

# The Mercian Trust

# Financial Manual

<b>Policy Owner</b>	<b>The Mercian Trust</b>
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## Glossary of Terms

AFH	Academies Financial Handbook
ARC	Audit & Risk Committee
ARC Chair	Audit & Risk Committee Chair
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CIP	Capital Improvement Plan
DFC	Devolved Formula Capital
DfE	Department for Education
DPL	Data Protection Lead
DPO	Data Protection Officer
ESFA	Education Skills and Funding Agency
FA	Finance Assistant
FRC Chair	Finance & Resources Committee chair
FRC	Finance & Resources Committee appointed by the Trustees
GDPR	General Data Protection Regulation
HR Lead	Person responsible for administering HR at each school
LGB	Local Governing Body
MRP	Monthly reporting pack
OJUE	Official Journal of the European Union
REQ	Purchase Requisition
QMGS	Queen Mary's Grammar School
QMHS	Queen Mary's High School
SCA	School Condition Allocation
SDP	School Development Plan
SMA	Senior Management Accountant
TBM	Trust Business Manager
TFM	Trust Finance Manager
TPS	Trust Payroll Supervisor
Trust	The Mercian Trust

## INTRODUCTION

The purpose of this manual is to ensure that the Trust and its academies maintain and develop systems of financial control, which conform to the requirements both of propriety and of good financial management. It is essential that these systems operate properly to meet the requirements of our funding agreement with the Secretary of State for Education, through the Education and Skills Funding Agency (ESFA).

The academy trust must comply with the principles of financial control outlined in the Academies Financial Handbook (AFH). This manual expands on that and provides detailed information on the academy's accounting procedures and systems and should be read by all staff involved with financial systems.

This manual serves as an adjunct to the scheme of delegation providing information on the day-to-day operations and practicalities forming from this financial regulation manual.

This handbook is designed to be consistent with:

- ESFA Academies Financial Handbook
- The Trust's Articles of Association / Constitution
- The Master and Supplemental Funding Agreements
- HM Treasury's "Regularity, Propriety and Value for Money".



## PART 1 Roles and Responsibilities

### 1.1 Role of members

The trust is a charitable company limited by guarantee and its members:

- Are subscribers to the trust's memorandum of association (where 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.

Members should be kept informed about trust business so they can be assured that the board is exercising effective governance. This must include providing the members with the trust's audited annual report and accounts

The trust will undertake checks to ensure that their members are not currently subject to a direction made under section 128 of the Education and Skills Act 2008 which prohibits individuals 12 from taking part in academy trust management, and that they do not appoint as a member, a person who is currently subject to a section 128 direction

### 1.2 Role and Statutory Responsibilities of the board of trustees

The Board 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, the Academies Financial Handbook and this handbook.

1. The trustees will focus on the three core functions of governance:
  - ensuring clarity of vision, ethos and strategic direction
  - holding executive leaders to account for the educational performance of the organisation and its pupils, and the performance management of staff
  - overseeing and ensuring effective financial performance.
2. The trustees must apply the highest standards of governance and take full ownership of their duties. They must comply with the trust's charitable objects, with company and charity law, and with their funding agreement. The duties of company directors are described in sections 170 to 181 of the Companies Act 2006, but in summary are to:
  - act within their powers
  - promote the success of the company
  - exercise independent judgement
  - exercise reasonable care, skill and diligence
  - avoid conflicts of interest
  - not to accept benefits from third parties
  - declare interest in proposed transactions or arrangements
3. As an organisation, the trust has a range of obligations under current legislation and statutory guidance. Trusts obligations include such matters as safeguarding, health and safety and estates management. Ensuring strong governance in these areas will be a key priority for the board:-

a. *Safeguarding*

Academy trust boards have a duty to:

- safeguard and promote the welfare of children
- have regard to any statutory guidance on safeguarding issued by the Secretary of State
- ensure the suitability of staff, supply staff, volunteers, contractors and proprietors.

When carrying out the Prevent duty as required under section 26 of the Counter Terrorism and Security Act, trusts are required to follow the Home Office's 'Revised Prevent duty guidance: for England and Wales' and the DfE's general advice 'Protecting children from radicalisation: the prevent duty'.

b. *Health and Safety*

- The main legislation covering this area is the Health and Safety at Work etc. Act 1974 and its regulations. Under the Act the academy trust, as an employer, is responsible for the health and safety of its staff, pupils, and any visitors.
- Trust boards should follow the Department's 'Health and Safety: responsibilities and duties for schools' as well as 'Health and Safety Executive (HSE) guidance for Education'.
- Academy trusts have a duty to manage asbestos in their schools effectively, compliant with the Control of Asbestos Regulations 2012.

c. *Estates Management*

The trust's estate is both an asset and a mechanism to deliver outcomes for pupils. The Trust Board will ensure that their school estate strategically managed and maintain in a safe working condition.

d. *Financial Management*

The trustees must ensure regularity and propriety in use of the trust's funds, and achieve economy, efficiency and effectiveness – the three key elements of value for money. The trustees must also take ownership of the trust's financial sustainability and its ability to operate as a going concern.

4. *Chair of Trustees Responsibilities*

The chair is responsible for ensuring the effective functioning of the board and has a vital role in setting the highest expectations for professional standards of governance and accountability for the board. It is the chair's responsibility to give the trust board clear leadership and direction, keeping it focused on its core functions. The chair's role will be informed by the governance professional's (clerk's) advice and support.

5. The Trust will carry out an annual assessment, including a review of the composition of the Board and its committees in terms of skills, effectiveness, leadership and impact.
6. The Board and its committees will meet regularly enough to discharge their responsibilities and ensure robust governance and effective financial management arrangements. Board meetings must take place six times a year (and business conducted only when quorate).
7. While the Board cannot delegate overall responsibility for the Trust's funds, it must approve a written scheme of delegation of financial powers that maintains robust internal controls.
8. There are two finance subcommittees of the Board, the Finance and Resource Committee (FRC) and the Audit and Risk Committee (ARC). Trustees of the Board and Local Governing Body members make up these Committees and are advised by the Accounting Officer (AO)

and Chief Finance Officer (CFO) to support the board in maintaining the trust as a going concern.

### 1.3 Role of the Finance and Resources Committee (FRC) and the Audit and Risk Committee (ARC)

The FRC's role includes, but is not limited to, ensuring that financial plans are prepared and monitored, satisfying itself that the trust remains a going concern and financially sustainable, taking a longer term view of the trust's financial plans - consistent with the requirement to submit three-year budget forecasts to ESFA

The ARC's role includes, but is not limited to: appointment of external auditors, review of internal audit processes and review and investigate any matters referred by the Board of Trustees.

Full remits of the FRC and ARC are set out in the relevant terms of reference.

### 1.4 Role of the Chief Executive Officer (CEO) and Accounting Officer

The role of the Chief Executive Officer (CEO) is also that of the Accounting Officer.

In accordance with the AFH the senior executive leader (principal or chief executive) must be appointed as accounting officer, under the guidance of the board of trustees. The role of accounting officer includes specific responsibilities for financial matters. It includes a personal responsibility to Parliament, and to the ESFA's accounting officer, for the financial resources under the trust's control and for assuring 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.
- **Regularity** – dealing with income and expenditure in accordance with legislation, the trust's funding agreement, the AFH, this manual and supplementary policies and procedures.
- **Propriety** – the requirement that expenditure and receipts should be dealt with in accordance with Parliament's intentions and the principles of parliamentary control.

The accounting officer must complete and sign a statement on regularity, propriety and compliance each year and submit this to ESFA with the audited accounts. The accounting officer must also demonstrate how the trust has secured value for money via the governance statement in the audited accounts.

The accounting officer is also responsible for ensuring that they have appropriate oversight of financial transactions within the trust, by:

1. Ensuring that all the trust's property and assets are under the control of the trustees, and measures are in place to prevent losses or misuse;
2. Ensuring bank accounts, financial systems and records are operated by more than one person;
3. Keeping full and accurate accounting records to support their annual accounts.

The accounting officer must take personal responsibility (which must not be delegated) for assuring the board of trustees that there is compliance with the AFH and funding agreement.

The accounting officer must advise the board of trustees in writing if, at any time, in his or her opinion, any action or policy under consideration by them is incompatible with the terms of the articles, funding agreement or this manual.

The accounting officer must advise the board of trustees if the board appears to be failing to act where required to do so by the trust's articles of association, the AFH or its 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 of trustees gives for its decision. If, after considering those reasons the accounting officer still considers the action proposed by the board of trustees is in breach of the articles, the funding agreement or the AFH, the accounting officer must notify ESFA's accounting officer in writing.

The ESFA sends a '**Dear Accounting Officer**' letters to the trust's accounting officer. The accounting officer must share this letter with their members, trustees, chief financial officer and other members of the senior leadership team. They must also arrange for it to be discussed by the board of trustees and take action where appropriate.

### 1.5 Role of the Chief Financial Officer

The trust Board must appoint a Chief Financial Officer (CFO), who is (and whose job title may instead be) the trust's finance director, business manager or equivalent, to whom responsibility for the trust's detailed financial procedures is delegated. The CFO should play both a technical and leadership role. The CFO should be employed by the trust, and the trust must obtain prior ESFA approval if it is proposing, in exceptional circumstances, to appoint a CFO who will not be an employee.

The CFO need not discharge all their duties personally. The trust may employ additional staff or contractors with the relevant skills and knowledge at the appropriate time.

The CFO and their finance staff must be appropriately qualified and/or experienced. Trusts must assess whether the CFO, and others holding key financial posts, should have a business or accountancy qualification and hold membership of a relevant professional body, dependent on the risk, scale and complexity of financial operations. ESFA encourages larger trusts (for example over 3000 pupils) to consider the range of accountancy qualifications available from professional bodies such as the ICAEW, ACCA, CIMA or CIPFA.

### 1.6 Role of the Trust Central Finance Team

The trust is responsible for implementing strategy, policies and procedures of the board of trustees whilst ensuring the trust is compliant with the relevant laws and regulations.

The Central team will support and guide its schools and provide a range of services to support them

The Central team is responsible for the trust's financial records and returns. This financial responsibility is headed up by the CFO, supported by the finance staff across the trust

### 1.7 Role of the Head teacher/Principal

The role of the Head teacher/Principal includes:

- The management of the approved delegated budget and ensuring that this is not overspent.
- The implementation and adherence by academy staff of procedures and processes as set out in this Finance Handbook and other related policies and legislation as relevant.
- The management of other financial issues as applicable.

