement between the academy trust and the Secretary of State, which includes funding arrangements, obligations and termination provisions.
<a href="#">General Annual Grant</a>	The main revenue funding for academy trusts.
Principal	The head teacher of an academy and the senior executive leader of a single academy trust.
Private Finance Initiative (PFI)	PFI involves funding public infrastructure projects using private capital.
Propriety	Dealing with expenditure and receipts in accordance with Parliament's intentions and the principles of parliamentary control. This covers standards of conduct, behaviour and corporate governance.
Public funds	Funds that, ultimately, derive from parliamentary authority. All academy trusts' income, expenditure, assets and liabilities are

	consolidated into a sector account and will be considered by Parliament to be public unless otherwise demonstrated.
Regularity	Dealing with income and expenditure in accordance with legislation, the funding agreement, the handbook, and the trust's internal procedures. This includes spending public money for the purposes intended by Parliament.
<a href="#">Risk protection arrangement</a>	An alternative to insurance for academy trusts where losses are covered by government funds.
Secretary of State	The Secretary of State for Education.
Shadow director	A person in accordance with whose directions or instructions the directors of a company are accustomed to act. See also <a href="#">de facto trustee</a> .
Special payments	Payments outside the normal range of activities approved by Parliament and therefore requiring greater control, including ex gratia payments, staff severance payments, compensation payments and other extra-statutory or extra-contractual payments.
<a href="#">Statement of Recommended Practice</a>	The Charity Commission document describing the format of charity accounts.
Value for money	Achieving the best possible educational and wider societal outcomes through the <a href="#">economic</a> , <a href="#">efficient</a> and <a href="#">effective</a> use of resources, the avoidance of waste and extravagance, and prudent and economical administration.
Whistleblowing	When an employee reports suspected wrongdoing at work and makes a disclosure in the public interest, under the protection of the <a href="#">Public Interest Disclosure Act 1998</a> .

## Annex B: Schedule of freedoms and delegations

This annex is not a substitute for the full handbook. Trusts' delegated authorities are subject to the conditions in section [3.11](#). Trusts under a [financial notice to improve](#) will have their delegated authorities revoked under section [1.2.6](#).

Novel, contentious and repercussive	Novel, contentious and repercussive transactions	ESFA agreement required <a href="#">[3.2]</a>
Special payments	Staff severance and compensation	ESFA agreement required if £50,000 or more before tax <a href="#">[3.3.5]</a> and <a href="#">[3.3.9]</a>
	Ex gratia payments	ESFA agreement required <a href="#">[3.3.12]</a>
Write-offs and liabilities (subject to £250,000 ceiling)	Writing-off debts and losses	ESFA consent required if exceeds: <ul style="list-style-type: none"> <li>▪ 1% of annual income or £45,000 individually; or</li> <li>▪ 2.5% or 5% of annual income cumulatively <a href="#">[3.4]</a></li> </ul>
	Entering into guarantees, indemnities or letters of comfort	
Acquisition and disposal of fixed assets	Acquiring freehold land/buildings	ESFA agreement required <a href="#">[3.5.1]</a>
	Disposing of a freehold on land/buildings	ESFA agreement required <a href="#">[3.5.1]</a>
	Disposing of heritage assets	ESFA agreement required <a href="#">[3.5.1]</a>
	Other disposals	Trust has full discretion <a href="#">[3.5.2]</a>
Leasing	Taking up a finance lease	ESFA agreement required <a href="#">[3.6.2]</a>
	Taking up a leasehold on land and buildings	ESFA agreement if lease term seven years or more <a href="#">[3.6.2]</a>
	Taking up any other lease	Trust has full discretion <a href="#">[3.6.3]</a>
	Granting a lease on land and buildings	ESFA agreement required <a href="#">[3.6.2]</a>
GAG	GAG carry forward	No limits if trust eligible <a href="#">[3.7.1]</a>
	Pooling by MATs	No limits (except PFI) if trust eligible <a href="#">[3.7.2]</a>
Borrowing	Bank or sponsor loan, overdraft	ESFA agreement required <a href="#">[3.8]</a>
	Credit cards (for business use)	Trust has full discretion provided charges not incurred <a href="#">[3.8]</a>
Related party transactions	Supplies to the trust from related parties	ESFA agreement required over £20,000 and over associated limits in <a href="#">3.10.6</a> .

