



Education  
Funding  
Agency

# **Academies financial handbook 2016**

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

**Effective from 1 September 2016**

**July 2016**

# Contents

<b>Foreword by Lord Nash</b>	4
<b>Introduction to the current edition</b>	5
What has changed in this edition?	5
The meaning of 'member'	6
The meaning of 'trustee', 'director' and 'governor'	7
De facto trustees	7
Contacting EFA for enquiries	7
<b>Part 1: Roles and responsibilities</b>	8
1.1 Status	8
1.2 Effective date	8
1.3 Interpretation	8
1.4 Introduction	9
1.5 Roles and responsibilities	9
<b>Part 2: Main financial and governance requirements</b>	15
2.1 Financial oversight	15
2.2 Financial planning, monitoring and reporting	16
2.3 Internal control	18
2.4 Internal scrutiny	19
2.5 Transparency	21
<b>Part 3: Delegated authorities</b>	23
3.1 Proper and regular use of public funds	23
3.2 Trading with connected parties	27
3.3 Novel and/or contentious transactions	29
3.4 Borrowing	29
3.5 Gifts	30
3.6 Write-offs and entering into liabilities	30
3.7 Special payments	31
3.8 Acquisition and disposal of fixed assets	33
3.9 Leasing	34
3.10 Managing General Annual Grant (GAG)	34
3.11 Applicability of delegations and freedoms	35

<b>Part 4: Audit requirements</b>	37
4.1 Statutory audit	37
4.2 Regularity audit	38
4.3 Financial management and governance self-assessment	38
4.4 Funding audit	39
4.5 National Audit Office and Public Accounts Committee	39
4.6 Audit access rights	39
4.7 Provision of information	40
4.8 Investigation of fraud, theft and/or irregularity	40
<b>Annex A: Definitions</b>	42
<b>Annex B: Schedule of freedoms and delegations</b>	45
<b>Annex C: Schedule of requirements (the ‘musts’)</b>	46
<b>Annex D: Further sources of information</b>	54
<b>Acknowledgements</b>	58

## Foreword by Lord Nash

Few of us would deny the importance of effective leadership in setting the direction during periods of change. With the academies programme at the forefront of the drive to improve the chances of our young people it is enormously important for those of you in governance positions to have the right skills, including financial management capacity, both to support and to challenge your leadership team. This new edition of the academies financial handbook prompts you to identify the skills and experience that you need as a board and, where necessary, to strengthen your abilities through recruitment, training or development.



With a move increasingly to multi-academy structures all boards must be clear about their trust's chain of executive leadership and accountability. For this reason I expect every trust to appoint a senior executive leader who will also be its accounting officer, ensuring that these roles do not rotate so that there is no ambiguity about who is accountable for the financial management and integrity of the trust.

It is also right that the identities of individuals holding an important public office are known. As part of the Government's drive to increase transparency on who governs our schools this new handbook tells you how, together with local authority maintained schools, you must use the Department's Edubase system to provide details of all those involved in the trust's governance.

We should expect to see these elements in any good system of governance. This is why the changes to the handbook reinforce both the responsibilities and the confidence that I place in everyone running academies, ensuring that academy status brings strong oversight and effective intervention.

I want financial management and governance in academies to continue setting the high standards that it has become known for. The handbook provides you with the framework to do this.

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

**John Nash**

Parliamentary Under Secretary of State for Schools

## Introduction to the current edition

This handbook is a key document that sets out the financial framework for academy trusts reflecting their status as companies, charities and public bodies. It balances requirements for effective financial governance and management of funds, with the freedoms that trusts need over their day-to-day business.

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

## What has changed in this edition?

The main changes in the 2016 edition are as follows:

### Governance

- We are emphasising that boards of trustees should identify the skills they need and address any gaps in their skills through recruitment or training ([1.5.14](#)).
- To align with the terminology used in the [Governance Handbook](#) we are referring to the trust's publication of its governance structure and remit as its 'scheme of delegation for governance functions' ([1.5.15](#) and [2.5.2](#)).
- We are emphasising that all trusts **must** have a senior executive leader who should also be appointed as accounting officer, and that these roles must not rotate ([1.5.19](#), [2.1.2](#) and [2.1.8](#)).
- We have updated the text on registers of interests. We are confirming that trusts must publish the relevant business and pecuniary interests of their accounting officer regardless of whether they are a trustee ([2.5.2](#) and [3.1.20](#)). We are confirming that local governors are included when identifying relevant interests from close family relationships ([3.1.18](#)). We have also simplified the text in [3.1.19](#) and [3.1.20](#).
- We are confirming that trusts **must** use [Edubase](#) to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a multi-academy trust, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer ([4.7.4](#)).

### Financial control

- We are explaining that variances between budget and actual income and expenditure **must** be understood and addressed ([2.2.4](#)).
- We are emphasising that exposure to investment products **must** be tightly controlled so that security of funds takes precedence over revenue maximisation ([2.2.9](#)).

- Where there are concerns about financial management in a trust we are explaining that the trust may be required to report information about its cash position to EFA ([2.2.14](#)).
- We are making it a requirement, rather than a recommendation, for trusts to have a whistleblowing procedure ([2.3.5](#)).
- We are emphasising that trusts should consider opting into the risk protection arrangement (RPA) unless commercial insurance provides better value for money ([2.3.11](#)).
- We are explaining that trusts **must** implement reasonable risk management audit recommendations that are made to them by risk auditors ([2.3.12](#)).
- We are emphasising that the audit committee's oversight of its trust **must** extend to the controls and risks at its constituent academies, where the trust has them ([2.4.5](#)). Oversight **must** also ensure that information submitted to DfE and EFA that affects funding is accurate and compliant ([2.4.6](#)).
- When considering a staff severance payment we are emphasising that trusts **must** satisfy the conditions in the handbook and obtain the required approval before making a binding commitment to staff ([3.7.4](#), [3.7.6](#) and [3.7.7](#)).

## The meaning of 'member'

The members of an academy trust have a different status from the trustees. The members are the subscribers to the trust's memorandum of association, and any other individuals permitted to become members under its articles of association. Members have an overview of the governance arrangements of the trust and have the power to appoint trustees and remove these trustees.

Members can amend the articles and may do so to support stronger governance arrangements. For details on making changes to the articles, including circumstances in which Charity Commission approval is required, please see the Charity Commission guidance [CC36: Changing your charity's governing documents](#).

While members can also be trustees, retaining some distinction between the two layers ensures that members, independent of trustees, provide oversight and challenge. This is especially important in multi-academy trusts in which trustees are responsible for a number of academies.

Academy trusts should be established with at least three members, although the Department for Education (DfE) encourages trusts to have at least five members in total, as this:

- ensures enough members can take decisions via special resolution (which requires 75% of members to agree) without requiring unanimity, and

- facilitates majority decisions being taken by ordinary resolution (which requires a majority of members to agree)

Governance structures in which members are also employees are not considered by DfE to be best practice. Members **must not** be employees of the trust unless permitted by their articles of association. The latest [model articles](#) do not allow members to be employees.

## The meaning of ‘trustee’, ‘director’ and ‘governor’

In this handbook there are frequent references to trustees. This is the same body of people as both the directors of the company and the ‘governors’ of a single academy trust; these words are used interchangeably.

They are the people responsible under the academy trust’s [articles of association](#) for controlling its management and administration. They have responsibility for directing its affairs, and for ensuring that it is solvent, well-run, and delivering the trust’s charitable outcomes for the benefit of the public.

Single academy trusts have members and trustees. Multi-academy trusts have different governance arrangements because they are established to oversee and manage more than one academy. They typically have members, trustees, and local governing bodies. Individuals who sit on a local governing body at a constituent academy in a multi-academy trust may not necessarily be trustees of that overall trust, but can have duties delegated to them by the trustees.

Individuals **must** ensure that they fully understand their duties as company directors and charity trustees. The duties of company directors are described in sections 170 to 181 of the [Companies Act 2006](#). The role and duties of charity trustees are described by the Charity Commission in their guidance [CC3: the essential trustee: what you need to know, what you need to do](#).

## De facto trustees

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).

## Contacting EFA for enquiries

Academy trusts may need to contact EFA to seek prior agreement on particular transactions, to comply with reporting requirements, or to seek further guidance in particular areas. Trusts should, in the first instance, complete EFA’s [enquiry form](#).

## Part 1: Roles and responsibilities

This part of the handbook recognises the respective responsibilities of the Education Funding Agency and academy trusts

### 1.1 Status

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

### 1.2 Effective date

- 1.2.1 This handbook is effective from 1 September 2016. The accountability framework for academy trusts develops periodically and relevant changes will be reflected in updates of this handbook.