### 1.8 The governance professional (clerk to the board)

The academy trust must appoint a governance professional to support the board of trustees who is someone other than a trustee, principal or chief executive of the trust. The clerk should help the efficient functioning of the board by providing:

- guidance to ensure the board works in compliance with the appropriate legal and regulatory framework, and understands the potential consequences of non-compliance
- advice on procedural matters relating to operation of the board
- Administrative and organisational support.

### 1.9 Disclosure and Barring Service Checks

In complying with the Independent School Standards, and as set out in funding agreements, academy trusts must ensure enhanced Disclosure and Barring Service (DBS) certificates are obtained as appropriate for all staff and supply staff.

Similarly all academy trust members, trustees and individuals on any committees including local governing bodies are required to have an enhanced criminal records certificate from the Disclosure and Barring Service (DBS), which does not include a barred list check (unless in addition to their governance duties they also engage in regulated activity).

## PART 2a – Main Financial Requirements

### 2.1 Financial oversight

Trustees and management will maintain robust oversight of the academy trust and take full responsibility for its financial affairs, stewardship of assets and use resources efficiently to maximise outcomes for pupils.

### 2.2 Scheme of delegation

The board cannot delegate overall responsibility for the academy trust's funds. However, it must approve a written scheme of delegation of financial powers that maintains robust internal controls. The scheme of delegation should be reviewed annually, and immediately when there has been a change in trust management or organisational structure.

### 2.3 Challenge of school financial performance and Withdrawal of Delegated Budget Powers

The AO, through the CFO, will establish processes and procedures to monitor and assess the delegated financial performance of academies across the Trust, as part of the Trust's duty to ensure the effective management of resources by its constituent schools.

Where the school's financial performance gives cause for concern, the CFO will work with the relevant Head Teacher / SLT to review concerns and agree actions to rectify.

Where it appears to the CFO and CEO that a Head Teacher:

- Has failed to respond to advice or warnings (including a 'Notice of Concern') given by the trust or has failed to take remedial action recommended by the trust, or
- Has been guilty of a substantial or persistent failure to comply with requirements applicable under this financial manual, or
- Is not managing its delegated budget in a satisfactory manner.

This will be reported to the board of trustees who then have the right to suspend the delegated budget.

Any action by the trust under this section must be communicated to the Chair of the LGB and Head teacher/Principal within 7 days, stating the justification for the suspension and how this action can be ultimately withdrawn upon successful improvement.

### 2.4 Basic control principles

#### 2.4.1 Internal control principles

The trust will establish a robust control framework that includes:

- ensuring delegated financial authorities are complied with
- maintaining appropriate segregation of duties
- co-ordinating the planning and budgeting process
- applying discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations
- planning and oversight of any capital projects
- management and oversight of assets
- regularity, propriety and value for money in the organisation's activities
- reducing the risk of fraud and theft
- independent checking of financial controls, systems, transactions and risks

## 2.5 Fraud, theft and irregularity

The trust does not tolerate fraud, theft and irregularity. Where instances of fraud are found the Accounting Officer and CFO must be notified immediately, who must then take appropriate action where fraud, theft or irregularity is suspected or identified.

It is the responsibility of the CEO to notify the board of trustees and ESFA of any instances of fraud. In accordance with the AFH the board of trustees must notify ESFA, as soon as possible, of any instances of fraud, theft and/or irregularity exceeding £5,000 individually, or £5,000 cumulatively in any financial year. 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 to prevent recurrence
- whether it was referred to the police (and if not why)
- whether insurance or the RPA have offset any loss.

The Trust is responsible for monitoring fraud and whistle blowing policies.

## 2.6 Financial planning

The board of trustees must:

- ensure that financial plans are prepared and monitored, satisfying itself that the trust remains a going concern and financially sustainable
- take a longer term view of the trust's financial plans consistent with the requirement to submit three-year budget forecasts to ESFA
- as part of its management of the trust's funds, explain its policy for holding reserves in its annual report. Information on how the trust must report on reserves is set out in the Accounts Direction.

### 2.6.1 Budget planning and setting

The CFO is responsible for setting the timetable for the budget including obtaining approval from trustees and the ultimate submission to the ESFA by the deadline.

The Trust will undertake its financial and budget planning as part of the Business planning process. The Trust and each Academy prepare both medium-term (3 years) and short-term (1 year) financial plans. These financial plans will directly link to the Trust's strategic plan and the improvement plan / development plans for each school (and central team).

The Business Plan provides the framework for the annual budget and an integrated approach to curriculum and financial planning will be adopted so that the best curriculum for pupils is planned to deliver the trust's educational priorities within the available funding

The AO is responsible for preparing and obtaining approval for the annual budget. The budget is proposed by the AO / CFO to the FRC who will recommend a budget plan to the Board for approval.

The Board must ensure that budget forecasts, for the current year and beyond, are compiled accurately, based on realistic assumptions including any provision being made to sustain capital assets, and are reflective of lessons learned from previous years. Pupil number estimates will be reviewed termly as these will underpin revenue projections.

The Trust Central Finance Team will prepare a budget planning guide each year.

Key factors and drivers for budget setting are:

- Pupil number forecasts;
- Curriculum requirements;
- Staffing requirements;
- Other resource requirements (e.g. heating, lighting, insurance);
- Past performance;
- SLA and contracts;
- Corporate and Central Services and
- ESFA Funding Agreement.

Schools must set a budget that does not result in a deficit (which includes unfunded capital expenditure. If a school needs to set a budget which results in an overall deficit, then prior approval must be obtained from the Board of trustees. A deficit recovery plan that sets out actions to be taken by when must be prepared.

### 2.6.2 Capital Funding and Expenditure

The Trust Central Team will liaise with Academy Heads to identify capital expenditure requirements, which will be driven by an Estate buildings condition survey and the priorities of the Trust. From this a Capital Programme Plan will be prepared.

The trust and Academy Heads will consider appropriate sources of funding for the identified capital expenditure needs including School Condition Allocation (SCA”), Devolved Formula Capital (“DFC”) and any other grant or funding sources that can be used to fund the Capital Programme Plan.

The trust is responsible for dealing with SCA funding in conjunction with the ESFA.

DFC gives schools direct funding to help support the capital needs of their buildings/ICT. In general, this funding should be invested in the priorities agreed locally and identified in the local investment plan. It can be rolled forward for up to 3 years.

A Capital Programme Plan, including funding sources will be approved by trustees annually.

### 2.6.3 Monitoring the budget

Management accounts will be prepared every month setting out the Trust’s financial performance and position. A Management Accounts Pack “MAP” will be created monthly (utilising the Trust’s accounting software (PS Financials) and will include:

- An income and expenditure account
- Variations to budget report
- An budget outturn projection
- Balance sheet
- Cash flow forecast
- Key financial indicators

Monthly budget monitoring for the Trust will be carried out by the TBM and/or CFO who is responsible for identifying variances from the budget submitted and approved by the trust.

The TBM is responsible for submitting the MAP for the prior month to the CFO by no later than the end of the following month. If this deadline cannot be met the TBM should advise the CFO and arrange for an extension. September accounts will be produced alongside October accounts.

The CFO/TBM, are responsible for reviewing each school’s information and preparing the MAP for the trust. If this cannot be achieved the CFO must explain the reasons to the FRC Committee.

Monthly Management accounts for each academy will be shared and reviewed with the relevant Head Teacher / Principal each month by the TBM and prepare action to address any significant variances or



adverse trends. If budget responsibilities are delegated to departmental level the Head Teacher/Principal must ensure that a senior member of the department is held responsible for the financial control of that budget. All budget holders must receive or have access to regular reports comparing actual and committed expenditure against the budget allocation.

The CFO will ensure that management plan and take appropriate action to ensure ongoing viability and address any significant variances or adverse trends.

Monthly Management accounts will be shared with the Chair of FRC and Chair of Trustees every month and with other trustees at least six times a year. The Board will consider these when it meets. The Board will ensure appropriate action is being taken to maintain financial viability including addressing variances between the budget and actual income and expenditure and ensuring the trust has adequate financial skills in place.

#### 2.6.4 Cash management

The Trust manages a central bank account and the CFO is ultimately responsible for ensuring that there is sufficient cash within the bank account to cover relevant expenditure.

The day to day management of the bank accounts will be delegated to the TFM.

The trust has no overdraft facilities in place as this is prohibited by the AFH and therefore the trust and its constituent schools must not be overdrawn on any of their bank accounts.

Where a school forecasts that it will be entering into an overdrawn position in the near future (less than 6 months) the TFM must communicate this to the CFO. The CFO, who will consult with the CEO and board of trustees, will decide upon the next course of action and this may involve removal of delegated financial powers.

#### 2.7 Investments

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

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

The board should follow the Charity Commission's guidance: CC14 Charities and investment matters: A guide for trustees - <https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14>. ESFA's approval must be obtained for novel, contentious and/or repercussive investments.

#### 2.8 Reserves

Any overall surpluses or deficits (reserves) at the end of the year are carried over to the following year.

The AO must inform ESFA immediately if a Trust deficit is anticipated.

If the Trust is anticipating a deficit at the end of any financial year, the Trustees and AO have a responsibility to ensure action is taken at the earliest opportunity to address this issue. The Board must ensure that a recovery plan is submitted and approved by the ESFA.

The CFO and the FRC will review the reserves level of the Trust annually. This review encompasses the nature of income and expenditure streams, the need to match income with commitments and the nature of reserves. The level of reserves will be kept under review by the Trustees.

The Trust Reserves Policy is for 5% of GAG income to cater for risks and uncertainties, unexpected costs or shortfalls in income, working capital needs and the potential need for capital investment.

### 2.8.1 Capital Reserves

Any overall surpluses at the end of the year are carried over to the following year.

It is the responsibility of CFO to keep accurate records of the capital funds, especially where grants have been received for capital projects.

## 2.9 Procurement and spending decisions

The trust must be able to show that public funds have been used as intended by Parliament and establish arrangements to ensure:

- 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
- a competitive tendering policy is in place and applied, and the procurement rules and thresholds in the Public Contracts Regulations 2015 are observed unless alternative arrangements to these regulations are introduced
- professional advice is obtained where appropriate.

To do this the CFO will:

1. Establish and review annually a Trust Procurement Policy to set out how the Trust will manage its procurement to ensure compliance with relevant legislation.
2. Establish and maintain technical procurement procedure guides on how to procure, which must be followed by Trust and Academy staff.

The procurement process for all expenditure must be in accordance with the Scheme of Delegation and the purchasing thresholds set out in the Procurement Policy (extract at **Appendix 2**).

