

# **Academies**

## **Financial Handbook**

Issued by DfES: September 2006  
For queries contact: DfES, Academies Finance Team, (see appendix 3)

## Foreword

The Academies Financial Handbook is the DfES's financial guide for the governing bodies and managers of academies. Drawing on the overall financial requirements specified in academy Funding Agreements, it provides detailed guidance on a wide range of financial management, funding and accounting issues.

It sets out the overall governance framework for academies and describes the key systems and controls that should be in place. It describes the grants that the Department makes available and specifies the financial reporting/budget management arrangements that must be followed by academies to ensure accountability over the substantial amount of public funds that they control. It also discusses in detail the requirements for preparing an annual trustees report and accounts in order to comply with company law, accounting standards and Charity Commission expectations.

This latest version of the handbook includes a number of revisions, the main changes being:

- suggested types and levels of insurance cover are now included (section 1.7);
- the limited scope for academies to borrow has been clarified (section 1.7);
- an expanded description of governing body responsibilities is included (sections 1.8, 9, 31 and 32);
- guidance on conflict of interest has been expanded (sections 1.21 and 2.65);
- information on risk management has been updated and now includes a suggested risk register (section 1.36 and annex 1g);
- the professional qualifications generally expected of the finance director have been emphasised (section 2.11);
- the Department's series of financial management review visits to academies is explained (section 2.93 and 2.94);
- a section on best practice for procurement has been added (annex 2d);
- guidance on VAT has been restructured (annex 2f). NB: discussions with HM Revenue and Customs are ongoing regarding the VAT treatment of buildings with part-community use;
- more detailed descriptions of DfES grants are included (section 3);
- reference to the use of benchmarking is included (section 4.7);
- the deadline for submitting a provisional (unaudited) outturn statement on form GAG3 has been brought forward by one month to 30 September (section 4.22);
- revised budget monitoring forms (GAG1, 2, 2A and 3) have been drawn up (annexes 4a to 4d);
- guidance on preparation of annual accounts has been updated to reflect the most recent version of the Charity Commission's Statement of Recommended Practice: Accounting by Charities (SORP 2005), and a revised set of pro-forma accounts has been drawn up (section 5);
- a list of DfES contacts is included (appendix 3).

The Department is grateful to those academy staff that have made suggestions or observations about the handbook, and to the Charity Commission for ensuring that it complies with their latest SORP. If you have any questions on the application of the handbook, or have suggestions for future revisions, please contact the Academies Finance Team in the Department.

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# Part 1

## Overall Financial Arrangements

### Regulatory Framework for Academies

1.1 The **Education Act 1996**, as amended by the Learning and Skills Act 2000 and the Education Act 2002, established academies as independent schools with the following characteristics:

- an urban location;
- providing education for pupils of differing abilities and drawn mainly from the local area;
- unable to impose any charge in respect of admission to the school;
- having a broad curriculum with an emphasis on one of the following:
  - science and technology;
  - technology in its application in the performing arts;
  - modern foreign languages;
  - visual arts, performing arts or media arts (or any combination of them);
  - sport;
  - any subject specified by order of the Secretary of State.

1.2 Academies have been constituted as charitable companies limited by guarantee. This means that they must comply with:

- **company law** as set out in the Companies Act 1985 (and subsequent Acts);
- **charity law** and the requirements of the Charity Commission and its *Statement of Recommended Practice (SORP) - Accounting and Reporting by Charities*, as revised in March 2005.

1.3 Company and charity law brings a key requirement, in the context of financial management, that academies must prepare and publish a governors' report and audited accounts in a prescribed format on an annual basis.

1.4 Academies are also subject to a **DfES Funding Agreement** which is, in effect, a contract between the academy trust and the Secretary of State for Education and Skills setting out the arrangements to be followed as a condition of receiving grant from the DfES. One of these conditions is that academies must abide by the provisions within the **Financial Handbook**.

1.5 The DfES offers financial guidance, including that contained within the handbook, and puts in place financial monitoring procedures, so that its accounting officer can be satisfied about the proper use of public funds. At the same time it is recognised that governing bodies will need sufficient flexibility to allow them to focus on their core objectives and to address any areas for improvement in their particular academy effectively. The Department's guidance attempts to set a balance that will satisfy these monitoring needs and Companies Act and charity requirements, without imposing unnecessary administrative burdens on governing bodies. The overall aim is to ensure that there is, and is seen to be, effective use of public funds and that the mechanisms are in place to ensure accountability for their use.

## Main Financial Requirements

- 1.6 This section provides guidance on how to apply the broad financial conditions of the Funding Agreement. Certain actions in this guidance are designated "must"; in these cases the governing body must address the requirement, as they are a condition of funding, unless stipulated otherwise by the Funding Agreement.
- 1.7 Funding Agreements vary slightly from academy to academy but the main conditions and requirements of grant are the same for all academies and include:

### Financial Systems

- financial controls must conform with the requirements of both propriety and good financial management;
- proper accounting records must be maintained.

### Budgeting

- the academy must prepare annually a balanced budget which has been approved by the governing body;
- an indicative budget for the coming financial year (1 September to 31 August) must be submitted to the Department by the preceding 15 February;
- a final budget for the coming financial year must be submitted to the Department by the preceding 30 June.

### Annual Accounts

- annual financial statements must be prepared for each period ending 31 August and independently audited by a registered auditor;
- the financial statements must record the academy's accounting policies which must be approved by the governing body;
- the audited financial statements and accounting policies must be submitted to the Secretary of State by 31 December following the end of the period;
- the audited financial statements must be published as required by the Companies Act and must be filed with Companies House and the Charity Commission;
- statements of income and expenditure and balance sheets may be produced in such form and frequency as the Secretary of State may from time to time reasonably direct.

### Audit

- annual accounts must be audited by independent, registered auditors appointed under arrangements approved by the Secretary of State;
- books, accounts and all relevant records must be made available to officials of the Department for Education and Skills and the National Audit Office and their representatives and/or agents as requested;
- the Secretary of State may, at his expense, instruct auditors to report to him on the adequacy and effectiveness of the accounting systems and internal controls and to make recommendations for improving the financial management of the academy.

### Insurance

- the governing body must ensure the academy has adequate insurance cover to support its activities and to comply with statutory requirements. Unless otherwise agreed with the DfES this should include cover as follows:
  - buildings and contents of the academy, in accordance with normal commercial practice or under the terms of any leases held by the academy, against damage by

subsidence, fire, lightning, explosion, storm, flood, riot, malicious damage, terrorism and similar risks, and theft. Suggested levels of excess: subsidence £2,500, storm/flood £500, malicious damage £250, theft £250;

- business interruption, for example to provide alternative temporary accommodation (suggested minimum cover £1m);
- employer's and public liability cover against the governors' responsibility for injury or illness of staff of third parties, or damage to third party property (suggested minimum cover £10m each);
- cover required by statute for vehicles operated by the academy;
- insurance in excess of this level should be subject to risk assessment to determine whether the policy concerned would represent value for money. Examples might include insurance against long term staff sickness, and cover for extra costs arising from a major disaster or tragedy over and above normal business interruption provision such as counselling services for pupils.

### **Borrowing**

- the academy must seek the Secretary of State's approval for both short term borrowing (including overdraft facilities) and medium/longer term loans from the private sector (including finance leases), where such borrowing is to be repaid from DfES grant or secured on assets funded from DfES grant. However the Secretary of State's normal policy is that academies should not be granted permission for medium and long term borrowing;
- as an exception the academy's Funding Agreement may permit borrowing prior to opening, or as a direct consequence of the Secretary of State's failure to make agreed payments of grant to the Academy on time.

### **The Secretary of State's Prior Approval is Required For:**

- any guarantees, indemnities and letters of comfort entered into;
- write off of debts or liabilities owed to the academy over a specified value as set out in the annual funding letter issued by the Secretary of State;
- any ex-gratia payments;
- any freehold sales or purchases; and
- the grant or take up of any leasehold or tenancy agreement for more than 3 years.

### **The Secretary of State must be Notified of:**

- any loss arising from suspected theft or fraud exceeding an amount set out in the annual funding letter.

## Status and Responsibilities of the Governing Body

### Corporate Governance

- 1.8 Corporate governance is the way in which organisations are directed and controlled. It defines the distribution of rights and responsibilities among different stakeholders and participants in the organisation, determines the rules and procedures for making decisions on corporate affairs including the process through which the organisation's objectives are set, and provides the means of attaining those objectives and monitoring performance. The following section looks at governors' responsibilities for the corporate affairs of academies.

### The Governing Body

- 1.9 Each academy is governed by a governing body constituted under a Memorandum of Association and Articles of Association. The governing body is responsible for ensuring that high standards of corporate governance are maintained. It should exercise its powers and functions with a view to fulfilling a largely strategic leadership role in the running of the academy, addressing such matters as:

- **policy development and strategic planning**, including target-setting to keep up momentum on school improvement;
- ensuring **sound management and administration** of the academy, and ensuring that managers are equipped with relevant skills and guidance;
- ensuring compliance with **legal requirements**;
- establishing and maintaining a transparent system of prudent and **effective internal controls**. (Note that the academy's annual report and accounts must include a statement on the efficiency and effectiveness of such controls – see suggested layout in part 5 of the handbook);
- management of the academy's financial, human and other **resources** (in particular control over the spending identified in the academy's development plan);
- **monitoring performance** and the achievement of objectives, and ensuring that plans for improvement are acted upon;
- helping the academy be **responsive to the needs of parents and the community** and making it more accountable through consultation and reporting;
- setting the academy's **standards of conduct and values**;
- assessing and managing **risk** (including preparation of a statement on the academy's risk management for its annual report and accounts).

- 1.10 The governing body also has a duty to take appropriate action when there are weaknesses in the academy. Where individual governors have concerns which cannot be resolved about the running of the academy or a proposed action, they should ensure that their concerns are recorded in minutes.

NB: All duties and responsibilities of governors detailed in this handbook apply equally to persons who are not governors of the academy but who have been appointed to serve on a committee of that academy in an honorary capacity.

- 1.11 The governing body must appoint a **headteacher** to the academy who will also act as an ex-officio governor. The headteacher is responsible for the internal organisation, management and control of the academy, the implementation of all policies approved by the governing body and



for the direction of teaching and the curriculum. The governing body should formally delegate these powers and functions to the headteacher.

### Obligations of Governors

- 1.12 As academies are companies limited by guarantee with charitable status, the governors who sit on the governing body are the legal trustees of the charity. This confers certain obligations upon the trustees to protect the assets, property and good name of the charity. The legal requirements of trustees are set out below.
- 1.13 Trustees (governors) have full responsibility for the charity and must:
- act together and in person and not delegate control of the charity to others;
  - act strictly in accordance with the academy's governing documents;
  - act in the academy's interests only and without regard to their own private interests;
  - manage the academy's affairs prudently throughout the life of the academy;
  - not derive any personal benefit or gain from the academy of which they are trustees; and
  - take proper professional advice on matters on which they are not themselves competent.
- 1.14 In managing the academy's finances governors must:
- make sure that bank accounts, financial systems and financial records are operated by more than one person;
  - make sure that all the academy's property is under the control of the trustees;
  - keep full and accurate accounting records; and
  - prepare accruals accounts giving a true and fair view of the academy's incoming resources and application of resources during the year and of its state of affairs at the year end.
- 1.15 In applying the academy's income governors must spend it solely for the purposes set out in the academy's governing documents and spend it with absolute fairness between persons qualified to benefit from the charity.

### Conduct of Governors

- 1.16 Governors and staff are public servants and as such must not use public monies or official business for personal benefit. The governing body should avoid obtaining goods and services that include elements of private use or accepting excessive hospitality from prospective suppliers. The Treasury rules about the receiving of hospitality and gifts should be followed, as these rules are there to protect staff and governors. A register should be maintained to record hospitality and gifts received. This should record, as a minimum, the name of the organisation that gave the hospitality/gift, the date it was received, its nature and approximate value.
- 1.17 Governors should be aware that the Prevention of Corruption Act places the burden of proof on the recipient of favours.
- 1.18 The Treasury publication "Guidance on Codes of Practice for Board Members of Public Bodies" should be circulated to members of the governing body as best practice (copy at **annex 1a**).

### Declarations of Business Interests

- 1.19 It is vital that governors and staff act, and are seen to act, impartially. All members of the governing body are therefore required to complete a declaration of their business interests. It is also strongly recommended, as a matter of good practice, that the headteacher and other senior staff complete declarations. A suggested pro-forma is at **annex 1b**. Individual declarations should be maintained together in a register of interests. Declarations should include all business and pecuniary (monetary) interests such as directorships, shareholdings and other appointments of influence within a business or other organisation. They should also include interests of related persons such as parent, spouse, child, cohabitee and business partner where influence *could* be exerted by that person over a governor or a member of staff.

- 1.20 Where a governor or member of staff or related person has any interest, either pecuniary or non-pecuniary, in a matter to be discussed at a governors' meeting the governor or member of staff must declare their interest and withdraw from that part of the meeting.
- 1.21 Where a governor or related person has a pecuniary interest in a business, and that interest exceeds limits that may be specified in the academy's memorandum or articles of association, the academy must not enter into any contract or arrangement (such as the purchase of goods and service) with that business. For example, an academy would not generally be permitted to trade with a company in whom a governor holds more than 1/100<sup>th</sup> of the share capital.
- 1.22 It is the responsibility of governors and staff to ensure their declarations of business interests are kept up to date at all times, and to amend or update them as necessary. As good practice, it is recommended that monthly/termly meetings of governors and senior managers include a standing agenda item for attendees to declare any changes to their declarations of interests.

### **Payments to Governors**

- 1.23 It is illegal for governors to receive any remuneration for their work as trustees, other than payment of all reasonable out of pocket travel, accommodation or other expenses legitimately incurred by them in connection with their attendance at meetings acting in the capacity of governor of the academy.
- 1.24 In addition, no governor may hold any interest in property belonging to the academy. Nor may a governor receive remuneration in respect of any contract to which the academy is a party.
- 1.25 However, nothing prevents the payment of governors for the usual professional charges for business undertaken by any governor who is a solicitor, accountant or other person engaged in a profession, or by any partner or connected person of his or hers, when instructed by the governing body to act in a professional capacity on behalf of the academy. This exception is only allowable if:
- at no time a majority of the governors are engaged in such a professional capacity: and
  - governors withdraw from any meeting at which his or her remuneration, or that of his or her partner / relative, is under discussion.

### **Governors' Meetings**

- 1.26 It is a requirement of all academy governing bodies that they meet at least once a term. No business can be conducted at any meeting unless a quorum is present. A quorum is usually three governors (those with full voting rights) or one-tenth of the total number of governors with full voting rights, whichever is the greater.
- 1.27 Governors must appoint a clerk to the governing body, who must be someone other than a governor or the headteacher of the academy.
- 1.28 Each meeting of the governing body should consider:
- a report of the financial position of the academy, including its income and expenditure and financial commitments;
  - whether adequate financial monitoring of the academy's budget and activities is being undertaken;
  - progress on any action identified to improve financial arrangements at the academy;
  - significant contracts proposed to be entered into by the academy;
  - details of any significant matters affecting the academy's staff;
  - details of any significant matters affecting the pupils' welfare or education;
  - details of any significant matters affecting the academy's assets e.g. computers, cars, whiteboards etc;
- 1.29 Matters that should be considered by trustees at least once a year are:

- the academy's goals and how they are being met;
- review of the management structure to ensure it is operating effectively;
- review of the performance of external providers eg bankers, services provided under SLAs;
- review and approval of the academy's annual accounts and report of the trustees;
- review and approval of the financial budget for the following year;
- review and approval of the levels of insurance cover for the academy's assets;
- findings made by the auditors and the auditor's management letter, and any other financial reviews, and consideration of what actions should be taken arising from their recommendations;
- review of the risks to which the academy is exposed and determination of whether systems are in place to mitigate those risks.

1.30 A checklist of issues that should be considered at the first meeting of the governors is included at **annex 1c**. A suggested annual plan for governors' meetings is included at **annex 1d**.

### **Scheme of Delegation**

1.31 The governing body should agree a formal schedule of matters reserved for their decision, ie those which should not be delegated within the academy. Beyond this, the governing body should consider establishing separate committees to deal with specific areas of academy business, and should determine the delegated responsibilities to be assigned to those committees, to ensure that matters can be dealt with in appropriate detail and with sufficient frequency. However, as a minimum, it is a requirement that all academies establish a finance committee separate from the governing body to deal with financial matters. The governing body should also consider whether they ought to have a remuneration committee to decide upon the remuneration of staff.

1.32 Where the governing body decides to delegate certain matters for consideration by committees, each committee should be chaired by a governor. The membership of the committee may include persons who are not governors provided that a majority of the members are governors. The governing body should ensure that it receives adequate feedback on the work of those committees and is able to consider their decisions formally. **Annex 1e** provides pro-forma terms of reference for a general committee. **Annex 1f** provided pro-forma terms of reference for a finance committee. The establishment of committees does not absolve the governing body of its overall responsibility to manage the finances of the academy.

### **Governors' Responsibilities for Risk Management**

1.33 The Charity Commission requires charities to include a statement in the trustees' annual report confirming that all major risks to which the charity is exposed have been reviewed and systems have been established to mitigate those risks.

1.34 Academy governors need to think about the major risks from the outset in order to make and sign up to that statement. For example, governors should determine:

- what the major risks are to the academy;
- what the likelihood is of those risks materialising;
- what would be the potential impact of the risks; and
- what systems have been put in place to mitigate and monitor the risks.

1.35 To assist in this process a tailored version of HM Treasury's document "*The Orange Book: Management of Risk – Principles and Concepts*" is included at **annex 1g**.

1.36 Governors should produce a "risk register" which demonstrates the results of the risk assessment process. **Annex 1g** includes an example of a risk register for charities which

academies may wish to adopt or modify to meet their own requirements.

- 1.37 The risk management process should include preparation of a contingency and business continuity plan to deal with crises that could face the academy.
- 1.38 Governors must also ensure that the academy complies with general legislative requirements covering employment, property and health and safety regulations. They also need to think about how they can mitigate against those working for the academy from acting unlawfully, imprudently or outside the terms of the academy's governing documents, and are expected to consider whether indemnity insurance should be taken out to cover them against this liability.
- 1.39 Governors are at risk of personal liability if they cause loss to the academy by acting unlawfully, imprudently or outside the terms of the academy's governing document.

## Annex 1a: Guidance on Codes of Practice for Board Members of Public Bodies (HM Treasury)

1. This guidance describes a model code of practice for board members of executive non-departmental public bodies (NDPBs) and similar organisations. It is intended to provide a framework which the public bodies concerned should use with any modifications that may be necessary - and that are agreed with their sponsor department - to take account of their own characteristics and circumstances. The material is arranged as follows:

<b>Public Service Values</b>	paragraph 2
<b>Relationship with the Sponsor Department</b>	paragraph 3
<b>The Role of the Chair</b>	paragraphs 4-7
<b>Corporate Responsibilities of Board Members</b>	paragraph 8
<b>Strategic Planning and Control</b>	paragraph 9
<b>Delegation</b>	paragraphs 10-11
<b>Responsibilities of Individual Board Members</b>	paragraphs 12-15
<b>Handling Conflicts of Interests</b>	paragraphs 16-24
<b>Personal Liability of Board Members</b>	paragraphs 25-28
<b>Openness and Responsiveness</b>	paragraphs 29-30
<b>Accountability for Public Funds</b>	paragraphs 31-32
<b>Annual Reports and Accounts</b>	paragraphs 33-35
<b>The Role of the Chief Executive</b>	paragraphs 36-38
<b>Audit Committees</b>	paragraph 39
<b>The Board as Employer</b>	paragraph 40-42

**Appendix 1** - [The Seven Principles of Public Life](#)

**Appendix 2** - [Audit Committees](#)

**Appendix 3** - [Publications](#)

### Public Service Values

2. Public bodies and their boards must at all times:
  - observe the highest standards of propriety involving **impartiality, integrity and objectivity** in relation to the stewardship of public funds and the management of the bodies concerned;
  - maximise **value for money** through ensuring that services are delivered in the most economical, efficient and effective way, within available resources, and with independent validation of performance achieved wherever practicable. Value for money is not the lowest price: it is the optimum combination of whole life costs and quality to meet the user's requirement;
  - be **accountable** to Parliament, users of services, individual citizens and staff for the activities of the bodies concerned, their stewardship of public funds and the extent to which key performance targets and objectives have been met;
  - in accordance with Government policy on **openness and responsiveness**, comply fully with the *Code of Practice on Access to Government Information*, and with the nine principles of public service delivery.

### Relationship with the Sponsor Department

3. The Minister of the relevant department is answerable to Parliament for the policies and performance of all public bodies sponsored by the department, including their use of resources and the policy framework within which they operate. The respective roles of the sponsor department and the public body should be set out in a Framework Document, Management Statement or agreed Memorandum of Understanding. In the case of grant-aided bodies, this information should be supplemented by a Financial Memorandum specifying the terms on which the body receives and spends its funds.

### The Role of the Chair

4. The chair has particular responsibility for providing effective strategic leadership on matters such as:
  - formulating the board's strategy for discharging its statutory duties;
  - encouraging high standards of propriety and promoting the efficient and effective use of staff and other resources throughout the organisation;
  - ensuring that the board, in reaching decisions, takes proper account of guidance provided by the responsible Minister or sponsor department;
  - representing the views of the board to the general public; and
  - providing an assessment of the performance of individual board members, on request, when they are being considered for reappointment to the board or for appointment to the board of some other public body.
5. The chair should ensure that the board meets at regular intervals throughout the year and that the minutes of meetings accurately record the decisions taken and, where appropriate, the views of individual board members.
6. Communications between the board and the Minister of the sponsor department will normally be through the chair except where the board has agreed that an individual member should act on its behalf. Nevertheless, an individual member has the right of access to Ministers on any matter which he or she believes raises important issues relating to his or her duties as a member of the board. In such cases the agreement of the rest of the board should normally be sought. The main point of contact between the body and the sponsor department on day-to-day matters will normally be the chief executive or another member of staff who is authorised to act on behalf of the body.
7. The chair should ensure that all members of the board, when taking up office, are fully briefed on the terms of their appointment and on their duties, rights and responsibilities. The chair and other members of the board should each have a copy of the Code of Practice for the body concerned; other relevant background material such as the body's Management Statement and Financial Memorandum; its latest Corporate Plan and Annual Reports and Accounts; the Treasury's memorandum *The Responsibilities of a NDPB Accounting Officer*; the Treasury's handbook *Regularity and Propriety*; notes describing the body's organisational structure and statutory basis of operation; and the rules and procedures of the board. The chair should encourage new board members to attend an induction course on the duties of board members of public bodies or some other suitable form of induction programme.

### Corporate Responsibilities of Board Members

8. Members of a board have corporate responsibility for ensuring that the public body complies with any statutory or administrative requirements for the use of public funds. Other important responsibilities of board members include:
  - ensuring that high standards of corporate governance are observed at all times;
  - establishing the overall strategic direction of the organisation within the policy and resources framework agreed with the responsible Minister;
  - ensuring that the board operates within the limits of its statutory authority and any delegated authority agreed with its sponsor department, and in accordance with any other conditions relating to the use of public funds;
  - ensuring that, in reaching decisions, the board had taken into account any guidance issued by the sponsor department;
  - formulating a strategy for implementing the *Code of Practice on Access to Government Information*, including prompt responses to public requests for information, and meeting other requirements for openness and responsiveness as set out in *Quangos: Opening the Doors*;

- ensuring that the board has specific responsibility for sustainable development and operates within the framework of the Sustainable Development Strategy, following the priorities set by the Green Minister of the sponsoring Department;
- ensuring that the board operates sound environmental policies in its operations through a strategy, which should be based on the *Model Policy Statement for Greening Government Operations* and its sister document, *the Model Improvement Programme for Greening Operations*.