### 1.3 Interpretation

- 1.3.1 EFA exercises the rights, powers and remedies set out in this handbook on behalf of the Secretary of State. If EFA fails to use, or delays in using, any of its rights, powers and remedies this does not mean that it cannot do so at a later date.



### 1.3.2 In this handbook:

- '**must**' - identifies requirements on academy trusts - a list of these requirements is at [Annex C](#) and they are shown in bold throughout the handbook
- '**should**' - identifies guidance regarded as minimum good practice, where there is no absolute requirement, but which EFA expects trusts to apply unless an alternative approach exists that better suits the trust's circumstances

## 1.4 Introduction

1.4.1 Academy trusts **must** take full control of their financial affairs and apply the letter and the spirit of this handbook. The handbook does not include any requirement that EFA considers trusts should not expect of themselves or would find unduly onerous.

1.4.2 As companies, academy trusts **must** produce audited accounts. The accounting period of an academy trust will usually be set out in its [funding agreement](#), with most trusts reporting to a 31 August year end. The audited accounts **must** be submitted to EFA by 31 December each year.

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

1.4.4 EFA will issue an annual [accounts direction](#) no later than the end of May prior to the end of the financial year to which it relates, to assist trusts in producing annual accounts in the required format and to ensure [regularity](#). The accounts direction supplements the handbook and derives from requirements set out in trusts' [funding agreements](#).

1.4.5 It is a condition of academy trusts' company and charitable status that they **must** file their annual accounts with [Companies House](#) for public access, and provide a copy of the accounts to anyone who requests them. Trusts **must** also publish the annual accounts on their website no later than the end of January following the financial year to which the accounts relate.

## 1.5 Roles and responsibilities

### 1.5.1 Responsibilities of the Department for Education (DfE)

1.5.2 DfE has ultimate responsibility and accountability for the effectiveness of the financial system for academies. DfE is responsible for ensuring there is an adequate framework in place to provide assurance that all resources are managed

in an effective and proper manner and that [value for money](#) is secured. There is a clear chain of accountability from each academy trust, which has its own accounting officer, through EFA's accounting officer, to DfE's principal accounting officer.

### **1.5.3 Responsibilities of EFA**

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

1.5.5 EFA's accounting officer will send a '[Dear Accounting Officer](#)' letter annually to all academy trust accounting officers, setting out their key responsibilities and highlighting any changes from previous years. Accounting officers should share this letter with their trustees, and chief financial officer and other members of the senior leadership team.

### **1.5.6. EFA Intervention powers**

1.5.7 Where EFA has concerns about financial management and/or concerns about governance in an academy trust (including a multi-academy trust or constituent academies within a multi-academy trust) it may issue, and publish, a Financial Notice to Improve (FNtI). The trust **must** comply with all the terms of an FNtI. Failure to comply will be deemed a breach of the [funding agreement](#) by virtue of the relationship between the funding agreement and the handbook. In exceptional circumstances the funding agreement may be terminated due to non-compliance with the terms of the FNtI.

1.5.8 An FNtI sets out the actions EFA requires trusts to take in order to address underlying concerns about financial management, compliance and/or governance (financial or otherwise). For example, an FNtI may be issued where there is a deficit, a projected deficit, cash flow problems, risk of insolvency, other financial concerns (such as irregular use of public funds), or inadequate governance and management (including, but not limited to, weak oversight, control or direction by trustees, poor internal scrutiny and challenge, and breaches of the duties, principles and requirements governing connected party relationships).

1.5.9 If an FNtI is issued to a trust then all of the delegated authorities and other freedoms in sections [3.6 to 3.10](#) of this handbook are revoked. All transactions by

the trust of this nature, regardless of size, **must** be approved in advance by [EFA](#). The trust may also be prevented from entering into transactions with connected parties without [EFA's](#) prior approval. These delegated authorities shall be returned to the trust once the terms set out in the FNtI have been complied with, and improvement is sustainable.

### 1.5.10 Responsibilities of trustees

1.5.11 The board of trustees of the academy trust has wide responsibilities under statute, regulations and the funding agreement. Principally, it is responsible for ensuring that the trust's funds are used only in accordance with the law, its articles of association, its funding agreement and this handbook. The board of trustees has wide discretion over its use of the trust's funds, which it **must** discharge reasonably and in a way that commands broad public support. It is responsible for the proper stewardship of those funds, including regularity and propriety, and for ensuring [economy](#), [efficiency](#) and [effectiveness](#) in their use – the three key elements of [value for money](#).

1.5.12 Academy trusts are companies limited by guarantee and [exempt charities](#). The board of trustees is subject to the duties and responsibilities of charitable trustees and company directors as well as any other conditions that the Secretary of State agrees with them. These responsibilities are mutually reinforcing and are there to ensure proper governance and conduct of the trust. The key requirements are reflected in the articles of association, the funding agreement, and this handbook. Trustees should follow the guidance in the [Governance Handbook](#) which sets out principles of good governance and the legal duties applying to, and core role and strategic functions of, boards of trustees. Trustees **must** be aware of the Charity Commission's guidance for trustees [CC3: The Essential Trustee: What you Need to Know, what you need to do](#) and should be aware of other guidance listed in [Annex D](#). In addition the [Charity Commission](#) website is a good general resource on the proper conduct and operation of charities.

1.5.13 The board of trustees **must** understand their statutory duties as company directors as set out in the [Companies Act 2006](#). These comprise the duties 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

These duties are especially relevant when entering into transactions with connected parties.

1.5.14 The board of trustees should identify the skills and experience that it needs, and address any gaps through recruitment, and/or induction, training and other development activities. The board should also address this for any local governing bodies it has put in place. The [Governance Handbook](#) identifies a range of training material to help trustees engage fully with their role.

1.5.15 The board of trustees **must** provide details of the academy trust's governance arrangements in the governance statement published within its annual accounts, and on its website, This includes its scheme of delegation for governance functions setting out what the board has delegated to its committees and, in the case of multi-academy trusts, to local governing bodies. Trusts producing audited accounts for the first time **must** include in their governance statement what they have done to review and develop their governance structure, and composition of the board of trustees. Established trusts should also include an assessment of the trust's governance, including a review of the composition of the board in terms of skills, effectiveness, leadership and impact.

1.5.16 When reviewing their governance, trusts can refer to the questions for governing bodies published by the All-Party Parliamentary Group on Education, Governance and Leadership. For single academy trusts this is the [20 key questions for the governing board to ask itself](#); and for multi-academy trusts [21 questions for multi-academy trust boards](#).

1.5.17 The [funding agreement](#) sets out additional specific responsibilities of the board of trustees.

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

1.5.19 Each academy trust **must** designate, in writing, a named individual as its [accounting officer](#). The individual **must** be a fit and suitable person for the role. The accounting officer should be the senior executive leader of the trust. In trusts comprising a single academy this should be the [principal](#). In multi-academy trusts it should be the [chief executive](#) or equivalent. The role of accounting officer must not rotate. The appointment of an accounting officer does not remove the responsibility of trustees, both individually and as a board, for the proper conduct and financial operation of the trust.

1.5.20 The role of [accounting officer](#) includes specific responsibilities for financial matters. It includes a personal responsibility to Parliament, and to EFA'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:

- [value for money](#) – this is about achieving the best possible educational outcomes through the economic, efficient and effective use of resources. A key objective is to achieve value for money not only for the trust but for taxpayers generally. A full definition is included in [Annex A](#).
- [regularity](#) – dealing with all items of income and expenditure in accordance with legislation, the terms of the trust’s funding agreement and this handbook, and compliance with the trust’s internal procedures – this includes spending public money for the purposes intended by Parliament
- [propriety](#) – the requirement that expenditure and receipts should be dealt with in accordance with Parliament’s intentions and the principles of parliamentary control – this covers standards of conduct, behaviour and corporate governance

1.5.21 The accounting officer **must** complete and sign a [statement on regularity, propriety and compliance](#) each year and submit this to EFA 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. Trusts are no longer required to submit to EFA a separate value for money statement.

1.5.22 Whilst the trust’s [accounting officer](#) is accountable for the trust’s financial affairs, for keeping proper financial records, and for the management of opportunities and risks, the delivery of the trust’s detailed accounting processes will be delegated to a [chief financial officer](#), who will perform the role of finance director, business manager or equivalent.