### 2.9.1 Purchase of alcohol

The trust's funds must not be used to purchase alcohol for consumption, except where it is to be used in religious services.

### 2.9.2 Dispensations

In limited circumstances a dispensation from the requirement to obtain alternative quotes may be granted. This may include authority to solicit a single quotation, to award a contract or place an order without having obtained the requisite number of tenders or quotations or to directly award a contract.

All dispensations require prior approval from the CFO before progressing and must not result in a breach of procurement legislation or be contrary to the Trust Scheme of Delegation.

Full details of the circumstances and reasons where a dispensation may be granted are included Trust Procurement Policy.

All dispensation requests, whether approved or rejected will be reported to the FRC. Staff may be called upon to attend the FRC to explain the reasons for requesting a dispensation.

### 2.9.3 Executive pay

The board of trustees must ensure that executive pay levels are set in accordance with the Trust's Pay Policy and in line with the Scheme of Delegation

The trust will publish on its website in a separate readily accessible form the number of employees whose benefits exceeded £100k, in £10k bandings, as an extract from the disclosure in its financial statements for the previous year ended 31 August. Benefits for this purpose include salary, employers' pension contributions, other taxable benefits and termination payments

The Trust will make tax arrangements for senior staff to ensure adherence to HM Treasury's Review of the Tax Arrangements of Public Sector Appointees which explains that senior managers with significant financial responsibilities should be exclusively on payroll, and therefore subject to Pay As You Earn with income tax and NI contributions deducted at source.

## 2.10 Income generation

The trust should set fees for its chargeable services at full cost, but can apply an additional rate of return when in a commercial environment.

### 2.11 Risk management

#### 2.11.1 Oversight of risk and the risk register

The trust approach to risk management to ensure its effective operation is set out in the Trust's Risk Management strategy. The trust's management of risks includes contingency, business continuity planning and maintaining Trust and academy level risk registers. Arrangements include:

- Overall responsibility for risk management, including ultimate oversight of the risk register, must be retained by the board of trustees, drawing on advice provided to it by the ARC.
- Other committees may also input into the management of risk at the discretion of the board.
- Aside from any review by individual committees, the board itself must review the risk register at least annually.
- Risks management covers the full operations and activities of the trust, not only financial risks.

#### 2.11.2 Insurance

It is the responsibility of the board of trustees to ensure that all risks of the trust are reviewed annually and a risk register is maintained and updated on a regular basis.

The FRC reviews insurance arrangements annually. They ensure that the sums insured are commensurate with the risks.

It is the responsibility of the LGB at school level to review all risks annually and report these back to the board of trustees. This review can be performed in conjunction with the trust where appropriate, to ensure that the sums insured are commensurate with the risks.

The Trust is opted in to the Department for Education's Risk Protection Arrangements. Information for this policy can be found at <https://www.gov.uk/guidance/academies-risk-protection-arrangement-rpa>

Each Head Teacher / Principal must consider whether to insure risks not covered by the RPA and the cost of such premiums must be met from the school's own budget.

The trust and its constituent schools will not give any indemnity to a third party without the written consent of its insurers.

The trust and its constituent schools will inform its insurers of all accidents, losses and other incidents, which may give, rise to an insurance claim.

The trust will cooperate with risk management auditors and risk managers, and implement reasonable risk management audit recommendations made to them.

## 2.12 Whistleblowing

Whistleblowing policies and procedures will be set and publicised by The Trust.

## 2.13 Provision of information

### 2.13.1 General information requests

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

### 2.13.2 Information about key individuals in the trust

The trust will notify ESFA of changes to the governance information described in this section within 14 calendar days of the change.

Notification will be through the governance section of DfE's Get information about schools (GIAS) register, accessed via DfE Sign-in.

The records required in GIAS for the trust are:

- members
- chair of trustees
- all other trustees
- accounting officer
- chief financial officer

including direct contact details for all.

The records required in GIAS for constituent academies in a trust with multiple academies are:

- head teacher, including direct contact details
- chairs of local governing bodies (where adopted), including direct contact details
- local governors (where adopted).

## Part 2b – Operational Finance Procedures

### 3.1 Financial Accounting System

All the financial transactions of the Trust must be recorded into PSF Financials (the computerised financial information accounting system). This system is operated by the Central Finance Team.

Access to the system is authorised by the CFO and is password restricted. New users will need to change their password when their sign into the system for the first time.

#### 3.1.1 Basis of accounting

Unless otherwise requested by the trust, each school and the trust should record transactions in accordance with the accruals concept.

It is the responsibility of the TFM and TBM, with the support and guidance from the CFO, to ensure that financial records reflect:

- The cost of goods and services when the benefit has been consumed; and
- The receipt of income when the organisation is entitled to it.

#### 3.1.2 Use of restricted funds

The trust is a charity and therefore subject to certain rules and regulations which includes fund accounting.

Fund accounting is an accounting system for recording resources whose use has been limited (commonly known as restricted) by the donor, grant authority, governing agency, or other individuals or organisations or by law.

The key aspect of fund accounting is identifying whether a source of income has a restriction attached to it which determines how it can be spent. The majority of grant income whether it's from the ESFA, local authority or another source tend to be restricted income.

It is the responsibility of the TFM/TBM/CFO to identify whether a source of income has restrictions attached and report such restrictions to the CFO/Head teacher/Principal and or CEO and board of trustees.

It is the responsibility of the Head teacher/Principal at the school level and the CEO and CFO at trust level to decide how these sources of income are to be spent. They are also responsible for ensuring that they receive and review the appropriate financial information to enable them to monitor how these funds are spent.

The TFM is responsible for ensuring expenditure against that source of income and be easily identifiable from the financial system.

#### 3.1.3 Journals (excluding cash/sales ledger/ purchase ledger)

All finance staff have access to Journal processing.

Supporting paperwork attached where appropriate on to the accounting system.

A monthly audit trail of nominal ledger journals are also saved to the month end folder and is reviewed by the TFM. Where journals are prepared by the TFM these are reviewed by the TBM or CFO as appropriate

#### 3.1.4 Raising sales invoices

All sales invoices issued to customers must be created via the finance system.

Sales invoices raised in arrears should be raised within 30 days of the supply taking place or contracted due date. Where services are to be invoiced in advance the sales invoice should be issued within 30 days prior to the date the supply is due to be take place.

Sales invoices must include the below details:

- Trust logo;
- Trust address;
- School contact details (or trust contact details at trust level);
- Invoice date;
- Invoice number (usually pre-defined by the finance system);
- Description of goods / service provided including amount/quantity;
- Invoice total;
- Payment terms;
- School bank details;
- Company and VAT registration numbers.

The trust is VAT registered and therefore sales invoices must include VAT if applicable.

### 3.1.5 Processing customer receipts

Where a receipt is received from a customer that relates to a sales invoice that has been raised this receipt should be recorded in the finance system within 14 academic working days of the receipt having been received.

It is the responsibility of the TFM to ensure that receipts are allocated against the correct sales invoice as this ensures the accuracy of the aged debtor reports.

### 3.1.6 Issuing Credit notes & refunds

If a credit note needs to be issued evidence must be provided to the TFM who will authorise a credit note to be issued.

If the customer requests a refund in relation to a credit note or if a duplicate payment has been received the TFM must authorise any payment issued to the customer.

### 3.1.7 ESFA Grants

Grant Income is received monthly from the ESFA and this is received into the Trusts' bank account. The TFM is responsible for checking the income received matches to the GAG remittance received and is reconciled to the payment schedule / budgeted amount.

All grants received from the EFSA must be spent on its intended purpose and in accordance with the grant conditions detailed on the EFSA website. Details of grants allocations and how it was spent must also be published on the school website for the following grants;

- Pupil Premium;
- Sport Premium; and

### 3.1.8 Other grants

Grants from other government and non- government bodies must be recorded in the finance system using a separate ledger code or cost centre.

It is the responsibility of the TFM to review grant conditions to ensure it is spent on its intended purpose and within the correct timeframe.

The TBM at school level must be aware of any claw back conditions on the grant and notify the CFO as soon as any possible claw back arises.

### 3.1.9 Online parent payments

If a school uses a third party provider to receive online parental contributions a detailed report from the online payment system which details what income has been received and for what purpose should be obtained on a regular basis.

The school must use this report to check against income received on the bank statement.

It is the responsibility of the TFM to ensure that this type of income is entered on to the finance system within 14 days of the report where possible.

### 3.1.10 Balances on conversion / Joining the Trust

For new schools who have converted or joined the Trust it is the responsibility of the Head teacher/Principal, supported by the TFM, to confirm the carried forward balances proposed to be received on conversion from the local authority / previous academy trust.

## 3.2 Collection of Outstanding Debts

### 3.2.1 Debt recovery procedure (excluding parents and students)

Customers must be monitored monthly to ensure they do not exceed their credit limit and that invoices are not overdue. This monitoring is the responsibility of the TFM.

Any customer that has been contractually invoiced but the invoice remains unpaid 30 days after the invoice date must be sent a reminder letter generated from the finance system, which includes a summary of overdue invoices.

Where a sales invoice is still outstanding 60 days after the invoice date a second letter of outstanding account reminder will be sent from the finance system including a summary of overdue invoices and a warning indicating that the services maybe put on hold. Upon issuing the reminder, the customer should be contacted by telephone/email to establish the reasons for non-payment. Any conversation or correspondence must be logged.

Where a sales invoice is still outstanding 90 days after the invoice date a Letter before Action, demanding payment within 7 days will be issued by the TFM. The TFM must ensure the Head teacher/Principal and CFO have been informed of these actions and the Head teacher/Principal must consider placing the customer on hold. At trust level the CFO must inform the CEO of any such actions.

Where a sales invoice is still outstanding 120 days after the invoice date the debt must be referred to CFO who may instruct the TFM to create a bad debt provision. The CFO, upon discussion with the Head teacher/Principal of the school will then either;

- Issue a final demand and may include an intention of court action; or
- Authorise or, seek authorisation where over the ESFA threshold, for the debt to be written off.
- At this point the debt is fully provided for in the accounts

### 3.2.2 Disposals and Write Off of stock, assets or debts approvals

The approval thresholds for disposals and write off of stocks, assets or debts are detailed in the Scheme of Delegation.

In accordance with the AFH the trust must obtain ESFA's prior approval for writing off debts and losses exceeding the below delegated limits (subject to a maximum of £250,000):

- 1% of total annual income or £45,000 (whichever is smaller) per single transaction;
- Cumulatively, 5% of total annual income in any one financial year.