### **Strategic Planning and Control**

9. One of the main tasks of the board is likely to be oversight of the production of a corporate plan. The process of preparing such a document provides an opportunity for agreeing, with the responsible Minister, or officials on his or her behalf, the policy and resources framework within which the body will discharge its duties; and for determining its key strategic objectives and targets. Such targets should normally cover areas such as the organisation's financial performance; the efficiency and effectiveness of its operations; and the quality of the services it provides. Some public bodies cannot easily measure final outputs. Where this makes it difficult to set suitable performance targets, the board should aim to agree carefully formulated strategic objectives and milestones.

### **Delegation**

10. Board members normally serve on a part-time basis. To the extent permitted by the originating legislation or other provisions under which the public body is established, responsibility for day-to-day management matters should be delegated to staff so far as is practicable, within a clearly understood framework of strategic control. Boards will want to consider internal guidance covering those matters delegated to staff and those reserved for decision by the board. The latter are likely to include issues of corporate strategy; key strategic objectives and targets; major decisions involving the use of financial and other resources; and personnel issues including key appointments and standards of conduct.
11. The board may decide to delegate responsibility for specified matters, where it has power to do so, to individual members or committees of the board. Decisions taken by individual members or committees of the board under delegated powers should be recorded in written minutes available to the board as a whole.

### **Responsibilities of Individual Board Members**

12. Individual board members should be aware of their wider responsibilities as members of the board. Like others who serve the public, they should follow the Seven Principles of Public Life set out by the Committee on Standards in Public Life. The principles are printed at Appendix 1. Board members must:
  - undertake on appointment to comply at all times with the Code of Practice that is adopted by the public body concerned and with rules relating to the use of public funds;
  - act in good faith and in the best interests of the public body;
  - not misuse information gained in the course of their public service for personal gain or for political purpose, nor seek to use the opportunity of public service to promote their private interests or those of connected persons, firms, businesses or other organisations; and to declare publicly any private interests which may be perceived to conflict with their public duties; and
  - ensure that they comply with the board's rules on the acceptance of gifts and hospitality.
13. Board members, whether full or part-time, are expected not to occupy paid party political posts or hold particularly sensitive or high profile unpaid roles in a political party. Subject to that, part-time members are free to engage in political activities, provided that they are conscious of their general public responsibilities and exercise a proper discretion, particularly in regard to the work of the boards of which they are members. On matters directly affecting that work, they should not make political speeches or engage in other political activities. Full-time members of boards should abstain from all controversial political activities.

14. The restrictions in paragraph 13 do not apply to board members who are MPs (in those cases where MPs are eligible to be appointed), to local councillors or to Peers in relation to their conduct in the House of Lords. The position of Peers in this regard is covered by a statement reproduced as Annex L to *Non-Departmental Public Bodies: A Guide for Departments*.
15. The arrangements for appointing individual board members normally make it possible to remove them from office if they fail to perform the duties required of board members to the standards expected of persons who hold public office.

### Handling Conflicts of Interests

16. The chair and other board members should declare any personal or business interests which may conflict with their responsibilities as board members. The board, in consultation with the sponsor department, should draw up rules of conduct for board members which ensure that such conflicts are identified at an early stage and that appropriate action can be taken to resolve them.
17. The rules should include the keeping of a register of interests appropriate to the body's activities. The register should, as a minimum, list direct or indirect pecuniary interests which members of the public might reasonably think could influence board members' judgement. Board members are strongly encouraged to register non-pecuniary interests which relate closely to the body's activities, and interests of close family members and persons living in the same household as the board member<sup>10</sup>.
18. Public bodies should make registers of interests open to the public. They should ensure that details of how access can be obtained are available widely and include such details in annual reports. It will often be appropriate to publish registers of interests annually. Board members should in any case be required to update them as changes occur.
19. In the absence of specific statutory provisions, the common law requires:
  - that members of public bodies should not participate in the discussion or determination of matters in which they have a direct pecuniary interest (nb: Indirect pecuniary interests arise from connections with bodies which have a direct pecuniary interest or from being a business partner of, or being employed by, a person with such an interest. Non-pecuniary interests include those arising from membership of clubs and other organisations. Close family members include personal partners, parents, children (adult and minor), brothers, sisters and the personal partners of any of these); and
  - that when an interest is not of a direct pecuniary kind, members should consider whether participation in the discussion or determination of a matter would suggest a real danger of bias. This should be interpreted in the sense that members might either unwittingly or otherwise unfairly regard with favour or disfavour, the case of a party to the matter under consideration. In considering whether a real danger of bias exists in relation to a particular decision, members should assess whether they, a close family member, a person living in the same household as the board member, or a firm, business or organisation with which the board member is connected are likely to be affected more than the generality of those affected by the decision in question. This would cover, for example, a decision to invite tenders for a contract where a firm with which a member was connected was significantly better placed than others to win it.

For the avoidance of doubt, this paragraph does not preclude the board of an NDPB from deciding to issue an indemnity in the terms of paragraph 27 below.

20. Where, in accordance with the above, members do not participate in the discussion or determination of a matter, they should normally withdraw from the meeting, even if it is held in public. This is because the continued presence of someone who had declared an interest might be thought likely to influence the judgement of the other members present.



21. Boards should obtain legal advice on the effect of any specific statutory provisions applying to them. In cases where members are authorised by law to represent a group likely to be affected by a body's decisions, the relevant statutory framework may permit members to be involved, notwithstanding any direct pecuniary interest that they may have in the decision. However, boards should not overlook the possibility that specific statutory provisions may impose restrictions that are stricter than those described in paragraph 19 for interests that are not of a direct pecuniary kind.
22. Whether or not board members are able in the light of the considerations above to participate in the discussion or determination of a matter, they should declare as soon as practicable after a meeting begins if they have an interest, pecuniary or other, in a matter being considered. They should also disclose any interests in it of which they are aware on the part of close family members and persons living in the same households as the board member. In addition, board members should consider whether they need to disclose relevant interests of other persons or organisations which members of the public might reasonably think could influence the member's judgement.
23. Because executive NDPBs are required, other than exceptionally, to follow generally accepted accounting practice, board members must facilitate compliance with the need under Financial Reporting Standard 8 for material transactions with related parties to be disclosed in financial statements. "Related parties" in FRS 8 include (in addition to business contacts) close members of the family of an individual, who are defined for the purposes of the standard as those family members, or members of the same household, who may be expected to influence, or be influenced by, that person in their dealings with the reporting entity.
24. Boards should adopt safeguards to prevent conflicts of interests arising from the acceptance of outside appointments during or after tenure as a board member, taking account of guidance in Chapter 7 of *Non-Departmental Public Bodies: A Guide for Departments*.

#### **Personal Liability of Board Members**

25. Although any legal proceedings initiated by a third party are likely to be brought against the board, in exceptional cases proceedings (civil or, in certain cases, criminal) may be brought against the chair or other individual board members. For example, a board member may be personally liable if he or she makes a fraudulent or negligent statement which results in loss to a third party. Board members who misuse information gained by virtue of their position may be liable for breach of confidence under common law or may commit a criminal offence under insider dealing legislation.
26. In the case of a board which is incorporated under the Companies Act or the Companies (Northern Ireland) Order, an individual board member will be subject to the duties of directors under company law.
27. However, the Government has indicated that individual board members who have acted honestly and in good faith will not have to meet out of their own personal resources any personal civil liability which is incurred in execution or purported execution of their board functions, save where the person has acted recklessly. Subject to their own specific statutory powers, NDPBs should issue to their board members suitable indemnities consistent with this paragraph.
28. Board members who need further advice should consult the board's legal advisers.

#### **Openness and Responsiveness**

29. Board members and their staff should conduct all their dealings with the public in an open and responsible way and ensure full compliance with the *Code of Practice on Access to Government Information*. They should take account as far as possible of the Standard of Best Practice for Openness in Executive NDPBs and NHS bodies in the *First Report of the Committee on Standards in Public Life* (Cm 2850-I). They must make publicly available annual reports, and, where practical and appropriate, should hold open meetings, release summary reports of

meetings, and invite evidence from members of the public on matters of public concern. NDPBs should seek to follow best practice in making available information to the public, particularly through the world wide web, and co-operate with other bodies, such as local authorities, to place relevant information in the public domain. NDPBs should aim to consult their users on a wide range of issues by means of questionnaires, public meetings, or other forms of consultation, proportionate to the size and resources of the body concerned. The Government's commitments in this area are set out in *Quangos: Opening the Doors*. NDPBs should adhere to the nine principles of public service delivery.

30. Boards should ensure they can demonstrate that they are using resources to good effect, with propriety, and without grounds for criticism that public funds are being used for private, partisan or party political purposes. They will need to act consistently with the nature of the body's business and the possible need for confidentiality on commercial or other grounds, always subject to the rights of Parliament and the Comptroller and Auditor General to obtain information. There should be well publicised and easy-to-use complaints procedures which cover both maladministration and failure to provide access to information.

#### **Accountability for Public Funds**

31. Board members have a duty to ensure the safeguarding of public funds - which for this purpose should be taken to include all forms of receipts from fees, charges and other sources - and the proper custody of assets which have been publicly funded. They must take appropriate measures to ensure that the body at all times conducts its operations as economically, efficiently and effectively as possible, with full regard to the relevant statutory provisions and to relevant guidance in Government Accounting.
32. Members of the board are responsible for ensuring that the body does not exceed its powers or functions, whether defined in statute or otherwise, or through any limitations on its authority to incur expenditure. They are normally advised on these matters by the body's chief executive and its legal advisers.

#### **Annual Report and Accounts**

33. As part of its responsibilities for the stewardship of public funds, the board of a public body must ensure that it includes a full statement of the use of such resources in its Annual Report and Accounts. Such accounts should be prepared in accordance with the Accounts Direction issued by the responsible Minister and such other guidance as may be issued, from time to time, by the sponsor department and the Treasury, including *Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance*.
34. Subject to any existing statutory requirements, all self-accounting executive NDPBs should aim to produce an Annual Report and Accounts as a single document and should give it appropriate publicity. If the Annual Report is published separately, it should normally contain at least a summary of the Annual Accounts and in any case give details of how to obtain the full accounts. A statement by the auditors should be included in the summary to confirm that it is consistent with the Annual Accounts. It should also state whether the report on the Annual Accounts was qualified and provide details if this was the case.
35. The Annual Report and Accounts should provide a full description of the board's activities; state the extent to which key strategic objectives and agreed financial and other performance targets have been met; list the names of the current members of the board and senior staff; and provide details of remuneration of board members and senior staff in accordance with Treasury guidance. The Annual Report should contain information on access to registers of interests in accordance with paragraph 18 above.

#### **The Role of the Chief Executive**

36. The chief executive has responsibility, under the board, for the overall organisation, management, and staffing of an executive NDPB and for its procedures in financial and other matters, including conduct and discipline. This involves the promotion by leadership and

example of the values embodied in the Seven Principles of Public Life. Board members should support the chief executive in undertaking this responsibility.

37. The chief executive of most NDPBs will be designated as the accounting officer for the body. NDPB accounting officers are responsible to Parliament and the accounting officer of the responsible department for the resources under their control. The essence of the role is a personal responsibility for the propriety and regularity of the public finances for which they are answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources in their charge. The accounting officer has a responsibility to see that appropriate advice is tendered to the board on all these matters. Satisfactory performance of these responsibilities is fundamental to the role of the chief executive.
38. More detailed guidance on the role of an accounting officer is set out in *The Responsibilities of a NDPB Accounting Officer*, which covers appearances before the Committee of Public Accounts of the House of Commons. All board members should ensure that they have a copy of this document. The contents of the memorandum apply to the senior full-time official of an NDPB in cases where there is no formally designated accounting officer. The Treasury's handbook, *Regularity and Propriety*, describes what these concepts mean in a financial context. Although the handbook is intended primarily for accounting officers, board members should also familiarise themselves with it.

### **Audit Committees**

39. Unless agreed otherwise with the sponsor department, all public bodies should establish an audit committee as a committee of the board. The committee should consist of non-executive board members and should be chaired by a non-executive board member, other than the chair, who has experience of financial matters. The responsibilities of the audit committee will overlap with those of the accounting officer. It is envisaged that he or she will normally attend all meetings of the audit committee, unless, exceptionally, his or her own performance is being discussed. More detailed guidance on the role of the audit committee and specimen terms of reference are at Appendix 2.

### **The Board as Employer**

40. The board should ensure:
- that it complies with all relevant legislation and that it employs suitably qualified staff who will discharge their responsibilities in accordance with the high standards expected of staff employed by such bodies. All staff should be familiar with the body's main aims and objectives;
  - that the organisation adopts management practices which use resources in the most economical, efficient and effective manner;
  - that the body's rules for the recruitment and management of staff provide for appointment and advancement on merit on the basis of equal opportunity for all applicants and staff. In filling senior staff appointments, the board should satisfy itself that an adequate field of qualified candidates is considered, and should always consider the merits of full and open competition. In recruiting external candidates, this should normally be used; and
  - that its staff, and the board's own members, have appropriate access to expert advice and training opportunities in order to enable them to exercise their responsibilities effectively (in line with wider Government commitments on training strategies).
41. The board should adopt a code of conduct for its staff using the model issued for executive NDPBs by Cabinet Office in August 1996, subject to any modifications that may be necessary – and that are agreed with the sponsor department – to take account of their own particular characteristics and circumstances. The model code covers arrangements enabling members of staff to raise concerns about propriety with a nominated official or board member of the NDPB in the first instance and subsequently, if necessary, with a nominated official in the sponsor department. There should be safeguards to prevent conflicts of interests when staff leave.

42. The board has a responsibility to monitor the performance of the chief executive and other senior staff. Where the terms and conditions of employment of the chief executive and other senior staff include an entitlement to be considered for performance-related pay, and where such payments are assessed by board members, the board should ensure that they have access to the information and advice required to make the necessary judgements.

**Annex 1a Continued: Guidance on Codes of Practice for Board Members of Public Bodies**  
**Appendix 1: The Seven Principles of Public Life****Selflessness**

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

**Integrity**

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

**Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merits.

**Accountability**

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

**Openness**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

**Honesty**

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interests.

**Leadership**

Holders of public office should promote and support these principles by leadership and example.

**Annex 1a Continued: Guidance on Codes of Practice for Board Members of Public Bodies**  
**Appendix 2: Audit Committees**

1. The Guidance on Codes of Practice recommends that all public bodies, unless otherwise agreed with their sponsor department, should set up an Audit Committee as a committee of the board. This note provides further guidance.
2. The Audit Committee is an advisory body with no executive powers. Its main functions should be to:
  - help promote the highest standards of propriety in the use of public funds and encourage proper accountability for the use of those funds;
  - improve the quality of financial reporting by reviewing internal and external financial statements on behalf of the board;
  - promote a climate of financial discipline and control which will help to reduce the opportunity for financial mismanagement; and
  - promote the development of internal controls systems which will help satisfy the board that the body concerned will achieve its objectives and targets and is operating:
    - in accordance with any statutory requirements for the use of public funds;
    - within delegated authorities laid down by the sponsor department and the public body's own rules on what matters should be referred to the board;
    - in a manner which will make most economic and effective use of resources available.
3. The Audit Committee should be chaired by a non-executive board member, other than the chair, who has relevant experience and expertise. Other members of the Committee should be non-executive board members.
4. Specimen terms of reference are shown below. They are for guidance only and will need to be tailored to the particular circumstances of the body concerned.

**Specimen Terms of Reference: Audit Committees****Constitution**

1. The board hereby resolves to establish a committee of the board to be known as the Audit Committee.

**Membership and Attendance**

2. The chair, members and secretary of the Audit Committee shall be non-executive Board members and shall be appointed by the Board. The chair shall be a non-executive member of the Board other than its chair.
3. Board members who are not members of the Audit Committee should have the right of attendance. The secretary will circulate minutes of meetings of the Audit Committee to all members of the Board.
4. The Chief Executive in his or her role as accounting officer, the Finance Director and the Head of Internal Audit will normally attend meetings of the Committee.

**Frequency of Meetings**

5. The Board shall determine how often the Committee shall meet. The external auditor may request a meeting if he considers one necessary.

**Authority**

6. The Audit Committee is an advisory body with no executive powers. However, it is authorised by the board to investigate any activity within its terms of reference, and to seek any information it requires from staff, who are requested to co-operate with the Committee in the conduct of its inquiries. Requests for work, and reports received, from internal audit will be channelled through the accounting officer, to whom the Head of Internal Audit reports.
7. The Audit Committee is authorised to obtain independent professional advice if it considers this necessary.

**Duties**

8. The specific duties of the Committee shall be to:
  - review the body's internal and external financial statements and reports to ensure that they reflect best practice;
  - discuss with the external auditor the nature and scope of each forthcoming audit and to ensure that the external auditor has the fullest co-operation of staff;
  - consider all relevant reports by the Comptroller and Auditor General or the appointed external auditor, including reports on the body's accounts, achievement of value for money and the response to any management letters;
  - review the effectiveness of the body's internal control system established to ensure that the aims, objectives and key performance targets of the organisation are achieved in the most economic, effective and environmentally preferable manner;
  - ensure that the body's internal audit service meets, or exceeds, the standards specified in the Government Internal Audit Manual, complies in all other respects with these guidelines and meets agreed levels of service;
  - consider and advise the board on the body's annual and long-term audit programme;
  - consider internal audit reports, including value-for-money reports and the arrangements for their implementation;
  - review the operation of the body's code of practice for board members and code of conduct for staff;
  - consider any other matters where requested to do so by the board; and
  - report at least once a year to the board on the discharge of the above duties.

**Annex 1a Continued: Guidance on Codes of Practice for Board Members of Public Bodies**  
**Appendix 3: Publications**

**Committee on Standards in Public Life, First Report**, Cm 2850-I, 1995, available from The Stationery Office, 020 7863 9090, price £11.80 (ISBN 0 10 1285027).

**Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance\***, March 1996 [under review], available from Central Accountancy Team, HM Treasury, 020 7270 4579

**Government Accounting\***, available from The Stationery Office, 020 7873 9090 (ISBN 0 11 70209 6).

**Government Internal Audit Manual**, May 1996, available from the Stationery Office, 020 7873 9090, price £29.95 (ISBN 0 11 702050 8).

**Model Code for Staff of Executive Non-Departmental Public Bodies**, August 1996, available from Central Secretariat, Cabinet Office, 020 7270 1873.

**Model Code of Practice for Board Members of Advisory Non- Departmental Public Bodies**, Cabinet Office, September 1998, available from Central Secretariat, Cabinet Office, 020 7270 1873.

**Non-Departmental Public Bodies: A Guide for Departments**, March 2000 and subsequent amendments, available from Central Secretariat, Cabinet Office, 020 7270 1873.

**Quangos: Opening the Doors**, June 1998, available from Central Secretariat, Cabinet Office, 020 7270 1873.

**Regularity and Propriety: A Handbook**, November 1996, available from TOA Team, HM Treasury, 020 7270 5524.

**Spending Public Money: Governance and Audit Issues**, Cm 3179, March 1996, available from The Stationery Office, 020 7873 9090, price £8.65 (ISBN 0 10 131792 1).

**The Government's Response to the First Report of the Committee on Standards in Public Life**, Cm 2931, July 1995, available from The Stationery Office, 020 7873 9090, price £7.10 (ISBN 0 10 129312 7).

**The Responsibilities of a NDPB Accounting Officer\***, December 1994, available from TOA Team, HM Treasury, 020 7270 5524

**A Better Quality of Life: A Strategy for Sustainable Development for the United Kingdom**, May 1999, £11.80, Cm 4345. Published by The Stationary Office and available from the Publications Centre: 0345 02 34 74.

**Greening Government: First Annual Report of the Green Ministers Committee 1998/99**, July 1999. Product code: 99EPO395, 020 7890 6472

**Quality of Life Counts: Indicators for a Strategy For Sustainable Development for the United Kingdom**, December 1999, ISBN 1 85112 343 1, £22, Publications Sales Centre, Unit 21, Goldthorpe Industrial Estate, Goldthorpe, Rotherham, S63 9BL, Fax 01709 881 673.



### Annex 1b: Suggested Pro-forma Declaration of Business Interests

Name of Governor or Member of Staff

Name of Business	Nature of Business	Nature of Interest	Date of Appointment or Acquisition	Date of Cessation of Interest	Date of Entry

I certify that I have declared all beneficial interests which I or any person closely connected with me have with businesses or other organisations which may have dealings with the school.

Signed ..... Date .....

## Annex 1c: Suggested Checklist for Financial Matters to be Covered at First Governors' Meeting

1. **Approval of internal financial procedures** including:
  - financial regulations manual;
  - purchasing and procurement, including limits for tendering;
  - payroll, including arrangements for making PAYE deductions and completing tax forms for HM Revenue and Customs (eg P11D, P45, P35, P60). This may include approval of a service level agreement with the Local Authority for the provision of payroll services;
  - receipt of gifts and hospitality;
  - reporting and investigation of suspected thefts and frauds.
2. **Approval of the academy's budget** and associated procedures including:
  - nomination of a governor to have responsibility for control and monitoring of each element of the Development Plan and the budget;
  - establishment of procedure and timetable for regular reporting of financial progress against budget to both the headteacher (accounting officer) and the governing body.
3. **Setting and approval of delegated authority levels** and signatories for cheques, bank forms and DfES returns.
4. **Delegation of appropriate powers and functions to the headteacher** including responsibility for the internal organisation, management and control of the academy, the implementation of all policies approved by the governing body and the direction of teaching and the curriculum.
5. **Nomination and appointment of a governor to act as 'responsible officer'** for the purposes of making periodic checks on the academy's systems, controls and financial transactions (see annexes 3a and 3b). The RO cannot be the chairman, nor a member of the finance committee.
6. **Establishment of a finance committee** and nomination of membership.
7. **Approval of arrangements for recording assets.**
8. **Circulation of register of members' business interests.**
9. **Approval of insurance arrangements** eg to cover governors (indemnity), public liability, employers' liability and to safeguard assets.

NB this list is not exhaustive and is intended only as a guide. Academies should not overlook any additional areas that are relevant to them.