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

This annex brings the requirements in the handbook together into one list: the ‘**musts**’. It abbreviates these requirements and so cannot be used as a substitute for the full handbook. Links to the relevant sections are included, which must be read in full.

### Top 10 ‘musts’ for chairs and other trustees

#### Personal responsibilities

- Apply highest standards of governance, comply with charitable objects, with **duties as company directors**, with charity law and with the funding agreement [[1.3.3](#)].

#### Structures

- Ensure the board of trustees **meets at least three times a year**, and conducts business only when quorate [[2.1.2](#)].
- Approve a written **scheme of delegation** of financial powers [[2.1.3](#)].

#### Relationships

- Ensure there are measures to **manage conflicts of interest**, be even-handed in relationships with **related parties**, and ensure goods or services provided by them are at **no more than cost**, beyond the limits specified in this handbook [[3.10.1 to 3.10.22](#)].

#### Money and oversight

- Ensure the board approves a **balanced budget** for the financial year and minutes their approval [[2.3.1](#)].
- Ensure **management accounts** are shared with the chair of trustees monthly, with the other trustees six times a year, and are considered by the board when it meets, taking action to maintain financial viability [[2.3.3](#)].
- Ensure decisions about **executive pay** follow a robust evidence-based process reflective of the individual’s role and responsibilities, and that the board’s approach to pay is transparent, proportionate and justifiable, in line with the handbook [[2.4.3 and 2.4.4](#)].
- Establish an **audit committee**, or a committee fulfilling the functions of an audit committee, to provide assurance over the suitability of, and compliance with, the trust’s financial systems and operational controls and to manage risks [[2.9.1 to 2.9.8](#)].

#### Accountability and audit

- **Submit audited accounts** to ESFA by 31 December [[2.8.4](#)].
- Ensure an appropriate, reasonable and timely response to **findings by auditors**, taking opportunities to strengthen financial management and control [[4.3.1](#)].

## Roles and responsibilities

- Adhere to the **seven principles of public life** [\[Introduction\]](#)
- Have the **skills, knowledge and experience** to run the trust [\[1\]](#)
- Arrange for annual **letters to trusts' accounting officers** from ESFA's accounting officer about the accountability framework to be discussed by the board of trustees and take action where appropriate to strengthen the trust's systems [\[1.2.2\]](#).
- Comply with a **Financial Notice to Improve** [\[1.2.4\]](#).
- **Waive the right to delegated authorities** and obtain ESFA approval of those transactions set out in this handbook if the trust has a Financial Notice to Improve [\[1.2.6\]](#).
- Ensure **regularity, propriety and value for money** [\[1.3.4, 1.5.4 and 2.2.1\]](#)
- Ensure **committees** contain a majority of trustees [\[1.3.7\]](#)
- Not have **de facto trustees** or **shadow directors** [\[1.3.8\]](#)
- Provide a review of the trust's **governance structure** and board composition in the governance statement when producing audited accounts for the first time [\[1.3.11\]](#)
- Not have employees as **members** unless permitted in articles [\[1.4.3\]](#)
- Appoint a senior executive leader (should be **principal or chief executive**) [\[1.5.1\]](#)
- Appoint an **accounting officer** (the senior executive leader) with duties described in this handbook, including responsibility for **regularity, propriety and value for money** and for **assuring the board** about compliance with the funding agreement and handbook [\[1.5.2 to 1.5.8\]](#)
- Demonstrate how the trust has secured **value for money** via the governance statement in the annual accounts [\[1.5.6\]](#)
- Include a **statement on regularity, propriety and compliance**, signed by the academy trust's accounting officer, in the audited accounts [\[1.5.6 and 4.2.1\]](#)
- Have a **chief financial officer** to lead the finance department [\[1.6.1\]](#)
- Have appropriately qualified and/or experienced **finance staff** [\[1.6.2\]](#)

## Main requirements

- Maintain robust **oversight** of the academy trust [\[2.1\]](#)
- Take full responsibility for **financial affairs** and use resources efficiently [\[2.1.1\]](#)
- Describe in the governance statement how the board has maintained effective oversight if meeting less than six times a year [\[2.1.2\]](#)
- Have **sound internal control** and risk management and assurance processes [\[2.2\]](#)