In circumstances where the above limits apply, it is the responsibility of the board of trustees, supported by the CFO, to obtain prior approval from the ESFA before any communication is made to the customer of such action taking place.

### 3.2.3 Accounting for write offs

Once the debt has been approved to be written off an adjustment is to be made in the finance system within 14 days of that decision having been made.

## 3.3 Suppliers and Purchasing

The Trust Procurement Policy (see Appendix 1) sets out how the Trust will manage its procurement to ensure compliance with relevant legislation.

## 3.4 Procurement Processes and Authorisation Thresholds

Procedures on how to purchase are detailed at **APPENDIX 1**, which must be followed by Trust and Academy staff. Technical procurement procedure guides will be released on occasion to supplement these procedures. The authorisation thresholds and quotation and tendering requirements are at **APPENDIX 2**. Failure to comply with these procedures and thresholds may lead to significant penalties and legal challenges for the Trust, and could be subject to disciplinary procedures for individuals. These are summarised below:

Category A Academies (More than 500 pupils on roll):

- Below £5,000 – a single written quotation from a suitable supplier/contractor
- £5,001 - £49,999– three written quotations from suitable suppliers/contractors
- Any expenditure over £25,000 to be advertised on the Trust’s website and signed off by the Central Procurement Function and Central Finance Team
- Any expenditure over £50,000 to be managed by the Central Procurement Function

Category B Academies (less than 500 pupils on roll):

- Below £5,000 – a single written quotation from a suitable supplier/contractor
- £5,001 - £24,999 –obtain three written quotations from suitable suppliers/contractors
- Any expenditure over £25,000 to be advertised on the Trust’s website and to be managed by the Central Procurement Function

Purchasing undertaken by the Central Team:

- Below £5,000 – a single written quotation from a suitable supplier/contractor
- £5,001 - £49,999– three written quotations from suitable suppliers/contractors
- Any expenditure over £25,000 be advertised on the Trust’s e-tendering portal
- £50,000 - £189,000 – advertise on contracts finder website and invite a minimum of three (3) tenders following advertisement unless an appropriate framework may be used
- Over £189,000 – as per public contract thresholds - EU / World Trade Organisation’s (WTO) Government Procurement Agreement (GPA) compliant tender procedure or use of compliant framework

## 3.5 Staff reimbursements

There is a trust template for the Expenses Form for BACS payments which must be used by each school. The Trust are responsible for ensuring the appropriate template is used which incorporates:



- Date of Expenditure;
- Type of goods or services purchased;
- Reference to a physical receipt;
- Total amount to be reimbursed

Expense payments are authorised through manual signature or electronically through the Finance system.

### 3.6 Service agreements

Where any service level agreement is to be entered in to, this must be authorised and signed in accordance with the Scheme of Delegation. It is expected that only the Head teacher/Principal would be able to sign all such documents at school level and the CFO at trust level.

Before entering into the agreement, it is the responsibility of each school or the trust to ensure that the relevant procurement procedures have been followed and documented.

### 3.7 Travel and subsistence claims

Where expenditure is incurred by an employee in relation to the charitable activities of the trust this expenditure can be reimbursed to the employee in accordance with the **Expenses Policy** of the trust

The most common expenditure that would be incurred by an employee is in relation to travel and subsistence costs for meetings and events such as training courses.

Expenditure must only be reimbursed on completion of an **Expense Form**, the details of which can be found in s9. This form must be authorised, signed and dated by the respective Budget Holder. The CEO's expense form should be approved by the CFO, or where the CFO deems relevant, the Chair of trustees.

### 3.8 Leases

In accordance with the AFH the trust and its constituent schools are not able to enter in to finance leases without prior approval from the ESFA.

TBM is responsible for identifying potential finance leases and should seek advice and approval from the CFO before entering into any operating lease (which is allowed). Finance leases could include items such as (but not limited to) copiers, printers, ICT equipment.

To comply with the AFH the school or trust will not enter into any finance lease without approval of the FRC, and the board of trustees and permission in writing from the Secretary of State.

### 3.9 Trustee / Governor Expenses

This section refers to members, trustees and local governors as defined by the ESFA's Governance Handbook.

Where any individual in this category is also employed by trust then this section provides guidance to their governor role only.

The only expenditure that can be reimbursed to governors or trustees are any travel and accommodation costs incurred when attending trust related training events and courses. No other expenditure will be reimbursed. It is recognised in the case of trustees/governors who live more than 100 miles from the place of the meeting expenses may be submitted for accommodation and limited subsistence if the meeting is early or late in the day.

Expenditure must only be reimbursed upon completion of an **Expenses Form**. This form must be authorised, signed and dated by the Chair of the LGB for school level expenditure. The Chair's expenses must be signed off by the HT and Vice Chair of the LGB. Any trustee expenses must be

signed off by the Chair of trustees. Any expenses of the Chair of Trustees should be signed off by the CEO and the CFO, or if deemed appropriate the Vice Chair of trustees.

### 3.10 Banking

#### 3.10.1 Access to the online banking system

The trust is responsible for selecting the banking institution and negotiating terms and conditions.

If any changes are required to an existing user's access and permissions, authorisation must be provided by the CFO by email. The CFO will then action the request as appropriate and provide confirmation to the TFM once completed

Once an employee leaves the trust, they must be removed from the online banking system and as an authorised signatory for the bank accounts (if applicable) with effect from the employee's last day of work. Authorisation for this removal must be given by the TFM to the CFO by email.

Where there has been a change in the CFO, any changes in user access to the online banking system and authorised signatories must be authorised by the CEO to then be actioned by the CFO.

Where there has been a change in the CEO or trustees and any changes in user access to the online banking system and authorised signatories is required, authorisation must be provided by the Chair of the board of trustees to the CFO by email.

The CFO reserves the right to make any necessary enquiries in to such requests and refuse any requests if deemed appropriate. The issuer of the request will receive communications within 48 hours justifying the reasons for any such action.

#### 3.10.2 Opening or closing bank accounts

If the Trust wishes to open or close a bank account this should be approved by the CFO.

#### 3.10.3 Cash and cheque deposits

A deposit must be entered on a copy paying-in slip with the following details:

- The amount of the deposit; and
- A reference (for example the number of the receipt or the name of the debtor).

The TFM/TBM is responsible for ensuring the accounting system is updated within 14 academic working days.

#### 3.10.4 Payments and withdrawals

All cheques and other instruments, such as online payments like BACS, authorising the withdrawal from any of the trust bank accounts will bear two signatures from the authorising signatures/electronic signatures in line with the Scheme of Delegation.

The TFM or Head teacher/Principal must be one of the authorising signatories in a school, unless otherwise delegated.

The TFM is responsible for ensuring the accounting system is updated within 14 academic working days for any payments or withdrawals not related to the payment of a supplier or which, in exceptional circumstances, do not follow the usual process for the payment of suppliers.

Where cheques issued remain uncleared for more than three months these must be investigated and dealt with by the TFM.

Any cheques which are older than six months must be cancelled.

### 3.10.5 Direct debits and standing orders

It is the responsibility of the TFM to agree that the school may use direct debit arrangements.

The TFM should ensure that a record is kept of each direct debit set up, listing payment details, dates and length to run.

VAT can be re-claimed, provided the supplier submits a valid VAT invoice.

Standing orders are not recommended and must be approved by the CFO.

### 3.10.6 BACS payments

BACS payments are the preferred method to paying suppliers. It is the responsibility of the SMA to prepare BACS payments, usually twice a month.

A suggested payments run report must be generated from the accounting system which will show the invoices due for payment. This should be reviewed by the SMA and passed to the TFM or TBM for payment.

It is the responsibility of the TFM, TBM or CFO to process the approved BACS payment file on the online banking system. The BACS file is authorised in accordance with the required authorised signatories. Individual supplier payments of over £50,000 are approved by the Head Teacher.

Online payment authorisations are set by the CFO using the Lloyds Commercial Banking Online system. These limits should be reviewed annually by the FRC Committee. Once a payment has been approved the online payment may be completed by the TFM, TBM, CFO or other authorised signatory

### 3.10.7 Other online payments

The trust has the ability to use other forms of online payments including:

- Faster payments;
- CHAPS; and
- Foreign monies.

Of the above, faster payments will be the more commonly used transaction type and any such payments via this route must follow the procedures set out in s8.6.

CHAPS payments must be approved by the CFO.

Where a payment in a foreign currency is required, the TFM must obtain authorisation from the CFO prior to any such payment being set up and processed. Once authorisation has been given, the payment will be processed by the trust in accordance with the procedures set out s8.6.

### 3.10.8 Cheque Payments

BACS payments are the preferred method for paying suppliers, however for those suppliers that cannot be paid via BACS, cheques may be generated by the finance office.

Cheques should generally be generated using the accounting system and provided, with supporting documentation, to be approved in accordance with the bank paper mandate.

Manual cheques are raised only by exception and at the approval by the TFM/TBM/CFO, and Head Teacher/Principal.

### 3.10.9 Bank reconciliations

The TFM must ensure bank statements are received regularly and that reconciliations are performed for each calendar month by the 15<sup>th</sup> academic working day of the next calendar month. Reconciliation procedures must ensure that:

- All bank accounts are reconciled to the school's cash book;
- Reconciliations are prepared by the Finance Department;
- Details for any unreconciled items are included in the reconciliation;
- Reconciliations must be subject to an independent monthly review carried out by the TFM/CFO; and
- Adjustments arising are dealt with promptly

## 3.11 Cash handling

### 3.11.1 Petty cash

Petty cash may be kept at each school within the trust, which is the responsibility of the TFM, with the maximum amount of £1000.

The TFM is responsible for the management of petty cash and will:

- Ensure petty cash is held securely;
- Make reimbursements only on the **Expenses Form**;
- In exceptional circumstances make cash available to staff in advance of a receipt being available; however, these are limited to small items under £20;
- Reconcile month end petty cash by the 15<sup>th</sup> of the following month;
- Reconciliations must be subject to an independent monthly review carried out by the FM/CFO and are signed and dated by that individual;
- Make the petty cash available for checking at any time; and
- Record all petty cash transactions within 5 academic working days.

Any petty cash expenditure or reimbursements must be for the use of the school/trust only and personal use is strictly prohibited even if the school/trust is reimbursed at a later date.

### 3.11.2 Cash receipts

Cash receipts must only be received by the finance department or reception, counted and a physical receipt given in return. No other employees will accept cash, except for the Head teacher/Principal in the absence of the finance department.

This receipt must then be kept in the safe until collected by Finance staff member and prepared for banking. Banking should be at least once a month, and in accordance with safe insurance limits.