1.5.23 The accounting officer **must** take personal responsibility (which **must not** be delegated) for assuring the board that there is compliance with the handbook and the funding agreement. The accounting officer **must** advise the board in writing if, at any time, in his or her opinion, any action or policy under consideration by them is incompatible with the terms of the [articles, funding agreement](#) or this handbook. Similarly, the accounting officer **must** advise the board in writing if the board appears to be failing to act where required to do so by the terms and conditions of the handbook or funding agreement. Where the board of trustees is minded to proceed, despite the advice of the accounting officer, the accounting officer **must** consider the reasons the board gives for its decision. If, after considering those reasons the accounting officer still considers that the action proposed by the board is in breach of the articles, the funding agreement or this handbook, the accounting officer **must** notify EFA’s accounting officer immediately, and in writing.

1.5.24 More detailed guidance on the role of an accounting officer is set out in chapter 3 of HM Treasury’s [Managing Public Money](#). HM Treasury’s handbook, [Regularity, Propriety and Value for Money](#) describes what these concepts mean in a financial

context. It also describes the [seven principles of public life](#) to which accounting officers **must** adhere.

## Part 2: Main financial and governance requirements

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

### 2.1 Financial oversight

Trustees and managers must have the skills, knowledge and experience to run the academy trust.

#### 2.1.1 The trustees

2.1.2 The board of trustees of the academy trust **must** appoint, in writing, a senior executive leader who may, in accordance with the trust's [articles of association](#), act as an [ex officio trustee](#). In trusts comprising a single academy this should be the [principal](#). In multi-academy trusts it should be the [chief executive](#) or equivalent. The role of senior executive leader must not rotate.

2.1.3 The board and its committees **must** meet regularly enough to discharge their responsibilities under their articles of association, funding agreement and this handbook, to 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) although trusts may well consider it appropriate to meet more frequently, particularly medium-sized and larger trusts with more complex structures, and any undergoing a period of change. The board should identify the actions they need to accomplish during the year and this should inform the frequency of meetings.

2.1.4 Whilst 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 control arrangements.

2.1.5 The academy trust should have a finance committee to which the board delegates financial scrutiny and oversight.

2.1.6 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.

#### 2.1.7 The accounting officer

2.1.8 The senior executive leader ([principal](#) or [chief executive](#)) should be appointed as [accounting officer](#), under the guidance of the board, and **must** have appropriate oversight of financial transactions, by:

- ensuring that all the academy trust's property and assets are under the control of the trustees, and measures are in place to prevent losses or misuse, including maintenance of fixed asset registers
- 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

### 2.1.9 The chief financial officer

2.1.10 The academy 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, to lead on financial matters. The CFO should play both a technical and leadership role, including ensuring sound and appropriate financial governance and risk management arrangements are in place, preparing and monitoring of budgets, and ensuring the delivery of annual accounts.

2.1.11 The trust's finance staff **must** be appropriately qualified and/or experienced. Trusts should assess whether the CFO, and others in the trust holding key financial posts, should have a business or accountancy qualification dependent on the risk, scale and complexity of financial operations. Whilst a formal accountancy qualification may often serve as a proxy for the necessary skills, experience and personal qualities required for this role, there is no presumption that there will always be a perfect match. EFA recognises that many CFOs combine their specific financial responsibilities with a range of other support and leadership responsibilities in which the existence of a formal accountancy qualification may be less relevant.

2.1.12 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 (e.g. when accounts are being prepared).

## 2.2 Financial planning, monitoring and reporting

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

### 2.2.1 Budgeting

2.2.2 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 their approval(s).



2.2.3 EFA's accounting officer is required to provide assurance that the bodies EFA funds are in sound financial health. For this reason, the academy trust **must** submit to EFA a copy of the [budget forecast](#) in a form specified by EFA by a date to be notified.

2.2.4 The board of trustees, and any separate committee responsible for finance, **must**:

- ensure good financial management and effective internal controls
- comply with their [funding agreement](#) and this handbook
- ensure sufficient rigour and scrutiny in the budget management process to understand and address variances between the budget that has been set and actual income and expenditure
- receive and consider information on financial performance at least three times a year, and take appropriate action to ensure ongoing viability

2.2.5 The board of trustees **must** notify [EFA](#) within 14 days if it is formally proposing to set a deficit revenue budget for the current financial year which it is unable to address, after unspent funds from previous years are taken into account.

## 2.2.6 Cash management

2.2.7 The trust should manage its cash position, avoid going overdrawn, and reconcile bank and control accounts regularly.

## 2.2.8 Investments

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

- act within their powers to invest as set out in their [articles of association](#)
- have an investment policy to manage, control and track their financial exposure, and ensure [value for money](#)
- exercise care and skill in all 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 all investment decisions are in the best interests of the trust and command broad public support
- review the trust's investments and investment policy regularly

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

### 2.2.11 Income generation

2.2.12 Academy trusts should set fees for their chargeable services at full cost, but can apply an additional rate of return when in a commercial environment. In the case of the provision of mainstream boarding places, trusts **must** charge for boarding provision on a full cost recovery basis and apply a rate of return of 8% on boarding charges. Fees and charges should be determined in accordance with EFA's guidance on [Managing and charging for boarding provision](#) and annex 6.1 of HM Treasury's [Managing Public Money](#). Additional financial information required from trusts that provide boarding facilities is set out in EFA's annual [accounts direction](#).

### 2.2.13 Financial reporting

2.2.14 The academy trust **must** prepare an annual report and accounts, incorporating accounting policies approved by the board of trustees, and have them audited by a statutory auditor. It may also be required to report on its cash position to EFA where there are concerns about financial management.

## 2.3 Internal control

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

### 2.3.1 Internal control

2.3.2 The academy trust **must** establish a control framework that recognises public expectations about governance, standards and openness.

2.3.3 The trust's internal control framework **must** include:

- co-ordinating the planning and budgeting processes
- applying discipline in financial management, including managing banking, debt and cash flow, with appropriate segregation of duties
- preparation of monthly budget monitoring reports
- ensuring that delegated financial authorities are respected
- effective planning and oversight of any capital projects
- the management and oversight of assets
- the propriety and regularity of financial transactions

- reducing the risk of [fraud and theft](#)
- ensuring efficiency and [value for money](#) in the organisation's activities
- a process for independent checking of financial controls, systems, transactions and risks

#### 2.3.4 Whistleblowing

2.3.5 Academy trusts must have appropriate procedures in place for [whistleblowing](#), including making sure all staff are aware to whom they can report their concerns, and the way in which such concerns will be managed.

#### 2.3.6 Risk management

2.3.7 The academy trust should make a considered choice about its desired risk profile, taking account of its legal obligations, business objectives and public expectations. The trust **must** recognise and manage present and future risks to ensure its effective and continued operation. The trust should maintain a risk register.

2.3.8 The trust's management of risks **must** include contingency and business continuity planning.

#### 2.3.9 Insurance

2.3.10 The academy trust **must** ensure that it has adequate insurance cover in compliance with its legal obligations or has opted into the academies [risk protection arrangement \(RPA\)](#). Not all risks are covered in the RPA (e.g. motor vehicles).

2.3.11 The trust should consider opting into the RPA unless commercial insurance provides better value for money. If the trust does not opt in to the RPA, it should determine its own level of cover to include buildings and contents, business continuity, employers' and public liability insurance and any cover required for motor vehicles. This list is not exhaustive but cover should secure best value for money.

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

## 2.4 Internal scrutiny

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

#### 2.4.1 Audit committees

2.4.2 Academy trusts **must** establish a committee, appointed by the board of trustees, to provide assurance over the suitability of, and compliance with, its financial systems and operational controls. Taking into account the differing risks and complexity of their operations:

- all trusts with an annual income over £50 million **must** have a dedicated audit committee
- all other trusts have flexibility to establish either a dedicated audit committee, or to include the functions of an audit committee within another committee

2.4.3 Audit committee functions should be established in such a way as to achieve internal scrutiny which delivers objective and independent assurance, which means that:

- staff employed by the trust should not be members of an audit committee, but may attend to provide information and participate in discussions
- where the trust operates a combined finance and audit committee, staff 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

The accounting officer and other relevant senior staff should routinely attend the committee in the capacity set out directly above.

2.4.4 The committee's work **must** focus on providing assurances to the board of trustees that all risks are being adequately identified and managed with particular regard to:

- reviewing the risks to internal financial control at the trust
- agreeing a programme of work to address, and provide assurance on, those risks

2.4.5 In multi-academy trusts the audit committee's oversight **must** extend to the financial controls and risks at constituent academies.

2.4.6 Oversight **must** ensure that information submitted to DfE and EFA that affects funding, including pupil number returns and funding claims completed by the trust and (in the case of a multi-academy trust) by constituent academies, is accurate and in compliance with funding criteria.

2.4.7 The outcome of the committee's work should inform the governance statement that accompanies the trust's annual accounts and, so far as is possible, provide assurance to external auditors.

