



Education
Funding
Agency

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[efa-enquiry-form](#)

6 October 2016

Dear Accounting Officer

The standards of conduct expected from us as public servants have never been higher. As we begin the new academic year I am writing to all accounting officers in academy trusts, in my capacity as accounting officer of the Education Funding Agency, to reflect on our roles and to highlight some important financial management and governance issues for the sector.

I would expect you to share this letter with your chair of trustees, your other trustees and your senior management team. You should also arrange for it to be discussed at the next meeting of your board.

Whether you have recently become an accounting officer or are long-standing, you must ensure you understand your personal responsibilities as set out in the [Academies Financial Handbook](#) (the handbook) and that you are familiar with its wider requirements. Your responsibilities for the regularity, propriety and value for money of your trust's spending decisions underpin the annual assurance given to Parliament about the public money invested in academies. What we do, therefore, as accounting officers sets the standards of financial management and governance for everyone in our organisation, including the board, and influences the reputation it develops. Often our interventions into academies are because accounting officers have not fully understood these personal responsibilities.

Maintaining strong financial management and governance

Our work with you over the past year has reaffirmed that the majority of trusts are well run financially, in line with the requirements in the handbook. In a small number of cases we have found serious weaknesses in financial management and governance that have fallen short of these requirements and of the principles of public life ([the Nolan principles](#)) which apply to everyone in public office. You can read about the principles at annex A.

When we identify concerns at a trust we continue to publish the results of the [investigations](#) that we carry out alongside any [financial notices to improve](#) that we issue. These provide important lessons to improve standards of financial management and governance across the sector. You should consider whether the following pointers from our work highlight any issues in your trust.

- **Be satisfied that lines of internal accountability are appropriate.** Whilst the responsibilities of members, trustees and accounting officers are well documented in the handbook, the manner in which these key post holders interact can influence the effectiveness of financial management and governance enormously. Issues you must

consider include: the risk from concentrations of power where one person holds several key positions; whether the appointment of family members is giving rise to actual or perceived conflicts of interest; inadequate scrutiny of the leadership team by the board; and insufficient transparency around decision making.

- **Establish and monitor policies that you and your trustees would be comfortable defending in public.** A good example is your expenses policy. In all cases are the expenses claimed by your trustees and senior staff a reasonable use of public funds? Staff recruitment and pay are also areas where both policy and procedure need to be robust to show clearly that all appointments are made on merit and that salary levels of new and existing staff are justified. These areas, and your other policies, must be reviewed regularly by the board.

As accounting officer you have a responsibility to inform your board and me if you consider that any policy by the board is incompatible with the terms of your funding agreement. But this does not absolve the board itself, who must also consider the regularity, propriety and value for money of all aspects of trust business, including the actions of its leadership team, and provide appropriate challenge.

- **Ensure you can evidence compliance** with all applicable financial frameworks. Many of the findings by trusts' external auditors in 2014/15 were about basic weaknesses in internal controls such as procurement and financial reporting. Whilst the external audit provides valuable advice your board must be proactive and maintain evidence of its own rolling programme of internal checks, overseen by the audit committee or equivalent, as described in the handbook.
- **Have the right mix of skills on the board** to provide adequate oversight and challenge of the trust's short term financial performance and longer term strategy, both in relation to the rationale for financial management and governance decisions and the standards of behaviour that have been applied in reaching them. The board should review its skills and effectiveness in this context each year. The Department's [Governance Handbook](#) has information to help with this including links to [guidance from the National Governors' Association](#).
- **Manage transactions with related parties appropriately.** Your trustees have a statutory duty to avoid conflicts of interest, and so must ensure that procurement shows you have tested the market and that suppliers have been selected impartially, at cost where required. 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. You need to keep registers of business interests up to date to do this. Transparency is your best ally and the disclosures about related party transactions in your annual accounts will help you demonstrate that conflicts of interest are being identified and managed.

Developments in the framework

A new edition of the handbook came into effect on 1 September 2016. There are few new requirements. Instead it builds on our work with trusts to emphasise key points about management and governance.

- It embeds the requirement to address any gaps in the skills and experience that you need as a board, through further recruitment, induction or training.
- It emphasises the requirement for every trust to have a senior executive leader (principal, chief executive or equivalent), who I also expect to be the accounting officer, so that there is no doubt about where accountability sits for standards of financial management, particularly as we move to a sector with an increasing number of multi-academy trusts.
- It also now sets out that every trust must have a whistleblowing policy so that staff can raise concerns and know that they will be dealt with properly.

More broadly the new handbook reminds you that if you are a multi-academy trust your audit committee's oversight must extend to the financial controls and risks at constituent academies.

In relation to transparency it explains how you need to use the Department's [Edubase](#) system to provide details of the individuals involved in your trust's governance. Please ensure that the governance details on Edubase for your trust are up to date, including your email address and those of your chair and chief financial officer, so that we can continue to communicate with you effectively.

This year we are supplementing the handbook with some [guidance](#) to help you develop your awareness of the risk of fraud. This is the result of collaboration with a working group of academy trusts and I am really grateful to those of you that have helped us with this important work. Sharing our understanding of the causes of fraud will help prevent it.

We have also published new [on-line presentations](#) about the handbook and other aspects of the accountability framework which I recommend to you and your board.

The impact on financial health and efficiency

Strong governance and oversight goes hand in hand with the good financial health essential to delivering an education system that maximises the potential of our young people. As budgets face pressure it is more important than ever to spend every pound properly.

Financial health and efficiency must be led by schools and there are many examples of academies managing their budgets well, and achieving excellent results – for example through collaboration to negotiate deals and share services. We are now encouraging all of you to see where and how you can go further to improve your efficiency.

To help you with this we have expanded the [tools and guidance](#) available to develop your financial management, covering subjects such as budget planning and benchmarking, financial governance and effective procurement, and this includes examples of some excellent practice in schools. We would welcome feedback on the support available. If you

have any comments about it please email

SchoolEfficiency.FINANCIALHEALTH@education.gsi.gov.uk.

In the meantime may I thank you, and most importantly your students, for your continuing hard work and wish you every success in the forthcoming year.

Yours sincerely

A handwritten signature in black ink, appearing to read "Peter Lauener". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Peter Lauener

Chief Executive, Education Funding Agency

Annex A: The seven principles of public life

- **Selflessness** – Holders of public office should act solely in terms of the public interest.
- **Integrity** – Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
- **Objectivity** – Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
- **Accountability** – Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
- **Openness** – Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
- **Honesty** – Holders of public office should be truthful.
- **Leadership** – Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.