When the cash is ready to be banked each month, the cash will be removed from the safe, counted and reconciled to physical banking sheet. A deposit slip will then be completed and placed in a sealed envelope back in the safe until either physically banked or collected via a cash collection service the same day.

## 3.12 Charge Cards and E-Procurement

### 3.12.1 Managing the use of charge cards

Charge cards linked to a trust bank account are issued to staff under the Scheme of Delegation for the purpose of paying for goods and services for the use of the trust only.

The TFM is responsible for authorising any requests for new charge card holders and removing existing cardholders but will require signing by an authorised signatory.

The cardholder is responsible for its security the protection of any data enabling its use.

Any cash withdrawals or personal expenditure, even if the trust is reimbursed at a later date, is strictly prohibited.

Where schools have debit cards or pre-loaded cash cards, the TFM is responsible for documenting card users including details for:

- Charge card number and what to do if the card is lost or stolen;
- Appropriate use (no cash withdrawals or personal expenditure);
- All expenditure requiring prior authorisation via a signed REQ; and
- Valid VAT receipts must be retained for all expenditure.

Where cards are issued using the trust's charge card facilities, the TFM is responsible for maintaining details of each cardholder as above.

A REQ must be raised and authorised (as above) prior to any purchase being made on the charge card. The authorised REQ will be passed to the finance department who will process the transaction on the accounting system within 14 academic working days.

Where a charge card has been lost or stolen, the cardholder must notify the TFM as soon as they become aware. The TFM must then immediately contact the banking provider to cancel the charge card and report the situation to the CFO and Head teacher/Principal.

### 3.12.2 Reconciliation of charge cards

The TFM should ensure statements are available regularly for each charge card and that reconciliations are performed for each calendar month by the 15<sup>th</sup> working day of the next calendar month. Reconciliation procedures must ensure:

- Each transaction is matched against the relevant REQ/purchase order raised;
- VAT can only be reclaimed on transactions with a valid VAT receipt;
- All charge cards are then reconciled to the school's cash book;
- Details for any unreconciled items are included in the reconciliation;
- Reconciliations must be reviewed by the TFM or in their absence the TBM; and

## 3.13 Payroll

### 3.13.1 New Staff Contracts

All proposed new appointments (outside the approved structure) prior to advertisements or offer must be approved by the CEO.

Payroll forms the largest element of the school budget and it is therefore essential that financial procedures and internal controls in relation to payroll are properly implemented.

All payroll transactions relating to trust staff, permanent or casual, will be processed through the payroll system. Payments for employment will not be made through any other mechanism.

Each school within the trust and the trust level will act in accordance with the trusts' Pay Policy.

It is the responsibility of the Head teacher/Principal at school level or the CEO at trust level to authorise the appointments for temporary or permanent employment.

It is the responsibility of the HR Lead at each school to

- Action, when informed by the Head teacher/Principal, any new appointments for temporary or permanent employment;

- Inform the payroll manager of any new employee appointments following the offer being accepted by the new employee; and
- Inform the Payroll Manager of any new employee contracts or leavers via the monthly payroll summary sheet

The TMB is responsible for updating budgeting information for the new employee salary details.

### 3.13.2 Changes to contracts

The LGB will be responsible for managing performance related pay progression (annual review) this must be recommended to the trust for approval.

The LGB is responsible for the following salary changes:

- Staffing structure changes within budget;
- Pay awards for support staff (during the year) within budget

Any changes not in budget the LGB must obtain approval from the trust

All other changes to contracts, including fixed term contracts, throughout the year are authorised by the Head teacher/Principal and will be reported to the LGB.

The HR Lead in each school is responsible for collating all payroll information for changes to contract. These must be approved by the Head teacher/Principal at school level and the CEO at trust level before being sent to the Trust Payroll Supervisor (TPS). Any changes to contract details must be advised to the TPS by the 5<sup>th</sup> of the month in which payment is to be made.

The trust has outsourced its payroll arrangements, and the current supplier is EPM.

The TPS collates all information relating to changes of contract and is responsible for updating these onto the payroll bureau's portal. The TPS is responsible for checking the payroll provider's reports before authorising for processing. These reports should also be authorised by the TFM or TBM.

The HR Lead, in collaboration with the admin officer, at school level and the CEO PA at trust level are also responsible for keeping the staff personnel database up-to-date.

### 3.13.3 Claims for additional hours

Claims for additional hours can form a significant cost for the trust and therefore need to be monitored closely and on a regular basis.

Where additional hours need to be claimed by an employee they must complete an **Additional Hours Claim Form** for the preceding month which must be authorised, signed and dated by the employee's line manager. This needs to be completed and passed on to the HR Lead at school level or the CFO at trust level by the 5<sup>th</sup> of the month. Any **Additional Hours Claim Forms** received after the 5<sup>th</sup> of the month will not be processed until the following month.

Each school and the trust is responsible for ensuring an appropriate template is used for recording additional hour's claims which incorporates:

- Hours to be claimed each day;
- Reasons for additional hours;
- Signed by the individual making the claim;
- Signed by the employee's line manager; and
- Signed by the Head teacher / Principal

The TPS is responsible for communicating claims for additional hours to the payroll provider.

#### 3.13.4 Staff absence

Each School HR lead must ensure that all staff absence is managed and recorded as detailed in the Trust's Staff Absence Policy, including ensuring copies of sick notes are saved within staff members personal files.

Each School HR lead must notify the TPS if pay is to be reduced due to long term sickness.

#### 3.13.5 Checking payroll reports

The outsourced payroll provides draft payslips and costing reports for each school and central team.

The TPS is responsible for ensuring that the draft payroll reports and payslips have been checked to ensure they:

- Include only bona-fide employees;
- Include employee details in accordance with their conditions of employment;
- Deductions, income tax, national insurance and pensions, are properly administered;
- Payments are to be made only in respect of services provided to the school; and
- Include only amendments to the payroll which have properly processed and authorised such as contract changes and claims for additional hours.

The payroll reports are checked and approved by the TBM/TFM and authorised on the outsourced payroll provider's web portal.

#### 3.13.6 Authorising payroll payments

The outsourced payroll provider processes payments following the web portal approval.

- Gross pay to staff by the 28<sup>th</sup> of the month (excluding December)
- Teachers' pension by the 5<sup>th</sup> of the following month;
- Local government pension scheme by the 19<sup>th</sup> of the following month;
- PAYE, NI and HMRC and other deductions by the 20<sup>th</sup> of each month.

Any adhoc payroll payments outside of the payroll run are approved by two of TFM, TBM and CFO and are paid through the online banking authorisation system.

Payroll payment transactions must be processed to the accounting system within 10 academic working days of payment.

The payroll bureau will then produce pay slips on a monthly basis and administer to employees via secure email, on the relevant working day of each month. Payments may be made on different dates for December according to local practice, at the trust's discretion. Payment dates should be notified to all staff at the start of each tax year.

Where not processed by the payroll bureau, the TFM at school level and the CFO at trust level are responsible for ensuring the relevant monthly payments to HMRC and pension funds are made within the following deadlines:

- Teachers' pension by the 5<sup>th</sup> of each month
- Local government pension scheme by the 19<sup>th</sup> of each month
- PAYE and NIC to HMRC and other deductions by the 20<sup>th</sup> of each month.

#### 3.13.7 Processing payroll journals

Following the payroll payment date the payroll bureau will provide the TPS with summary reports detailing out the budget split of the monthly payroll. The TPS will process the salary journals within the accounting system accounting system within 10 academic working days.

### 3.13.8 Staff severance and compensation payments

The AFH refers to redundancy and settlement agreements as “special payments”. They are non-statutory or non-contractual payments.

Non-statutory or non-contractual 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 the claimant is likely to be successful in an employment tribunal claim because of employment law. In the case of poor performance, an acceptable comparison would be the time and cost of taking someone through performance management and capability procedures.

If a school or the trust is considering making any such payments above the statutory or contractual entitlements, then to comply with the AFH the Head teacher/Principal at school level or the CEO at trust level must present a business case to the CEO which considers the following issues:

- That the Head teacher/Principal and LGB at school level or the CFO and CEO at trust level 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. Where a legal assessment suggests that the trust is likely to be successful, then a settlement should not be offered; and
- For performance management related payments cost & time of the process must be quantified
- 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, or significantly lower than the cost / time to deal with performance management. In both cases the business case must specify the cost against other options and consider potential ongoing cost savings as a result of the settlement.

All settlement or other non-statutory or non-contractual transactions along with a business case must always be referred by the Head teacher/Principal to the CEO. The CEO must obtain approval from the Chair of trustees before any such payments are made or any binding settlement offer is made to staff. All such payments should be reported to trustees at the next relevant trustee meeting.

Where non-statutory/non-contractual payments are expected to be £50,000 or more the board of trustees must obtain prior approval from the ESFA (AFH) before any binding offer is made.

### 3.13.9 Ex gratia payments

As defined by the AFH ex gratia payments are another type of transaction beyond statutory or contractual cover, or administrative rules. This includes payments to meet hardship caused by official failure or delay, and payments to avoid legal action on the grounds of official inadequacy.

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 school staff in accordance with the trust’s pay and conditions policy would not be ex gratia.

Ex gratia transactions along with a business case must always be referred by the Head teacher/Principal at school level or the CEO at trust level to the Chair of the board of trustees for prior authorisation to ensure compliance with the AFH. This is because the trust must obtain prior approval from the ESFA for any such transactions. This should subsequently be reported to the trustees.

It is the responsibility of the board of trustees to obtain prior approval from the ESFA



### 3.14 Fixed Assets

#### 3.14.1 Fixed Asset Purchases

Assets acquired using capital grants or from revenue funds need to be authorised in line with the scheme of delegation and the fund/grant used to purchase the asset noted in the fixed asset register.

#### 3.15 Fixed Asset Register

All items purchased with a value over the trust's capitalisation limit of £1,000, which satisfy the definition of a fixed asset, must be entered in to the school's fixed asset register at school level or the trust's fixed asset register at trust level.

Assets brought on separate invoices within one financial year but are in the same fixed asset category that exceed the capitalisation limit can be grouped together and added to the fixed asset register.

The fixed Asset register must contain:

- Asset category;
- Date purchased;
- Description of asset;
- Which fund / grant used to purchase the asset;
- Useful life of asset (months); and
- Cost of the asset

#### 3.15.1 Disposals

The fixed asset register must be reviewed annually by the TFM, along with school based staff, to ensure the continued existence of all fixed assets.

Where assets have become obsolete or been disposed of they must be recorded as a disposal and accounted for within the finance system.

