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GROUP

AUDIT SERVICES

The Board of Trustees
The Delta Education Trust
160 Herbert Avenue
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Our ref: MT/PT/RM60216

7 December 2018

Dear Sirs/ Mesdames

BUSINESS REPORT – THE DELTA EDUCATION TRUST

During the audit of the financial statements for the year ended 31 August 2018, we examined and sample tested the accounting systems which the company has established to ensure that the accounting records are accurate and reliable and to ensure that its assets are safeguarded.

We enclose a report which details weaknesses in accounting and internal controls which came to light during the course of the audit.

The report includes explanations of how the weaknesses could affect your business and our recommendations on how to improve the systems.

We would like to take this opportunity to thank you and your staff for the assistance given to us during the course of the review.

If you wish to discuss any of the issues raised in the attached appendix in more detail, please do not hesitate to contact us.

Please note that the report has been prepared for the use of the Trustees only.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Wilkins Kennedy', written over a light yellow rectangular background.

WILKINS KENNEDY AUDIT SERVICES

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1. Scope of the audit

Our audit was carried out in accordance with Auditing Standards and with reference to the legal and regulations requirements as detailed in Section 3 of this report. Our audit approach is designed to ensure that our tests are focused in those areas where in our judgement the risk of errors is high, and where the likely impact of such errors would be significant. More specifically, this involved:

- a. Subjecting systems, controls, transactions and balances to substantive testing on a sample basis;
- b. Revising our audit plan for any significant financial matters;
- c. Subjecting the financial statements to detailed analytical review, examining key ratios, trends and other statistics, obtaining and testing explanations for any unusual or unexpected variations;
- d. Reviewing minutes of meetings;
- e. Reviewing statutory financial statements where prepared by the Academy.

It must be appreciated that the matters dealt with in this report arose from the conduct of our normal audit procedures which are designed primarily to enable us to express an opinion on the financial statements of the Academy and do not necessarily involve an examination of all aspects of your internal control procedures. The responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with Trustees.

For the above reasons, our comments cannot be regarded as a full analysis of all the weaknesses or irregularities in the system of internal control or of all the financial trends or other performance data relevant to the Academy's which might be disclosed by a more detailed review nor, since we are not specifically required to search for fraud, can our audit be relied upon to disclose such matters. However, our audit was planned so that we would have reasonable expectation of detecting material misstatements of the financial statements.

This report has been prepared for the private use of the Trustees and its contents may not be disclosed to any third party without our express written consent. We assume no responsibility to any other person.

2. Independence Issues

We have detailed below the principal threats to our objectivity and independence in carrying out this audit, along with the safeguards in place to mitigate those threats.

Principal threats	Safeguards Implemented (and why they are considered effective)
<p>We are responsible for the preparation of the financial statements in addition to carrying out the audit. The service will not involve initiating transactions.</p> <p>There is a threat that, as a firm, we are perceived as being too closely aligned with the views of management to provide an independent review and/or that members of the audit team could be reviewing their own accounting work.</p>	<p>It is agreed that a senior staff member (Jen Clifford), will carry out a review of the financial statements. This will mitigate the threat of being too closely aligned with management and ensure that all accounting judgements are impartial and that the service is just one of a technical nature.</p> <p>Please see the below comment with regard to the independent principal review of the audit, which will address the self-review risk, as all audit work will need to be clearly explained.</p>
<p>We are responsible for the preparation of the Corporation Tax Return and the calculation of the associated tax liability in addition to carrying out the audit. However, as directors you remain responsible for both accounts and your Tax Returns. As independent auditors we cannot take any decisions that rightfully belong to management. Accordingly, if there are any decisions relating to the accounts or treatment of items on the Tax Return we will explain your options in layman's terms.</p> <p>However, you must make the ultimate decision.</p> <p>There is nevertheless a threat that, as a firm, we become perceived as being too closely aligned with the views of management to provide an independent review and/or that members of the audit team could be reviewing their own tax work.</p>	<p>We have extended the cyclical inspection of our completed audit engagements that is performed for quality control purposes to include a random selection of audit engagements where non-audit services have been provided.</p> <p>This independent review will comment on whether the safeguards being implemented by the firm on all audit clients are sufficient to address the threats identified.</p> <p>The independent review will also comment on whether audit work is being conducted in accordance with relevant standards and will ensure that sufficient audit work has been carried out, regardless of who prepared the original data.</p>

We consider that the safeguards in place have been sufficient to ensure our independence and objectivity has not compromised during the course of the audit.