**Annex 1d: Suggested Annual Plan for Governors' Meetings**

	<b>COMMITTEE</b>				<b>FULL GOVERNORS' MEETING</b>
	<b>Ethos</b>	<b>Curriculum</b>	<b>Finance/Premises</b>	<b>Staffing</b>	
	* legally required policy or action	* legally required policy or action)	* legally required policy or action)	* legally required policy or action	* legally required policy or action
Autumn Term 1 <sup>st</sup> Half	* Behaviour/Rewards Policy	Exam results analysis * SEN Policy Library Policy	Half-yearly budget monitoring	Staffing update	
Autumn Term 2 <sup>nd</sup> Half	* R&E Collective Worship Policy Exclusions Policy Self Evaluation exercise	* Setting GCSE targets * Curriculum proposals for next academic year Teaching & Learning Policy Internet Policy Review Committee Work for Assessment Self Evaluation	Budget monitoring Initial budget planning for 2001-2 Self Evaluation exercise	Staffing update Review Performance Management Policy Report from new Staff Induction Staff Absence Self Evaluation Exercise	Election of Officers Report on A level & GCSE results Reports from Committee * Setting GCSE targets LaSWAP Annual Report PHS Annual Statistical Report
Spring Term 1 <sup>st</sup> Half	Health & Safety Policy Annual Report to Parents	RE & Collective Workshop Policy Careers & Work Related Learning Policy Technology College	Budget monitoring Budget planning 2001-2	Staffing update Continuous Prof. Dev. Policy Review Staffing Budget Review SDP Committee Evaluation	Draft SDP * Annual Report to Parents
Spring Term 2 <sup>nd</sup> Half	Equal Opportunities Policy Complaints procedure	Exam Entry Policy ICT statutory requirement	Budget monitoring Budget planning 2001-2 Premises update Review committee purpose and functions	Staffing update Shadow Structure Staff Development Policy Review Staff Discipline Procedure Policy	School Development Plan Reports from Committees School Budget – draft
Summer term 1 <sup>st</sup> Half	PHSA Primary Liaison Equal Opportunities Policy Sex Education Policy	Homework Policy Excellence in Cities	Out-turn 2000-1 Budget review 2001-2 Start preparing for strategic financial planning Premises review	Staffing update CPD needs form Performance Man. Policy Update IIP	
Summer term 2 <sup>nd</sup> Half	Admissions Policy Anti Drug Policy Attendance Policy Complaints Policy PHSE/citizenship	Assessment Policy Information Technology Policy Literacy Policy LaSWAP Teaching &	Budget review 2001-2 Progress on strategic financial planning (Outline premises plan) Review of service	Staffing update Pay Policy	Key Stage Reports Extra Curricular Activities PHSE Reports from Committees Final Budgets

	Beacon Work	Learning SATs Results Excellence in Cities	contracting (In-school delegation – a first consideration)		
<b>Polices/Reviews/Monitoring</b> (*legally required)	Admission (June 01) Anti Drug (June 01) Attendance (July 01) * Behaviour/Rewards (Oct 01) Equal Opportunities (April 01) Health & Safety (Feb 01) * Sex Education (April 01) * RE & Collective Worship (Nov 01) Complaints (July 01) Exclusions (Nov 01) * Annual Report Internet (Nov 01)	Assessment (July 01) Exam entry (March 01) Homework (May 01) Information Technology (July 01) LaSWAP To & L (July 01) Library Policy (Sept 01) Library Policy (June 01) * SEN (Swept 01) Teaching and Learning (Nov 01) Careers and Work Related Learning (Mar 02) CLEA Inspector reports <i>Excellence in Cities/Technology College Beacon</i>	Lettings policy	Monitor/evaluate Focus to 'attain IIP standard' Staff code of Conduct (adopted) Staff discipline (Adopted) Staff Grievance (Adopted) Pay (Jan 98) Performance Management inc. Staff Development (Nov 00)	School development Plan (inc. OFSTED Action Plan) Annual Report to Parents * Setting GCSE targets School Budget

## Annex 1e: Pro-forma Terms of Reference for Committees of the Governing Body

The terms of reference of each committee of the governing body must be approved by the full governing body and reviewed each year. They provide the sole, agreed framework within which each committee operates.

- 1 Each committee will be composed, where at all possible, of at least one governor from each of the categories which form the whole governing body i.e. The DfES nominee, parents, teachers and co-opted governors. The headteacher is an ex-officio member of each committee. At least three other governors shall be a member of each committee.
- 2 The membership of each committee will be agreed on an annual basis at the first meeting of the whole governing body in the autumn term.
- 3 The chair of each committee is elected by the whole governing body on an annual basis at the first meeting of the whole governing body in the autumn term. No governor employed at the academy will act as chair to the committee. In the absence of the chair the committee will elect a temporary replacement from among the governors present at the committee meeting.
- 4 The clerk of the committee is elected by the committee.
- 5 In the absence of the **chair** or clerk the committee will elect a replacement for the meeting.
- 6 The quorum for each committee is fixed at two governors who are members of each committee.
- 7 Each committee will meet as often as is necessary to fulfil its responsibilities and at least once each term.
- 8 The clerk to the committee will circulate an agenda for each meeting and papers at least a week before the committee meeting.
- 9 Attendance at each committee meeting, issues discussed and recommendations for decisions will be recorded. The written record will be forwarded by the clerk to the committee to the clerk to the governing body in sufficient time for its inclusion on the agenda and papers of the next meeting of the whole governing body. This is to meet statutory requirements, to provide information to the whole governing body and to seek ratification of decisions and recommendations.
- 10 The chair of the committee will be responsible for giving an oral summary of the committee's deliberations if necessary at meetings of the whole governing body.
- 11 Each committee is authorised to invite attendance at its meetings from persons to assist or advise on a particular matter or range of issues, including parents and members of the academy staff who are not governors.
- 12 Any governor may attend meetings of committees.
- 13 Only governors who are members of the committee may vote at committee meetings. Where necessary, the elected chair of the committee may have a second or casting vote.
- 14 In the event of a need to make genuinely urgent decisions between meetings on matters falling within the remit of the committee, the chair of the governors, in consultation with the headteacher and chair of the committee, will take appropriate action on behalf of the committee.

The decisions taken and the reasons for urgency will be explained fully at the next meeting of the whole governing body.

- 15 The committee chairs will meet with the chair of governors and headteacher at the beginning of each term to plan the work of each committee in relation to the Academy's development plan and other issues.

## Annex 1f: Pro-forma Terms of Reference for a Finance Committee

### Purpose

To assist the decision making of the governing body, by enabling more detailed consideration to be given to the best means of fulfilling the governing body's responsibility to ensure sound management of the academy's finances and resources, including proper planning, monitoring and probity.

To make appropriate comments and recommendations on such matters to the governing body on a regular basis.

Major issues will be referred to the full governing body for ratification.

### Terms of Reference

Subject to the requirements of the (*insert legislative acts as applicable*), the committee is authorised:

- 1 To consider the academy's indicative funding, notified annually by the DfES, and to assess its implications for the academy, in consultation with the headteacher, in advance of the financial year, drawing any matters of significance or concern to the attention of the governing body.
- 2 To consider and recommend acceptance/non-acceptance of the academy's budget, at the start of each financial year.
- 3 To contribute to the formulation of the academy's development plan, through the consideration of financial priorities and proposals, in consultation with the headteacher, with the stated and agreed aims and objectives of the academy.
- 4 To receive and make recommendations on the broad budget headings and areas of expenditure to be adopted each year, including the level and use of any contingency fund or balances, ensuring the compatibility of all such proposals with the development priorities set out in the development plan.
- 5 To liaise with and receive reports from the staffing/remuneration and curriculum committees, as appropriate, and to make recommendations to those committees about the financial aspects of matters being considered by them.
- 6 To monitor and review expenditure on a regular basis and ensure compliance with the overall financial plan for the academy, and with the financial regulations of the DfES, drawing any matters of concern to the attention of the governing body.
- 7 To monitor and review procedures for ensuring the effective implementation and operation of financial procedures, on a regular basis, including the implementation of bank account arrangements and, where appropriate to make recommendations for improvement.
- 8 To prepare the financial statement to form part of the annual report of the governing body to parents and for filing in accordance with Companies Act and Charity Commission requirements
- 9 To receive auditors' reports and to recommend to the full governing body action as appropriate in response to audit findings.
- 10 To recommend to the full governing body the appointment or reappointment of the auditors of the academy.

## **Annex 1g: Guidance on Management of Risk**

- A Overview
- B The Approach
- C Categories of Risk
- D Assess Risk Appetite
- E Risk Responses
- F Pro-forma Risk Register
- G Glossary of Risk Terms



## A. Overview

1. The HM Treasury publication “Management of Risk – Principles and Concepts” (“The Orange Book”) provides guidance on developing a strategic framework for the organisational consideration of risk. Whilst the Orange Book guidance may be of use to larger bodies with a complex system of control based on a broad management structure, it may not be so appropriate for smaller bodies where the system of internal control is relatively straightforward but where there are relatively few members of staff, with multiple responsibilities. In these instances, the indivisibility of the available resources may have implications for the strategic framework. With these considerations in mind, this guidance has been put together to assist smaller bodies develop a suitable approach to risk management, in the spirit of the Orange Book guidance, which will underpin the statement on internal control and risk management that must be included in trustees’ annual report.
2. As with the Orange Book, this guide does not aim to offer a single solution to the challenge of risk management, nor does it attempt to tell the reader how to manage risk. That would not be possible as the detail of risk issues for any one organisation is particular to that organisation. This guide does aim to offer some pointers to developing a strategic framework for the organisational consideration of risk in small bodies.
3. This guide does not attempt to define what a “smaller body” is, but, as indicated above, presumes two key characteristics of such bodies:
  - a less complicated system of internal control due to limited diversity of risk; and
  - a limited number of staff carrying out multiple functions.
4. This guidance does not, in any way, reduce the corporate governance requirements placed on those bodies thought to be “small”, it merely serves to provide guidance on an approach to the risk management process that is more appropriate to their size.
5. It should be emphasised that this guide does not seek to impose an additional process if management are satisfied that the risks facing the organisation are already well considered and managed in the course of normal daily activities. It is suggested, however, that management at least considers the guidance when determining whether they are covering all risks and activities adequately. The aim is to achieve an acceptable level of comfort using the available resource and for governing bodies to be able to report sound arrangements in annual accounts.
6. Given the pressure on resources, it is suggested that organisations consider using any available internal audit resources. Although setting a risk strategy is clearly a management responsibility, many internal auditors possess a high level of relevant knowledge and experience and we would recommend drawing on this knowledge and expertise. Consideration could be given to using a suitably experienced internal auditor to facilitate the risk prioritisation meeting. In addition, many bodies will have an external moderating group of trustees who should be involved in the process to benefit from their experience of other organisations’ risk management processes, as well as their experience of the body itself.
7. The suggested approach assumes that day to day control of the body is restricted to a small board- style management group, who are well aware of, and involved in, the various functions of the body and the activities being undertaken. The approach requires the management board to invest a certain amount of time at inception in order to lay the foundations for the ongoing risk management process.
8. The key starting point for the process is the strategic objectives of the organisation, as it is the risks to the achievement of these objectives on which the body should focus attention. If the body does not have an agreed set of strategic objectives, then the development of these will need to be the first stage of this process. Ideally, looking forward, risk management should be embedded into the ongoing planning and strategy process. It is up to the individual organisation to judge the significance of the risks they face and how much attention to give them.
9. This guidance aims to provide bodies with the tools necessary to make this development process as straight forward as possible.

## B. The Approach

### Stage 1 - Preparation

10. Given the nature of the internal control system and the pressure on available resources, this approach aims to keep the time input required to a minimum. The Orange Book proposes a series of risk management workshops as a means of identifying and assessing the risks. For small bodies one meeting of the senior officers should suffice although some preparation will be required prior to the meeting. It is also important to decide upon an appropriate individual within the organisation to take overall control of the risk management process and to chair the risk meeting. This is most likely to be a senior member of the management team whose role affords a global overview of the activities of the body.
11. Prior to the meeting, the objectives of the body should be circulated to all attendees with a request for them to consider, and then submit, what they perceive to be the risks to achieving each of those objectives. In order to share ownership of the process throughout the organisation, attendees may wish to consult other members of staff at this stage. As a guide, it may be useful to send participants the list of potential categories of risk that was in the Orange Book and is reproduced at section C.
12. From the submissions received, and using his/her judgement, the Chairman should then aim to arrive at an overall list (grouping as appropriate) of the main risks facing the organisation.

### Stage 2 – The Meeting

13. The objectives of the risk meeting are as follows:
  - discuss and agree that all involved are satisfied with the Chairman's list of risks;
  - determine the appropriate response to each risk;
  - assess existing controls and determine appropriate action;
  - allocate responsibility for action; and
  - agree future reporting and review procedures.
14. Taking each of the risks in turn, discuss and rate them in terms of likelihood and impact, eg 5 (high) to 1 (low).
15. With this exercise complete, the board needs to decide what their risk appetite is (see section D). This will determine what response the board wishes to make to each risk. For details of the different possible responses to risk see section E.
16. With the list of key risks and responses agreed, it is then time to identify any controls that exist to mitigate the risks. The controls identified need to be assessed to determine whether they are an appropriate mitigation of the risks identified. The value for money of the chosen responses needs to be considered, i.e. it is as important to avoid over-control of minor risks as under-control of serious risks.
17. It is likely that the assessment of controls will produce a list of actions required to produce an acceptable internal control system. Clear responsibilities should be allocated to these actions along with a deadline for the action to be completed and a scheduled date for review.

### Stage 3 – The Risk Register

18. Following the meeting, a risk register pro-forma can be completed (see section F). At this point, it may be sensible to circulate it to other relevant members of the organisation who did not attend the meeting. They should be able to provide further confirmation that the understanding of the risks and controls within the organisation is accurate.
19. A final version of the register should be circulated to all members of the organisation so that they are aware of the risk management policy and the controls in place to limit exposure to risk.
20. For some organisations, a formal risk register may not be the most appropriate means of

tracking the risks over time, and other less formal means of reporting on how they are managed may already exist within the management and planning processes of the body. Organisations should ensure that the risk assessment is embedded into the management and planning processes and not carried out as an isolated exercise. The risk register, or equivalent, should provide valuable input to the allocation of resources, in order to help factor risk into the business planning processes.

#### **Stage 4 – Ongoing Review and Reporting Mechanisms**

21. Management should agree a timetable for continuing review of the risk register, bearing in mind that the key risks faced by the organisation may change and that the adequacy of the internal control system requires regular re-assessment.
22. Academies should also bear in mind that they are required to provide a report on risk management in the Trustees' Report in their annual accounts.

## C. Categories of Risk

23. The table below offers a summary of the most common categories of risk. The table does **not** claim to be comprehensive - some organisations may be able to identify other categories of risk applicable to their work.

Category of Risk	Illustration / Issues to Consider
<b>External Risk</b> – arising from the external environment, not wholly within the organisation’s control, but where action can be taken to mitigate the risk	
1. Political	Possible political constraints such as change of government or introduction of the Euro
2. Economic	Economic factors such as interest rates, exchange rates, inflation
3. Socio Cultural	Demographic change affecting demand for services; change of stakeholder expectations
4. Technological	Obsolescence of current systems; procurement and best use of technology to achieve objectives
5. Legal / Regulatory	Laws and regulations which impose requirements (eg health & safety and employment legislation)
6. Environmental	The need for buildings to comply with changing standards (eg energy efficiency); the need for disposal of rubbish and surplus equipment to comply with changing standards
<b>Operational Risk</b> – relating to delivery of current activities, and building capacity and capability	
7. Operations	Overall capacity and capability to achieve objectives; procedures employed
8. Service/Project Delivery	Failure to deliver the agreed service
9. Resources - Financial	Availability and allocation of funding; poor budget management
“ - Physical	Security against loss, damage and theft of physical assets, and fraud including identification of areas which can be insured
“ - Human	Availability, retention, skills and capacity of staff
“ - Information	Adequacy of information for decision making; security of information against loss, damage, theft and fraud
10. Relationships	Threats to relationships with delivery partners; customer satisfaction; accountability (particularly to Parliament)
11. Reputation	Confidence and trust which stakeholders have in the organisation
12. Governance	Propriety and regularity; compliance with relevant requirements; ethical considerations
13. Scanning	Failure to identify threats and opportunities
14. Resilience	Capacity of accommodation, systems and ICT to withstand adverse impacts and crises; contingency planning and disaster recovery (eg fire, flood, failure of power supply, failure of transport systems)
<b>Change Risk</b> – created by decisions to pursue new endeavours beyond current capability	
15. Public Sector Targets	New targets challenge the organisation’s capacity to deliver
16. Change Programmes	Programmes for organisational or cultural change threaten current capacity to deliver as well as providing opportunity to enhance capacity
17. New Projects	Making optimal decisions/prioritising between new activities that are competing for resources
18. New Policies	Policy decisions creating expectations where the organisation has uncertainty about delivery

## D. Assessing Risk Appetite

### Defining “Risk Appetite”

24. **Risk appetite is the amount of risk to which the organisation is prepared to be exposed before it judges action to be necessary.** Even risk as opportunity is surrounded by threats which potentially limit ability to exploit the opportunity, and for which an appetite in relation to the opportunity benefit has to be assessed.
25. **Risk appetite is also about comparing the cost (financial or otherwise) of constraining the risk with the cost of exposure should the risk become a reality, and finding an acceptable balance.** The fact that the resources available to control risks are likely to be limited means that value for money decisions have to be made – what resource cost is it appropriate to incur to achieve a certain level of control in respect of the risk? Apart from the most extreme circumstances it is unusual for good value for money to be obtained from any particular risk being completely obviated with total certainty.
26. **Some risk is unavoidable, and not within the ability of the organisation to completely manage it down to a tolerable level.** In these cases the organisation needs to make contingency plans.
27. Risk appetite may be very specific in relation to a particular risk, or it may be more generic in the sense that the total risks which an organisation is prepared to accept at any one time will have a limit.

### Features of Identifying the Risk Appetite

28. In consequence every organisation has to identify its risk appetite. Decisions about response to risk have to be taken in conjunction with an identification of the amount of risk that can be tolerated. Any particular organisation is unlikely to have a single risk appetite.
29. The tolerable extent of risk will vary according to the perceived importance of particular risks. For example, tolerable financial loss may vary in accordance with a range of features including the size of the relevant budget, the source of the loss, or associated other risks such as adverse publicity. Where a particular risk can give rise to a number of effects, an effect of quite large financial loss may be acceptable whilst an associated effect of damage to health and safety may not be tolerable at all. Both the risk framework and the control responses therefore have to be considered in detail to identify the appropriate balance of potential realisation of risk against the costs of limiting that risk.
30. The most significant issue is that it is unlikely, except for the most extreme risks, that any particular risk will need to be completely and absolutely obviated. Identification of risk appetite is a subjective (rather than an objective or scientific) issue but nevertheless is an important stage in formulating the overall risk strategy.

## E. Risk Responses

31. Responses to risk can be divided into four response categories:

**Transfer:** For some risks the best response may be to transfer them. This might be done by conventional insurance, or it might be done by paying a third party to take the risk in another way. This option is particularly good for mitigating financial risks of risks to assets.

**Tolerate:** The exposure may be tolerable without any further action being taken. Even if it is not tolerable, ability to do anything about some risks may be limited, or the cost of taking any action may be disproportionate to the potential benefit gained. In these cases the response may be toleration. This option may be supplemented by contingency planning for handling the impacts that will arise if the risk is realised.

**Treat:** By far the greater number of risks will belong to this category. The purpose of treatment is not necessarily to obviate the risk, but more likely to take control action to contain the risk to an acceptable level. Such controls can be **corrective, detective, directive or preventive** (see glossary)

**Terminate:** Some risks will only be treatable, or containable to acceptable levels, by terminating the activity. It should be noted that the option of termination of activities may be severely limited in the public sector when compared to the private sector; a number of activities are conducted in the public sector because the associated risks are so great that there is no other way in which the output or outcome, which is required for the public benefit, can be achieved.

**Take the Opportunity:** this option is not an alternative to those above; rather it is an option which should be considered whenever tolerating, transferring or treating a risk. There are two aspects to this. The first is whether or not at the same time as mitigating threats, an opportunity arises to exploit a positive impact. The second is whether or not circumstances arise which, whilst not generating threats, offer positive opportunities – for example a drop in the cost of goods or services might free up resources for redeployment.

## F. Risk Register - Strategic and Reputational Risks

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
1 Strategic risk	Charitable objects risk	Charity is not operating within its objects						
		Charity's objects become out of date / are no longer appropriate						
		Charity receives unfavourable Ofsted report						
	Charitable status risk	Risk that charity could lose its charitable status						
	Long term demand risk	Insufficient demand for charity's services leaves it unsustainable						
	Competition risk	Presence of other organisations with similar objects and little scope for differentiation						
		Other organisations competing for the same sources of income						
	Stakeholder risk	Beneficiaries/other stakeholders don't consider that charity provides a valuable/high quality service						
	Alliance / partnership risk	Appropriateness of alliance						
		Integrity of partner risk						
	Investment powers risk	Risk of Trustees not acting in accordance with their investment powers						
	Insurance risk	Risk of financial loss/inability to replace items if charity does not have adequate insurance cover						
	Macro economic risk	Risk of the impact an uncontrollable event will have on the charity e.g. recession, war, oil crisis						
	Natural disaster risk	Risk of the impact an uncontrollable event will have on the charity e.g. fire, flood						
	Technology risk	Information security risk						
		Virus risk/corruption of data risk						
IT systems out of date / no longer supported								

## Risk Register - Strategic and Reputational Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
<b>2 Public profile risk</b>	<b>Charitable objects risk</b>	Charity not seen by public to be meeting its objects						
		Objects of the charity are controversial or may attract a high level of public interest						
	<b>Trustee profile risk</b>	Trustees have a high public profile and may cause the charity to attract publicity						
		Trustees are seen by the public to be paid a high amount for expenses						
		Trustees are not considered to be arms length from charity						
	<b>Expenditure risk</b>	Management and administration costs are perceived by the public to be high						
		Senior management of the charity are seen by the public to be paid high salaries						
		Reserves level risk - Charity seen to be holding reserves and not spending enough on its charitable objects						
	<b>Quality of service/product risk</b>	Charity provides a poor quality service to its beneficiaries/ customers						
	<b>Fraud risk</b>	Fraud discovered at the Charity attracts bad publicity						
	<b>Failure to comply with legislation risk</b>	Failure to comply with Health and Safety legislation results in an employee/volunteer/beneficiary of the Charity being injured at work, attracting bad publicity						
		Failure to comply with employment law- e.g. unfair dismissal of an employee - attracts adverse publicity						
	<b>Litigation risk</b>	Charity is involved in litigation						



## Risk Register - Strategic and Reputational Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
<b>3 Governing body organisation risk</b>	<b>Delegation risk</b>	Committees not established with delegated authority, eg finance, personnel etc.						
		Committee terms of reference not consistent / adequate etc.						
		Committee terms of reference not sufficiently flexible						
		Trustees delegate too little / too much to the Principal and/or Finance Director						
	<b>Principal/FD absence risk</b>	Trustees do not ensure rigorous monitoring is undertaken in the absence of the Principal and/or Finance Director						

## Risk Register - Operational Risks

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
<b>1 Management information risk</b>	<b>Quality risk</b>	Risk that information produced (financial and non-financial) for trustees and senior management is not accurate or not in a format suitable for monitoring the performance of the charity						
	<b>Timeliness risk</b>	Risk that management information is not available quickly after the period to which it relates						
	<b>Review risk</b>	Risk that management information is not subject to review						
		Risk that action is not taken after the review of management information						
	<b>Quantity risk</b>	Risk that too little management information is produced to facilitate informed decision making						

## Risk Register - Operational Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
2 Human resources risk	Trustee risk	Insufficient experience of charity/education sector						
		Trustees without req'd expertise						
		Lack of availability/poor attendance at meetings						
		Entrepreneurial risk - risk that trustees are too entrepreneurial. Risk that activities of the charity could be outside its objects.						
		Trustees become too involved with management of the charity and are not independent from management						
		Trustees do not act solely in the interests of the charity but for their business/other interests etc.						
		No member with responsibility for financial oversight is appointed						
		Passive Trustees						
	Management risk	Senior management capability / experience of charity sector risk						
		Integrity risk						
		Key person loss/succession risk						
		Entrepreneurial risk - risk that management is too entrepreneurial. Risk that activities of the charity could be outside its objects.						
	Staff risk	Low morale risk						
		Retention risk						
		Recruitment risk (risk of recruiting the wrong person)						
		Recruitment risk (recruiting someone unsuitable to work with children)						
		Appraisal /assessment risk						
		Staff matters not referred to HR professionals, may lead to tribunals						
		Training risk						
	Technical capability risk							