#### 2.4.8 Delivering assurance

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

- the appointment of an internal audit service (either in-house, bought-in or provided by a sponsor)
- the performance of a supplementary programme of work by the trust's external auditor
- the 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. This appointment is not mandatory but is one way trusts are able to conduct their internal checks
- 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, as an independent reviewer

2.4.10 The trust may wish to commission a programme of work that combines the above options. For example, a trustee appointed under the third bullet above to carry out checks can delegate some of the detailed checking to an external contractor or peer reviewer. The adequacy of the arrangements at each trust will be established as part of the process leading to the accounting officer's annual statement, and, where appropriate, through the self-assessment review of [financial management and governance](#) or other review of the governance arrangements.

## 2.5 Transparency

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

### 2.5.1 Publishing information about governance structures

2.5.2 In the interests of transparency, an academy trust **must** publish on its website up-to-date details of its governance arrangements in a readily accessible format. This **must** include:

- 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 (where applicable)
- 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 (in accordance with the trust's articles), and relevant business and pecuniary interests including governance roles in other educational institutions. If the trust's accounting officer is not a trustee their relevant 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 Proper and regular use of public funds

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

3.1.1 Academy trusts are independent institutions and the financial accountability system set out in the handbook reflects this by providing trusts with autonomy over financial transactions arising in the trust's normal course of business. Some transactions have delegated authority limits beyond which trusts **must** seek prior approval of [EFA](#). If unsure about the approval process, trusts should contact [EFA](#) and any necessary application forms will be provided on a case-by-case basis. A schedule of delegated authorities is at [Annex B](#).

#### 3.1.2 Principles

3.1.3 Academy trusts **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](#), and are justified as such
- 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, including that of their external auditor where necessary

#### 3.1.4 Additional guidance

3.1.5 There is a range of guidance available on public sector procurement requirements, including DfE's [Buying for schools](#), [Academies procurement resource: buying for your academy](#) and [Schools financial health and efficiency](#). Additional guidance can be found in annex 4.6 of HM Treasury's [Managing Public Money](#). Advice on relevant procurement thresholds is provided in the [OJEU](#).

3.1.6 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 which are subject to greater control than other payments. Academy trusts should refer to section [3.7](#) of this handbook, to EFA's

[guidance](#) on staff severance, and to annex 4.13 of HM Treasury's [Managing Public Money](#).

### 3.1.7 Disclosure

3.1.8 Irrespective of whether the Secretary of State's approval is required, academy trusts **must** disclose aggregate figures for transactions of any amount, and separate disclosure for individual transactions above £5,000, in their audited accounts for each of the following transactions:

- gifts made by the trust ([3.5](#))
- writing off debts and losses ([3.6](#))
- guarantees, letters of comfort and indemnities ([3.6](#))
- special payments – compensation ([3.7](#))
- special payments – ex gratia ([3.7](#))
- acquisition of a freehold of land and buildings ([3.8](#))
- disposal of a freehold of land and buildings ([3.8](#))
- disposal of heritage assets ([3.8](#))
- taking up a leasehold on land and buildings ([3.9](#))
- granting a leasehold on land and buildings ([3.9](#))

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

- special payments – staff severance, of any value ([3.7](#))

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

### 3.1.11 Principles applying to connected party relationships

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

- trustees understand and 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 multi-academy trust, and senior employees have completed the register of interests retained by the trust, in accordance with sections [3.1.16](#) to [3.1.19](#) of this handbook, and there are measures in place to manage any conflicts of interest



- 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 such payments are permitted by the [articles](#), or by express authority from the Charity Commission and comply with the terms of any relevant agreement entered into with the Secretary of State. Trusts will in particular need to consider these obligations where payments are made to other business entities who employ the trustee, are owned by the trustee, or in which the trustee holds a controlling interest
- the Charity Commission's prior 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 [3.2.2](#) 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](#).

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

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

- transactions with individuals in a position of control and influence, including the chair of the board of trustees and accounting officer (senior executive leader)
- payments to commercial organisations which have a profit motive, as opposed to those in the voluntary sector
- relationships with external auditors that go beyond their duty to deliver a statutory audit

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

3.1.15 Trusts **must** seek [EFA's](#) prior approval for transactions with connected parties that are [novel and/or contentious](#). Trusts should carefully consider the impact of this

requirement and its relevance to transactions involving the chair of the board of trustees and the accounting officer.

### **3.1.16 Register of interests**

3.1.17 The academy trust's register of interests **must** capture relevant business and pecuniary interests of members, trustees, local governors of academies within a multi-academy trust 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

3.1.18 The register **must** identify any relevant material interests arising 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 [3.2.2](#) (third bullet).

3.1.19 Trusts should consider carefully whether any other interests should be registered. Boards of trustees should keep their register of interests up-to-date through regular review.

3.1.20 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 the interests of any other individual named on the register. The Charity Commission offers guidance on managing potential conflicts of interest in: [CC29: Conflicts of interest: a guide for charity trustees](#).

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

3.1.22 Academy trusts **must** ensure that their 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, as 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.

### **3.1.23 Use of confidentiality clauses**

3.1.24 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](#).

## 3.2 Trading with connected parties

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

### 3.2.1 At cost requirements

3.2.2 Subject to sections [3.2.7](#) to [3.2.12](#), a trust **must** pay no more than 'cost' for goods or services provided to it by the following persons ('services' do not include services provided under a contract of employment):

- any member or trustee of the academy trust
- any individual or organisation connected to a member or trustee of the academy trust. For these purposes the following persons are connected to a member, or trustee:
  - a relative of the member or trustee. A relative is defined as: a close member of the family, or member of the same household, who may be expected to influence, or be influenced by, the person. This includes, but 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 that is given the right under the trust's [articles of association](#) to appoint a member or trustee of the academy trust; or any body related to such individual or organisation
- any individual or organisation recognised by the Secretary of State as a sponsor of the academy trust; or any body related to such individual or organisation

3.2.3 A body is related 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

3.2.4 The 'at cost' requirement does not apply to the trust's employees unless they are also one of the parties described in section [3.2.2](#).

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

3.2.6 Should any staff/personnel of an individual or organisation referred to in section [3.2.2](#) 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.

### **3.2.7 Effective date**

3.2.8 The 'at cost' requirement applies to contracts for goods and services from a connected party agreed by the academy trust on or after 7 November 2013.

### **3.2.9 De minimis**

3.2.10 The 'at cost' requirement applies to contracts for goods and services from a connected party exceeding £2,500, cumulatively, in any one financial year of the trust. For these purposes, where a contract takes the trust's cumulative annual total with the connected party beyond £2,500, the element above £2,500 must be at no more than cost.

### **3.2.11 Professional services**

3.2.12 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.

### 3.2.13 Documentation

3.2.14 Academy trusts **must** ensure that any agreement with an individual or organisation referred to in section [3.2.2](#) 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 that their charges do not exceed the cost of the goods or services, and
- on the basis of an open book agreement including a requirement for the supplier to demonstrate clearly, if requested, that their charges do not exceed the cost of supply

### 3.2.15 Full cost

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

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

3.2.17 Full cost **must not** include an element of profit.

## 3.3 Novel and/or contentious transactions

3.3.1 Novel payments or other transactions are those of which the academy trust has no experience, or are outside the range of normal business activity for the trust. Contentious transactions are those which might give rise to criticism of the trust by Parliament, and/or the public, and/or the media. Novel and/or contentious transactions **must** always be referred to [EFA](#) for explicit prior authorisation.

## 3.4 Borrowing

3.4.1 In line with [funding agreements](#), academy trusts **must** seek [EFA's](#) prior 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 (not personal) expenditure, and balances cleared before interest accrues.

3.4.2 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 in order 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.

## 3.5 Gifts

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

## 3.6 Write-offs and entering into liabilities

3.6.1 The academy trust **must** obtain [EFA's](#) prior approval for the following transactions beyond the delegated limits of the two categories set out below:

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

3.6.2 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 one financial year per category of transaction for any academy trusts that have not submitted timely, unqualified audited accounts for the previous two financial years. This category includes new academies that have not had the opportunity to produce two years of audited accounts
- cumulatively, 5% of total annual income in any one financial year per category of transaction for any academy trusts that have submitted timely, unqualified audited accounts for the previous two financial years

3.6.3 In relation to these limits:

- the trust should always pursue recovery of amounts owed to it, overpayments, or payments made in error, irrespective of how they came to be made. In practice, however, there will be both practical and legal limits to how cases should be handled

- the trust should only consider writing-off losses after careful appraisal of the facts, including whether all reasonable action has been taken to effect recovery from the debtor, the trust's insurers, or the risk protection arrangement, and should be satisfied that 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 set of audited accounts. [EFA](#) should be contacted if the trust has not yet published their first set of audited accounts

3.6.4 Before accepting any liabilities by:

- issuing specific guarantees, or
- providing a letter of comfort, or
- providing indemnities

the trust should secure [value for money](#) by appraising the proposal through an assessment of the costs and benefits of relevant options. The trust **must** ensure that the value of any liability is within its delegated authority to commit.