3 Compliance with Legal and Regulatory Requirements

In undertaking our work, we reviewed compliance with the following legal and regulatory requirements:

- Relevant Academies Accounts Direction issued by the ESFA
- Applicable accounting standards (UK Generally Accepted Accounting Practice)
- Companies Act 2006
- Charities Statement of Recommended Practice (SORP) 2015

No matters came to our attention that suggested any significant breach of these requirements

Appendix 1

General Information

1. VAT – Audit Review
2. Role of Members and Trustees
3. Accounting Officers Annual letter
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5. Edubase – Notification to DfE
6. Risk Management
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8. Novel, Contentious and Repercussive Transactions
9. Staff Severance Payments

1. VAT – AUDIT REVIEW

Observation

The academy is currently not VAT registered and reclaims VAT via the Form 126.

Issue

Our audit does not examine VAT in detail and our audit procedures are not designed to detect immaterial fraud or error. Therefore, we have not reviewed individual streams of income to:

- a. Assess whether the academy is over the VAT registration threshold
- b. Ascertain whether the VAT reclaimed is correct

There are a number of income streams that may be liable to VAT, we have provided some common areas below, but please note this is not an exhaustive list:

1. Contracts whereby you receive commission or the net of income/costs for items such as uniform. The contract may be worded in such a way that you are actually the primary supplier and not an agent, if this is the case then you may be liable to register and charge VAT on these items.
2. The sale of meals to staff is a supply liable to VAT. The VAT treatment of outsourced catering contracts means that an Academy will act as principle in the sale of all meals. The sale of a meal to a member of staff (not a duty meal) will count towards the VAT registration limit
3. Certain supplies under salary sacrifice schemes can have a VAT implication either as the amounts count towards the VAT registration limit or VAT on expenses could be restricted.
4. Although the majority of income from letting the premises will be exempt depending on the exact nature of the "let" and to whom the let could be "taxable". If additional services are supplied as a separate cost they would be seen as taxable. Any charges for parking would be taxable.

From experience most Academies have some business income and if not VAT registered we would expect there to be some irrecoverable VAT and is the Academy carrying out the appropriate restrictions and checks on the VAT claimed via the VAT 126 form

Recommendation

We recommend that a separate VAT audit is undertaken if considered necessary by the trustees.

Client Response

The HMRC completed a compliance review in June 2018 and there were no further action points and no recommendations.

2. ROLE OF MEMBERS AND TRUSTEES/DIRECTORS

Observation

The roles of members and Trustees/Directors according to Academies Financial Handbook have been explained and the key points are highlighted below

Issue

Members:

- are the subscribers to the trust's memorandum of association (where they are founding members)
- may amend the articles of association (the articles include a definition of the trust's charitable objects and governance structure) subject to any restrictions in the articles or in the trust's funding agreement or charity law
- have powers to appoint and remove trustees in certain circumstances
- appoint the trust's auditors and receive the trust's audited annual accounts (subject to the Companies Act).

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

- provides for a more diverse range of perspectives to enable robust decision making and reduces the risks of concentrating power
- ensures members can take decisions via special resolution without requiring unanimity.

Employees of the trust **must not** be appointed as members unless permitted by their articles of association. The current model articles do not allow members to be employees.

The Department's view is that the most robust governance structures will have a significant degree of separation between the individuals who are members and those who are trustees. If members also sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's recommendation is for a majority of members to be independent of the board of trustees.