- Establish a **control framework** that includes:
  - ensuring **delegated financial authorities** are complied with, and **segregation of duties** maintained
  - co-ordinating the **planning and budgeting process**
  - discipline in financial management, including managing **debtors, creditors, cash flow and monthly bank reconciliations**
  - planning and oversight of **capital projects**
  - management and oversight of **assets**
  - **propriety, regularity and value for money**
  - reducing **fraud** and theft
  - **independent checking** of financial controls, systems, transactions and risks
  - a competitive **tendering** policy [[2.2.1](#) and [2.4.1](#)]
- Prepare and monitor **financial plans** to ensure ongoing financial health [[2.3](#)]
- Prepare and submit a **budget forecast return outturn** and a 3 year **budget forecast return** to ESFA [[2.3.2](#)]
- Ensure **budget forecasts** are compiled accurately, based on realistic assumptions including any provision being made to sustain capital assets, and reflective of lessons learned from previous years [[2.3.3](#)]
- Prepare **management accounts every month** comprising budget variance reports and cash flows and take appropriate action. Select and measure **key financial performance indicators** regularly and analyse in annual trustees' report [[2.3.3](#)]
- Notify ESFA within 14 days if the board proposes to set a **deficit revenue budget** for the current financial year which it cannot address after unspent funds from previous years are taken into account [[2.3.4](#)]
- Manage **cash position** robustly and avoid becoming overdrawn [[2.3.5](#)]
- Have a cautious approach to **investments** in line with the handbook principles [[2.3.6](#)]
- Show that public funds have been **used as intended** by Parliament [[2.4](#)]
- Ensure senior employees' **payroll arrangements** meet HM Treasury's tax requirements [[2.4.6](#)]
- Charge for **boarding provision** in line with this handbook [[2.5.1](#)]
- **Manage risks**, including contingency and business continuity planning [[2.6.1](#)]
- Have adequate **insurance** cover in compliance with legal obligations or be a member of DfE's risk protection arrangement [[2.6.2](#)]
- Implement reasonable risk management **audit recommendations** [[2.6.4](#)]
- Have procedures in place for **whistleblowing** and respond properly and fairly [[2.7.1](#)]

- **Produce audited accounts** in line with the Charity Commission’s Statement of Recommended Practice, **publish them** on the trust’s website by 31 January and file with Companies House [[2.8.1 to 2.8.4](#)]
- **Check financial systems**, controls, transactions and risks [[2.9](#)]
- Oversee the controls and risks at **constituent academies** [[2.9.4](#)]
- Ensure that **information submitted** to DfE and ESFA that affects funding is accurate and compliant [[2.9.5](#)]
- Confirm in the governance statement which **internal scrutiny** option the trust has applied and why [[2.9.7](#)].
- Make **findings from the trust’s internal scrutiny** programme available to all trustees promptly, and provide the findings to ESFA on request [[2.9.8](#)]
- Be **transparent** with governance arrangements [[2.10](#)]
- Publish the trust’s **governance arrangements** in its governance statement and in a **readily accessible form** on its website in line with this handbook [[2.10.1](#)]

## Delegated authorities

- Obtain ESFA’s approval for transactions **beyond the trust’s delegated authority** limits in this handbook [[3.1.1](#)]
- Irrespective of whether approval is required for transactions, make **financial disclosures** in the annual accounts in line with this handbook [[3.1.2 and 3.1.3](#)]
- Refer **novel, contentious and/or repercussive transactions** to ESFA for approval [[3.2.1](#)]
- For **staff severance payments**, consider the following before making a commitment:
  - whether the proposed payment is in the **interests of the trust**;
  - whether a payment is **justified and value for money**, based on a legal assessment of the case; and
  - review 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 [[3.3.3](#)]
- Obtain ESFA’s approval for the **non-contractual/non-statutory element** of a **staff severance payment** of **£50,000** or more (gross, before deductions) [[3.3.5](#)]
- Not accept a settlement for a **staff severance payment** unless it satisfies the conditions in this handbook [[3.3.6](#)]
- Ensure **confidentiality clauses** do not prevent an individual’s right to make **disclosures in the public interest** [[3.3.7](#)]
- For **compensation payments**, consider whether it is based on a careful appraisal of the facts, including legal advice, and that value for money will be achieved [[3.3.8](#)]