Items which are to be disposed of by sale or destruction must be authorised for disposal by the Head teacher/Principal at school level or the CFO at trust level in accordance with Appendix 1, and where significant must be sold following competitive tender.

If the school proposes to dispose of an asset, which was purchased with the aid of grant funding, or dispose of any land or buildings, prior approval must be obtained from the CFO.

In accordance with the AFH prior written approval from the ESFA must be obtained for disposal of freehold land & buildings and it is the responsibility of the board of trustees to obtain this approval.

#### 3.15.2 Depreciation

Depreciation must be calculated in line with the trust's depreciation policy as follows:

Asset Group	Depreciation Method – Straight line
<b>Post MAT assets</b>	
Long Leasehold land	0%
Long Leasehold Buildings	2%
Fixtures & Fittings	25%
ICT Equipment	33.3%
Software	20%

### **Pre MAT Assets**

Long Leasehold land	0% - 0.8%
Long Leasehold Buildings	2% - 10%
Fixtures & Fittings	10% - 25%
ICT Equipment	20% - 33.3%
Software	20%

Depreciation will be posted to the finance system on an annual basis as part of the year-end process.

### 3.16 Stock

Where any school holds stock of items for re-sale, a stock register detailing stock held must be maintained. This must include the following details;

- Item Description (including size);
- Cost per item (A);
- Quantity of items held (B);
- Total cost per item (AxB).

A stock take must be carried out on 31<sup>st</sup> August each year but it is recommended that it is also carried out at regular intervals during the year.

It is the responsibility of the TFM to oversee the stock take which includes physical counts against the register. Any discrepancies between the physical count and the register must be investigated promptly and any discrepancies over £500 reported to CFO.

### 3.17 Month end

#### 3.17.1 Reconciliation of control accounts

Before any month end reconciliations can be completed it is the responsibility of the TFM to ensure that the following transactions types have all been processed for that month where possible:

- Customer invoices, cash receipts and deposits;
- Grant and non-invoiced income received direct into the bank;
- Supplier invoices and payments;
- Non-supplier payments, for example payroll; and
- Payroll journal;
- Month end journals

It is the responsibility of the TFM to ensure the key control accounts have been reconciled to supporting evidence for that month.

These reconciliations must be completed by the 21<sup>st</sup> of each month following the month to which they relate.

Reconciliations are saved to the monthly control file, which is monitored by the TFM/CFO who ensures all controls are completed prior to finalising the management accounts.

#### 3.17.2 Closing accounting periods

On completion of s14.1 and s14.2 it is the responsibility of the TFM to close the accounting period within the accounting system.

TFM should ensure that first stage closes (accounts payable and receivable) have been completed before preparing management accounts. VAT reports should also be prepared at the same time where possible.

### 3.17.3 Monthly Management Accounts

It is the responsibility of the TBM to complete monthly management accounts and present these in the Management Accounts Pack.

## 3.18 Year end

### 3.18.1 Running the year end process

Before year end can be run, results for the month of August must be completed. It is the responsibility of the TFM or CFO to run the year end process for each school/the trust. This process will be completed once the year-end audit pack has been submitted to external auditors during October each year.

As part of the year-end the TFM/TBM or the CFO will complete the following for each school and the trust:

- Complete the year-end process on the accounting system;
- Process journals reversing all applicable year-end adjustments, eg accruals and prepayments;
- Opening all accounting periods for all sections within the accounting system; and
- Upload the budget for the new financial year in to the accounting system.

## 3.19 Maintenance of the accounting system

### 3.19.1 User access

Where a new user requires access to the accounting system or an existing user requires different permission this is overseen by the FM.

### 3.19.2 Security and back up of data

The security of an individual's user access details to the accounting system are the responsibility of the individual to whom those details relate to. Only that individual must have knowledge of those details and no other individual can use those details to access the accounting system.

It is expected that once the user has successfully logged into the accounting system they will be the one who then uses the accounting system.

In the rare occasion another individual who does not have their own user access to the accounting system requires access (for example, contracted support from a third party), they must only use the accounting system under the direct supervision of the user at all times.

Data is backed up on a regular basis. It is the responsibility of the TFM/CFO to ensure this is performed.

### 3.19.3 Chart of accounts

The trust stipulates the chart of accounts to be used by each school and the trust in respect of the nominal ledger and cost centre structure.

Each school may request changes to the chart of accounts to be adopted by all schools.

Where any changes to the department and/or analysis code structure is required this should be approved by the TFM.

## 3.20 Taxation

### 3.20.1 VAT

The trust is VAT registered.

A proper VAT invoice is the only basis on which VAT can be reclaimed if it includes:

- The supplier's name, address and VAT registration number
- The date goods/services were supplied
- The name and address of the school
- The goods or services supplied
- Amount payable excluding VAT
- Amount of VAT and the VAT rate

Schools will pay invoices gross of VAT and are then required to submit a VAT return quarterly by the 21<sup>st</sup> of the month following the quarter. The VAT reports required are automatically generated by the finance system and it is the responsibility of the TFM at school level and the CFO at trust level to ensure the information contained within this report is accurate.

The trust TFM is responsible for consolidating and submitting to HMRC the VAT return for the trust on a quarterly basis and this must be completed by the following quarterly deadlines:

- Quarter to 31 October – completed by 7 December
- Quarter to 31 January – completed by 7 March
- Quarter to 30 April – completed by 7 June
- Quarter to 31 July – completed by 7 September

Any VAT refund will be received at trust level.

### 3.20.2 P11Ds

Form P11D (Expenses and Benefits) is a tax form filed by an employer for each employee who have been provided with expenses and/or benefits during the tax year (April to March). The deadline for this form to be filed with HMRC is 6<sup>th</sup> July.

It is the responsibility of the TPS, to collate information required for the school's P11Ds (if required) and to pass this information on to the TFM by no later than 31<sup>st</sup> May each year. Where no expenses or benefits are provided, they are responsible for confirming this to the CFO.

The TFM is responsible for collating the required information for the trust and then collating all information for the submission of the trust return by the deadline of 6<sup>th</sup> July.

### 3.20.3 Corporation tax

As mentioned previously the trust is both a company and a charity and is therefore subject to corporation tax rules on non-business activities.

It is the responsibility of the CFO to collate the required information for the corporation tax return and to obtain professional advice where deemed necessary. They are also responsible for ensuring that the corporation tax return is filed with HMRC by the applicable deadline as follows:

- By 1<sup>st</sup> June (9 months and one day after the end of the financial year):
  - Pay corporation tax; or
  - Tell HMRC that the trust doesn't owe any corporation tax; and
- By 31<sup>st</sup> August – file the trust's tax return for the previous financial year (12 months after the end of the financial year).

Where necessary the CFO will request information from each school. It is the responsibility of the TFM to ensure this information is accurate and provided in a timely manner.

### 3.21 Record Keeping

All financial transactions of the school trust are recorded and retained including, but not limited to:

- Purchases and tenders;
- Payroll;
- Cash flow;
- Income and expenditure;
- VAT, PAYE and other returns as applicable.

The CFO is responsible for keeping up-to-date records of the trust's financial state.

Each school has its own set of records for day-to-day operational purposes and budget management.

All financial records will be kept securely within Finance House or appropriate storage.

In accordance with statutory limits, records must be kept for the current year and previous six years, unless required for other reasons (such as retention of records for capital or other revenue grants)

## Part 3: Internal scrutiny

### 4.1 Approach

In line with the AFH, the trust will establish a programme of internal scrutiny to provide independent assurance to the board that its financial and non-financial controls and risk management procedures are operating effectively. Internal scrutiny must focus on:

- evaluating the suitability of, and level of compliance with, financial and non-financial controls. This includes assessing whether procedures are designed effectively and efficiently, and checking whether agreed procedures have been followed
- offering advice and insight to the board on how to address weaknesses in financial and non-financial controls, acting as a catalyst for improvement, but without diluting management's responsibility for day to day running of the trust
- ensuring all categories of risk are being adequately identified, reported and managed.

The trust will identify on a risk-basis (with reference to the Trust risk register) the areas to review each year, modifying checks accordingly. For example, this may involve greater scrutiny where procedures or systems have changed.

Internal scrutiny will take account of output from other assurance procedures to inform the programme of work. For example, the Trust must have regard to recommendations from the trust's external auditors as described in the management letter, and from relevant reviews undertaken by ESFA.

Independence in internal scrutiny will be achieved by establishing appropriate reporting lines whereby those carrying out checks report directly to the ARC, which in turn provides assurance to the trustees.

The ARC will direct internal scrutiny as set out in the ARC Terms of Reference.

### 4.2 Delivering internal scrutiny

Internal scrutiny work will:

- be independent and objective – for example it will not be performed by the trust's own accounting officer, chief financial officer or other members of the finance team

- be conducted by someone suitably qualified and experienced and able to draw on technical expertise as required
- be covered by a scheme of work, driven and agreed by the audit and risk committee, and informed by risk
- be timely, with the programme of work spread appropriately over the year so higher risk areas are reviewed in good time
- include regular updates to the audit and risk committee by the person(s) or organisation(s) carrying out the programme of work, incorporating:
  - a report of the work to each audit and risk committee meeting, including recommendations where appropriate to enhance financial and non-financial controls and risk management
  - an annual summary report to the audit and risk committee for each year ended 31 August outlining the areas reviewed, key findings, recommendations and conclusions, to help the committee consider actions and assess year on year progress.

Internal scrutiny findings will be made available to all trustees promptly.

### 4.3 Options

The trust will deliver internal scrutiny in the way most appropriate to its circumstances. Options include:

- employing an in-house internal auditor
- a bought-in internal audit service from a firm, other organisation or individual with professional indemnity insurance
- the appointment of a non-employed trustee
- a peer review by the chief financial officer from another academy trust. The trust will satisfy itself that the trust supplying the reviewer has a good standard of financial management and governance and will minute the basis for its decision. The peer reviewer will be independent of the trust.

The trust may combine the above options. The trust may also use other individuals or organisations where specialist non-financial knowledge is required.

To ensure those carrying out the programme of internal scrutiny work are suitably qualified and/or experienced:

- auditors will be members of a relevant professional body
- trustees and peer reviewers performing the work will have qualifications in finance, accounting or audit, and appropriate internal audit experience.

A firm providing external audit to the Trust cannot provide internal audit services to it.

## Part 4: Annual accounts and external audit

### 5.1 Preparation and audit of accounts

The accounting period of the trust will end on 31 August as described in the funding agreement.