As responsibility to conduct the business of the trust in accordance with company and charity law sits with the trustees, **members should be 'eyes on and hands off'** and avoid compromising the board's discretion in exercising its responsibilities. However if the governance of the trust by the board of trustees becomes dysfunctional the members will have a strong interest in ensuring the board has sufficient plans to address the issues.

Trustees/Directors:

The board of trustees manages the business of the academy trust and should focus strongly on the three core functions of governance:

- ensuring clarity of vision, ethos and strategic direction
- holding executive leaders to account for the educational performance of the organisation and its pupils, and the performance management of staff
- overseeing the financial performance of the organisation and making sure its money is well spent.

The trustees must ensure compliance with the trust's charitable objects and with company and charity law, and adherence to the trust's funding agreement with the Secretary of State.

Whilst the model articles give the members the decision on whether to appoint the trust's senior executive leader as a trustee, the Department's strong preference is for no other employees to serve as trustees in order to retain clear lines of accountability through the senior leader.

ROLE OF MEMBERS AND TRUSTEES (continued)

Trustees/Directors: (continued)

The board may delegate functions to committees. Each committee of the board (other than those in a multi-academy trust constituted under the articles as a local governing body) must contain a majority of trustees, but it may also include other people the board chooses to appoint.

Individuals **must** ensure that they fully understand their duties as company directors and charity trustees.

Academy trusts **must** not have de facto trustees.

Recommendation

We recommend that the Trustees review the roles as described within the DfE's Governance Handbook - <https://www.gov.uk/government/publications/governance-handbook> to ensure full compliance.

Wilkins Kennedy can provide training to Trustees/Directors to help them understand their responsibilities if required.

Client response

Our Trustees/Directors are directed to this Handbook through our induction process and sent the updated handbook and information when it is published by the DfE.

3. ACCOUNTING OFFICERS ANNUAL LETTER

Observation

The Academies Financial handbook includes guidance on the “Dear Accounting Officer letters” received by academy trusts,

Issue

ESFA’s accounting officer will send a ‘Dear Accounting Officer’ letter annually to all academy trust accounting officers, covering issues pertinent to their role such as developments in the accountability framework and findings from ESFA’s work with trusts. Accounting officers **must** share this letter with their members, trustees, chief financial officer and other members of the senior leadership team, arrange for it to be discussed by the board of trustees and take action where appropriate to strengthen the trust’s financial systems and controls.

Recommendation

We recommend that the Trustees ensure they receive a copy of the letter and minute that the contents have been discussed.

Client Response

This letter was presented in our Board meeting in September 2018. The letter was circulated prior to the meeting and was listed as an Agenda item to be discussed and included in the minutes.

4. BOARD OF TRUSTEES – SKILLS AND EXPERIENCE

Observation

The board of trustees should identify the skills and experience that it needs, and address any gaps through recruitment, induction and/or training and other development activities. This is particularly important at key transition points, for example when converting to a multi-academy trust or during a time of growth. The board should also address this for any local governing bodies in place. The Governance Handbook identifies a range of training material to help trustees including a competency framework for governance that all trusts should refer to in determining whether they have skill gaps.

The Academies Financial Handbook includes additional information for trusts about improving efficiency.

Issue

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. The governance statement should include:

- What has been done to review and develop the governance structure
- Composition of the board of trustees
- Assessment of the trusts' governance
- Review of the composition of the board in terms of skills, effectiveness, leadership and governance.

As a reminder, Academies Financial Handbook sets out that the board should be meet at **least 3** times a year and a written scheme of delegation of financial powers should be in place.

Recommendation

We recommend that the Trustees refer to the six features of effective governance set out in the Governance Handbook (strategic leadership, accountability, people, structures, compliance and evaluation) and identify any shortfalls in trustee skills and experience against these features.

Client Response

It is an expectation that all new Trustees understand and adhere to the seven principles of public life and that they complete a Skills questionnaire that is provided by the Trust. This information is then integrated into a Skills Matrix Framework for the Trust and this document is then used to ascertain where all the Board Skills are placed and where there may be possible gaps.