## Risk Register - Operational Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
	<b>Volunteer risk</b>	Excessive reliance on volunteers						
		Lack of control over volunteers						
		Training risk						
		Risk that volunteers are not of appropriate quality/vetted/subject to police checks						
	<b>H &amp; S risk</b>	Staff fatality/injury						
		Fatality/injury to pupil/third party						
Other third party risk								
<b>3 Income risk</b>	<b>Donor risk</b>	Charity heavily reliant on one donor						
		Donor has a strong influence/power over charities activities						
	<b>Marketing risk</b>	Other charities competing for donations or similar sources of income						
	<b>Grants receivable risk</b>	Grants receivable not used for the purposes for which they were given						
Grant receivable reporting requirements are not adhered to								
<b>4 Supplier risk</b>	<b>Supplier selection risk</b>	Supplier financial viability						
		Supplier inappropriate						
		Supplier connected with either trustees or staff						
		Delivery risk						
		Quality risk						
	<b>Key supplier dependency risk</b>	Risk that supplies not available						
		Risk of dependency on few suppliers						
	<b>Value for money risk</b>	Purchase price risk						
Efficiency risk								

## Risk Register - Compliance Risks

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
1 Employee legislation risk	Employment laws risk	Risk that legislative requirements are not known or complied with						
		Discrimination risk						
		Data Protection risk						
		Human Rights risk						
		Equal opportunities risk						
	Contract risk							
	Pension risk	Risk that legislative requirements are not known or complied with						
	Health & safety risk	Risk that legislative requirements are not known or complied with						
2 Environmental legislation	UK Legislation	Risk that legislative requirements are not known or complied with						
	EU Legislation	Risk that legislative requirements are not known or complied with						
3 Financial reporting risk	Statutory accounts risk	Risk that legislative requirements are not known or complied with						
	Accounting standards risk	Risk that legislative requirements are not known or complied with						
	SORP compliance risk	Risk that legislative requirements are not known or complied with						
4 Charities legislation risk		Risk that legislative requirements are not known or complied with						
		Risk trustees are not aware of the legislative requirements of being on the Forum						
5 Tax legislation risk	VAT/PAYE/NI risk	Risk that legislative requirements are not known or complied with						
6 Data Protection Act risk		Risk that legislative requirements are not known or complied with						

## Risk Register - Compliance Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
7 Welfare compliance risk	Disability risk	Risk that legislative requirements are not known or complied with						
	Child Protection Act risk	Risk that legislative requirements are not known or complied with						
8 Sector compliance risk	National curriculum compliance	Risk that legislative requirements are not known or complied with						
	Mental Health compliance risk	Risk that legislative requirements are not known or complied with						
9 Local Authority and Central Government risk	Grant criteria risk	Grant terms and conditions are not complied with						
	Licensing risk	Risk that legislative requirements are not known or complied with						

## Risk Register - Financial Risks

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
<b>1 Overall financial control risk</b>	<b>Budget risk</b>	Risk that budget cannot be prepared in accordance with DfES timetable						
		Risk that budget will be in deficit						
		Risk that actual performance is not measured against budget on a regular basis						
		Risk that budget headings are manipulated to ensure targets are met						
	<b>Reconciliation risk</b>	Risk that bank reconciliations / other key reconciliations are not completed and reviewed						
		Risk that suspense accounts are not cleared or reconciled						
	<b>Consolidation risk</b>	Risk that results of subsidiaries/associates are not consolidated with results of parent charity						
<b>2 Financial systems risk</b>	<b>Systems suitability risk</b>	Risk that financial system is not suitable for charity's needs						
	<b>Maintenance risk</b>	Risk that financial system will not be maintained by provider in long term						
	<b>Disaster risk</b>	Risk that financial information cannot be recovered in the event of a disaster (eg fire, theft, vandalism)						
	<b>Access risk</b>	Risk of unauthorised access to financial systems						

## Risk Register - Financial Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
<b>3 Income risk</b>	<b>Completeness risk</b>	Invoices not raised for all transactions						
		Donations in kind or intangibles are not recorded or recognised in the financial statements						
	<b>Restricted income risk</b>	Income is not identified as restricted on receipt						
		Restricted income is used for purposes other than restriction						
		Restricted funds are transferred to unrestricted funds without consent of donor						
	<b>Sponsorship funding risk</b>	Sponsorship targets not met						
		Sponsorship promised by individual partners is not delivered						
	<b>Cut off risk</b>	Risk that income is accounted for in the wrong accounting period						
<b>Fraud risk</b>	Risk that donations are misappropriated							
<b>4 Expenditure risk</b>	<b>Authorisation risk</b>	Risk that expenditure is not authorised						
	<b>Allocation risk</b>	Risk that expenditure is allocated between SOFA headings using inappropriate basis						
	<b>Price risk</b>	Risk that discounts are not secured or price reductions obtained on purchases or services						
	<b>Cut off risk</b>	Risk that expenditure is accounted for in the wrong accounting period						
	<b>Fraud Risk</b>	False invoice/payment risk						



## Risk Register - Financial Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
5 Treasury risk	Cash flow risk	Risk that cash flow requirements are not forecast						
		Risk that cash is all tied up in investments and insufficient is readily available to meet short term cash flow needs						
6 Fixed asset risk	Capital construction risk	Risk that assets built by contractors do not meet specifications, or actual cost exceeds budget						
	Asset recognition risk	Risk that assets are not capitalised						
		Risk that depreciation rate is not appropriate						
	Fraud risk	Risk that assets are misappropriated						
7 Investment risk	Return risk	Risk that the return on investments is not being maximised						
		Risk that trustees are not acting in accordance with their investment policy/powers (eg investing in high risk investments which are not in best interests of the charity)						
8 Stock risk	Fraud risk	Risk that stock is misappropriated						

## Risk Register - Financial Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
9 Debtors risk	Recoverability risk	Risk that debts are not recovered						
		Risk that provision for doubtful debts is overstated/understated						
	Completeness risk	Risk that debtors record is not complete						
	Cut off risk	Risk that debtors are accounted for in the wrong accounting period						
	Cash flow risk	Risk that profile of aged debtors deteriorates which impacts on cash flow position						
10 Taxation risk	Non-charitable trading risk	Risk that charity is liable to tax on non charitable trading activities						
	Change in legislation risk	Risk that charity is not aware of changes in legislation						
11 Provisions and contingent liability risk	Recognition risk	Risk that charity is not recognising provisions or commitments in accordance with FRS 12						
	Contractual commitments risk	Risk that charity has entered into future commitments without having the future funding available to meet them						
12 Related party risk	Identification risk	Risk that related party transactions/ transactions with connected persons are not identified						
		Risk that connected charities are not identified						
	Disclosure risk	Risk that related party transactions are not correctly or fully disclosed in the financial statements						

## Risk Register - Financial Risks Cont'd

Category	Sub category	Specific	Likelihood of occurring (5=high, 1=low)	Impact if occurs (5=high, 1=low)	Response (transfer, tolerate, treat, or terminate)	Control procedures and target date	Person(s) responsible for action	Date of next review
<b>13 Funds risk</b>	<b>Level of funds</b>	Risk that fund levels are too high/low						
		Risk that unrestricted funds are in deficit and restricted funds are in surplus						
	<b>Endowment risk</b>	Risk that capital in permanent endowment funds is not maintained						
<b>14 Pension risk</b>	<b>Funding risk</b>	Risk that scheme is in significant deficit						
	<b>Contribution risk</b>	Risk that employers' contribution rate increases						
		Risk that charity is not making the correct contributions						

## G. Glossary of Risk Terms

Assurance	gaining (independent) confirmation that the organisation's governance, risk management and internal control framework is appropriate, adequate and achieving the effects for which it has been designed
Corrective Control	a control designed to correct undesirable outcomes
Detective Control	a control designed to detect undesirable outcomes which have arisen
Directive Control	a control designed to ensure a particular outcome
Embedding Risk Management	ensuring that the risk management strategy is reflected in the objectives and function of every level of the organisation
Exposure	the consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised
Horizon Scanning	systematic activity to identify changes in risk as early as possible
Inherent Risk	the exposure arising from a specific risk before any action has been taken to manage it
Internal Control	any action taken within the organisation to manage risk, including the impact if the risk is realised and the frequency of it
Impact	the evaluated effect or result of a particular outcome actually happening
Likelihood	the evaluated probability of a particular outcome actually happening (including a consideration of the frequency with which the outcome may arise)
Preventive Control	a control designed to prevent an undesirable happening
Residual Risk	the exposure arising from a specific risk after action has been taken to manage it
Risk	uncertainty of outcome, whether positive opportunities or negative threats, arising from a combination of impact and probability, including perceived importance
Risk Appetite	the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time
Risk Assessment	the evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised
Risk Management	all the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress

# Part 2

## Financial Systems and Controls

### Key Standards

- 2.1 The following key standards for financial administration should guide the governing body in developing its financial arrangements.
- **Responsibilities** - the responsibilities of the governing body and academy personnel should be clearly defined, documented and allocated.
  - **Organisation** - there should be a clear organisational structure with identified lines of reporting for all operations.
  - **Control Principles** - financial systems should include adequate controls to ensure transactions will be properly processed and that errors will be detected promptly.
  - **Accounting System** - academies should make arrangements to maintain proper accounting records which should be appropriately protected against unauthorised modifications, destruction, disclosure or loss whether by accident or intention.
  - **Cash and Banking** - the arrangements for cash handling and the operation of bank accounts should be properly controlled and bank balances should be regularly reconciled to accounting records.
  - **Payroll** - there should be efficient procedures for the administration of personnel matters including payroll.
  - **Purchases** - purchasing activities should be effectively controlled and designed to achieve the best value for money.
  - **Income** - all income due to the academy should be identified and all monies received should be receipted, recorded and banked promptly.
  - **Assets** - stock, stores and other assets should be recorded, and adequately safeguarded against loss or theft.
  - **Computer Systems** - information held on computer systems should be properly protected, regularly backed-up and access should be restricted to authorised personnel.
- 2.2 The standards are expanded on in greater detail in the remainder of this section.

## Responsibilities

- 2.3 The roles of the governing body, its committees, the Responsible Officer, the Headteacher (who is also the Accounting Officer), and other staff should be defined in writing. This should include stating the respective responsibilities of the governing body and staff, limits of delegated authority and channels for reporting.
- 2.4 Each academy should refer to its Funding Agreement, which sets out the roles and responsibilities of governors in broad terms. Academies should expand on this document by defining:
- a schedule of decisions reserved for the governing body;
  - terms of reference for all committees; and
  - an explicit statement of the financial powers delegated to individual school personnel.

### Accounting Officer

- 2.5 The Funding Agreement requires each academy to identify the Headteacher as the Accounting Officer. This post confers responsibility for financial and administrative matters. This is a vital role, as the Accounting Officer is personally responsible to the governing body for:
- ensuring regularity and propriety;
  - prudent and economical administration;
  - avoidance of waste and extravagance;
  - efficient and effective use of available resources; and
  - the day to day organisation, staffing and management of the academy.
- 2.6 Included in the responsibilities of the Accounting Officer is a duty to take appropriate action if the governing body, or the Chairman, is contemplating a course of action which he or she considers would infringe the requirements of propriety or regularity (including the provisions of the Funding Agreement, the academy's Development Plan, or other documents setting out the financial duties of the governing body or of any other rules governing the conduct of the body), or would not represent prudent or economical administration, or the efficient or effective discharge of the governing body's functions.
- 2.7 In such circumstances, the Accounting Officer would be required to put his or her objections in writing to the governing body and to advise them of the requirement to inform the DfES Accounting Officer (the Permanent Secretary) and the academy's external auditors, as well as the Comptroller and Auditor General.
- 2.8 Such notification should occur without undue delay, and the Departmental Accounting Officer will need to consider whether to intervene in such cases.
- 2.9 The Accounting Officer may delegate, or appoint others to assist in these responsibilities, for example to a Principal Finance Officer.

### Principal Finance Officer

- 2.10 The Principal Finance Officer would usually take the role of a Director of Finance or a Director of Finance and Administration (as deemed appropriate for each academy) and would be responsible for:
- the day to day management of financial issues;
  - the management of the academy's financial position;
  - the maintenance of effective systems of internal control; and
  - ensuring that the annual accounts are properly presented and adequately supported by the underlying books and records of the academy.
- 2.11 This is a key appointment and requires someone with sufficient knowledge and experience to

guide the governing body on financial and administrative systems, audit and charity accounting matters. The DfES strongly recommends that the person appointed as Finance Director, or equivalent, should be a qualified CCAB accountant, or equivalent, with some experience in a senior position; charity experience would be valuable. An acceptable alternative, subject to the governing body themselves having significant financial experience and ability, would be a member of the Association of Accounting Technicians who has significant relevant experience in either a charity or educational institution.

### Responsible Officer

- 2.12 The governing body will need to consider how it monitors and checks the operation of the financial management arrangements that have been established and are operated by officers of the academy. To assist in this they should appoint a person who will have specific responsibility for overseeing the financial arrangements on their behalf. The appointment of this Responsible Officer (RO) must be notified to the DfES (**see form 8 at annex 2a**).
- 2.13 The RO post is intended to provide an independent oversight of the academy's financial affairs. The main duties of the RO are to provide the governing body with on-going independent assurance that:
- the financial responsibilities of the governing body are being properly discharged;
  - resources are being managed in an efficient, economical and effective manner;
  - sound systems of internal financial control are being maintained; and
  - financial considerations are fully taken into account in reaching decisions.
- 2.14 The programme of checks to be performed should be agreed with the governing body or Finance & General Purposes Committee (as appropriate). After each checking session the RO should provide the governing body or the Finance & General Purposes Committee with a written report. The RO should not be a member of the Finance & General Purposes Committee, as he or she may find it necessary to criticise the workings of that Committee. Instead, the RO should report to the Finance & General Purposes Committee in an advisory capacity.
- 2.15 **The RO should be a governor (but not the chairman), or an appropriately qualified and experienced individual not on the academy staff, with the necessary financial interest and skills to be able to perform the role competently.** A recognised professional qualification is not necessary. However, the person selected must be able to show that the responsibilities being undertaken are fully understood and the importance of the role is fully recognised. The RO should have sufficient understanding to recognise any irregularities which may arise and sufficient authority to ensure they are addressed. The governing body should consider carefully who would make the most appropriate RO and if they are unable to appoint an RO who complies with the above guidelines they should discuss the appointment with the Department. Alternatively, the governing body can engage a firm of auditors to aid the RO in this function.
- 2.16 The RO function could be carried out by an individual or body associated with a governor – for example a business governor may arrange for his/her company's internal auditors to carry out the reviews and provide him/her (on behalf of the governors) with reports.
- 2.17 The RO will need to be sufficiently familiar with the finances of the academy to be able to provide the governing body, and hence indirectly the DfES, with the required assurance. The RO is not expected to do any detailed accountancy work, but will be required to check some transactions to ensure that the correct procedures have been followed. Suggested guidance for issue to ROs, together with details of the expected checks are shown in **annex 2b**, but the general areas for review should cover the following:
- Review that bank reconciliations have been carried out each month, including a review of validity of reconciling items;
  - Review of the monthly payroll to ensure that any changes have been appropriately authorised;
  - Check of a sample of orders to delivery notes and invoices to ensure that the

- documentation is complete and has been appropriately checked and authorised;
- Check of a sample of payments back to invoices, orders and delivery notes to confirm they are bona fide purchases;
- Review of a sample of expense claims to ensure there is appropriate documentation to support the claim and that the claim is appropriately authorised;
- Review the returns to the DfES to ensure the information supplied is consistent with the underlying accounting records and internal management reports;
- Carry out spot checks of petty cash balances and supporting vouchers and
- Review all major contracts and ensure formal tendering procedures exist and are being adhered to.



## Organisation

- 2.18 Each academy should have a clearly defined organisational structure. This may be served by committees or sub-committees and may be divided into departmental cost centres. There should be clearly defined reporting channels to the governing body and its committees.

### Finance & General Purposes Committee

- 2.19 Each academy should establish a Finance & General Purposes Committee to oversee its financial affairs and to report as appropriate to the governing body. The Finance & General Purposes Committee should have its own chairman and clerk. The Committee should have clear terms of reference, including a statement of any powers delegated to it by the governing body.
- 2.20 Pro-forma terms of reference and an indication of the matters to be considered by a general Finance Committee are included at **annex 1f**. It is expected that the Finance & General Purposes Committee would meet on a more regular basis than the governing body, to ensure that governors maintain a close scrutiny role over the financial position of the academy.

### Finance Department

- 2.21 The proper functioning of any system depends on the competence and integrity of the personnel operating it. The qualifications, experience and personal qualities of those involved with financial arrangements are important features of the control system.
- 2.22 The governing body should consider what sort of financial expertise it needs to support the work of the financial and administrative team. This could involve refreshing and updating the skills of existing staff, employing additional staff perhaps on a part-time basis, or buying in skills.
- 2.23 The governing body should establish procedures to ensure that:
- personnel are competent, suitably qualified and trained to perform at a level commensurate with their responsibilities;
  - clear statements of criteria for personnel selection and formal job descriptions are maintained;
  - that finance staffing levels are adequate and
  - there are effective arrangements to deal with the absence of key financial personnel.
- 2.24 In view of the importance of the financial responsibilities of the governing body it is particularly important that the development of financial expertise is considered very carefully. Once established the adequacy of the arrangements need to be periodically reviewed and any training needs or opportunities identified.

### Personnel

- 2.25 Any appointments or changes to terms and conditions should be authorised by the governing body. The governing body must ensure personnel management procedures have been identified, formally approved and documented to cover as a minimum:
- recruitment (including references and police checks);
  - performance appraisal and review;
  - equal opportunities;
  - disciplinary (including absence policies);
  - grievance;
  - staff expenses.
- 2.26 The governing body should also ensure that procedures are in place to ensure that employees of the academy are paid for work done in accordance with their contracts of employment with the academy.

- 2.27 In addition, the governing body must ensure the academy has adequate insurance cover to support its activities as an employer, such as employers' liability insurance, fidelity insurance, trustee indemnity, public liability insurance and so forth.
  
- 2.28 It may be appropriate in many cases for the governing body to delegate personnel matters to a Personnel Sub-Committee. In any case, the governing body must ensure it obtains professional advice in establishing and enacting and enforcing personnel policies to ensure compliance with employment and other relevant legislation.

## Control Principles

- 2.29 The financial systems of the academy should contain adequate controls to ensure that transactions will be properly processed and that errors will be detected promptly. The main types of control are summarised below.

### Internal Check

- 2.30 The checking of one person's work by another provides a good safeguard against error or manipulation. All checks carried out should be documented. This form of check can be labour intensive and academies may need to use this form of control selectively.

### Segregation of Duties

- 2.31 An important element in any control system is the separation of those duties which would, if combined, enable one individual to record and process a complete transaction. Governing bodies are going to have to consider carefully how to establish a clear delegation of responsibilities with proper regard to segregation of duties. In particular there is a need to separate the key functions of authorisation, execution, custody, recording and the development and operation of systems. Effective segregation reduces the risk of error or intentional manipulation.
- 2.32 Finance sections in academies are likely to be small and full segregation of duties may be difficult to achieve. The governing body should however satisfy itself that there is adequate segregation of duties to ensure that the risk of error or fraud is minimised and where full segregation of duties is not possible that adequate compensating controls are in place.

### Documentation of Systems

- 2.33 All operating procedures should be documented. Documentation helps to ensure a degree of formality, consistency and structure, which is essential in financial management procedures. It can aid considerably with continuity in the absence of key staff or during changes of staff. It will also reduce the chance of error, assist in proper and timely accounting and reporting and ensure transactions are accounted for correctly.
- 2.34 Documentation should cover the following areas:
- **job descriptions**, setting out clearly the key responsibilities of the job;
  - **desk instructions**, giving step by step instructions on the execution of individual tasks and
  - **system procedures**, giving step by step instructions on the operation of complete systems.

- 2.35 Once the financial regulations, procedures and controls are established they will need to be documented in a finance manual and formally adopted by the governing body. This will help formalise the arrangements and will be part of the evidence which auditors will want to test. The documentation should include, amongst other things, accounting procedures, individual responsibilities and authority levels. An illustrative pro-forma document is included at **annex 2c**.

### Authorisation and Supervision

- 2.36 Authorisation controls require the certification that a transaction or event is acceptable for further processing. The types and limits of authorisations should be specified in the Finance Manual.
- 2.37 All systems of control should include supervision by responsible officials of the day to day processing of transactions. Supervisory controls should also include regular review of bank reconciliations and income and expenditure trends against budget and previous periods.

### **Physical Security**

- 2.38 All data, records and assets should be kept in a physically secure environment. This should cover safe keeping of finance records such as official order forms and cheque books and bank details. In addition, any petty cash should be kept securely.
  
- 2.39 Financial data and other records should also be protected in the form of back up procedures. All work should be regularly backed up and copy records stored securely off site. Advice should be sought from IT specialists in securing the network used by the academy.

## Accounting System

- 2.40 The key elements of the accounting system will include:
- income;
  - purchasing;
  - payroll;
  - assets; and
  - bank accounts.
- 2.41 Academies are required to maintain proper accounting records on an on-going basis throughout the year. The choice of accounting package is a matter for each academy to decide but the system should incorporate the following control features:
- authorisation and supervisory controls should be adequate to ensure transactions are properly recorded or that errors are identified;
  - all records should be appropriately protected against unauthorised modifications, destruction, disclosure or loss whether by accident or intention;
  - only authorised staff should be permitted access to the accounting records which should be securely retained when not in use;
  - accounting records should be properly maintained and held securely, vouchers or other documents relating to financial transactions should be stored for 7 years in accordance with the Companies Act and
  - all financial transactions should be traceable from the original documentation to the accounting records and vice versa.
- 2.42 The Department does not recommend that finance staff operate using independent manual systems (e.g. spreadsheets). Past experience has demonstrated that the volume of transactions will be significant and that an accounting package with nominal, purchases and sales ledgers will enable finance staff to ensure they have recorded all transactions and will limit the opportunity for errors to be made. An accounting package is also likely to prove more efficient in the use of time and resources and in generating regular financial information and monitoring reports.
- 2.43 Consideration should be given to access levels needed to the system purchased, and the likely number of users needed for the licence. This should include consideration of access levels for those covering staff absences, and those whose main function is to review transactions and balances rather than to input detailed transactions.