## 3.7 Special payments

3.7.1 Special payments are transactions that fall outside academy trusts' planned range of activities. They are non-statutory or non-contractual and so are subject to greater control than other payments. They include:

- staff severance payments
- compensation payments
- ex gratia payments

### 3.7.2 Special staff severance payments

3.7.3 Special staff severance payments are paid to employees outside of normal statutory or contractual requirements when leaving employment in public service whether they resign, are dismissed or reach an agreed termination of contract. They are different to ex gratia payments, which are described in sections [3.7.12](#) to [3.7.15](#).

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

- that trustees reasonably consider the proposed payment to be 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 then 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, then a settlement should not be offered
- if the settlement is justified, the trust would then need to consider the level of settlement. This **must** be less than the legal assessment of what the relevant body (e.g. an employment tribunal) is likely to award in the circumstances

3.7.5 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 claim 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.

3.7.6 Academy trusts have delegated authority to approve individual staff severance 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 [EFA's](#) prior approval **must** be obtained before the trust makes any binding settlement offer to staff. For example:

Statutory/contractual payment		Non-statutory/non-contractual payment	<a href="#">EFA</a> prior approval required?
£40,000	+	£49,999	No
£80,000	+	£49,999	No
£40,000	+	£50,000	Yes – for £50,000
£80,000	+	£50,001	Yes – for £50,001

3.7.7 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 level of settlement reached. Settlements **must** not be accepted unless they satisfy the conditions in this handbook and in [EFA's guidance and submission template](#).

### 3.7.8 Compensation payments

3.7.9 Compensation payments are made to 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.

3.7.10 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 [EFA's](#) prior approval **must** be obtained.

3.7.11 Trusts should routinely consider whether particular cases reveal concerns about the effectiveness of internal control systems, and take any necessary steps to put failings right.

### 3.7.12 Ex gratia payments

3.7.13 Ex gratia payments are another type of transaction that go beyond statutory or contractual cover, or administrative rules. Annex 4.13 of HM Treasury's [Managing Public Money](#) provides examples, which include payments to meet hardship caused by official failure or delay, and payments to avoid legal action on the grounds of official inadequacy.

3.7.14 Ex gratia payments are separate to other classes of special payment such as staff severance payments and compensation payments. Statutory and contractual payments made to academy staff in accordance with the trust's pay and conditions policy would not be ex gratia.

3.7.15 Ex gratia transactions **must** always be referred to [EFA](#) for prior authorisation. HM Treasury approval may also be needed dependent on the nature of the transaction. If trusts are in any doubt about a proposed transaction they should seek prior advice from [EFA](#).

## 3.8 Acquisition and disposal of fixed assets

3.8.1 Academy trusts **must** seek and obtain prior written approval from [EFA](#) for the following transactions:

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

- 3.8.2 Other than land, buildings and heritage assets, trusts can dispose of any other fixed asset without [EFA's](#) prior approval. Trusts **must** ensure that any disposal achieves the best price that can reasonably be obtained, and maintains the principles of [regularity](#), [propriety](#) and [value for money](#). This can involve public sale where assets have a residual value.
- 3.8.3 Additional [guidance](#) is available to help trusts seeking consent for land and buildings transactions. [EFA's](#) prior approval **must** be obtained for property transactions which are [novel and/or contentious](#).

## 3.9 Leasing

3.9.1 There are two types of lease:

- operating leases: these do not represent borrowing
- finance leases: these are a form of borrowing (see section [3.4](#)).

3.9.2 Trusts do not require EFA's approval for operating leases except for some transactions relating to land or buildings.

3.9.3 Trusts **must** obtain [EFA's](#) prior approval for the following leasing transactions:

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

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

## 3.10 Managing General Annual Grant (GAG)

### 3.10.1 Managing surplus GAG

3.10.2 EFA 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](#)). Trusts should use their allocated GAG funding for the full benefit of their current pupils. If a trust has a substantial surplus they

should have a clear plan for how it will be used to benefit their pupils, for example a long-term capital project.

3.10.3 EFA will report to DfE any trusts where it has serious concerns about a long-term substantial surplus with no clear plans for its use.

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

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

3.10.6 The multi-academy trust **must** give individual consideration to the funding needs and allocations of each constituent academy, and **must** have an appeals mechanism in place. If a constituent academy's principal feels that the academy has been unfairly treated, they should first appeal to the trust. If the academy principal's grievance is not resolved, they can then appeal to the Secretary of State, via EFA, whose decision will be final and who can dis-apply the provisions for pooling in this handbook in relation to the multi-academy trust.

## **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 ([3.8](#))
- leaseholds and tenancy agreements of land and buildings ([3.9](#))
- carry forward of unspent GAG from one year to the next ([3.10](#))
- pooling of GAG by multi-academy trusts ([3.10](#))

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

3.11.5 In the case of a multi-academy trust, 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 subject to scrutiny to give assurance to Parliament, and the public, that funds are used for the purposes intended.

### 4.1 Statutory audit

4.1.1 In accordance with the [Companies Act 2006](#), academy trusts **must**:

- appoint an auditor, to certify whether the accounts present a true and fair view of the trust's financial performance and position
- produce audited accounts

4.1.2 The contract for the audit **must** be in writing. This **must** take the form of a letter of engagement. The letter of engagement **must** only cover the external audit. If additional services are to be purchased, a separate letter of engagement **must** be obtained which **must** specify the precise requirements of the work and the fees to be charged.

#### 4.1.3 Removal of auditors

4.1.4 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 academy trust's board. If the auditors resign, there **must** be a requirement in the letter of engagement for them to provide the trust with an explanation, within 14 days of their resignation.

4.1.5 The board of trustees **must** notify [EFA](#) immediately of the removal or resignation of the auditors. In the case of removal, the trust's board **must** notify [EFA](#) of the reasons for the removal. In the case of resignation, the trust **must** immediately copy to [EFA](#) 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 EFA.

#### 4.1.6 Group auditors and consolidation

4.1.7 The financial accounts of each academy trust will be consolidated into those of EFA and DfE. EFA will use a combination of audited accounts, '[accounts returns](#)' and other information to generate the consolidated accounts, and these accounts will be audited by the [National Audit Office](#) (NAO) on behalf of the Comptroller and Auditor General (C&AG). The NAO will audit the consolidated accounts in accordance with [International Standards on Auditing](#), and will undertake appropriate procedures in accordance with that framework to satisfy the C&AG that these accounts are true and fair. To this end, each trust is a component of the

consolidation and the trust's management **must** prepare the financial information requested by EFA for this purpose.

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

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

## 4.2 Regularity audit

### 4.2.1 Accounting officer's statement

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

- 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](#))

4.2.3 The format of the statement is included within EFA's [accounts direction](#). The accounting officer also has a responsibility to advise the board of trustees and EFA of any instances of irregularity or impropriety, or non-compliance with the terms of the trust's funding agreement and/or this handbook.

### 4.2.4 Auditor's review of regularity

4.2.5 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 the Secretary of State through EFA. EFA will draw formal assurance from this regularity audit. Further information is included in the [accounts direction](#).

## 4.3 Financial management and governance self-assessment

4.3.1 All new academy trusts or constituent academies joining a multi-academy trust **must** complete a short financial management and governance self-assessment ([FMGS](#)) and submit it to EFA within four months of opening. Some new

constituent academies are able to agree an alternative method of providing assurance. Further details are contained within the [FMGS template](#).

- 4.3.2 In order to gain assurance over the adequacy of financial arrangements governing the use of [public funds](#) by academy trusts, EFA will conduct a number of financial management reviews. These will examine whether the systems and control mechanisms that exist in each trust meet the requirements set out in the handbook.

## 4.4 Funding audit

- 4.4.1 Funding audits allow EFA to gain assurance on the key raw data provided by an academy trust which are used in the calculation of recurrent funding grants, and whether this data is accurate, complete and supported by evidence. The scope and timing of EFA's funding audit approach is determined annually.

## 4.5 National Audit Office and Public Accounts Committee

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

## 4.6 Audit access rights

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

## 4.7 Provision of information

4.7.1 The academy trust **must** provide EFA, or its agents, with information EFA requires in exercising its responsibilities and to meet funding requirements. This information **must** be of sufficient quality to meet the purposes for which it has been requested. The trust **must** provide the information when and how EFA and its agents request it. EFA will consider the impact on academy trust business in the deadlines it specifies for the provision of information.