5. EDUBASE – NOTIFICATION TO DFE

Observation

All academy trusts MUST 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, including direct contact details.

Issue

There are no changes to the requirements but it is important to remember that any such changes must be notified to the DfE within 14 days and failure to do so is a breach of the AFH. The trust MUST ensure that its record on 'Get information about schools' service (formerly Edubase) for all individuals holding the above positions remains up to date. While it is not part of our audit work to ensure this information is up to date, it appears that governance information is not included for Coppice Spring School on this database and that the information for The Delta Education Trust is not up to date.

Recommendation

We recommend that the Trustees appoint an individual with responsibility for ensuring that the DFE is notified within the 14 day limit and are checking that the direct contact details are all up to date.

Client Response

Jennifer Clifford, Chief Financial Officer, is responsible for ensuring all information is up to date on Edubase.

6. RISK MANAGEMENT

Observation

The Academies Financial Handbook states that 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.

Issue

There are no changes with regard to when the academy must notify the ESFA of fraud however the ESFA have now published guidance on reducing the risk of financial irregularities. Trusts should refer to this information and to the findings from EFSA's investigation reports as part of its risk management approach.

Recommendation

We recommend that on an annual basis the trust formally review the guidance on reducing the risk of financial irregularities which can be found at <https://www.gov.uk/guidance/academies-guide-to-reducing-any-risk-of-financial-irregularities>.

Client Response

A copy of the recommended guidance will be circulated to all Trustees and reviewed and discussed at the following Board Meeting as another point on the Agenda.

7. EXECUTIVE PAY

Observation

The Academies Financial Handbook states that the Board of Trustees MUST ensure that their decisions about levels of executive pay follow a robust evidence-based process and are reflective of the individual's role and responsibilities.

Issue

The policy for determining the executive's pay must be included within the Trustees report in the accounts including any benchmarks, parameters or criteria used in setting their pay. Therefore it is key that the Trustees set out a policy stating how the pay will be determined and what evidence they are to obtain each year to ensure the amounts are reflective of the individual's role and responsibility.

Recommendation

We recommend that the Trustees should regularly review their policies on determining executive pay and ensure they include a robust evidence based process.

Client Response

The Trust currently manages a robust evidence-based system that is linked to the performance management process, and each executive has their own salary range agreed by Trustees. We believe that this might not appear explicit as a separate entity within our Pay Policy and our action will be to ensure that our Pay Policy is updated to reflect this.

8. NOVEL, CONTENTIOUS AND REPERCUSSIVE TRANSACTIONS

Observation

Novel, contentious and/or repercussive transactions **MUST** always be referred to ESFA for explicit prior authorisation.

Issue

Descriptions of such transactions are:

- 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.
- Repercussive transactions are those which are likely to cause pressure on other trusts to take a similar approach and hence have wider financial implications.

ESFA may also need to refer such transactions to HM Treasury for approval and so trusts should allow sufficient time for proposals to be considered.

Recommendation

We recommend that the trust consider any “unusual” transactions to see if they potentially meet the criteria above and if believed to be the case or unsure notify the ESFA for authorisation.

Client Response

The Trust ensures that it abides to this regularity by declaring business interest at ALL Board meetings and ensuring that the Pecuniary Interest Register is up to date.

9. STAFF SEVERANCE PAYMENTS

Observation

The Academies Financial Handbook has clarified that trusts' delegated authority to make non-statutory/non-contractual staff severance payments under £50,000 is gross before income tax and other deductions

Issue

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

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

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.

Recommendation

We recommend that the Trustees review any additional payments that may be made to staff to ensure within the ESFA guidelines.

Client Response

Any additional payments are managed within guidelines of the Trusts existing pay policy.

Appendix 2

Issues Identified in current year audit

1. Observation

The Trust has not set a balanced budget for 2018/2019 as required by the academies financial handbook.

Issue

The deficit budget being produced for 2018/2019 cast doubt on the Trust's ability to continue as a going concern.