- Obtain ESFA's approval for a **non-contractual/non-statutory compensation payment** of **£50,000** or more [\[3.3.9\]](#)
- Obtain ESFA's approval for **ex gratia payments** of any value [\[3.3.12\]](#)
- Obtain ESFA's approval for **writing off debts and losses, guarantees, letters of comfort and indemnities** beyond limits in this handbook [\[3.4.1 and 3.4.2\]](#)
- Obtain ESFA's approval, before entering into the **acquisition and disposal of fixed assets** beyond limits specified by this handbook and that **disposal** achieves the **best price** that can reasonably be obtained [\[3.5.1 and 3.5.2\]](#)
- Obtain ESFA's approval before entering into **lease arrangements** beyond limits specified in this handbook, and maintain regularity, propriety and value for money [\[3.6.2 to 3.6.4\]](#)
- Not **pool PFI** funding across a MAT [\[3.7.2\]](#)
- Consider the funding needs of individual academies if MATs **pool GAG**, and have an appeals mechanism [\[3.7.3\]](#)
- Obtain ESFA's approval before **borrowing**, including finance leases and overdraft facilities, in line with this handbook, and only use credit cards for business expenditure [\[3.8.1\]](#)
- Ensure **gifts** by the trust have the reason documented, and have regard to propriety and regularity [\[3.9.1\]](#)
- Ensure no member, trustee, local governor, employee or related individual or organisation uses their connection to the academy trust for **personal gain** [\[3.10.1\]](#)
- Ensure there are **no payments to any trustee** unless permitted by the articles and comply with the terms of any relevant agreement with the Secretary of State [\[3.10.1\]](#)
- Obtain the Charity Commission's approval for **paying a trustee for acting as a trustee** [\[3.10.1\]](#)
- Ensure the chair of the board and the accounting officer manage their relationships with related parties to **avoid real and perceived conflicts of interest** [\[3.10.2\]](#)
- Recognise that **certain transactions** with related parties may attract **greater public scrutiny** and require sufficient disclosure in annual accounts to support the high standards of **accountability and transparency** of the public sector [\[3.10.3\]](#)
- **Report all related party transactions** to ESFA in advance [\[3.10.4\]](#)
- Obtain ESFA **approval for related party transactions** beyond the limits specified in this handbook [\[3.10.5 and 3.10.6\]](#)
- Capture in the **register of interests** the relevant business and pecuniary interests of **members, trustees, local governors** in a MAT and **senior employees** [\[3.10.8\]](#) and interests of other individuals as set out in [3.10.9](#)

- **Publish the relevant business and pecuniary interests** of members, trustees, local governors and accounting officers [[2.10.1](#) and [3.10.11](#)]

## Audit requirements

- **Appoint an external auditor** for the annual accounts, and put the **external audit contract** in writing as a letter of engagement [[4.1.1](#) and [4.1.2](#)]
- Put **additionally purchased financial services** from the external auditor in a separate letter of engagement [[4.1.2](#)]
- Provide in the audit contract for the **removal of external auditors** before the expiry of the term as set out in this handbook [[4.1.3](#)]
- Notify ESFA immediately of the **removal or resignation of external auditors**, and the reasons [[4.1.4](#)]
- Prepare information, at DfE's request, to aid consolidation into the **sector annual report and accounts** [[4.1.5](#)]
- Include a **review of the accounting officer's statement on regularity, propriety and compliance** within the external auditor's remit, and address the **auditor's conclusions on regularity** jointly to the trust and ESFA [[4.2.3](#)]
- Return to ESFA a **financial management and governance self-assessment** for new academy trusts, or constituent academies joining a MAT [[4.4.1](#)]
- Cooperate with **NAO** and provide help, information and explanation as is reasonable and necessary [[4.6.1](#)]
- Provide ESFA with **access** to all books, records, information, explanations, assets and premises to assist ESFA with its audits [[4.7.1](#)]
- **Retain all records** necessary for at least six years after the end of the period to which funding relates [[4.7.2](#)]
- Provide ESFA or its agents with **information** of sufficient quality to meet the purposes for which it has been requested [[4.8.1](#)]
- Notify DfE via [Get information about schools](#) within 14 days of the **appointment or vacating** of the positions of member, trustee, local governor, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer [[4.8.3](#)]
- Be aware of the risk of **fraud, theft and irregularity** and address it with proportionate controls and appropriate action [[4.9.1](#)]
- Notify ESFA of any **fraud or theft** over £5,000, individually or cumulatively, or of any value where the fraud is unusual or systematic [[4.9.2](#)]

## **Annex D: Further sources of information**

### **Charity Commission**

[Charity Commission publications and information](#)