4.7.2 On occasion, EFA will require urgent information from the trust, usually as a result of requests to EFA to fulfil its duties to provide information to the Secretary of State and account to Parliament. EFA will act reasonably in its requests for information and will have regard to the costs and timescales of providing the information, and where appropriate to its confidentiality. In requesting information, EFA will also consider information previously supplied by the trust to EFA or other stakeholders with whom EFA is realistically able to share information. EFA may also request information that the trust gathers to meet its own needs.

4.7.3 In the event that the trust does not return the information EFA requires by the specified deadline, or that the information is not of an acceptable quality, EFA may carry out whatever investigations it deems necessary to collect the information, where appropriate in consultation with the trust. EFA may, as necessary, deduct all or part of the cost of the investigations from EFA's recurrent funding of the trust.

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

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

within 14 days of that change. Notification **must** be made through the governance section of DfE's [Edubase](#) which is accessed via [Secure Access](#). All fields specified in Edubase for the named individuals **must** be completed.

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

4.8.1 Academy trusts **must** be aware of the risk of fraud, theft and/or irregularity occurring and, as far as possible, address this risk in their internal control and assurance arrangements by putting in place proportionate controls. Trusts **must** take appropriate action where fraud, theft and/or irregularity is suspected or identified.

4.8.2 The trust **must** notify [EFA](#), as soon as is operationally practical based on its particular circumstances, 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 why if not)
- whether insurance cover or the risk protection arrangement have offset any loss

4.8.3 EFA will not tolerate fraud. It reserves the right to conduct or commission its own investigation into actual or potential fraud, theft or irregularity in any academy trust, either as the result of a formal notification from the trust itself or as the result of other information received. EFA may involve other authorities, including the police, as appropriate. EFA will publish reports in line with its own policy on publishing information.

## Annex A: Definitions

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

Academic year	The 'school year' starting 1 September and ending 31 August.
Academy trust	The company which has entered into a <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, designated as accountable for <a href="#">value for money</a> , <a href="#">regularity</a> and <a href="#">propriety</a> . In single academy trusts this should be the principal. In multi-academy trusts it should be the chief executive, or equivalent, of the overall trust.
Accounting officer's statement on regularity, propriety and compliance	The academy trust's accounting officer must complete and sign a statement on regularity, propriety and compliance each year. This statement must be included in the trust's annual report and submitted to EFA at the same time as the annual accounts.
Accounts direction	EFA's annually published guide for academies on preparing their annual report and accounts.
Accounts return	A return of key financial information based on academy trusts' annual accounts, but incorporating additional data required for consolidating trusts' accounts into EFA's accounts, and for the collection of benchmarking data. EFA will collect these returns from those academy trusts in scope in a format, and by a date, to be notified. The <a href="#">accounts return</a> replaces the <a href="#">Consistent Financial Reporting</a> (CFR) return for maintained schools.
Articles of Association	The articles set out the trust's charitable object(s) and governance arrangements.
Asset	Anything that is capable of being owned or controlled to produce value and that is held to have positive economic value. Can be 'revenue' (e.g. cash) or 'capital' (e.g. a building).
Balanced budget	A formal 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 can expect to derive a benefit for more than one year: typically land, buildings, vehicles, information technology etc. Capital assets are usually referred to as fixed assets.
Chief executive	The senior executive leader and head of the management team of a multi-academy trust. Trusts may use alternative descriptions for this post such as executive principal.

Chief financial officer	The individual who leads the finance department, such as the finance director, business manager or equivalent.
Companies House	Is the UK's Registrar of Companies whose main functions are to incorporate and dissolve limited companies, examine and store company information and accounts, and making 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.
Education Funding Agency	EFA is an executive agency of the DfE that acts as the agent of the Secretary of State.
Effectiveness	Obtaining the desired outcome.
Efficiency	Obtaining the best possible outcome for the resources input.
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 will still need Charity Commission's prior approval for some transactions e.g. trustee payment for work as trustee.
Ex officio trustee	By virtue of the office or position held, an individual who automatically becomes a trustee of the academy trust.
Financial Management and Governance Self-assessment (FMGS)	A <a href="#">submission</a> for completion and return to EFA by a notified date, by new academy trusts that are not yet preparing financial statements and not yet subject to a regularity audit. The return asks trusts to self-assess their financial management arrangements in several specified areas.
Financial year	For academy trusts, this is usually the same as the academic year, from 1 September to 31 August. For most other public sector bodies (e.g. EFA) it means the period from 1 April to 31 March.
Funding agreement	The agreement between the academy trust and the Secretary of State, which includes funding arrangements, obligations of both parties and termination provisions.
General Annual Grant	<a href="#">GAG</a> is the main source of revenue funding for academy trusts.
Principal	The headteacher of an academy and the senior executive leader of a single academy trust.
Private Finance Initiative (PFI)	PFI is a way of funding public infrastructure projects using private capital.

Propriety	The requirement to deal 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 which, ultimately, derive from parliamentary authority. All academy trusts' income, expenditure, assets and liabilities are consolidated into the accounts of DfE and will be considered by Parliament to be public unless otherwise demonstrated.
Regularity	The requirement to deal with all items of income and expenditure in accordance with legislation, the terms of the trust's funding agreement and this handbook, and compliance with internal trust procedures. This includes spending public money for the purpose intended by Parliament.
Risk protection arrangement	The <a href="#">RPA</a> is an alternative to insurance for academy trusts that opt-in where losses that arise are covered by UK government funds.
Secretary of State	The Secretary of State for the Department 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. They include ex gratia payments, staff severance payments, compensation payments and other extra-statutory or extra-contractual payments. See annex 4.13 of HM Treasury's <a href="#">Managing Public Money</a> .
Statement of Recommended Practice	The Charity Commission's <a href="#">document</a> describing the form and content 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 all the resources in the trust's charge, 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 Public Interest Disclosure Act 1998.

## 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 [1.5.9](#).

Novel and contentious	Novel and contentious transactions	EFA agreement required <a href="#">[3.3]</a>
Borrowing	Bank or sponsor loan, overdraft	EFA agreement required <a href="#">[3.4]</a>
	Credit cards (for business, not personal use)	Trust has full discretion provided charges are not incurred <a href="#">[3.4]</a>
Leasing	Taking up a finance lease	EFA agreement required <a href="#">[3.9.3]</a>
	Taking up a leasehold on land and buildings	EFA agreement if lease term seven years or more <a href="#">[3.9.3]</a>
	Taking up any other lease	Trust has full discretion <a href="#">[3.9.2]</a>
	Granting a lease on land and buildings	EFA agreement required <a href="#">[3.9.3]</a>
Write-offs and liabilities (subject to £250,000 ceiling)	Writing-off debts and losses	EFA consent required if transactions: <ul style="list-style-type: none"> <li>▪ exceed 1% of annual income or £45,000 individually; or</li> <li>▪ 2.5% or 5% of annual income cumulatively <a href="#">[3.6]</a></li> </ul>
	Entering into guarantees, indemnities or letters of comfort	
Special payments	Staff severance	EFA agreement required if payment £50,000 or more <a href="#">[3.7.6]</a> and <a href="#">[3.7.10]</a>
	Compensation	
	Ex gratia payments	EFA agreement required <a href="#">[3.7.15]</a>
Acquisition and disposal of fixed assets	Acquiring a freehold on land and buildings	EFA agreement required <a href="#">[3.8.1]</a>
	Disposing of a freehold on land and buildings	EFA agreement required <a href="#">[3.8.1]</a>
	Disposing of heritage assets	EFA agreement required <a href="#">[3.8.1]</a>
	Disposal - not land, buildings or heritage	Trust has full discretion <a href="#">[3.8.2]</a>
GAG	Pooling by multi-academy trusts	No limits (except PFI) if trust eligible <a href="#">[3.10.5]</a>
	GAG carry forward	No limits if trust eligible <a href="#">[3.10.2]</a>

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

This annex, which is not a substitute for the full handbook, brings the requirements discussed throughout the handbook together in one list: the ‘**musts**’. Academy trusts also need to have regard to the definition of ‘[should](#)’.