## Cash and Banking Arrangements

- 2.44 The proper administration of bank accounts is a fundamental financial control. In particular, regular bank reconciliations are essential. They prove that balances are correct and provide assurance that the underlying accounts have been properly compiled and are accurate.
- 2.45 Academies should establish robust controls for the operation of bank accounts incorporating the following control features:
- the opening and closing of bank accounts should be authorised by the governing body, who should set out the arrangements for the operation of the accounts including any transfers between accounts;
  - a limited number of authorised signatories;
  - two authorised signatories required for all withdrawals and payments made from bank accounts;
  - limits to the maximum amount of any individual transaction without the approval of the governing body;
  - all cheques to be crossed "account payee only";
  - cheques should not be pre-signed;
  - unused cheque books should be retained securely;
  - bank reconciliations should be performed at least monthly from bank statements to accounting records and any reconciling items should be resolved;
  - bank reconciliations should be reviewed and countersigned by an independent person who understands the reconciliation process;
  - where practical, persons responsible for performing bank reconciliations should not be responsible for processing of receipts and payments and
  - all funds surplus to immediate requirements should be invested in accordance with the Governors' investment policy.
- 2.46 Arrangements should also be made to ensure that any earmarked grants or other restricted income is ring-fenced from the other funds of the academy. As such, monthly balance sheets should detail the cash book balance of available funds and the amount of any earmarked funds, to ensure that a separate record is kept of these funds and that they are not used to meet general running costs.
- 2.47 Petty cash is administratively convenient for making small payments, particularly if the signatories to the main bank account are not available. However, cash is a vulnerable asset which must be properly controlled. The governing body should ensure that the size of the cash holding is appropriate, that it is used only for approved purposes, that proper records are maintained, and that there are regular reconciliations and occasional spot checks to verify that the sums in hand are correct. In addition, there should be a maximum amount set by the governors that can be processed through petty cash in any single transaction.
- 2.48 There must be receipts or other evidence verifying all payments made out of petty cash. There must also be evidence of appropriate approval for the use of petty cash. This approval should be sought at the time petty cash is being withdrawn. It should not be given retrospectively.

## Payroll

- 2.49 The largest item of expenditure for academies is the cost of staff and it is essential that effective procedures are established for the administration of personnel and payroll activities including appointments, terminations and promotions. Any appointments or changes to terms and conditions should be authorised by the governing body.
- 2.50 Academies may decide either to process their own payroll or to use a payroll bureau. If payroll services are bought in then a formal contract needs to be put in place between the academy and the bureau. This should include formal monitoring of the service and information provided by the bureau.
- 2.51 The governing body should note that irrespective of who prepares the tax and national insurance returns the governing body (as the employer) is legally responsible to these agencies for the accuracy and timeliness of such returns.
- 2.52 Any contract between the academy and the bureau will need to include:
- job specifications;
  - responsibility for making returns to HM Revenue and Customs and the dates by which these returns should be made;
  - details on ownership of programs and data files;
  - responsibilities for the control and accuracy of data;
  - details of authorised signatories for payroll amendments;
  - back up provisions;
  - a schedule of reports to be sent to the academy for financial and personnel monitoring purposes;
  - an agreement as to the response time and costs that will be charged for any additional data or reports required by the academy and
  - provision for access for academy staff and auditors.
- 2.53 Whether the payroll service is provided by academy staff or by a payroll bureau the academy system should contain adequate controls to ensure:
- payments are only made to bona fide employees;
  - payments are in accordance with an individual's conditions of employment;
  - payments are only made for services provided to the school;
  - deductions, including income tax and national insurance, are properly administered;
  - all, and only, authorised amendments are made to the payroll;
  - amendments to the payroll are promptly and properly processed and
  - payroll records are kept secure to ensure confidentiality is maintained.
- 2.54 Segregation of duties should ensure:
- the processes of completing, checking, and authorising all documents and claims relating to appointments, terminations of employment and expenses are not the sole responsibility of one person.
  - the duties of authorising appointments, making changes to individuals' conditions or terminating employment are separated from the duties of payroll processing. There is a particular risk that 'phantom' employees could be set up on the payroll system, or that former employees continue to be paid after they have left. These risks can be mitigated by keeping the payroll and personnel functions separate where possible.
- 2.55 All payroll transactions, including payment of staff expenses, should be processed through the payroll system. If Academies use contractors who are paid gross (i.e. including all their tax and National Insurance) and not through the payroll, governors should take steps to satisfy themselves that these contractors are making the appropriate payments to HM Revenue and Customs. There is a risk that the academy could incur penalty fines if contractors engaged by

them do not make these payments. Where there is doubt, it is preferable for academies to pay them through their payroll.

- 2.56 At least annually a person independent of payroll processing duties should check the contents of the payroll master files against personnel records maintained by the academy to ensure that they match.



## Purchases

2.57 In purchasing and contracting for goods and services, governing bodies must demonstrate the proper and effective use of public funds. Procedures should ensure that the goods, services and works needed are of the correct quality and quantity, arrive on time and are obtained at the best price possible. Detailed guidance on purchasing procedures is given in the model Financial Regulations Document at **annex 2c**. A best practice procurement checklist is at **annex 2d**.

2.58 The main requirements are:

- **probity** - to demonstrate that all parties are dealt with on a fair and equitable basis and that there is no private gain, favouritism or corruption involved in any of the dealings of the governing body;
- **accountability** - each governing body is publicly accountable for its expenditure and for the conduct of its affairs; and
- **value for money** - the achievement of value for money underpins the appropriate use of public funds. It is usually defined as economy, efficiency and effectiveness where:
  - **economy** is minimising the costs of resources used having regard to appropriate quality;
  - **efficiency** is the relationship between the output (however measured) and the resources used to generate that output;
  - **effectiveness** is the extent to which the objectives are achieved and the relationship between the actual and the intended outputs from an activity.

In applying funds, governing bodies must have regard to value for money considerations. From the definitions given above it should be evident that this does not necessarily mean the cheapest on offer. Consideration also needs to be given to factors including quality, suitability, availability, reliability of the supplier, terms available and so on.

2.59 For day to day purchases, the purchasing system will need to cover the ordering of goods and services, their receipting, the processing of invoices and the payment of those invoices. The documents supporting these payments should clearly show when the academy received the goods or services. Payments should not be made in advance of receipt of goods or services (unless it is a specific requirement of the order) as this would be making payments in advance of need. The key control features of the day to day purchasing system should comprise:

- written, pre-numbered orders to be used for all purchases except utilities, rent, rates etc.;
- all orders to be authorised by nominated signatories;
- a record of signatories and their authorisation limits to be kept and updated at suitable intervals;
- goods and services are checked on receipt to ensure they are in accordance with the order;
- works completed are certificated before interim or final payments are made;
- payments are only made against proper original invoices which have been checked, coded and certified for payment by a nominated signatory;
- all invoices are marked "paid" after processing and
- segregation of duties ensures that different individuals are responsible for: ordering the goods, works, and services; checking their receipt/completion; and authorising invoices for payment.

2.60 Consideration should also be given to establishing a list of preferred suppliers, based on recommendations, experience and vetting of those companies. academy staff should then be restricted to ordering goods and services for day to day purchases from those companies. Academies should strive to achieve value for money by arranging special purchase deals with companies on their preferred supplier list.

2.61 For larger purchases, the governing body will need a competitive tendering policy and be able to

produce evidence that it is being followed. The policy, taking into account the nature of the goods or services being purchased and the potential supplier's market place, will need to include areas such as:

- the threshold value of goods and services above which a tender should be sought. For example for a one-off contract with a value of less than £10,000, a number of quotes should be obtained. For a series of contracts or a contract with a value greater than £10,000 formal written tenders should be sought (*actual thresholds to be determined by the governing body*);
- the minimum number of tenders which need to be received and considered, for example, four;
- the levels of delegated authority in decision making, for example the financial limits above which all quotations or tenders must be reviewed by the governing body;
- a requirement to document and report to the governing body any instance where a tender or quotation other than the lowest has been accepted and
- written procedures for the submission, receipt, opening and recording of tenders;

2.62 In addition the governing body should consider in each case the appropriate type of tender (open, restricted, negotiated) and establish clear criteria for the evaluation of tenders.

2.63 It may be that in some cases and for certain services there is a sole provider. In such cases as well as demonstrating and evidencing that this is the case, alternative tests will need to be applied to ensure that value for money is obtained. These might include benchmark comparisons with similar services and comparisons with services that may be on offer elsewhere in the country. This will all need to be evidenced for audit purposes.

2.64 EU law also requires that public bodies advertise contracts through the Official Journal of the European Union (OJEU) where they exceed certain monetary thresholds. The current thresholds are included at **annex 2e**.

2.65 There may be cases where the governing body is looking to procure goods or services from a supplier in whom one of the governors or a member of staff or a related person has a business interest. In such cases there is a potential conflict of interest and particular care must be taken to ensure that the procurement process is competitive, fair and open and that public funds are protected. As a minimum requirement the governor or member of staff must declare their interest and withdraw from any part of the selection process. However where the interest of a governor or related person exceeds certain pecuniary (monetary) limits, which may be specified in the academy's memorandum or articles of association, the academy must not proceed with the purchase from that business. For example, an academy would not generally be permitted to trade with a company in whom a governor holds more than 1/100<sup>th</sup> of the business's share capital.

## Income

2.66 Academies should have clearly defined and documented procedures for identifying and collecting income due, including payments from the DfES, other grants and income from sponsors. Income procedures should include regular and systematic reviews of actual receipts, including comparisons with budget, to ensure that significant variations in the pattern of expected receipts can be promptly investigated.

2.67 The income systems should incorporate the following control features:

- the responsibility for identifying and recording sums due to the academy should be separated from the responsibility for collecting and banking monies received;
- where invoices are required they should be issued promptly;
- official pre-numbered receipts should be issued, or other formal documentation maintained, for all income collected;
- transfers of money between staff should be signed for;
- receipts, tickets and other records of income should be securely retained;
- cash and cheques should be locked away to safeguard against loss or theft;
- income collected should be paid promptly and in full into the appropriate bank account;
- income collected should not be used for the encashment of personal cheques or for other payments;
- income collected should be reconciled to income banked. Bank paying-in slips should show clearly the split between cash and cheques and
- the governing body should give approval to write off debts not collectable (the Secretary of State's prior approval is also required if debts to be written off are above the value set out in the annual funding letter).

2.68 Academies also need to value and record contributions from sponsors. All donors should be requested, for audit purposes, to put in writing details of their gift, the fact it has no conditions attached (where relevant), their estimation of the value of the gift and when the academy will receive the gift. Where there are conditions attached, it is unlikely the amounts can be recorded as donations of an unrestricted nature. Also, discounted amounts cannot be treated as charitable donations, but must be shown as a reduction on costs.

### Gifts in Kind

2.69 Gifts of cash are clearly the easiest to value. However it is recognised that a proportion of contributions may be in the form of **gifts in kind (ie assets)**.

2.70 Gifts in kind should be included in the academy's accounts (within the Statement of Financial Activities – see **Part 5 Annual Accounts**) in the accounting period in which they are receivable. The value placed on gifts in kind should be either a reasonable estimate of their gross value to the academy or (less likely) the amount actually realised as in the case of second-hand goods donated for resale. The key valuation test is "what would the academy be prepared to pay to purchase the asset?". For example:

- if the academy wants a mid-range PC and is given a high-spec PC, then the valuation of that gift should be based on that of a mid-range PC;
- if the academy needs a minibus and is given a 48-seater coach then the valuation should

be that of the minibus.

### Donated Services and Facilities

- 2.71 Academies may also receive assistance in the form of donated services (eg 'time') or facilities. Such incoming resources should be included in the Statement of Financial Activities where the benefit to the academy is reasonably quantifiable and measurable. This would usually be limited to **donations by an individual or entity as part of their trade or profession**. For example if a local accountancy firm agreed to supply an accountant free of charge to assist the academy's finance department for a couple of hours a month, this should be included in the accounts. However a police officer talking to a group of pupils as part of his/her community liaison role would not be classified as a donation, as this service would always be provided free as part of normal police activities.
- 2.72 In contrast to donations as part of a trade or profession, the **contributions of volunteers** should be excluded from the Statement of Financial Activities as the value of their contribution cannot be reasonably quantified in financial terms. For example parents or other volunteers assisting with reading in the classroom would be excluded. However the exclusion of these contributions should be disclosed in the Trustees' Annual Report if this information is necessary for the reader to gain a better understanding of the academy's activities.
- 2.73 The value placed on those donations which are included in the Statement of Financial Activities should be the price the academy estimates it would pay in the open market for the services or facilities. For example:
- if the academy requires a bookkeeper and is given the services of a chartered accountant (for doing the work of the bookkeeper) then the valuation of time should represent what it would have cost to obtain the services of a bookkeeper;
  - if the gift is classroom assistance irrespective of who is providing the time the appropriate rate from the relevant pay scale (i.e. unqualified or qualified) should be used.

### Other Considerations on Valuation

- 2.74 The valuation of gifts in kind and donations under the above rules may be different from the value placed on the asset, service or facility made by the donor. However it is the governing body's responsibility to account for the gift at a valuation which they can justify to their auditors.
- 2.75 In many instances obtaining a valuation will be relatively straightforward or the governing body will be able to satisfy itself that the donor's own valuation of the gift is fair and reasonable. However, it is recognised that in some instances it will be more difficult to obtain a comparable valuation.
- 2.76 The governing body will need to consider what evidence they require to enable them to form a view on the valuation of gifts. Listed below are a number of sources of evidence of valuation:
- comparable quotations from alternative suppliers;
  - what the academy already pays for that service/asset;
  - cash realised if the gift were to be sold;
  - experience of governors in purchasing similar services or assets; and
  - what the governors would be prepared to pay for that gift out of the academy budget.
- 2.77 The auditors will wish to see evidence of the valuation of gifts and therefore evidence obtained as above should be retained and discussions on valuation at the governing body's meetings should be minuted fully.
- 2.78 Time spent by governors in attending governing body meetings is part of their responsibility in undertaking their governance role and therefore should not be included as a business contribution. However, if a governor gives additional free time to the academy providing professional advice, outside their role as a governor, this may be accounted for as a donation.

Academies should ensure they are clear about what constitutes the work and role of governors before determining whether additional assistance from a governor is classified as a donation.

- 2.79 "Free gifts" i.e. non-solicited gifts will only have a value to the academy if the gift assists in achieving its objectives as set out in the Development Plan. However the auditors will expect annual accounts to show the full details of an academy's transactions, whether they are monetary or notional. Academies will therefore be expected to account for unsolicited gifts where applicable
- 2.80 The general rule relating to discounts is that they are not acceptable as "gifts" and should not be recorded as income. This is because under generally accepted accounting principles, discounts are not accounted for as income but as a reduction in expenditure. As the governing body is required to obtain value for money, the offer of discounts should be taken into account in making purchasing decisions.
- 2.81 Full records of receipt of business contributions should be retained, as the auditors will require evidence of receipt.

## Assets

- 2.82 Academies are required to establish systems of control which ensure that stocks, stores and other assets are recorded and adequately safeguarded against loss or theft. Records of capital assets and some stocks are required for accounting purposes but, it may be sensible to extend the systems of control to cover other assets particularly if there are attractive and portable items of equipment below the capitalisation limit.
- 2.83 The capitalisation limit for assets should be set by the governing body. This will form part of the academy's accounting policies.
- 2.84 The system of control for assets should be detailed in the finance manual. This would be expected to incorporate the following features:
- a clear definition of the assets to be included in the register and an explanation of the reasons for the omission of particular types of assets;;
  - significant equipment and capital items are recorded in a register;
  - all items in the register are permanently marked as the academy's property;
  - all assets purchased using grant from the Secretary of State are clearly noted as such in the register and the proportion of grant indicated;
  - physical counts against the register are undertaken at least annually;
  - discrepancies between the physical count and the registers are investigated promptly and if significant reported to the governing body;
  - stores and equipment are secured by means of physical and other security devices;
  - a policy for the disposal of assets has been established by the governing body which ensures the best value for the academy and
  - the Secretary of State's consent is obtained before the disposal of any asset for which grant of over £20,000 was made, or where land and buildings had been transferred from the Local Authority at no cost to the academy.
- 2.85 The governing body should also establish a policy for the disposal of assets, which ensures the best possible value is obtained from the disposal. Under the Funding Agreement the approval of the Secretary of State is required before the sale, or disposal by other means, or reinvestment of proceeds from the disposal, of an asset, or group of assets, for which capital grant in excess of £20,000 was paid.
- 2.86 The policy for asset disposal should include controls to ensure the asset is no longer of use to the academy (is obsolete), and that obsolete stocks are destroyed to ensure they are not illegitimately procured and then resold.
- 2.87 If within any one year (i.e. Sep - Aug) an academy disposes of items which collectively originally attracted grant of more than £20,000, then they should inform the Department.
- 2.88 The academy is expected to reinvest the proceeds from all asset sales for which capital grant was received, hence any income from the sale of assets should be maximised. If the sale proceeds are not reinvested the academy must repay to the Secretary of State the same proportion of the proceeds of the sale or disposal as equates with the proportion of the original cost met by the Secretary of State. However, the proceeds from the sale of assets acquired with grant from the Secretary of State cannot be used as the academy's contribution to further named grant aided projects or purchases.

2.89 For accounting purposes, it is advisable the asset register details:

- type and description of asset;
- cost of asset;
- location (if the academy covers more than one site);
- officer or budget holder responsible for the asset;
- amount and date of grant;
- proportion of grant used to finance acquisition;
- expected useful life of asset;
- date of disposal / change of use;
- proceeds of disposal / current market value and change of use;
- amount returned to DfES on disposal or change of use and
- date of receipt of disposal proceeds or date of approval to retain receipt or date of a approval to change use.

## Computer Systems

- 2.90 All academies are heavily reliant on computer systems to process and record financial and other management data and it is important that this information is properly protected. Systems should be in place to protect all key computer held data and control features should include:
- **Back-up Procedures:** Academies should copy key data from the computer's hard disk to another storage medium at least weekly. The back up copy should be stored in a separate building or in an otherwise secure and fireproof location.
  - **Passwords:** these should be used to restrict access to computer hardware and software to authorised users. Passwords should not be disclosed and should be changed regularly;
  - **Disaster Recovery Plans:** these should be in place to ensure the academy has a fall back position in the event of loss of accounting facilities or other key computer held data.
- 2.91 The use of computers in academies, particularly for administrative purposes, may require registrations under the Data Protection Act 1984. Academies should ensure that the appropriate registrations are in place.
- 2.92 The governing body should have a policy in place for the provision of information held in accordance with the Data Protection Act.



## Financial Management Review Visits

- 2.93 In order to gain assurance over the adequacy of financial arrangements governing the use of public funds by academies, the Department conducts an annual programme of financial management reviews (FMRs). These reviews look at whether the systems and control mechanisms that exist in each academy meet the requirements set out in the Financial Handbook. There are three main stages to obtaining this assurance.
- **Approximately 2-3 months prior to the academy opening** the Department holds a briefing meeting with the academy's Finance Director to set out the Department's expectations and requirements and to establish how the financial arrangements are progressing. This discussion is used by the Department to feed into an overall assessment of readiness for opening;
  - **During the first term of the academy's first academic year** the Department visits the academy to carry out an initial light-touch review of the financial systems and controls which have been put in place. The Department produces a draft FMR report of its findings and, if appropriate, makes recommendations for improvement. The academy is given the opportunity to comment and propose action on any issues raised in the draft report. A final FMR report is then issued to the Chair of Governors to take forward and monitor progress on any improvement action required. Over the year the Department seeks information on the academy's progress with the implementation of improvements;
  - **During the first term of the academy's second academic year** the Department visits the academy to carry out a more detailed FMR, with reporting arrangements on the same basis.
- 2.94 The frequency of subsequent reviews depends on the standard and consistency of application of the controls the academy has established.

## Annex 2a

### NOTIFICATION OF RESPONSIBLE OFFICER

FORM 8

**Academy name** .....

**NAME OF RESPONSIBLE OFFICER:** .....

**POSITION:** (If not a governor please state connection with Academy) .....

**DATE OF APPOINTMENT:** .....

*We certify that the details given above are correct, that detailed written instructions have been given to the Responsible Officer specifying how the role is to be discharged, and that we will notify the Department of Education and Skills should there be any change of Responsible Officer.*

**Chairman of Governors:**      **Signature:** .....  
**Date:** .....

**Responsible Officer:**      **Signature:** .....  
**Date:** .....  
**Contact telephone number:** .....

## Annex 2b: Suggested Guidance for Issue to Responsible Officers (ROs)

### The Role of the Responsible Officer

1. The role of the Responsible Officer (RO) is to provide the governing body (GB) with an on-going independent oversight of the academy's financial affairs. Most public sector organisations, and a growing number of private sector organisations, are required to have an internal audit service but due to the relatively small size of academies this requirement is thought to be too onerous. In the absence of an internal audit service it falls to the RO to provide the GB with independent assurance that:
  - the financial responsibilities of the GB are being properly discharged;
  - resources are managed in an efficient, economical and effective manner;
  - sound systems of internal financial control are being maintained and
  - financial considerations are fully taken into account in reaching decisions.
2. The RO should be a governor (but not the chairman), or an appropriately qualified and experienced individual not on the academy's staff, with the necessary financial interest and skills to be able to perform the role competently. The RO is not expected to do the detailed accounting work personally, but will be required to check some transactions to ensure that the correct procedures have been followed. The RO will need to be sufficiently familiar with the finances of the academy to be able to report to the GB, and hence indirectly to the DfES, that the above requirements have been met.

### Performance of the RO Role

3. The conditions of DfES grant, and the financial procedures which the DfES expect the academy to follow, are described in the DfES Academies Financial Handbook, which expands upon the academy's funding agreement with the Secretary of State. Further details may be set out from time to time in financial circular letters, and in the annual funding letters. The main purpose of the RO role is to ensure that these requirements are followed.
4. Responsible Officers are often consulted before significant financial decisions are taken and provide a useful source of advice for academies. However, the RO should also perform a wider role by visiting the academy at least once a quarter and undertaking a series of detailed tests to confirm the operation of the main financial systems. Details of the expected checks are shown overleaf.
5. Written records of the checks performed by the RO should be maintained.

## Suggested Systems Checks to be Undertaken by the RO Each Year

### Payroll

- Select 5 employees from the payroll and check salary details back to personnel records to confirm that the amount paid is correct;
- Check 5 amendments to the payroll to ensure that appropriately authorised source documentation exists;
- Review the final payroll print for one month to ensure it has been appropriately authorised.

### Purchases

- Select 5 payments made within the quarter and ensure:
  - the payment is correctly authorised;
  - the payment is correctly recorded in the accounting system;
  - the invoice is correctly authorised;
  - the invoice agrees to the order;
  - that goods or services have been certified as received;
  - the order is correctly authorised;
  - that the order has been placed with an appropriate supplier.
- Obtain details of any contracts let with a value over a prescribed limit and review documentation to ensure correct quotation/tender procedures have been followed;
- Review progress against any significant capital contracts to ensure payments made are appropriate and progress is satisfactory.

### Income

- Review receipts from the DfES and sponsors and check that the amounts received agree to source documentation;
- Select one category of “miscellaneous receipts” and ensure:
  - appropriate action has been taken on any overdue amounts;
  - primary records of amounts due reconcile to records of monies collected;
  - monies recorded as collected have been banked promptly and in full;
  - ensure monies collected are correctly recorded in the accounting system.

### Accounting System

- Review bank reconciliations to ensure that they have been correctly prepared and authorised;
- Review control account reconciliations to ensure that they have been correctly prepared and authorised;
- Review through sample checks the procedures used to prepare financial reports issued to governors and officers of the Academy and DfES financial returns to be satisfied that they are completed accurately and promptly.

## **Annex 2c: Suggested Financial Regulations Manual**

(Nb: This document is an illustrative framework and has been written in the form of procedures for an imaginary academy. In practice, details will differ for each institution and this manual needs to be tailored to the specific needs of each academy)

### **Contents**

- 1 Introduction
- 2 Organisation
- 3 Accounting System
- 4 Financial Planning
- 5 Payroll
- 6 Purchasing
- 7 Income
- 8 Cash Management
- 9 Fixed Assets

## 1. Introduction

- 101 The purpose of this manual is to ensure that the academy maintains and develops systems of financial control which conform with 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 Department for Education and Skills (DfES).
- 102 The academy must comply with the principles of financial control outlined in the academies guidance published by the DfES. This manual expands on that and provides detailed information on the academy's accounting procedures and system manual should be read by all staff involved with financial systems.