The CFO will ensure arrangements are in place to:

- maintain adequate accounting records and prepare an annual report and accounts in line with the Charity Commission's Statement of Recommended Practice (SORP) and ESFA's Accounts Direction
- Have the accounts audited.

The audited report and accounts will be:

- submitted to ESFA by the set deadline (usually 31 December)
- published on the trust's website by 31 January
- filed with Companies House under company law, usually by 31 May
- provided to every member (under the Companies Act)
- provided to anyone who requests a copy.

### 5.2 Audit arrangements

External auditors are appointed by the Trust Members. This contract will be re-tendered at least every 5 years.

The audit contract will be in writing. This letter of engagement will only cover the external audit. Any additional services purchased will have a separate letter of engagement specifying the requirements of the work and the fee.

#### 5.2.1 Timetable for Year End Audit

The CFO will agree an appropriate timetable for the audit with the ARC and the auditors.

During the autumn term the external auditors will conduct both on-site and remote testing across the trust and its constituent schools.

By December, the appointed external auditors will present their findings to the CFO. Following this meeting and subject to any changes, the external auditors will present the ARC and the board of trustees with the annual financial statements for them to review and approve.

Once the annual financial statements have been approved by the board of trustees the CFO is responsible for communicating the audit findings to the Head teacher/Principal and FM of each school and agreeing an action plan to resolve any weaknesses identified.

The CFO will report regularly to the board of trustees or the FRC.

The CFO is responsible for submitting the signed audited financial statements and the auditor's regularity assurance report to the ESFA by the ESFA's published deadline.

The CFO is responsible for ensuring that the latest set of audited financial statements are published on the trust's website by 31<sup>st</sup> January each year.

The trust is also required to submit the Academies Accounts return to the ESFA annually.

#### 5.2.2 Responsibilities

The CFO is responsible for ensuring that the external auditors have access to all books, records, information, explanations, assets and premises. Copies of any relevant documents may be taken by the

external auditors. It is expected that the TFM will play a significant role in supporting the CFO in the fulfilment of this responsibility.

Although the CFO is ultimately responsible for ensuring an efficient year-end audit process it is the responsibility of the TFM to assist the CFO in fulfilling this responsibility by whatever means are deemed necessary.

It is the responsibility of the CFO to assess and manage the performance of the external auditor and to communicate any concerns to the board of trustees where applicable.

### 5.2.3 Removal of external auditors

The letter of engagement will provide for the removal of auditors, before the expiry of the term of office, in exceptional circumstances. Proposals to remove auditors will require a majority vote of the members who must provide reasons for their decision to the Board. There must be a requirement in the letter of engagement for the auditors to provide the trust with an explanation if the auditors resign, within 14 days of their resignation.

The Board will notify ESFA immediately of the removal or resignation of the auditors. For removal, the Trust will notify ESFA of the reasons for the removal. For resignation, the Trust will copy to ESFA a statement of explanation from the auditors. A change in auditor at the expiry of their agreed term of office does not require notification to ESFA.

### 5.2.4 Review of regularity

A review of the accounting officer's statement will be included within the remit of academy trusts' external auditors. The auditor's conclusions on regularity will be addressed jointly to the Trust and to ESFA.

The CFO is responsible for managing the audit process, by liaising with the auditors, arranging the timetable for accounts and audit completion and ensuring deadlines are met.

## Part 5: Delegated authorities

### 6.1 Requirement to obtain ESFA approval

The trust has autonomy over financial transactions arising in the normal course of business. However, some transactions have delegated authority limits beyond which trusts must obtain prior ESFA approval.

A schedule of delegated authorities is included in the DfE AFH.

#### 6.1.1 Special staff severance payments

As detailed in The Purchasing and Authorising Thresholds (*Appendix 1*) severance payments up to £50,000 must be approved by the AO. Severance payments over £50,000 require Trustees' and ESFA approval.

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

Additionally, in accordance with HM Treasury's Guidance on Public Sector Exit Payments, academy trusts must obtain prior ESFA approval before making a staff severance payment where:

- an exit package which includes a special severance payment is at, or above, £100,000; and/or



- the employee earns over £150,000.

#### 6.1.2 Confidentiality clause

The Trust will 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.

#### 6.1.3 Ex gratia payments

Ex gratia, transactions will always be referred to ESFA for approval. HM Treasury approval may also be needed. If the Trust has any doubt about a proposed transaction, they will seek ESFA advice.

#### 6.1.4 Compensation payments

When the 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.

The Trust has delegated authority to approve individual compensation payments provided any non-statutory/non-contractual element under £50,000. Where the trust is considering a non-statutory/non-contractual payment of £50,000 or more ESFA's approval will be obtained. ESFA will refer such transactions to HM Treasury.

#### 6.1.5 Disclosure

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

- special payments – compensation
- special payments – ex gratia
- writing off debts and losses
- guarantees, letters of comfort and indemnities
- acquisition or disposal of freehold land and buildings
- disposal of heritage assets
- taking up or granting a leasehold on land and buildings
- gifts by the trust

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

- special payments – staff severance, of any value

Other than what is required under financial reporting standards, the Charities SORP and the Accounts Direction, disclosure can be anonymised.

## 6.2 Novel, contentious and repercussive transactions

Novel, contentious and/or repercussive transactions will be referred to ESFA for prior approval. ESFA may refer such transactions to HM Treasury for approval, so trusts should allow sufficient time for proposals to be considered.

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

### 6.3 Write-offs and entering into liabilities

The trust will obtain ESFA's prior approval for the following transactions beyond the delegated limits described below:

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

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

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

In relation to these limits:

- the trust will always pursue recovery of amounts owed to it, including overpayments, or erroneous payments. In practice, however, there will be practical and legal limits to how cases should be handled
- the trust will only consider writing-off losses after careful appraisal, including whether all reasonable recovery action has been taken with the debtor, the trust's insurers, or the risk protection arrangement, and should be satisfied there is no feasible alternative
- the amounts for write-offs are before successful claims from an insurer or the risk protection arrangement

Total annual income is defined as grant income as disclosed in the trust's last audited accounts. ESFA should be contacted if the trust has not yet published their first audited accounts.

Before accepting liabilities by issuing guarantees, a letter of comfort or indemnity, the trust will secure value for money by appraising the proposal through assessment of the costs and benefits of relevant options.

### 6.4 Acquisition and disposal of fixed assets

Academy trusts must obtain prior approval from ESFA for the following transactions:

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

Other than land, buildings and heritage assets, trusts can dispose of other fixed asset without ESFA's approval subject to achieving the best price that can reasonably be obtained, and maintaining the principles of regularity, propriety and value for money. Find out more about seeking consent for land and buildings transactions.

### 6.5 Leasing

There are two types of lease:

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

Trusts must obtain ESFA's prior approval for the following leasing transactions:

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

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

## 6.6 Managing General Annual Grant (GAG)

### 6.6.1 Managing surplus GAG

The Board will ensure GAG carried forward by trusts from year-to-year as part of reserves is directed to be invested in Trust priorities, as set out in the Trust's strategic plan.

### 6.6.2 Payment of Top Slice

The trust will annually agree the percentage of the General Annual Grant ("GAG") to be retained centrally and will provide a statement of the functions and services that will be provided.

For budgeting purposes academies will be advised of the expected top slice by the end of March prior to the start of the next academic year. This will be subject to approval of the trust budget by trustees.

If a Head Teacher / Principal feels that the academy has been unfairly treated, they can appeal to the trust. If the grievance is not resolved, the Head Teacher can appeal to the Secretary of State, via ESFA, whose decision will be final and who can dis-apply the provisions for pooling.

## 6.7 Gifts and Hospitality

All staff must follow the Trust's Gift and Hospitality policy and record the acceptance of gifts, hospitality, awards, prizes or other benefits in the Trusts register for gifts and hospitality. It is the responsibility of the relevant Head teacher/Principal to ensure that this register is kept up to date for their staff.

When making gifts, the trust must ensure the value is reasonable, is within its scheme of delegation, the decision is documented, and achieves propriety and regularity in the use of public funds.

The CFO will ensure that this register is kept up to date and submitted to the board of trustees on a regular basis.

## 6.8 Borrowing

To ensure the trust complies with the AFH, an academy or the trust must not enter into any borrowing arrangement without the prior approval of the board of trustees. However, in accordance with the AFH, the trust may borrow money only with the written permission of the Secretary of State. Schools are allowed to use any scheme that the Secretary of State has said is available to schools without specific approval.

Where an academy or the trust believe they require such an arrangement a proposal must be submitted to the board of trustees. This proposal must justify why such an arrangement is required and the full terms and conditions of the proposed arrangement.

The board of trustees are responsible for obtaining prior approval from the Secretary of State before the trust can enter into any borrowing arrangements except for those schemes that the Secretary of State has said is available to schools without specific approval.

## 6.9 Related party transactions

School trusts must be even-handed in their relationships with related parties and it is the responsibility of the board of trustees to ensure that the requirements for managing related party transactions are applied across the trust.

Trade with any party that falls within the definition of a connected party must be subject to more stringent procurement procedures to ensure compliance with the AFH including reporting of connected party transactions and obtaining approval from the ESFA where applicable.

It is the responsibility of the Head teacher/Principal at school level and the CFO at trust level to ensure that the procurement process is compliant with the relevant sections of the AFH.

Following completion of the procurement process, and prior to any new business being placed with a connected party, approval must be obtained from the board of trustees. This approval aims to ensure:

An even-handed approach has been followed;

- Performance measures are clearly defined; and
- At cost requirements have been met where applicable.

The CFO is responsible for reporting related party transactions using the ESFA's online portal. The CFO is responsible for identifying contracts over £20,000 and obtaining approval from trustees and the ESFA.

It is the responsibility of the trust to publish on the trust website the relevant business and pecuniary interests of members, trustees, local governors and accounting officers. The trust has discretion over the publication of the interests of any other individual named on the register.

As a trust, each constituent school must be aware of the business and pecuniary interests of the entire trust and not just those of its own LGB. To ensure this occurs, it is the responsibility of each LGB to inform the CFO within 48 hours of any changes to their own LGB's business and pecuniary interests. The CFO is responsible for updating a master register which will then be circulated to every Head teacher/Principal and FM within the trust.

The Head teacher/Principal of each constituent school are responsible for ensuring the latest master register of business and pecuniary interests of the trust is published on its own school web site.

## 6.10 Irregular transactions

Irregular transactions are transactions that do not form part of the charitable activities of the trust such as an employee using school funds for personal expenditure and any such expenditure is strictly prohibited.

In the unlikely even any such expenditure is identified, this must be reported to the CFO within 2 academic working days of having been identified who will determine the appropriate course of action.