### Governance and financial oversight

#### Must have the skills, knowledge and experience to run the academy trust.

- Must fully understand **duties as company directors and charity trustees**, must be aware of Charity Commission guidance [CC3: The Essential Trustee: What you Need to know, what you need to do](#) and must not have **de facto trustees** [[page 7](#), [1.5.12](#), [1.5.13](#) and [3.1.12](#)]
- Must appoint a senior executive leader (**principal or chief executive**), in writing, who may act as an ex-officio trustee. The role must not rotate. [[2.1.2](#)]
- Must designate, in writing, a named individual as the academy trust’s **accounting officer** (the senior executive leader - principal or chief executive) who must:
  - be a **fit and suitable** person for the role
  - take personal responsibility for **regularity, propriety and value for money**
  - **assure the board of trustees** that there is compliance with the handbook, the funding agreement and all relevant aspects of company and charitable law
  - **advise the board of trustees**, in writing, of any action or policy incompatible with the terms of the academy trust’s articles, funding agreement or handbook
  - **notify EFA’s accounting officer**, in writing, if action proposed by the board of trustees is in **breach** of the trust’s articles, funding agreement or this handbook
  - **adhere to the ‘seven principles of public life’** [[1.5.19](#) to [1.5.23](#), [2.1.8](#), [4.2.2](#) and [4.2.3](#)]
- Must ensure the board of trustees **meets at least three times a year**, and conducts business only when quorate [[2.1.3](#)]
- Must have a **chief financial officer**, who is the finance director, business manager or equivalent, to lead the finance department [[2.1.10](#)]
- Must have appropriately qualified and/or experienced **finance staff** [[2.1.11](#)]
- Must approve a written **scheme of delegation** of financial powers that maintains robust internal control arrangements [[2.1.4](#)]
- Must take full control of the academy trust’s financial affairs, apply the letter and the spirit of this handbook, and ensure **appropriate oversight** of financial transactions by:

- having all the trust's **property** and assets under the control of trustees, and measures in place to prevent losses or misuse
- having bank accounts, financial systems and financial records operated by **more than one person**
- keeping and maintaining full and accurate **accounting records**
- preparing **accruals accounts**, giving a true and fair view of the trust's use of resources, in accordance with existing accounting standards [[1.4.1](#), [1.4.3](#) and [2.1.8](#)]
- Must comply with all terms of any **Financial Notice to Improve** [[1.5.7](#)]
- Must **waive the right to delegated authorities** and seek EFA prior approval on those transactions set out in this handbook if the academy trust is subject to a Financial Notice to Improve [[1.5.9](#)]
- Must ensure **value for money, regularity and propriety** in relation to the management of its funds, using its discretion reasonably to command broad public support [[1.5.11](#) and [1.5.20](#)]
- Must provide details of the academy trust's **governance arrangements** in the governance statement published with its audited accounts [[1.5.15](#)]
- Must provide details of the board of trustees' review of their **governance structure and composition of the board**, in the academy trust's governance statement when producing audited accounts for the **first time** [[1.5.15](#)]
- Must publish up-to-date details of their **governance arrangements** in a **readily accessible form** on their websites in line with this handbook [[2.5.2](#)]
- Must ensure there are measures in place to **manage conflicts of interest** [[3.1.12](#)]
- Must ensure the chair of the board of trustees and the accounting officer manage their relationships with connected parties to **avoid both real and perceived conflicts of interest** [[3.1.13](#)]
- Must recognise that **certain transactions** with connected 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, including:
  - transactions with individuals in a position of **control and influence**, including the chair of the board of trustees and accounting officer
  - payments to commercial organisations which have a **profit motive**, as opposed to those in the voluntary sector
  - relationships with **external auditors** that go beyond their duty to deliver a statutory audit [[3.1.14](#)]
- Must capture, in the academy trust's **register of interests**, and as set out in this handbook:

- relevant business and pecuniary interests of **members, trustees, local governors** of academies within a multi-academy trust, and **senior employees** [\[3.1.17\]](#)
- interests of other individuals as set out in [3.1.18](#)
- Must **publish**, on the academy trust's website, the **relevant business and pecuniary interests** of members, trustees, local governors and accounting officers [\[3.1.20\]](#)
- Must ensure that the use of **confidentiality clauses** does not prevent an individual's right to make **disclosures in the public interest** [\[3.1.24\]](#)
- Must complete, and return to EFA, a **financial management and governance self-assessment** for new academy trusts, or constituent academies joining a multi-academy trust [\[4.3.1\]](#)
- Must notify EFA of any instances of **fraud or theft** where the value exceeds £5,000, individually or cumulatively, or of any value where the fraud is unusual or systematic [\[4.8.2\]](#)
- Must notify DfE via Edubase 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 [\[4.7.4\]](#)

## Financial planning, monitoring and reporting

### Must prepare and monitor financial plans to ensure ongoing financial health.

- Must have the full board of trustees approve a **balanced budget** for the financial year and must minute their approval [\[2.2.2\]](#)
- Must submit the **budget forecast** to EFA [\[2.2.3\]](#)
- Must ensure the board of trustees and any separate finance committee are responsible for:
  - ensuring good **financial management** and effective internal controls
  - **compliance** with the funding agreement and this handbook
  - ensuring sufficient rigour and scrutiny in the budget management process to **understand and address variances** between the budget forecast and actual income and expenditure
  - receiving and considering information on the **financial performance** of the trust at least three times a year, taking action to ensure ongoing viability [\[2.2.4\]](#)
- Must notify EFA if the board of trustees formally proposes to set a **deficit revenue budget** for the current financial year which it is unable to address, after unspent funds from previous years are taken into account [\[2.2.5\]](#)



- Must have a cautious approach to investments in line with the principles set out in this handbook [\[2.2.9\]](#)
- Must charge for **boarding provision** in line with this handbook [\[2.2.12\]](#)
- Must refer any **novel** and/or **contentious transaction** to EFA for explicit prior authorisation [\[3.3.1\]](#), [\[2.2.10\]](#), [\[3.1.15\]](#) and [\[3.8.3\]](#)
- Must obtain EFA's prior approval before **borrowing**, including finance leases and overdraft facilities, of any duration [\[3.4.1\]](#), [\[2.2.7\]](#) and [\[3.9.3\]](#)
- Must obtain EFA's prior approval for **writing off debts and losses**, and entering into **guarantees, letters of comfort and indemnities** beyond limits specified in this handbook [\[3.6.1\]](#) to [\[3.6.4\]](#)
- Must, in respect of **staff severance payments**, consider the following before making a binding commitment:
  - whether the proposed payment to be 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 in the circumstances [\[3.7.4\]](#)
- Must obtain EFA's prior approval for the **non-contractual/non-statutory element** of a **staff severance payment**, or **compensation payment**, of **£50,000** or more before making a binding settlement offer [\[3.7.6\]](#) and [\[3.7.10\]](#)
- **Must** not accept a settlement for a staff severance payment unless it satisfies the conditions in this handbook [\[3.7.7\]](#)
- Must consider, when making a **compensation payment**, whether the proposed payment is based on a careful appraisal of the facts, including legal advice, and that value for money will be achieved [\[3.7.9\]](#)
- Must obtain EFA's prior approval for **ex gratia payments** of any value [\[3.7.15\]](#)
- Must obtain EFA's prior approval, before entering into the **acquisition and disposal of fixed assets** beyond limits specified by this handbook [\[3.8.1\]](#)
- Must ensure a **lease arrangement**, or **disposal**, achieves the **best price** that can reasonably be obtained, and maintains the principles of regularity, propriety and value for money [\[3.8.2\]](#) and [\[3.9.4\]](#)
- Must obtain EFA's prior approval before entering into **lease arrangements** beyond limits specified in this handbook [\[3.9.3\]](#)

## Internal control and internal scrutiny

### Must have in place sound internal control and risk management and assurance processes.

- Must establish a **control framework** that recognises **public expectations** about governance, standards and openness [\[2.3.2\]](#)
- Must include, in the trust's **internal control framework**:
  - co-ordinating the **planning and budgeting processes**
  - applying discipline in financial management, including managing **banking, debt and cash flow**, with appropriate segregation of duties
  - preparation of monthly **budget monitoring** reports
  - ensuring that **delegated financial authorities** are respected
  - selection, **planning and oversight** of any **capital projects**
  - the **propriety and regularity** of financial transactions
  - the management and oversight of **assets**
  - ensuring **efficiency and value for money** in the organisation's activities
  - a process for **independent checking** of financial controls, systems, transactions and risks [\[2.3.3\]](#)
- Must have appropriate procedures in place for **whistleblowing** [\[2.3.5\]](#)
- Must recognise and manage **present and future risks**, including contingency and business continuity planning, to ensure the academy trust's **continued and effective operation** [\[2.3.7\]](#) and [\[2.3.8\]](#)
- Must have adequate **insurance** cover in compliance with its legal obligations and funding agreement, or has opted into DfE's risk protection arrangement [\[2.3.10\]](#)
- Must implement reasonable risk management audit recommendations made to the trust by risk auditors [\[2.3.12\]](#)
- Must establish an **audit committee**, or a committee which fulfils the functions of an audit committee, dependent on the risk, complexity and annual income of the trust [\[2.4.2\]](#)
- Must have the relevant committee provide **assurances to the board of trustees** by **reviewing the risks** to internal financial control at the academy trust and agreeing a programme of work to address those risks [\[2.4.4\]](#)
- Must oversee the controls and risks at **constituent academies** [\[2.4.5\]](#)
- Must ensure that **information submitted** to DfE and EFA that affects funding is accurate and compliant [\[2.4.6\]](#)