## 2. Organisation

- 201 The academy has defined the responsibilities of each person involved in the administration of academy finances to avoid the duplication or omission of functions and to provide a framework of accountability for governors and staff. The financial reporting structure is illustrated below:

### The Governing Body

- 202 The governing body has overall responsibility for the administration of the academy's finances. The main responsibilities of the governing body are prescribed in the Funding Agreement between the academy and the DfES and in the academy's scheme of government. The main responsibilities include:

- ensuring that grant from the DfES is used only for the purposes intended;
- ensuring that funds from sponsors are received according to the academy's Funding Agreement, and are used only for the purposes intended;
- approval of the annual budget;
- appointment of the Principal and
- appointment of the Finance Director, in conjunction with the Principal.

### The Finance & General Purposes Committee

- 203 The Finance & General Purposes Committee is a committee of the governing body. The Finance & General Purposes Committee meets at least once a term but more frequent meetings can be arranged if necessary.

- 204 The main responsibilities of the Finance & General Purposes Committee are detailed in written terms of reference which have been authorised by the governing body. The main responsibilities include:

- the initial review and authorisation of the annual budget;
- the regular monitoring of actual expenditure and income against budget;
- ensuring the annual accounts are produced in accordance with the requirements of the Companies Act 1985 and the DfES guidance issued to academies;
- authorising the award of contracts over £5,000 [*actual amount to be agreed at each individual academy*];
- authorising changes to the academy personnel establishment and
- reviewing the reports of the Responsible Officer on the effectiveness of the financial procedures and controls. These reports must also be reported to the full governing body.

### The Principal

- 205 Within the framework of the academy development plan as approved by the governing body the Principal has overall executive responsibility for the academy's activities including financial activities. Much of the financial responsibility has been delegated to the Finance Director but the Principal still retains responsibility for:

- approving new staff appointments within the authorised establishment, except for any senior staff posts which the governing body have agreed should be approved by them;
- authorising contracts between £1,000 and £4,999 in conjunction with the Finance Director [*actual amount to be agreed at each individual academy*];
- signing cheques in conjunction with the Finance Director or other authorised signatory.

### **The Finance Director**

206 The Finance Director works in close collaboration with the Principal through whom he or she is responsible to the governors. The Finance Director also has direct access to the governors via the Finance & General Purposes Committee. The main responsibilities of the Finance Director are:

- the day to day management of financial issues including the establishment and operation of a suitable accounting system;
- the management of the academy financial position at a strategic and operational level within the framework for financial control determined by the governing body;
- the maintenance of effective systems of internal control;
- ensuring that the annual accounts are properly presented and adequately supported by the underlying books and records of the academy;
- the preparation of monthly management accounts;
- authorising orders below £1,000 in conjunction with budget holders [*actual amount to be agreed at each individual academy*];
- signing cheques in conjunction with the Principal or other authorised signatory and
- ensuring forms and returns are sent to the DfES in line with the timetable in the DfES guidance.

### **The Responsible Officer**

207 The Responsible Officer (RO) is appointed by the governing body and provides governors with an independent oversight of the academy's financial affairs. The main duties of the RO are to provide the governing body with independent assurance that:

- the financial responsibilities of the governing body are being properly discharged;
- resources are being managed in an efficient, economical and effective manner;
- sound systems of internal financial control are being maintained and
- financial considerations are fully taken into account in reaching decisions.

208 The Responsible Officer will undertake a quarterly programme of reviews to ensure that financial transactions have been properly processed and that controls are operating as laid down by the governing body. A report of the findings from each visit will be presented to the Finance & General Purposes Committee. Detailed guidance on the transactions to be checked by the RO is given in Appendix A of the DfES Guidance.

### **Other Staff**

209 Other members of staff, primarily the Finance Officer, the Finance Assistant and budget holders, will have some financial responsibilities and these are detailed in the following sections of this manual. All staff are responsible for the security of academy property, for avoiding loss or damage, for ensuring economy and efficiency in the use of resources and for conformity with the requirements of the academy's financial procedures.

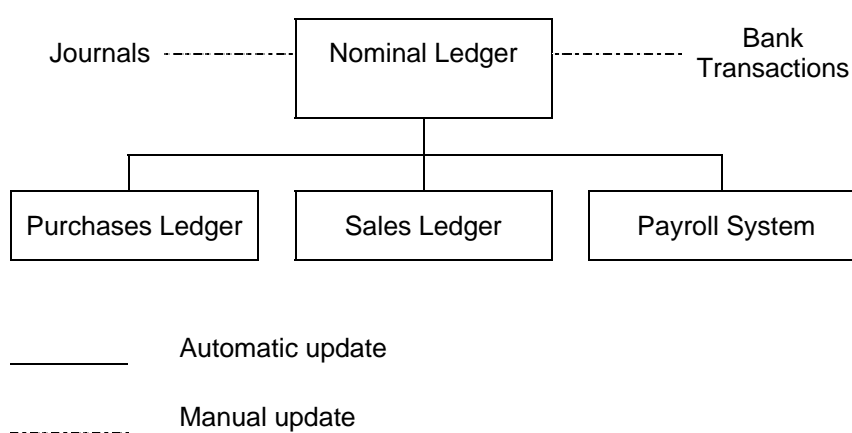
### **Register of Interests**

210 It is important for anyone involved in spending public money to demonstrate that they do not benefit personally from the decisions they make. To avoid any misunderstanding that might arise all academy governors and staff with significant financial or spending powers are required to declare any financial interests they have in companies or individuals from which the academy may purchase goods or services. The register is open to public inspection.

- 211 The register should include all business interests such as directorships, share holdings or other appointments of influence within a business or organisation which may have dealings with the academy. The disclosures should also include business interests of relatives such as a parent or spouse or business partner where influence could be exerted over a governor or a member of staff by that person.
- 212 The existence of a register of business interests does not, of course, detract from the duties of governors and staff to declare interests whenever they are relevant to matters being discussed by the governing body or a committee. Where an interest has been declared, governors and staff should not attend that part of any committee or other meeting.

### 3. Accounting system

- 301 All the financial transactions of the academy must be recorded on the Acme accounting system. The Acme system is operated by the Finance Department and consists of:



#### System Access

- 302 Entry to the Acme system is password restricted and the Director of Finance is responsible for implementing a system which ensures that passwords are changed at least every 3 months. When passwords are changed the new password should be placed in a sealed envelope and passed to the Finance Director to keep in the safe.
- 303 Access to the component parts of the Acme system can also be restricted and the Finance Director is responsible for setting access levels for all members of staff using the system.

#### Back-up Procedures

- 304 The Finance Director is responsible for ensuring that there are effective back up procedures for the system. Data should be copied onto a floppy disc or other removable medium and the copies stored in a secure place preferably in a fireproof container. Back up copies should be taken on at least a weekly basis.
- 305 The back-ups should not be recorded on the same floppy disc each time as this results in only one copy being available. In order to provide more protection from the loss of data at least three different floppy discs should be used in rotation and stored in different locations. At least one copy should be stored off-site.
- 306 A hard copy of the nominal ledger and audit trail should be printed each month and should be stored separately from the accounting system in a fireproof container.
- 307 The Finance Director should also prepare a disaster recovery plan in the event of loss of accounting facilities or financial data. This should link in with the annual assessment made by



governors of the major risks to which the academy is exposed and the systems that have been put in place to mitigate those risks.

### **Transaction Processing**

- 308 All transactions input to the accounting system must be authorised in accordance with the procedures specified in this manual. The detailed procedures for the operation of the payroll, the purchase ledger and the sales ledger are included in the following sections of the manual. All journal entries must be documented on the appropriate journal form, recorded in the journal book and authorised by the Finance Director prior to being input to the accounting system. Bank transactions should be input by the Finance Assistant and the input should be checked, and signed to evidence this check, by the Finance Officer.
- 309 Detailed information on the operation of the Acme system can be found in the user manuals held in the Finance Office.

### **Transaction Reports**

- 310 The Director of Finance will obtain and review system reports to ensure that only regular transactions are posted to the accounting system. The report obtained and reviewed will include:
- the weekly audit trail reports;
  - Masterfile amendment reports for the payroll, purchase ledger and sales ledger;
  - management accounts summarising expenditure and income against budget at budget holder level.

### **Reconciliations**

- 311 The Finance Officer is responsible for ensuring the following reconciliations are performed each month, and that any reconciling or balancing amounts are cleared:
- sales ledger control account;
  - purchase ledger control account;
  - payroll control account;
  - all suspense accounts and
  - bank balance per the nominal ledger to the bank statement.
- 312 Any unusual or long outstanding reconciling items must be brought to the attention of the Finance Director. The Finance Director will review and sign all reconciliations as evidence of his review.

## **4. Financial planning**

- 401 The academy prepares both medium term and short-term financial plans.
- 402 The medium term financial plan is prepared as part of the development planning process. The development plan indicates how the academy's educational and other objectives are going to be achieved within the expected level of resources over the next three years.
- 403 The development plan provides the framework for the annual budget. The budget is a detailed statement of the expected resources available to the academy and the planned use of those resources for the following year.
- 404 The development planning process and the budgetary process are described in more detail below.

### Development Plan

- 405 The development plan is concerned with the future aims and objectives of the academy and how they are to be achieved; that includes matching the academy's objectives and targets to the resources expected to be available. Plans should be kept relatively simple and flexible. They are the "big picture" within which more detailed plans may be integrated.
- 406 The form and content of the development plan are matters for the academy to decide but due regard should be given to the matters included within the guidance to Academies and any annual guidance issued by the DfES.
- 407 Each year the Principal will propose a planning cycle and timetable to the governing body which allows for:
- a review of past activities, aims and objectives - "did we get it right?"
  - definition or redefinition of aims and objectives – "are the aims still relevant?"
  - development of the plan and associated budgets – "how do we go forward?"
  - implementation, monitoring and review of the plan – "who needs to do what by when to make the plan work and keep it on course" and
  - feedback into the next planning cycle – "what worked successfully and how can we improve?"
- 408 The timetable will specify the deadlines for the completion of each of the key stages described above. Lead responsibility for the completion of each of the stages will be assigned by the Principal.
- 409 The completed development plan will include detailed objectives for the coming academic year and outline objectives for the following two years. The plan should also include the estimated resource costs, both capital and revenue, associated with each objective and success criteria against which achievement can be measured.
- 410 For each objective the lead responsibility for ensuring progress is made towards the objective will be assigned to an academy manager. The responsible manager should monitor performance against the defined success criteria throughout the year and report to the senior management team on a quarterly basis. The senior management team will report to the governing body if there is a significant divergence from the agreed plan and will recommend an appropriate course of action.

### Annual Budget

- 411 The Finance Director is responsible for preparing and obtaining approval for the annual budget. The budget must be approved by the Principal, Finance & General Purposes Committee and the governing body.
- 412 The approved budget must be submitted to the DfES by 30 June each year and the Finance Director is responsible for establishing a timetable which allows sufficient time for the approval process and ensures that the submission date is met.
- 413 The annual budget will reflect the best estimate of the resources available to the academy for the forthcoming year and will detail how those resources are to be utilised. There should be a clear link between the development plan objectives and the budgeted utilisation of resources.
- 414 The budgetary planning process will incorporate the following elements:
- forecasts of the likely number of pupils to estimate the amount of DfES grant receivable;
  - review of other income sources available to the academy to assess likely level of receipts;
  - review of past performance against budgets to promote an understanding of the academy cost base;
  - identification of potential efficiency savings and
  - review of the main expenditure headings in light of the development plan objectives and the

expected variations in cost e.g. pay increases, inflation and other anticipated changes.

### **Balancing the Budget**

- 415 Comparison of estimated income and expenditure will identify any potential surplus or shortfall in funding. If shortfalls are identified, opportunities to increase income should be explored and expenditure headings will need to be reviewed for areas where cuts can be made. This may entail prioritising tasks and deferring projects until more funding is available. Plans and budgets will need to be revised until income and expenditure are in balance. If a potential surplus is identified, this may be held back as a contingency or alternatively allocated to areas of need.

### **Finalising the Budget**

- 416 Once the different options and scenarios have been considered, a draft budget should be prepared by the Finance Director for approval by the Principal, the Finance & General Purposes Committee and the governing body. The budget should be communicated to all staff with responsibility for budget headings so that everyone is aware of the overall budgetary constraints.
- 417 The budget should be accompanied by a statement of assumptions and hierarchy of priorities so that if circumstances change, it is easier for all concerned to take remedial action. The budget should be seen as a working document which may need revising throughout the year as circumstances change.

### **Monitoring and Review**

- 418 Monthly reports will be prepared by the Finance Director. The reports will detail actual income and expenditure against budget both for budget holders and at a summary level for the Principal and the Finance & General Purposes Committee.
- 419 Any potential overspend against the budget must in the first instance be discussed with the Finance Director. The accounting system will not allow payments to be made against an overspent budget without the approval of the Finance Director.
- 420 The monitoring process should be effective and timely in highlighting variances in the budget so that differences can be investigated and action taken where appropriate. If a budget overspend is forecast it may be appropriate to vire money from another budget or from the contingency. All budget virements must be authorised by the Finance & General Purposes Committee.

## **5. Payroll**

- 501 The main elements of the payroll system are:

- staff appointments;
- payroll administration and
- payments.

### **Staff Appointments**

- 502 The governing body has approved a personnel establishment for the academy. Changes can only be made to this establishment with the express approval in the first instance of the Finance & General Purposes Committee who must ensure that adequate budgetary provision exists for any establishment changes.
- 503 The Principal has authority to appoint staff within the authorised establishment except for Deputy Principals and the Finance Director whose appointments must follow consultation with the governors. The Principal maintains personnel files for all members of staff which include contracts of employment. All personnel changes must be notified, in writing, to the Finance Director immediately.

### **Payroll Administration**

- 504 The academy payroll is administered on the Acme\* payroll package operated in the Finance Office. Access to the system is password controlled. Password control procedures and back-up arrangements are described in section two of this manual.
- 505 All staff are paid monthly through the Acme payroll package. A master file is created for each employee which records:
- salary;
  - bank account details;
  - taxation status;
  - personal details and
  - any deductions or allowances payable.
- 506 New master files can only be created by the Finance Officer with the express approval of the Finance Director. Any master file amendments made by the Finance Officer must be printed out each month prior to the payroll run and must be authorised by the Finance Director. Any master file amendments made by the Finance Director must be authorised by the Principal.
- 507 Each section head must complete a monthly staff return which provides details for all staff in the section of sickness and other absences during the month and any new appointments or terminations. The staff return must be authorised by the nominated budget holder. Authorised staff returns should be sent to the Finance Officer who then files the documents for payroll processing.
- 508 By the 15<sup>th</sup> of each month the Finance Officer will prepare and distribute a timetable for payroll processing specifying key dates for the month in question. Data input to the payroll system should be undertaken by the Finance Officer in accordance with the timetable. Before the payroll is processed a print of all data input should be obtained and this should be checked against source documentation by the Finance Officer and then reviewed and initialled by the Finance Director.

### **Payments**

- 509 After the payroll has been processed but before payments are dispatched a print of salary payments by individual and showing the amount payable in total should be obtained from the system. The print must be reviewed and authorised together with authority to release payment by the Finance Director and the Principal.
- 510 All salary payments are made by BACS.
- 511 The Finance Officer should prepare a reconciliation between the current month's and the previous month's gross salary payments showing adjustments made for new appointments, resignations, pay increases etc. This reconciliation should be reviewed and signed by the Finance Director.
- 512 The payroll system automatically calculates the deductions due from payroll to comply with current legislation. The major deductions are for tax, National Insurance contributions and pensions. The amounts payable are summarised on the gross to net pay print and cheques for these amounts should be prepared by the Finance Officer and authorised for payment by the Finance Director and the Principal (or other authorised cheque signatory if one is unavailable) by the due date.
- 513 The Finance Director should select one employee at random each month and check the calculation of gross to net pay to ensure that the payroll system is operating correctly.
- 514 After the payroll has been processed the nominal ledger will be automatically updated. Postings will be made both to the payroll control account and to individual cost centres. The Finance Officer should review the payroll control account each month to ensure the correct amount has

been posted from the payroll system, individual cost centres have been correctly updated and to identify any amounts posted to the suspense account.

- 515 On an annual basis the Finance Director must check for each member of staff that the gross pay per the payroll system agrees to the contract of employment held on the personnel file in the Principal's office.

## 6. Purchasing

- 601 The academy wants to achieve the best value for money from all our purchases. This means they want to get what they need in the correct quality, quantity and time at the best price possible. A large proportion of their purchases will be paid for with public funds and they need to maintain the integrity of these funds by following the general principles of:

- **Probity**, it must be demonstrable that there is no corruption or private gain involved in the contractual relationships of the academy;
- **Accountability**, the academy is publicly accountable for its expenditure and the conduct of its affairs;
- **Fairness**, that all those dealt with by the academy are dealt with on a fair and equitable basis.

### Routine Purchasing

- 602 Budget holders will be informed of the budget available to them at least one month before the start of the academic year. It is the responsibility of the budget holder to manage the budget and to ensure that the funds available are not overspent. A print detailing actual expenditure against budget will be supplied to each budget holder a week after the end of each month and budget holders are encouraged to keep their own records of orders placed but not paid for.
- 603 Routine purchases up to £1,000 can be ordered by budget holders. In the first instance a supplier should be chosen from the list of approved suppliers maintained by the Finance Office. A quote or price must always be obtained before any order is placed. If the budget holder considers that better value for money can be obtained by ordering from a supplier not on the approved supplier list the reasons for this decision must be discussed and agreed with the Finance Director.
- 604 All orders must be made, or confirmed, in writing using an official order form, stocks of which are held in the Finance Office. Orders must bear the signature of the budget holder and must be forwarded to the Finance Office where the Finance Director will check to ensure adequate budgetary provision exists before countersigning the order.
- 605 Countersigned orders are recorded in the orders placed book, allocated a reference number and dispatched to the supplier by the Finance Assistant.
- 606 The budget holder must make appropriate arrangements for the delivery of goods to the academy. On receipt the budget holder must undertake a detailed check of the goods received against the goods received note (GRN) and make a record of any discrepancies between the goods delivered and the GRN. Discrepancies should be discussed with the supplier of the goods without delay.
- 607 If any goods are rejected or returned to the supplier because they are not as ordered or are of sub-standard quality, the Finance Office should be notified. The Finance Assistant will keep a central record of all goods returned to suppliers.
- 608 All invoices should be sent to the Finance Office. Invoice receipt will be recorded by the Finance Assistant in the order book and also in the purchase ledger. The Finance Assistant will stamp invoices with a grid against which the following can be evidenced:

- invoice arithmetically correct;
- invoice posted to purchase ledger;
- goods/ services received;
- goods/services as ordered;
- prices correct;
- invoice authorised for payment;
- payment authorised;
- VAT treated correctly and
- payment made.

- 609 Boxes (a) and (b) will be completed by the Finance Assistant. The invoice will then be sent to the budget holder to complete boxes (c), (d) (e) and (f). Before completing these boxes the budget holder must make a detailed check against the order and the GRN and these documents must be attached to the invoice before it is sent back to the Finance Office. Budget holders must undertake these checks without undue delay and in any case within 7 days of invoice receipt.
- 610 If a budget holder is pursuing a query with a supplier the Finance Department must be informed of the query and periodically kept up to date with progress.
- 611 When the budget holder has completed boxes (c), (d) (e) and (f) the invoice, order and GRN should be sent to the Finance Office. At the end of every week the Finance Assistant will produce a list of outstanding invoices from the purchase ledger and this list together with supporting documentation will be reviewed by the Finance Director. The Finance Director will indicate on the list the invoices that should be paid and complete box (g) on the appropriate invoices.
- 612 The Finance Assistant will then input details of payments to be made to the purchase ledger and generate the cheques required. The cheques and associated paperwork must be authorised by two of the nominated cheque signatories.
- 613 Cheques will be dispatched to suppliers by the Finance Assistant who will also complete boxes (h) and (i) on the invoice and then place it in the appropriate file.

#### **Orders over £1,000 but less than £10,000**

- 614 At least three written quotations should be obtained for all orders between £1,000 and £10,000 to identify the best source of the goods/services. Written details of quotations obtained should be prepared and retained by budget holders for audit purposes. Telephone quotes are acceptable if these are evidenced and faxed confirmation of quotes has been received before a purchase decision is made.

#### **Orders over £10,000**

- 615 All goods/services ordered with a value over £10,000, or for a series of contracts which in total exceed £10,000 must be subject to formal tendering procedures. Purchases over £93,738 (threshold from 26/01/06) may fall under EU procurement rules which requires advertising in the Official Journal of the European Union. Guidance on the OJEU thresholds is given in Annex 3d to the Academies Financial Handbook.

#### **Forms of Tenders**

- 616 There are three forms of tender procedure: open, restricted and negotiated and the circumstances in which each procedure should be used are described below.
- **Open Tender:** This is where all potential suppliers are invited to tender. The budget holder must discuss and agree with the Finance Director how best to advertise for suppliers e.g. general press, trade journals or to identify all potential suppliers and contact directly if practical. This is the preferred method of tendering, as it is most conducive to competition and the propriety of public funds.

- **Restricted Tender:** This is where suppliers are specifically invited to tender. Restricted tenders are appropriate where:
  - there is a need to maintain a balance between the contract value and administrative costs,
  - a large number of suppliers would come forward or because the nature of the goods are such that only specific suppliers can be expected to supply the academy's requirements,
  - the costs of publicity and advertising are likely to outweigh the potential benefits of open tendering.
- **Negotiated Tender:** The terms of the contract may be negotiated with one or more chosen suppliers. This is appropriate in specific circumstances:
  - the above methods have resulted in either no or unacceptable tenders,
  - only one or very few suppliers are available,
  - extreme urgency exists,
  - additional deliveries by the existing supplier are justified.

### **Preparation for Tender**

617 Full consideration should be given to:

- objective of project
- overall requirements
- technical skills required
- after sales service requirements
- form of contract.

618 It may be useful after all requirements have been established to rank requirements (e.g. mandatory, desirable and additional) and award marks to suppliers on fulfilment of these requirements to help reach an overall decision.

### **Invitation to Tender**

619 If a restricted tender is to be used then an invitation to tender must be issued. If an open tender is used an invitation to tender may be issued in response to an initial enquiry.

620 An invitation to tender should include the following:

- introduction/background to the project;
- scope and objectives of the project;
- technical requirements;
- implementation of the project;
- terms and conditions of tender and
- form of response.

### **Aspects to Consider**

#### ***Financial***

- Like should be compared with like and if a lower price means a reduced service or lower quality this must be borne in mind when reaching a decision.
- Care should be taken to ensure that the tender price is the total price and that there are no hidden or extra costs.

- Is there scope for negotiation?

#### **Technical/Suitability**

- Qualifications of the contractor
- Relevant experience of the contractor
- Descriptions of technical and service facilities
- Certificates of quality/conformity with standards
- Quality control procedures
- Details of previous sales and references from past customers.

#### **Other Considerations**

- Pre sales demonstrations
- After sales service
- Financial status of supplier. Suppliers in financial difficulty may have problems completing contracts and in the provision of after sales service. It may be appropriate to have an accountant or similarly qualified person examine audited accounts etc.