Recommendation

We acknowledge the £530,000 deficit recovery plan loan that was received in 2017/18. This amount is to be repaid over 5 years. Close monitoring of budgets and cash flows will be required going forward to ensure long term sustainability.

Client Response

This was a known outcome and is being addressed by the Trust on an ongoing basis. The Trust continually works on a strategy for growth, stringent monitoring of finances and on-going Trust improvements to consolidate services and achieve economies of scale.

2. Observation

The Trust was included on the ESFA list of trusts with 2 or more late returns.

Issue

There is a reputational risk to the Trust from not submitting required information on a timely basis.

Recommendation

We are aware that a process has been implemented to ensure future returns are on time and recommend that the effectiveness of this process is monitored on a regular basis.

Client response

This was a disappointing result as the Trust was in ongoing discussions with the ESFA with regards to the Deficit Recovery Plan and was trying to submit an accurate Budget Return. To mitigate further risk on this point, we have set up a process to submit returns at least 2 weeks prior to the submittal deadline dates.

Appendix 3

Unresolved issues from previous years

None

Appendix 4

Resolution of previous years issues

N/A.

Appendix 5

Reminder of MUSTS as set out in the Academies Financial Handbook 2017

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, 1.5.14, 1.5.15 and 3.1.12]
- Must adhere to the **seven principles of public life** (1.1.2).
- Must arrange for annual **letters to trusts' accounting officers** from ESFA's accounting officer about the accountability framework to be discussed by the board of trustees and action taken where appropriate to strengthen the trust's systems (1.5.5).
- 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 ESFA'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' [1.5.21 to 1.5.25, 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 ESFA 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 [1.5.13 and 1.5.22]

Must provide details of the academy trust's **governance arrangements** in the governance statement published with its audited accounts [1.5.17]

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** [1.5.17]

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 ESFA, a **financial management and governance self-assessment** for new academy trusts, or constituent academies joining a multi-academy trust [4.3.1]
- Must notify ESFA 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, and ensure that its record on Edubase for all individuals holding these positions remains up to date [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 **budget forecast** information to ESFA [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 ESFA 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, contentious and/or repercussive transaction** to ESFA for explicit prior authorisation [3.3.1, 2.2.10, 3.1.15 and 3.8.3]
- Must obtain ESFA'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 ESFA'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 ESFA's prior approval for the **non-contractual/non-statutory element** of a **staff severance payment** of **£50,000** or more (gross, before deductions) before making a binding settlement offer [3.7.6]
- 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 ESFA's prior approval for a **non-contractual/non-statutory compensation payment** of **£50,000** or more [3.7.10]
- Must obtain ESFA's prior approval for **ex gratia payments** of any value [3.7.15]
- Must obtain ESFA'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 ESFA'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 ensure that decisions about levels of **executive pay** follow a robust evidence-based process and are reflective of the individual's role and responsibilities [2.3.5].
- Must have appropriate procedures in place for **whistleblowing** [2.3.7]
- Must recognise and manage **present and future risks**, including contingency and business continuity planning, to ensure the academy trust's **continued and effective operation** [2.3.9 and 2.3.10]
- Must have adequate **insurance** cover in compliance with its legal obligations and funding agreement, or has opted into DfE's risk protection arrangement [2.3.12]
- Must implement reasonable risk management audit recommendations made to the trust by risk auditors [2.3.14]
- 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 ESFA 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 ESFA'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 ESFA 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 ESFA immediately of the **removal or resignation of external auditors**, and the reasons [4.1.5]
- Must prepare information, at the request of ESFA, 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 [1.5.23]
- Must include a **statement on regularity, propriety and compliance**, signed by the academy trust's accounting officer, in the audited accounts [1.5.23 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 ESFA, 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 ESFA with **access** to all books, records, information, explanations, assets and premises to assist ESFA 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 ESFA or its agents with **information** of sufficient quality to meet the purposes for which it has been requested [4.7.1]

Client Response

The Trust has reviewed all the items on the 'Must do list' and can confirm that we comply with all policies laid out in this list, unless the item does not apply to us.