- Must be aware of the risk of **fraud, theft and irregularity** and address it through their internal control and assurance arrangements by putting in place proportionate controls [[4.8.1](#) and [2.3.3](#)]

## Proper and regular use of funds

### Must be able to show that public funds have been used as intended by Parliament.

- Must ensure the following principles are applied:
  - seeking EFA's prior approval on all proposed transactions **beyond the trust's delegated authority** limits
  - 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 OJEU procurement thresholds are observed
  - relevant **professional advice** is obtained where appropriate, including that of an external auditor where necessary [[3.1.1](#) and [3.1.3](#)]
- Must be even-handed in relationships with **connected parties**, and ensure goods or services provided by individuals or organisations connected to the trust are provided at **no more than cost** beyond the limits specified in this handbook [[3.1.12](#) and [3.2.2](#) to [3.2.17](#)]
- Must ensure that no member, trustee, local governor, employee or related individual or organisation uses their connection to the academy trust for **personal gain** [[3.1.12](#)]
- Must ensure there are **no payments to any trustee** unless such payment is permitted by the articles and complies with the terms of any relevant agreement with the Secretary of State [[3.1.12](#)]
- Must obtain the Charity Commission's prior approval for **paying a trustee for acting as a trustee** [[3.1.12](#)]
- Must ensure that senior employees' **payroll arrangements** fully meet HM Treasury's tax requirements [[3.1.22](#)]
- Must ensure any **gifts given** by the academy trust have the reason fully documented and have regard to propriety and regularity in the use of public funds [[3.5.1](#)]
- Must not **pool PFI** funding across a multi-academy trust [[3.10.5](#)]
- Must have due regard to the funding needs of their individual academies if multi-academy trusts **pool GAG**, and to the appeals mechanism in place [[3.10.6](#)]

- Must ensure the academy trust is eligible for the **delegations and freedoms** set out in this handbook by virtue of its funding agreement [[3.11.1](#) to [3.11.5](#)]

## Audit requirements

### Must be able to assure Parliament and the public that public funds have been used for the purposes intended.

- Must **produce audited accounts** in line with the 'Statement of Recommended Practice' (SORP) for charities [[1.4.2](#), [1.4.3](#), [2.2.14](#) and [4.1.1](#)]
- Must **submit audited accounts** to EFA by 31 December [[1.4.2](#)]
- Must **publish audited accounts** on the trust's website by the **end of January** following the financial year to which the accounts relate, file their accounts with Companies House and provide a copy to anyone who requests them [[1.4.5](#)]
- Must approve a set of **accounting policies** [[2.2.14](#)]
- Must **appoint a statutory (external) auditor** to certify whether the accounts are true and fair [[2.2.14](#) and [4.1.1](#)]
- Must put the **external audit contract** in writing as a letter of engagement [[4.1.2](#)]
- Must put **additionally purchased financial services** from the external auditor in a separate letter of engagement [[4.1.2](#)]
- Must provide in the audit contract for the **removal of external auditors** before the expiry of the term as set out in this handbook [[4.1.4](#)]
- Must notify EFA immediately of the **removal or resignation of external auditors**, and the reasons [[4.1.5](#)]
- Must prepare information, at the request of EFA, to **facilitate financial consolidation** [[4.1.7](#)]
- Must make **financial disclosures** in their audited financial statements in line with this handbook [[3.1.8](#) and [3.1.9](#)]
- Must demonstrate how the trust has secured **value for money** via the governance statement in the annual accounts [[1.5.21](#)]
- Must include a **statement on regularity, propriety and compliance**, signed by the academy trust's accounting officer, in the audited accounts [[1.5.21](#) and [4.2.2](#)]
- Must include a **review of the accounting officer's statement on regularity, propriety and compliance** within the external auditor's remit [[4.2.5](#)]
- Must address, jointly to the trust and the Secretary of State through EFA, the **auditor's conclusions on regularity** [[4.2.5](#)]

- Must cooperate with **NAO officials** and their contractors and provide such help, information and explanation as is reasonable and necessary [\[4.5.1\]](#)
- Must provide EFA with **access** to all books, records, information, explanations, assets and premises to assist EFA with its audits [\[4.6.1\]](#)
- Must **retain all records** necessary for at least six years after the end of the period to which funding relates [\[4.6.2\]](#)
- Must provide EFA or its agents with **information** of sufficient quality to meet the purposes for which it has been requested [\[4.7.1\]](#)

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

### **Charity Commission**

#### **Guidance for trustees**

[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](#)

[CC15b: Charity reporting and accounting: the essentials](#)

[CC25: Managing charity assets and resources: an overview for trustees](#)

[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](#)

[Setting up and running a charity \(home page\)](#)

### **Department for Education**

[Academies financial benchmarking](#)

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

[Accountability system statement for education and children's services](#)

[Buying for schools](#)

[Effective buying for your school](#)

[Freedom of information: guide for academies](#)

[Governance Handbook](#)

[Review of efficiency in the schools system](#)

[Risk protection arrangement](#)

[School Governance: a policy overview](#)

[Schools financial health and efficiency](#)

[Statutory policies for schools](#)

[Whistleblowing](#)

## **Education Funding Agency**

[Academies accounts direction](#)

[Academies accounts return](#)

[Academies capital maintenance fund](#)

[Academies: information for new openers](#)

[Academies investigation reports](#)

[Academies severance payments](#)

[Budget forecast](#)

[‘Dear Accounting Officer’ letters](#)

[EFA e-bulletin](#)

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

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

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

[Managing and charging for boarding provision: Full cost recovery and rate of return](#)

[Property information notes](#)

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

## **HM Revenue and Customs**

[Charities and Corporation Tax](#)

[Employers: home page](#)

[Employment status indicator](#)

[Fit and proper persons test](#)

[Introduction to money Laundering Regulations](#)

[VAT](#)

[VAT: Rates and Thresholds](#)

[VAT: Refund Scheme for Academies](#)

[VAT: Registration](#)

## **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](#)

## **Partner organisations**

[Action Fraud](#)

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

[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](#)

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

[Governance in multi-academy trusts \(NCTL\)](#)

[Information Commissioner’s Office – Freedom of Information](#)

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

## **Other**

[Academies Act 2010](#)

[CIMA - Fraud risk management: a guide to good practice](#)



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

[Crescent Purchasing Consortium](#)

[Finance Directors Forum](#)

[Fraud Act 2006](#)

[Land Registry practice guides](#)

[National Audit Office](#)

[National Governors' Association](#)

[Official Journal of the European Union](#)

[Public Accounts Committee](#)

## Acknowledgements

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

Stephen Lester	West Lakes Academy (chair)
Olu Alalade	The City Academy, Hackney
Gillian Allcroft	National Governors' Association
Valerie Andrew	Association of School and College Leaders
Helena Arnold	Gloucester Anglican Diocese representing the Church of England National Society
Jim Conway	Diocese of Hallam representing the Catholic Education Service
Tracy Darby	Debenham High School
Angela Dobrucki	Mirfield Free Grammar and Sixth Form Multi Academy Trust
Bruce Doy	Boswells Academy Trust
Charles Evans	Francis Clark chartered accountants
John Flynn	Heckmondwike Grammar School (vice chair)
Gary Holmes	George Spencer Academy (vice chair)
Alex Hunt	Ringmer Community College and National Association of School Business Management
Winnie Kinnon	Norbury Manor Business and Enterprise College for Girls
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	Hungerhill Academy Trust
Inigo Woolf	London Diocesan Board for Schools representing the Church of England National Society
David Massey	EFA

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 [EFA](#).



Education  
Funding  
Agency

© Crown copyright 2016

You may re-use this document/publication (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence v3.0. Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

To view this licence:

visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/>

email [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

About this publication:

enquiries [www.education.gov.uk/contactus](http://www.education.gov.uk/contactus)

download [www.gov.uk/government/publications](http://www.gov.uk/government/publications)

Reference: EFA-00152-2016



Follow us on Twitter:  
[@educationgovuk](https://twitter.com/educationgovuk)



Like us on Facebook:  
[facebook.com/educationgovuk](https://facebook.com/educationgovuk)