[CC3: The Essential Trustee: What you need to know, what you need to do](#)

[CC8: Internal financial controls for charities](#)

[CC11: Trustee expenses and payments](#)

[CC14: Charities and investment matters: a guide for trustees](#)

[CC12: Managing a charity's finances](#)

[CC15d: Charity reporting and accounting: the essentials](#)

[CC25: Charity finances: trustee essentials](#)

[CC26: Charities and risk management](#)

[CC29: Conflicts of interest: a guide for charity trustees](#)

[CC35: Trustees trading and tax: how charities may lawfully trade](#)

[CC36: Changing your charity's governing documents](#)

[Charities and charity trustees: an introduction for school governors](#)

[Manage a conflict of interest in your charity](#)

[Setting up and running a charity](#)

[Trustee board: people and skills](#)

### **Department for Education**

[Academy conversion: surplus and deficit balance transfer process](#)

[Buying for schools](#)

[Clerking competency framework](#)

[Competency framework for governance](#)

[Governance Handbook](#)

[Integrated curriculum and financial planning](#)

[Risk protection arrangement](#)

[Schools financial benchmarking](#)

[School resource management](#)

[Statutory policies for schools](#)

[Whistleblowing](#)

## **Education and Skills Funding Agency**

[Academies Accounts Direction](#)

[Academies accounts return](#)

[Academies: guide to reducing fraud](#)

[Academies: information for new openers](#)

[Academies investigation reports](#)

[Academies severance payments](#)

[Budget forecast](#)

['Dear Accounting Officer' letters](#)

[ESFA e-bulletin](#)

[ESFA training](#) (videos and webinars)

[Financial management and governance self-assessment](#)

[Making significant changes to an existing academy](#)

[Managing boarding provision](#)

[Property information notes](#)

[Review of related party transactions in academies](#)

## **HM Revenue and Customs**

[Charities and tax](#)

[Check employment status](#)

[Fit and proper persons test](#)

[Introduction to money laundering regulations](#)

[PAYE](#)

[VAT](#)

[VAT: Refund scheme for academies](#)

[VAT registration](#)

[VAT registration thresholds](#)

## **HM Treasury**

[Audit committee handbook](#)

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

[Managing public money](#)

[Review of the tax arrangements of public sector appointees](#)

## **Other links**

[Action Fraud](#)

[Association of School and College Leaders](#)

[Board members of Public Bodies: Code of conduct](#)

[CIMA - Fraud risk management](#)

[CIPFA – The role of the chief finance officer in academies](#)

[CIPFA – The role of the accounting officer in an academy](#)

[CIPFA – The good governance standard for public services](#)

[Crescent Purchasing Consortium](#)

[Finance Directors Forum](#)

[Fraud Act 2006](#)

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

[Information Commissioner's Office](#)

[Institute of School Business Leadership](#)

[National Audit Office](#)

[National Governance Association](#)

[Official Journal of the European Union](#)

[Public Accounts Committee](#)

## Acknowledgements

The Academies Financial Handbook has been produced jointly by ESFA and the following working group of academy sector representatives:

Stephen Lester	West Lakes Academy (chair)
Olu Alalade	Skidders' Academy, Hackney
Gillian Allcroft	National Governance Association
Valerie Andrew	Association of School and College Leaders
Mike Antoniou	The Harris Federation
Angela Cox OBE	Diocese of Leeds representing the Catholic Education Service
Tracy Darby	Special Educational Needs and Disability Trust
Angela Dobrucki	Mirfield Free Grammar and Sixth Form Multi Academy Trust
John Flynn	Heckmondwike Grammar School (vice chair)
Chris Hutton MBE	Finance Directors' Forum
Winnie Kinnon	Norbury Manor Business and Enterprise College for Girls
Martin Lock	PKF Francis Clark chartered accountants
Laurence Mosley (to March 2018)	Ex-Diverse Academies Learning Partnership
Margo Muris	Alec Reed Academy
Helen Peace	St Joseph's Catholic College
Donna Shepherd	St Anne's Academy
Diane Slack	Westbourne Primary School
Sally Williams-McGlone	Consultant
Inigo Woolf	London Diocesan Board for Schools representing the Church of England National Society
David Massey	ESFA
Chris Patterson	ESFA

We are grateful to the individuals and organisations that have made suggestions or observations about the handbook over the past year. If you have suggestions for future revisions please contact [ESFA](#).



Education & Skills  
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