The board of trustees must also be made aware of any such expenditure at the earliest opportunity and report these to the auditors / ESFA.

## 6.11 Declaration and Register of Interests

The trust is responsible for ensuring a register of business and personal interests is maintained for members, trustees, governors of LGB's, head teachers/Principals and relevant staff members. It is freely available for inspection by governors, staff and parents and a summary should be published on the trust's and each relevant school's websites.

The register of interests must capture relevant business and pecuniary interests include:

- Directorships, partnerships and employments with businesses;
- Trusteeships and governorships at other educational institutions and charities; and
- The name of the business; the nature of the business; the nature of the interest; and the date the interest began.

The register must identify relevant material interests arising from close family relationships between the school trust's members, trustees or local governors. It must also identify relevant material interests arising from close family relationships as defined in the AFH.

A related party is:

- Any member, trustee, or local governor of the trust;
- Any individual or organisation connected to a member, trustee or local governor of the school trust, including;
  - A relative of the member or trustee 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, and not limited to, a child, parent, spouse/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 and/or a trustee or the relative of a trustee holds more than 20% of the share capital or is entitled to exercise more than 20% of the voting power at any general meeting; and
  - An organisation which is controlled by a member or the relative of a member, and/or a trustee or the relative of a trustee. 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 their 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 school trust; or anybody related to such individual or organization; and
  - Any individual or organisation recognised by the Secretary of State as a sponsor of the school trust; or anybody related to such individual or organisation.

The register should be kept up to date and complete, and includes all governors and relevant staff. In this regard, each governor and member of staff provides signed and dated returns, including nil returns, on an annual basis. On the appointment or election of new Governors the Clerk will invite them to register their interest and cancel and sign the entry of the retiring governor.

In addition, there are in-year declaration procedures to enable Governors, the CEO/Head Teacher/Principal and staff to declare interests as they become aware of them. "Declarations of Personal and Business Interests" should be a standing agenda item for the Trust, trust committees and LGB meetings.

## 6.12 Summary of freedoms and delegations

**Appendix 3** provides a summary of freedoms and Trust delegated authorities in relation to the funding agreement. Full details are in the AFH.

## Part 6: The regulator and intervention

The ESFA oversees academy trusts and may intervene where concerns arise. The Trust will comply with these requirements – as set out in Part 6 of the AFH.

## APPENDIX 1 – Procurement

### 1. The Procurement Process

The procurement process for all expenditure must be in accordance with the Scheme of Delegation and Authorisation Thresholds and Quotation and Tender requirements set out in **APPENDIX 2**, unless impracticable to do so. In such circumstances, the Dispensation process (detailed in the Trust's Procurement Policy) must be followed and all Dispensation requests will be reported to the FRC or the board of trustees for the trust.

Trustees recognise that there may be a limited number of occasions when a full tender is not appropriate, for example due to:

- The specialised nature of the services being bought, or
- Limited suppliers in the market, or
- The urgency of the need for the purchase on health and safety / educational / financial grounds
- Where the cost or price of a service is fixed nationally or regionally by a government department

In such cases this must be approved by Trustees and appropriate benchmarking and market testing of the arrangements must be undertaken to demonstrate value for money taking into consideration financial and non-financial criteria.

Where purchases are part of a series of purchases spanning more than 1 payment (e.g. a waste disposal contract over 3 years) the aggregate value should be taken as the value for purchasing procedure requirements.

Where purchases are part of the same project and could be contracted by the same company they should be aggregated for purchasing procedure requirements. i.e. Window replacements of two buildings, to be completed in the same period.

Where a quotation other than the lowest is accepted, the reasons for this must be documented.

A tightly drawn up contract specification is the best way for the trust to ensure it receives the service it was expecting. It is the basis on which the trust can seek redress for service quality or quantity if it falls below the level specified and therefore provides a framework against which the success of the contract can be measured. A contract specification should contain the following elements:

- Contract duration;
- Definitions;
- Contract objectives;
- Services to be provided and quantities;
- Service quality standards;
- Contract value and payment arrangements;
- Information and monitoring requirements;
- Procedure for dealing with disputes

### 2. Choosing a supplier

Where the trust has adopted an approved supplier list, and where practical, purchases should be made from this list.

Following the procurement process, if a purchase needs to be made from a new supplier then a new supplier form should be completed and authorised by the SMA.

### 3. Setting up a new supplier

Before placing any purchases with new suppliers the following supplier review checks must be completed where practical:

- Credit or trade check on the supplier's financial position for projects over £25,000;
- Payment terms and credit limit being offered;
- IR35 self-employment;
- Warranties and/or guarantees being offered and returns policy; and
- Any other terms and conditions of trade.

There is a Supplier Set Up form. The trust is responsible for ensuring an appropriate template is in place which evidences the required checks required as listed above having been completed and the results appear reasonable prior to entering in to any trade with that supplier. This form must be authorised by the SMA.

Once this form has been completed and authorised the supplier can be set up on the accounting system. The SMA must review the details on the accounting system to source documents prior to payment being made to that supplier.

The TFM is responsible for agreeing any payment terms with suppliers which are less than 30 days from the date of invoice and any variations such as payment by direct debit.

### 4. Amending supplier details

If supplier details need to be amended, for example a change in bank details, it is the responsibility of the SMA to complete the relevant parts of the Supplier Set Up form to evidence these changes or attached other supporting documents to the accounting system to evidence the change.

Any change in bank details must be documented and approved by the SMA and must be checked by telephone or separate email to the usual address (not that used to invoice).

### 5. Purchase requisitions

Purchase requisitions ("REQ") should be completed where possible and authorised in accordance with the Scheme of Delegation prior to conducting any procurement process or the purchase of any goods and services, with a de-minimis of £250, excluding the following:

- Utilities (including telephones);
- Rates;
- Catering contracts & weekly food ordering
- Exam fees
- Supply teachers
- Emergency building works up to £500
- Reprographic copy charges
- Where a purchase is part of a contract the REQ should be raised only at the start of the contract. This could be raised annually where the system requires
- Other items which may be agreed by the CFO.

Where a REQ has been raised prior to conducting a procurement process, the REQ is likely to contain estimated information such as the cost of the goods or service. On completion of the procurement process the REQ must be revised to include the correct information, with the amendments being authorised in accordance with the Scheme of Delegation.



The signatory who raised the REQ must be satisfied that the goods or services ordered are appropriate and needed, that there is adequate budgetary provision and that the appropriate procurement process has been followed where applicable.

## 6. Purchase orders

Orders from the accounting system must be issued from an authorised REQ for all work, goods and services except for those listed as being excluded (above). The accounting system that the trust uses issues pre-numbered orders

Orders are used only for goods and services provided to the trust. Individuals must not use official orders to obtain goods and services for their private use.

All orders must be approved in line with the Scheme of Delegation. Where the segregation of duties is not practical (i.e. in smaller schools) the TFM may enter the orders onto the accounting system and authorise the orders.

When an order is placed, the estimated cost is committed against the appropriate budget heading so that it features in subsequent budget monitoring.

It is the responsibility of the TFM to monitor commitments and cancel any orders where the goods or services are no longer required and therefore not delivered.

## 7. Confirming delivery of goods or services

Either the signatory who raised the REQ, or the appropriate member of staff receiving the goods (e.g. Reception or other school based staff) is responsible for checking the goods and services on receipt to ensure they match the order and the order is marked accordingly.

A Goods Received Note “GRN” should be entered by the receiving staff member on to PSFinancials.

Following confirmation of services/goods delivered the invoices is passed for payment on the accounts system.

## 8. Processing invoices and credit notes

Invoices which match a Purchase Order and have confirmation of Goods receipt will be processed for payment.

Where items have no Purchase Order or have not been confirmed as received within the accounting system they will be passed for authorisation to the Budget Holder.

Monthly exception reporting for orders without Purchase Orders is reviewed by the TFM and reported to the CFO and Head teacher/Principal.

All invoices and credit notes must be entered on to the accounting system within 10 academic working days of receipt regardless of whether the delivery note sign off has been completed. This ensures the accounting system reflects the true liabilities of the school and the trust.

The school/trust must not make payment on the basis of a copy invoice without completing the prescribed checks and evidencing that the invoice is a copy invoice.

Pro-forma invoices are not valid VAT invoices and therefore must not be entered on to the accounting system. These types of invoices are to be used for raising advance payments only.

## 9. Raising payments

Only the TFM/TBM or CFO for the trust can certify invoices for payment. This must not be neither the person who processed the order, nor the person who checked receipt.

Payments are made through the accounts system at least twice a month and only against actual invoices. See payment methods and procedures below.

It is recommended best practice that payments should not be made against pro-forma invoices. However, where this is unavoidable then authorisation must be obtained from the CFO.

## Appendix 2 – Purchasing and Authorisation Thresholds

Delegated Duty	Value	Delegated Authority (Cumulative)	
		Operational	Financial
Requisitions for orders or invoice approval	Below £1,000	Budget Holder	
	£1,001 to £5,000	Members of SLT/ Site Manger	TBM
	from £5,001 to £50,000	Head teacher/Principal	TBM
	From £50,001 Up to £100,000	Head teacher/Principal	CFO / CEO
	Over £100,001 and up to £250,000	CEO	CFO
	Over £250,001 and up to £500,000	CEO	FRC
	Over £500,000	The Mercian Trust Board	FRC
Quotations and tendering	Up to £5,000	Minimum of one written/ Email quotation or Published Price List	
	£5,001 to £10,000	Minimum of three written/ Email quotations to be obtained.	
	£10,001 to £50,000	Minimum of three quotes to be obtained based on an agreed specification. All expenditure over £25,000 to be advertised on online.	
	£50,001 to relevant OJEU / PCR limit	Any expenditure over £50,000 to be managed by the Central Procurement Function to ensure compliance with relevant procurement legislation.	
	Over OJEU / PCR limit	OJEU advertising required and Trustee/FRC committee approval	
Special payments - ex gratia, staff severance and	Up to £50,000	CFO and CEO (ESFA approval also required if ex gratia).	

compensation payments		
	Over £50,000	Trust Board and ESFA approval.
Disposal of assets approval	Up to £5,000	Head teacher/Principal
	Over £5,000	FRC committee
Write off of bad debts approval	Up to £5000 limit per individual transactions	Head teacher/Principal or CFO
	Over £5,000 to ESFA limits	FRC Committee
	ESFA limits	Trust and ESFA
Petty Cash Level	Up to £500	Any higher levels to be agreed with the CFO

## Appendix 3 – Summary of Freedoms

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