#### **Tender Acceptance Procedures**

- 621 The invitation to tender should state the date and time by which the completed tender document should be received by the academy. Tenders should be submitted in plain envelopes clearly marked to indicate they contain tender documents. The envelopes should be time and date stamped on receipt and stored in a secure place prior to tender opening. Tenders received after the submission deadline should not normally be accepted.

#### **Tender Opening Procedures**

- 622 All tenders submitted should be opened at the same time and the tender details should be recorded. Two persons should be present for the opening of tenders as follows:

- For contracts up to £25,000 - two of the budget holder, the Finance Director or the Principal;
- For contracts over £25,000 - either the Finance Director or the Principal plus a member of the F & GP Committee.

- 623 A separate record should be established to record the names of the firms submitting tenders and the amount tendered. This record must be signed by both people present at the tender opening.

#### **Tendering Procedures**

- 624 The evaluation process should involve at least two people. Those involved should disclose all interests, business and otherwise, that might impact upon their objectivity. If there is a potential conflict of interest then that person must withdraw from the tendering process.

- 625 Those involved in making a decision must take care not to accept gifts or hospitality from potential suppliers that could compromise or be seen to compromise their independence.

- 626 Full records should be kept of all criteria used for evaluation and for contracts over £25,000 a report should be prepared for the Finance & General Purposes Committee highlighting the



relevant issues and recommending a decision. For contracts under £25,000 the decision and criteria should be reported to the Finance & General Purposes Committee.

- 627 Where required by the conditions attached to a specific grant from the DfES, the department's approval must be obtained before the acceptance of a tender.
- 628 The accepted tender should be the one that is economically most advantageous to the academy. All parties should then be informed of the decision.

## **7 Income**

- 701 The main sources of income for the academy are the grants from the DfES and from our sponsors. The receipt of these sums is monitored directly by the Finance Director who is responsible for ensuring that all grants due to the academy are collected.
- 702 The academy also obtains income from:
- students, mainly for trips and
  - the public, mainly for sports lettings.

### **Trips**

- 703 A lead teacher must be appointed for each trip to take responsibility for the collection of sums due. The lead teacher must prepare a record for each student intending to go on the trip showing the amount due. A copy of the record must be given to the Finance Assistant.
- 704 Students should make payments at the Finance Office. A receipt must be issued for all monies collected and the value of the receipt and the number of the receipt recorded against the student making the payment.
- 705 The Finance Assistant should maintain an up to date record for each student showing the amount paid and the amount outstanding. This record should be sent to the lead teacher on a weekly basis and the lead teacher is responsible for chasing the outstanding amounts.

### **Sports Lettings**

- 706 The Client Services co-ordinator is responsible for maintaining records of bookings of sports facilities and for identifying the sums due from each organisation. Payments must be made in advance for the use of facilities.
- 707 Details of organisations using the sports facilities should be sent by the Client Services co-ordinator to the Finance Assistant who will establish a sales ledger account and produce a sales invoice from the Acme accounting system. Details of payments made and outstanding accounts will be forwarded to the Client Services Co-ordinator at the beginning of each week and the Client Service Co-ordinator is responsible for chasing outstanding debts and ensuring no use is made of the facilities unless payment has been made.
- 708 No debts should be written off without the express approval of the governing body (the DfES's prior approval is also required if debts to be written off are above the value set out in the annual funding letter).
- 709 Organisations using the sports facilities should be instructed to send all payments to the Finance Office.

### **Custody**

- 710 Official, pre-numbered academy receipts should be issued for all cash and cheques received where no other formal documentation exists. All cash and cheques must be kept in the Finance Office safe prior to banking. Banking should take place every week or more frequently if the sums collected exceed the £2,000\* insurance limit on the Finance Office safe.

- 711 Monies collected must be banked in their entirety in the appropriate bank account. The Finance Assistant is responsible for preparing reconciliations between the sums collected, the sums deposited at the bank and the sums posted to the accounting system. The reconciliations must be prepared promptly after each banking and must be reviewed and certified by the Finance Director.

## 8 Cash Management

### Bank Accounts

- 801 The opening of all accounts must be authorised by the governing body who must set out, in a formal memorandum, the arrangements covering the operation of accounts, including any transfers between accounts and cheque signing arrangements. The operation of systems such as Bankers Automatic Clearing System (BACS) and other means of electronic transfer of funds must also be subject to the same level of control.

### Deposits

- 802 Particulars of any deposit must be entered on a copy paying-in slip, counterfoil or listed in a supporting book. The details should include:
- the amount of the deposit and
  - a reference, such as the number of the receipt or the name of the debtor.

### Payments and withdrawals

- 803 All cheques and other instruments authorising withdrawal from academy bank accounts must bear the signatures of two of the following authorised signatories:
- Principal;
  - Finance Director;
  - Deputy Principal;
  - Chairman of Governors;
  - Chairman of Finance & General Purposes Committee;
- 804 This provision applies to all accounts, public or private, operated by or on behalf of the governing body of the academy. Authorised signatories must not sign a cheque relating to goods or services for which they have also authorised the expenditure.

### Administration

- 805 The Finance Director must ensure bank statements are received regularly and that reconciliations are performed at least on a monthly basis. Reconciliation procedures must ensure that:
- all bank accounts are reconciled to the academy's cash book;
  - reconciliations are prepared by the Finance Assistant or the Finance Officer;
  - reconciliations are subject to an independent monthly review carried out by the Finance Director or in his absence the Responsible Officer (RO) and
  - adjustments arising are dealt with promptly.

### Petty Cash Accounts

- 806 The academy maintains a maximum cash balance of £250\*. The cash is administered by the Finance Assistant and is kept in the Finance office safe.

### Deposits

- 807 The only deposits to petty cash should be from cheques cashed specifically for the purpose. The receipt should be recorded in the petty cash system with the date, amount and a reference, normally the cheque number, relating to the payment. All other cash receipts for whatever reason should be paid directly into the bank.

### Payments and Withdrawals

- 808 In the interests of security, petty cash payments will be limited to £20\*. Higher value payments should be made by cheque directly from the main bank account as a cash book payment.

### Administration

- 809 The Finance Assistant is responsible for entering all transactions into the petty cash records on a regular basis and regular as well as unannounced cash counts should be undertaken by the Finance Officer to ensure that the cash balance reconciles to supporting documentation.

### Physical Security

- 810 Petty cash should be held in a locking cash box which is put in the safe overnight.

### Cash Flow Forecasts

- 811 The Finance Director is responsible for preparing cash flow forecasts to ensure that the academy has sufficient funds available to pay for day to day operations. If significant balances can be foreseen, steps should be taken to invest the extra funds. Similarly plans should be made to transfer funds from another bank account or to re-profile APG to cover potential cash shortages.

### Investments

- 812 Investments must be made only in accordance with written procedures approved by the governing body.
- 813 All investments must be recorded in sufficient detail to identify the investment and to enable the current market value to be calculated. The information required will normally be the date of purchase, the cost and a description of the investment. Additional procedures may be required to ensure any income receivable from the investment is received.

## 9 Fixed assets

### Asset register

- 901 All items purchased with a value over the academy's capitalisation limit must be entered in an asset register. The asset register should include the following information:
- asset description
  - asset number
  - serial number
  - date of acquisition
  - asset cost
  - source of funding (% of original cost funded from DfES grant and % funded from other sources)
  - expected useful economic life
  - depreciation
  - current book value
  - location
  - name of member of staff responsible for the asset

902 The Asset Register helps:

- ensure that staff take responsibility for the safe custody of assets;
- enable independent checks on the safe custody of assets, as a deterrent against theft or misuse;
- to manage the effective utilisation of assets and to plan for their replacement;
- help the external auditors to draw conclusions on the annual accounts and the academy's financial system and
- support insurance claims in the event of fire, theft, vandalism or other disasters.

### **Security of assets**

903 Stores and equipment must be secured by means of physical and other security devices. Only authorised staff may access the stores.

904 All the items in the register should be permanently and visibly marked as the academy's property and there should be a regular (at least annual) count by someone other than the person maintaining the register. Discrepancies between the physical count and the amount recorded in the register should be investigated promptly and, where significant, reported to the governing body. Inventories of academy property should be kept up to date and reviewed regularly. Where items are used by the academy but do not belong to it this should be noted.

### **Disposals**

905 Items which are to be disposed of by sale or destruction must be authorised for disposal by the Finance Director and, where significant, should be sold following competitive tender. The academy must seek the approval of the DfES in writing if it proposes to dispose of an asset for which capital grant in excess of £20,000 was paid.

906 Disposal of equipment to staff is not encouraged, as it may be more difficult to evidence the academy obtained value for money in any sale or scrapping of equipment. In addition, there are complications with the disposal of computer equipment, as the academy would need to ensure licences for software programmes have been legally transferred to a new owner.

907 The academy is expected to reinvest the proceeds from all asset sales for which capital grant was paid in other academy assets. If the sale proceeds are not reinvested then the academy must repay to the DfES a proportion of the sale proceeds.

908 All disposals of land must be agreed in advance with the Secretary of State.

### **Loan of Assets**

909 Items of academy property must not be removed from academy premises without the authority of the Head of Department. A record of the loan must be recorded in a loan book and booked back in academy when it is returned.

910 If assets are on loan for extended periods or to a single member of staff on a regular basis the situation may give rise to a 'benefit-in-kind' for taxation purposes. Loans should therefore be kept under review and any potential benefits discussed with the academy's auditors.

## Annex 2d: Procurement - Best Practice Checklist

1. **Policies and procedures for procurement should be documented and adhered to**, to ensure that the process is being carried out on a fair, open and best value basis. The documentation should describe:
  - **roles and responsibilities** of those involved in procurement (eg governing body, Headteacher, Finance Director, other senior managers and the central finance office);
  - **delegated authority levels**, in particular setting out the procedures to be followed for purchases above specified values, to ensure sufficient levels of oversight by the governing body;
  - **arrangements to ensure segregation of duties**;
  - **how purchases are recorded** (papers records and computer records (eg accounting system arrangements)).

In all cases it is important to ensure that the procedures that are set out are followed, both for routine day to day procurement, and for periodic high value items.

2. Where appropriate, **individuals with relevant experience including the end-users (eg ICT managers, teachers) should be involved** when putting together invitations to tender, or making key decisions. This will not only aid selection of the best solutions for the academy, but may also help achieve buy-in by the end-users.
3. An officer should be nominated for coordinating the initial procurement of assets, and stocks of teaching and learning materials, during the academy's start up period. This person should provide an assessment of the completeness and reasonableness of items procured, to ensure that all essential purchases are made prior to opening, and that they non-essential purchases are challenged.
4. **Procurement decisions should be clearly recorded** to ensure that the decision has been reached fairly and to provide a clear audit trail:
  - minutes should be taken of all relevant meetings;
  - the options available should be recorded;
  - the basis for scoring/ranking should be set out;
  - the individuals responsible for scoring/ranking should be identified;
  - the outcome of the scoring and the final decision should be recorded;
  - the reasons on which the decision was reached should be clearly documented.

5. **All key documents should be retained together by the Academy.** This includes:

- invitations to tender;
- tenders received from bidders;
- quotes obtained for smaller purchases;
- papers/minutes documenting the procurement decision;
- signed copies of the contracts awarded;
- invoices.

Where procurement is carried out with the assistance of an external project management company (for example the initial procurement of ICT, furniture and equipment prior to moving into a new building) key documents should be transferred to, and retained by, the academy prior to cessation of the contract with the project management company.

6. **An asset register of all capital items should be established in an appropriate format and should be updated on a continual basis as assets are purchased.** The register should include:
  - asset description
  - asset number

- serial number
- date of acquisition
- asset cost
- source of funding (% of original cost funded from DfES grant and % funded from other sources)
- expected useful economic life
- depreciation
- current book value
- location
- name of member of staff responsible for the asset

Updating of the register as assets are procured should ensure that it is always current and should ease the task of end of year asset verification. It should also simplify the setting of insurance levels and the handling of any claims.

A similar register should also be maintained of “attractive items” (ie items with a cost below the Academy’s capitalisation threshold) such as minor office equipment.

7. **Fitness for purpose should be a key consideration in any procurement decision** (eg ICT should be of the correct specification; fixtures and fittings should be of adequate durability).
8. Opportunities should be taken for **bulk purchase discounts**, for example by combining similar orders.
9. When ordering goods an assessment of likely **delivery timeframes** should be made, to ensure that appropriate staff are available on site to receive them (particularly during school holidays), and that adequate space is available to locate or store the delivery.

## Annex 2e: EU Procurement Thresholds from 26/01/2006

The European Union (EU) has introduced rules to open up public purchasing by making member states remove restrictive practices. Government departments and other public bodies are subject to these rules. They are relatively complex but in general terms include a requirement to follow a prescribed tendering procedure, to operate to a minimum timescale and **a requirement to advertise contracts in the Official Journal of the European Union (OJEU)** if they exceed certain financial thresholds. The thresholds applying from 26 January 2006 are:

- Goods and services: £93,738 (excluding VAT);
- Public works contracts, for the procurement of construction or civil engineering works: £3,611,319 (excluding VAT).

Where governing bodies are likely to enter into such contracts they will need to seek more detailed guidance and legal advice from the Department.

## **Annex 2f: VAT**

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### **30-47 Academy Expenditure**

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Trading Companies and VAT Grouping

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## Introduction

1. These notes provide academies with general guidance on the treatment of VAT. For detailed information academies should refer to the VAT Notices published by HM Revenue and Customs (HMRC) which provide guidance on how HMRC interpret VAT legislation. Where additional advice is required academies should contact HMRC direct on 0845 010 9000, or consult an independent tax advisor.
2. The following list of references may be useful:
  - **Value Added Tax Act 1994 (VATA)** - the main legislative source for VAT;
  - **HMRC Notices** - these are available at [www.customs.hmrc.gov.uk](http://www.customs.hmrc.gov.uk), and include:
    - 700 *The VAT Guide* - the main guide to VAT rules and procedures, which helps businesses with specific problems and contains references to more specialised publications;
    - 700/1 *Should I be Registered for VAT?*
    - 700/15 *The Ins and Outs of VAT* - a brief guide for businesses wanting information about how VAT works in specific circumstances;
    - 701/1 *Charities* - this explains what a charity is, how VAT affects charities, how a charity's income is treated for VAT purposes, and what VAT reliefs a charity can obtain on its purchases whether or not it is registered for VAT;
    - 701/30 *Education and Vocational Training* – this explains the VAT treatment of education, research, vocational training, goods and services provided in connection with these activities, examination services and school photographs;
    - 708 *Buildings and Construction* - this notice explains when building work and materials can be zero-rated or reduced-rated;
    - 742 *Land and Property* – this explains when transactions involving land and buildings are exempt from VAT. It looks at what constitutes a supply of land, and how to determine the liability of that supply.

NB: In the event that the legal status of academies were to change there may be significant impact on the VAT advice and guidance provided in this handbook.

## Overview of VAT

### What is VAT?

3. VAT is a tax on sales. It is payable on the supply of goods and services in the UK, and on imports, where:
  - the supplies are made by a taxable person (ie a person who is registered for VAT, or who should be registered for VAT);
  - in the course of a business; and
  - the supplies are not specifically exempt or zero-rated.
4. There are three rates of VAT:
  - a standard rate, currently 17.5%;
  - a reduced rate, currently 5%; and
  - a zero rate
5. Some supplies are exempt from VAT which means that no VAT is payable.
6. HMRC Notice 700 "*The VAT Guide*" gives details of which goods and services may be zero/reduced rated or exempt.

### How is VAT Paid?

7. Sales of goods and services which are subject to VAT are called taxable supplies. If a business makes taxable supplies over a specified limit, they must register for VAT (unless all of their supplies are zero-rated). The annual limit for 2006-07 is £61,000. Businesses can also register voluntarily if their taxable supplies are below this threshold.
  - VAT-registered traders must charge VAT on all of their taxable supplies made to customers. This is called **output tax** (ie tax on the trader's outputs);
  - In the same way as other consumers, traders will also be charged VAT on any taxable purchases they make from other VAT-registered suppliers. This is called **input tax**.
8. In general terms:
  - if the output VAT on the trader's sales is more than the input VAT on their business-related purchases, the difference must be paid over to HMRC; whilst, on the other hand:
  - if the input VAT on business-related purchases is more than the output VAT on sales the difference can be reclaimed from HMRC.

### General VAT Position of Academies

9. Generally the provision of educational activities undertaken by academies is, for VAT purposes, referred to as non-business and therefore outside the scope of VAT. In such circumstances academies would not be required to account for output VAT on the income they receive and would not be able to recover VAT on costs and expenses incurred in providing education. However some academies may engage in business activities which, dependent upon their scale, may bring them within the scope of VAT and may require them to register for VAT.
10. The following sections discuss the circumstances in which academies:
  - may be required to account for output VAT on their income;
  - may recover input VAT on their expenditure; and
  - may avoid paying VAT on certain expenditure through 'zero rating reliefs'.

## Academy Income

### VAT Registration

11. Academies, as independent schools, are 'eligible bodies' and must register for VAT where the value of their taxable business activities exceeds the VAT registration threshold: £61,000 for 2006-7 (HMRC Notice 700/1, and Schedule 1 of VATA 1994). In practice the value of the taxable supplies (sales) made by academies is not generally expected to exceed the registration threshold and therefore VAT registration would not be required, other than on a voluntary basis.
12. Registration, either compulsory or voluntary, provides academies with the benefit of being able to recover input VAT incurred on business-related costs, although in the case of voluntary registration this benefit should be weighed against the potential administrative cost of complying with HMRC requirements. In particular VAT registered academies will be required to submit VAT returns on a quarterly basis, within one month of the end of the relevant VAT accounting period. Academies will also be required to maintain sufficient records to provide HMRC with an adequate audit trail to verify and check the validity of the VAT returns.
13. Academies which are not VAT registered should not be complacent. The liability of many of the typical supplies made by the sector is complex and ever changing, and it is easy for a charity to become liable to register without knowing it. It is essential that activities and income are monitored, and registration is effected at the right time to avoid unexpected VAT liabilities and penalties.

### Identifying the Liability to Charge Output VAT

14. To identify the VAT liability of a particular source of income (ie whether the academy must charge VAT on the income and pay it over to HMRC - subject to being VAT registered) it must be established whether the income is generated in the course or furtherance of a business.

### Business Activities

15. The term 'business', as defined in VAT legislation, includes any trade, profession or vocation. It also specifically includes the provision of membership benefits by clubs, associations and similar bodies in return for a subscription and admission to premises for a charge.
16. The definition is intended to have a wide meaning in order to capture as many activities as possible. The following criteria set out the general indicators for deciding whether an activity is a business:
  - the activity is a serious undertaking earnestly pursued;
  - there is continuity;
  - the activity has substance measured by the value of taxable supplies;
  - the activity is conducted on sound and recognisable business principles;
  - the activity is predominantly concerned with making taxable supplies for a consideration;
  - the taxable supplies are of a kind which are commonly made by those who seek to profit by them.
17. It is not essential that the activity be carried on with a view to making a profit. If a sufficient number of the criteria are satisfied and there are no indications to suggest otherwise, the activity must be held to be a business. The criteria are not conclusive and a common sense approach should also be taken when deciding whether or not an activity is 'business'.

### Non-business Activities

18. It is not possible to provide a definitive list of business activities. However HMRC does offer a list of activities and sources of income which they consider are 'non-business'. The following have been selected as indicative of the type of activities which HMRC view as non-business for a charitable institution:
  - donations/legacies/voluntary contributions;

- grants;
  - voluntary services;
  - some advertising;
  - investment income;
  - transactions in securities;
  - some membership subscriptions;
19. The list presupposes an understanding of the terminology used and does not always cater for the complications which may arise from fund-raising events. This may result in income which a charity considered to be non-business being treated by HMRC as 'business income' potentially liable to VAT.
20. In general the nature of academy activities will predominantly be non-business and therefore outside the scope of VAT.

#### **VAT Liability of DfES Grant Income**

21. The majority of income received by academies is in the form of grants provided by the DfES. These are funds given freely and, although certain restrictions may apply in relation to their use (eg for capital or revenue purposes), there is no supply as such made by academies to the DfES.
22. The grants are provided to academies by the DfES to provide education to pupils. The main activity of academies is the provision of education and supplies "closely related" to the provision of education to pupils in the 11-19 age group. Although there is no specific definition of "education" in UK VAT legislation, it is generally accepted by HMRC that education is:
- *"a course, class or lesson of instruction or study in any subject, whether or not that subject is normally taught in schools, colleges or universities and regardless of where and when it takes place";*
- and includes:
- *"lectures, educational seminars, conferences and symposia, together with holiday, sporting and recreational courses, certain distance teaching, associated materials";*
- whilst "closely related" supplies include:
- accommodation, catering and excursions provided in connection with a course. Such supplies which are an integral part of the course, provided for the direct use of the pupil and necessary for the education of the pupil are considered to be supplies of education.
23. DfES grant income provided to academies for the provision of free (non-fee paying) education and closely related supplies qualifies to be treated as non-business income and outside the scope of VAT.

#### **VAT Liability of Private Sector Sponsor Donations**

24. The private sector may provide sponsorship in the following ways:
- donations of cash;
  - donations of assets;
  - donations of services.
25. Donations received from the private sector are, in line with the categorisation of grants received from the DfES, classified as either "restricted" or "unrestricted". For VAT, as for accounting purposes, "restricted" means that the funds must be used for the given purpose.
26. Where the donations are:

- given freely by the sponsor; and
- do not result in the sponsor receiving any benefit;

there is, for VAT purposes, no supply made by the academy to the sponsor. The donation is therefore non-business and outside the scope of VAT.

27. However, where a sponsor receives a tangible benefit in return for making the donation, the supply will be taxable and academies may be liable to account for VAT on the value of the donation received. For example a sponsor may provide sponsorship for an event and receive a benefit through advertising etc at the event. This income is business income and subject to VAT at the standard rate.

#### **VAT Liability of Other Income**

28. Academies may also make supplies which result in income that is subject to VAT at the standard rate. Typically these would include:
- sales of goods from tuck shops, eg confectionery;
  - sales of crisps and ice cream from vending machines;
  - sales of school uniforms;
  - car parking fees;
  - advertising income;
  - charges for accommodation and catering to staff and other non-students (subject to certain criteria in relation to special needs);
  - commission for allowing third-party organisations to sell goods at an educational establishment;
  - land and property transactions (which may be taxable or exempt) etc.
29. Income generated by Academies from the above activities will, in most cases be treated as business income and will fall within the VAT regime to be treated either as taxable or exempt.

#### **Summary Table of General VAT Liability of Academies Income**

<b>Fund</b>	<b>Source</b>	<b>VAT liability</b>	<b>Business / Non-business</b>
Unrestricted "General"	<ul style="list-style-type: none"> <li>• Earned income</li> <li>• Unrestricted donations</li> <li>• Bank interest</li> </ul>	<ul style="list-style-type: none"> <li>• Exempt or taxable</li> <li>• Outside the scope of VAT</li> <li>• Exempt / Outside the scope of VAT</li> </ul>	<ul style="list-style-type: none"> <li>• Business</li> <li>• Non-business</li> <li>• Business / Non-business</li> </ul>
Restricted "DfES"	<ul style="list-style-type: none"> <li>• DfES GAG and other revenue grants</li> </ul>	<ul style="list-style-type: none"> <li>• Outside the scope of VAT</li> </ul>	<ul style="list-style-type: none"> <li>• Non-business</li> </ul>
Restricted "General"	<ul style="list-style-type: none"> <li>• Grants/sponsorship monies received for restricted purposes attached e.g. other DfES grants, other grants such as NoF, Lottery etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Outside the scope of VAT / Taxable</li> </ul>	<ul style="list-style-type: none"> <li>• Non-business / Business</li> </ul>
Restricted "Fixed Asset"	<ul style="list-style-type: none"> <li>• DfES capital grants or sponsorship monies received for capital projects.</li> </ul>	<ul style="list-style-type: none"> <li>• Outside the scope of VAT / Taxable</li> </ul>	<ul style="list-style-type: none"> <li>• Non-business / Business</li> </ul>

## Academy Expenditure

### Recovery of Input VAT on Purchases

30. When a purchase is made from a VAT-registered supplier the purchaser will be charged VAT (input tax) on any taxable items. As noted earlier, and as a general rule, if these purchases are made in the course of the purchaser's business, and provided they are VAT registered, they will be able to reclaim the input VAT from HMRC by deducting it from the output tax they collect and remit to HMRC on their own sales.

### Recovery of Input VAT Paid on Non-business Activities

31. Input tax incurred on capital and revenue expenditure which is attributable, either directly or indirectly to non-business activities is not recoverable by academies. Consequently, academies will not be able to recover input VAT from HMRC incurred on expenditure relating to the provision of education.
32. Contrary to the generally held perception, there are no specific reliefs available to academies, either as an educational institution or as a charitable body which allows Academies to recover input VAT on non-business activities.
33. Input VAT incurred on expenditure classified in the accounts as "charitable expenditure" i.e. direct costs, support costs, management and administration cost, is directly attributable to fulfilling the charitable objectives of Academies in providing free education and is not recoverable.

### Recovery of Input VAT Paid on Business Activities

34. Input tax incurred on capital and revenue expenditure which is attributable, either directly or indirectly, to a business activity is potentially recoverable by academies.
35. The general principals relating to input VAT recovery are set out below as follows:
- input tax directly attributable to a taxable supply is recoverable in full;
  - input tax directly attributable to an exempt supply is not recoverable;
  - unattributable input VAT or residual VAT, i.e. VAT on overheads etc which cannot be directly attributed to a specific supply will need to be apportioned through the use of an approved partial exemption method. There are various methods available to attribute this input VAT and each Academy will, if necessary, need to evaluate which methods best suits its activities.
36. Academies may therefore be required to perform a two-stage calculation, firstly to apportion VAT incurred on costs between non-business and business activities and secondly carry out a partial exemption calculation to apportion the business input VAT between taxable and exempt supplies. HMRC approval will be required where it is necessary for an academy to adopt a method which requires a business/ non-business split followed by the partial exemption calculation.
37. The accounting system structure should be set up to allow reports to be generated to extract and quantify:
- input VAT attributable to taxable business supplies;
  - input VAT attributable to exempt business supplies; and
  - input VAT attributable to non-business supplies.
38. The use of a partial exemption method may become more relevant where academies set up a trading arm or a separate trading company.

### Relief from VAT on Academy Expenditure

39. Academies, as charities, qualify for certain *zero rating reliefs* which means that they are not required to pay VAT on the purchase of certain goods and services that would otherwise be VATable. HMRC Notice 701/1 and Group 15 Schedule 8 of VATA 1994 refer. The main VAT reliefs are as follows.

#### a. Construction Services

It is expected that academies will be involved in the following types of construction project (Notice 708, Groups 5 & 6 Schedule 8 VAT Act 1994);

- construction of new buildings;
- alterations to existing buildings;
- refurbishment of existing buildings;
- demolition of existing buildings.

The general principle is that the supply of construction services is standard-rated unless there is a specific exception. The following supplies made by contractors are generally standard rated:

- the construction of new non-residential / charitable buildings e.g. schools, canteens, sporting pavilions etc;
- car parking facilities;
- storage facilities;
- facilities for playing sports (certain exemptions exist for sports bodies.)
- the conversion, reconstruction or alteration of an existing building (other than the conversion of a non-residential building to a residential building);
- any enlargement of, or extension to, an existing building except where the enlargement or extension creates an additional dwelling or dwellings;
- the construction of an annexe to an existing building (unless the annexe is intended for use solely for a relevant charitable purpose).

However zero rating relief is available on the supply of the following:

- The Construction of a Dwelling.

A dwelling consists of "self-contained living accommodation where there is no provision for direct internal access from the dwelling to any other dwelling or part of a dwelling and the separate use, letting or disposal of the dwelling is not prohibited by the terms of any covenant, statutory planning consent or similar provision and statutory planning consent has been granted in respect of that dwelling and its construction or conversion has been carried out in accordance with that consent."

Zero-rating applies to *all* construction services provided in the course of construction of a dwelling, which includes the supply of building materials and services provided by bricklayers, plumbers, electrical contractors and other traders traditionally connected with the construction of new dwellings.

Zero-rating does *not* extend to the supply of professional services, e.g. architect, surveyor or any person acting as a consultant or in a supervisory capacity. Professional services are standard-rated unless they are provided as part of a single supply of construction services. The most common example where the professional services are treated as an indivisible part of the zero-rated supply of construction services is a 'design and build' contract.

- The Construction of New Buildings Intended Solely for Use for a Relevant Residential Purpose.

Academies are unlikely to be involved in the construction of accommodation for students. However academies should be aware that there is VAT relief on construction costs for dwellings and qualifying buildings used for a 'relevant residential purpose'. Relevant residential accommodation for students or schoolchildren is accommodation with or without catering, cleaning etc which is the sole or main residence of at least 90% of its residents. Following recent VAT cases, it has been held that if a building is used for up to 10% of the time available for a non-qualifying purpose this will not compromise the relief e.g. holiday or conference lettings.

- The Construction of New Buildings Intended Solely for Use for a Relevant Charitable Purpose in Either or Both of the Following Ways:

- a building used by a charity otherwise than in the course or furtherance of a business. It is important to stress that, to obtain relief the building must be used by Academies and must be used for a qualifying non-business purpose. Buildings which are used to make business supplies are not eligible for the relief. However, by concession, where the business use, (e.g. third party lets and conferences), is incidental to the non-business use i.e. does not exceed 10% of the total use of the building, zero rating relief is still available. The amount of usage may be measured either by time, floor space or head count, (e.g. no more than 10% of the staff are used for business purposes). Customs & Excise approval should be sought if the 10% is measured by a method other than by time.
- used as a village hall or similar building providing social or recreational facilities for a local community. There is no formal definition of a village hall. In Customs & Excise's view, a village hall is a communal building situated in a small community and controlled by an elected committee. It provides a facility for the whole community to enable various groups to carry out a range of local activities. Included are buildings such as sports pavilions which are constructed and used similarly to a village hall. Excluded are civil engineering works such as tennis courts, bowling greens or running tracks; buildings such as swimming pools or cinemas (which are not used in the same way as village halls); and leisure and sports centres run by charities on commercial lines. (VATA 1994 Schedule 8 Group 5 Note 6)
- Approved Alteration to Listed Buildings;

The supply of services in the course of an approved alteration, i.e. works, other than any works of repair or maintenance, or any incidental alteration to the fabric of the protected building which results from the carrying out of repairs, or maintenance work, of a protected building, which is designed to remain as or become a dwelling or a number of dwellings, or is intended for use solely for a relevant residential or relevant charitable purpose after the reconstruction or alteration, is zero-rated. Zero-rating extends to materials incorporated into the building.

The services of an architect, surveyor, or any person acting as consultant or in a supervisory capacity are excluded from zero-rating.

It is worth noting that, to qualify for relief, the planning permission consent must not only be requested but also obtained *before* work commences.

- Reconstruction

It is important to note that the definition of 'alteration' does not include reconstruction, reinstatement or rebuilding. However, substantial reconstruction of a protected building (listed building) which remains or becomes a qualifying building may be zero-rated.

b. Property Transactions (The Supply of Land)

The basic rule for property transactions is that disposals and grants of interests in land are exempt from VAT (Notice 742, Group 1 Schedule 9 VAT Act 1994). This means that VAT is not charged on the letting, sale etc of land but generally input tax is not recoverable that relates to



making that supply. The hiring of facilities is not a supply of land and VAT is chargeable on the charge made for such hire.

Uniquely in UK VAT, there is a provision which allows the supplier, vendor or landlord to exercise a degree of choice. This is referred to as the 'election to waive exemption' or the 'option to tax', and must be notified in writing to Customs. In certain circumstances, Customs' permission may be required to allow the option to be exercised. However, once made the option to tax cannot be revoked for a period of 20 years, subject to certain provisions which allow the option to be revoked within the first three months. The option to tax cannot take effect on residential property, (e.g. qualifying buildings such as dwellings), relevant residential buildings and relevant charitable buildings.

The exercise of the option to tax will transform what would usually be an exempt supply into a standard rated supply. Output VAT will be charged on the supply and directly attributable input VAT incurred in making the supply will be recoverable.

c. Donated Goods

The supply to, and the supply by, a charity of goods donated for sale, letting or export are zero-rated. This relief also applies to a 'profits-to-charity persons', defined as a taxable person who has agreed in writing to transfer all their profits from exploiting this relief to a charity.

d. Exports

Exports of any goods by a charity to a place outside EU member states are zero-rated.

e. Assets used for a Business and Non-business Purpose

It is common practice to apportion the VAT incurred on the purchase of assets using a method agreed with HMRC. HMRC also accept that a taxable person acquiring an asset which is used for both business and non-business purposes may recover the VAT incurred on the purchase of that asset in full. However, the taxable person must account for output tax on the non-business use. HMRC do not accept that this ruling extends to the purchase of services.

f. Aids for the Handicapped

Zero-rating relief is available on a wide range of goods and services supplied to charities, which make them available to handicapped persons by sale or otherwise for their domestic or personal, use e.g.:

- chair lifts or stair lifts designed for use in connection with invalid chairs;
- hoists and lifts designed for use by invalids;
- equipment and appliances designed solely for use by handicapped persons;
- parts and accessories designed solely for use in or with all these goods;
- certain construction work, including facilitating access and providing bathrooms, lavatories and washrooms for the disabled;
- installation of lifts to facilitate the movement of handicapped persons in a residence or day care centre;
- installation of emergency alarm systems linked to control centres;
- zero-rating also extends to the repair, maintenance and installation of most of the above.

g. Disabled Access

Zero-rating is available for the supply to a charity of construction services in relation to ramps or the widening of doorways or passages for the purpose of facilitating entry to, and movement within, any building.

h. Disabled Bathrooms, Washrooms and Lavatories etc

The supply to any charity of a service of providing, extending or adapting a washroom or

lavatory facilities to make them suitable for use by the disabled, e.g. in a building used for a relevant charitable purposes.

i. Fund-raising Events

Fund-raising events may be exempt from VAT, but exemption may not be available either because the charity, its trading subsidiary, or the event itself does not meet the criteria for exemption, or because the event is run by a non-qualifying body. When an event is likely to be taxed at the standard rate its promotion needs to be structured carefully if a full VAT charge on any income generated is to be avoided.

**Zero Rating Certificates**

40. To qualify for zero rating Academies must provide the supplier with suitable certification before the supply is made. It is the responsibility of the person who issues a certificate to make sure it is correct. If the certificate is incorrect, Academies may be liable to a penalty equal to the amount of VAT which would have otherwise been charged. Although the intention of issuing a certificate is to take the onus for determining the liability of a supply away from the supplier and place it on the Academies, the supplier should still take reasonable steps to satisfy himself that the certificate has been correctly issued. Examples of zero rating certificates are provided in HMRC Notice 708 *Buildings and Construction*.

**Reduced Rate VAT**

41. VAT on the supply of fuel and power used for a 'qualifying use' is charged at a reduced rate of 5% . To reiterate, 'qualifying use' includes use by a charity otherwise than in the course or furtherance of a business.
42. Where a supply is used partly for a qualifying use and partly not, an apportionment should be made to determine the extent to which the supply is used for a qualifying use. However, if at least 60% of the goods are supplied for qualifying use, the whole supply qualifies for the reduced rate.
43. The reduced rate covers the supply of coal, coke, other solid fuels, various forms of gas, oils, or electricity, heat or air conditioning. It does not extend to the supply of heated water.

**Trading Companies and VAT Grouping**

44. The use of trading subsidiaries by charities to protect profits from direct taxation is becoming increasingly popular as charities exploit their resources in trades outside their primary purpose. Academies could set up a separate trading company through which to channel its trading activities.
45. For VAT purposes it is possible to group companies to form a single body under a VAT group registration. Academies, as a body corporate, and their subsidiary companies could form a VAT group, providing certain control requirements are fulfilled. The benefits of VAT grouping are such that transactions which take place between members of a VAT group can be disregarded for VAT purposes and therefore improve administrative efficiency. However, a group VAT registration creates a joint and several liability for VAT debts incurred by group members, therefore each academy should consider the financial impact of guaranteeing to fund the debts of their subsidiaries before forming a VAT group.
46. The trading company may not, for VAT purposes, be an eligible body, therefore the VAT zero rating reliefs available to academies may not be available to the trading company, and supplies which if made by Academies would be exempt or non-business, may be taxable if made by the trading subsidiary.
47. Academies may by structuring the activities of the group effectively be able to maximise the zero rating reliefs available and increase the level of recoverable overhead VAT.

## Accounting for VAT

48. Academy accounting systems should have the ability to account for the various VAT rates applicable to income and expenditure.
49. The sales ledger should be able to code income into the following VAT categories; standard rated, zero rated, reduced rate, exempt, outside the scope of VAT and outside the scope of VAT with the right of recovery. The “outside the scope of VAT” category which may also be referred to as non-business, primarily deals with income received from the DfES and sponsors. The accounting system should be capable of generating reports to identify, at cost centre level, the amount of income generated from each VAT type for each funding source together with the relevant VAT amount to establish a sufficient audit trail to identify individual invoices to support the VAT treatment.
50. The purchase ledger should be able to identify each VAT category i.e. standard rated, zero rated, reduced rate, exempt and outside the scope and the VAT amount applicable to each invoice at the point of input. The system should be capable of producing VAT reports to identify, for each cost centre, the net amount purchased and input VAT amount incurred by expenditure type on, for example, non-business activities and taxable and exempt business activities.
51. The accounting system should, for VAT purposes, be set-up to cope with the possible setting up of subsidiary trading companies which may generate taxable income and which may also use the academy’s accounting system to record their transactions.
52. Academies should appoint a VAT liaison officer from within the finance department to manage and monitor the VAT registration process, the treatment of VAT within the accounting system and the training of staff responsible for inputting transactions into the accounting system. Advice from professional VAT advisers should be sought where necessary. It may also be useful to consider receiving input from professional VAT advisers at periodic meetings held by academies in the early stages of development.

## Part 3

# Funding from the DfES

- 3.1 This section describes each of the grants made available to academies by the DfES, and the arrangements for payment. It also refers to academies' obligations to raise private sector sponsorship.
- 3.2 DfES funding comprises:
- Feasibility Funding
  - Implementation Grant
  - General Annual Grant (GAG)
  - Start Up Grant
  - Redundancy Funding
  - Capital Grant
  - Earmarked Annual Grant (EAG)
- 3.3 Academies also receive some funding from local authorities. In particular:
- they are allocated Standards Fund grants by authorities on the same basis as local authority maintained schools (the authority itself having been allocated grant by DfES); and
  - authorities may provide funding directly for the additional costs for pupils with statements of special educational need (SEN)
- 3.4 Academies are required to provide the Department with specimen signatures of those senior post holders and governors who will be responsible for authorising claims for each type of DfES grant (**see form 6 at annex 3a**). They must also inform the Department of the academy's bank details for receipt of grant (**see form 7 at annex 3b**). All payments from the DfES will be made by electronic bank transfer.

## Feasibility Funding

- 3.5 Feasibility funding supports costs in the period up until the academy signs its Funding Agreement with the Secretary of State. It is used to establish whether the project is feasible and to produce the plans and documentation necessary for recommending a Funding Agreement to Ministers. Allowable expenditure falls into the following categories:
- **Core project management fees**
  - **Deliverable activities:**
    - **Stakeholder consultation** (with DfES, sponsors, LAs, existing schools and the wider community);
    - **Developing the vision, curriculum statements and organisation;**
    - **Establishing the Academy Trust** (eg setting up charitable company, appointing members);
    - **Liaison on buildings issues** (eg building design);
    - **Sponsor related issues** (eg confirming amount and form of sponsorship);
  - **Other costs** (eg legal fees)
- 3.6 A project management company will be used to deliver this phase of an academy project. The project manager must submit a feasibility budget to the DfES, and have it approved, before any claims can be made for feasibility funding. The budget should be submitted on **form FEAS 1 (annex 3c)**.
- 3.7 Claims for funding should be submitted to the Department, in arrears, on **form FEAS 2 (annex 3d)** attaching originals of all relevant invoices. The Department may query claims that vary significantly from the budget profile.

## Implementation Grant

- 3.8 Implementation Grant supports recurrent (non-capital) costs in the period after the feasibility study is complete, from the signing of the academy's Funding Agreement up until the opening of the academy. Allowable costs comprise:
- **Core project management fees**
  - **Deliverable activities:**
    - **Governance arrangements** for the academy;
    - **School development plan** (including curriculum development, and financial, accommodation, ICT, marketing and HR strategies);
    - **Organisation of learning** (eg timetabling, lesson plans, student performance management, support and induction);
    - **Student and staff policies and procedures** (including staffing structure and pay);
    - **Employment records** (including TUPE/redundancy plan);
    - **Financial systems** (including production of financial operating procedures, commissioning of accounting system and preparation of academy budget);
    - and systems
    - **Bid for Start-up Grant Part b;**
    - **Development of building project** (including building design and compliance with all relevant regulations);
    - **Health and safety plan**
    - **ICT specification**
    - **Marketing and collaboration**
  - **Academy lead-in costs** (salaries for key staff required prior to opening – Principal, Finance Director, and one or two other senior managers/support staff)
  - **Other costs** – eg legal fees and governors' indemnity insurance
- 3.9 The academy must submit an implementation plan and budget to the DfES, and have it approved, before any claims can be made for implementation funding. The budget should be submitted on **form IMP 1 (annex 3e)**. Budgeted expenditure should be profiled over the expected period of the implementation plan – initially monthly for year one and, if relevant, quarterly for year two. The form will need to be re-submitted after one year to provide a monthly breakdown of expenditure for year two. Where the implementation period extends beyond two years the form should be suitably amended.
- 3.10 Claims for grant should be submitted to the Department, in arrears, on **form IMP 2 (annex 3f)** attaching originals of all relevant invoices. The Department may query claims that vary significantly from the budget profile.
- 3.11 If it becomes necessary to transfer the approved implementation budget between individual headings, any adjustments exceeding £10,000 must be set out on a revised form IMP1 and be submitted to the DfES for approval. Similarly a revised form IMP1 must be submitted where a significant change in the *timing* of expenditure is foreseen (ie £25,000 or over). Academies should ensure that no pattern of spending is allowed to develop which cannot be contained within the approved budget; the DfES should be informed immediately where this appears likely.
- 3.12 Any amount of approved implementation budget which has not been paid to the academy Trust by the opening of the academy will lapse. Any amount of grant which has been paid but remains unexpended on relevant expenditure by the opening of the academy will, without prejudice to any other mode of recovery, be taken into account in determining the total amount of grant to be paid to the academy after its opening. Any amount of implementation grant paid which is found to have been used on ineligible expenditure will, without prejudice to any other mode of recovery, be taken into account in determining the total amount of grant to be paid to the academy.

## General Annual Grant

3.13 Once an academy is open, its main recurrent funding will be General Annual Grant (GAG) from the DfES. GAG consists of the following elements:

- **School Budget Share (SBS)** - This is the largest proportion of GAG and is calculated by replicating:
  - the funding formula of the local authority in which the academy is situated, to derive funding for year groups up to age 16; and
  - the Learning and Skills Council's funding formula for sixth form pupils.

A minimum funding guarantee is applied to both of these elements to produce a finalised SBS. The formulae are largely pupil number driven, but that for sixth form funding is also heavily dependent on pupils' qualification mix;

- **Local Authority Holdback** - This is intended to fund academies for functions that local authorities provide centrally for their own schools, such as school meals and expenditure on SEN pupils without statements. Academies receive a per-pupil amount based on the authority's central spend to cover such responsibilities that they have which are not provided by the authority either directly or in kind. The LA Holdback for SEN pupils without statements (if there is any relevant central expenditure) is calculated separately because this item is only aimed at SEN pupils without statements, rather than all pupils. The LA Holdback does not include funding for SEN pupils with statements; this is either in the SBS or paid direct by the authority to the academy if attached to named pupils;
- **Specialist School Funding** - Maintained schools participating in the specialist schools programme receive this grant to recognise the additional costs of delivering their chosen specialism. Academies are given additional funding on the same per pupil basis;
- **Higher Performing Schools Funding** – Schools that have been specialist schools for at least four years, and who meet certain performance criteria, may be offered the opportunity by the Department to take on a second specialism, or to participate in the leading edge or training schools programmes, for which additional grant is available;
- **School Standards Grant (SSG)** - Academies receive this funding on the same basis as maintained schools. Because it is a financial year grant in the maintained sector, academies receive it in May. So for example an academy receives its 2006-07 SSG in May of its 2005/06 academic year. Academies with predecessor schools receive an additional SSG grant in their first September at the previous May's rates. This is because their predecessors will not have received this money in May as they were closing. From 2006 academies also receive a further 'financial year grant' (SSG Personalisation), payable each September;
- **VAT Grant** - Maintained schools benefit from authorities' ability to recover VAT. Academies are liable for VAT and have no equivalent reclaim facility. The DfES provides an additional grant to ensure academies have a broadly equivalent purchasing power. This is based initially on GAG but subsequently on actual expenditure. The DfES invites academies to report their 'VAT-relevant' expenditure each September, for the year just ended, using **form VG (a) (annex 3g)**. New academies will not be asked to complete this form until their second year, when there is expenditure to report;
- **Insurance** - Academies generally incur higher insurance costs than maintained schools. This element of funding is stripped out during the replication of the local authority formula for the purposes of calculating SBS. The Department then pays a separate grant to meet insurance costs based on actual expenditure. Academies are expected to send in copies of their insurance certificates and schedules in order to receive this funding. Brokerage fees are not reimbursed;

- **Teacher Threshold** -Teacher threshold funding is also stripped out during the local authority formula replication process, and academies are paid a separate grant based on actual qualifying teachers. This process will change from AY 2007/08 to reflect changes in the way that teachers pay grants have been absorbed into local authority funding;
  - **Local Government Pension Scheme** - In 2006/07 academies are receiving a grant of £24,000 to cover higher levels of employer contributions for the Local Government Pension Scheme. This grant will be ended thereafter, to align with maintained schools;
  - **School Meals Grant** - Academies receive an appropriate share of the school meals grants which started in 2005-06. They receive both the school level grant and a share of the authority level grant. This grant ends in the 2007-08 financial year;
- 3.14 New academies may also receive an additional amount of GAG for **start up costs**. This is discussed separately in the next section.
- 3.15 GAG is calculated on an academic year basis from 1 September to 31 August according to the following timetable:
- **September (one year prior to the year of funding)** - DfES invites academies to submit data required for the calculation of GAG, including estimates of pupil numbers by year group;
  - **December (prior to the year of funding)** – DfES calculates a draft GAG and sends details to the academy in a draft “annual funding letter” for comment;
  - **End of March (prior to the year of funding)** – DfES calculates a final GAG, taking account of any comments, and sends details to the academy in a final annual funding letter. The basis of the GAG calculation, including any annual re-pricing which may be necessary, will be set out in the letter;
  - **August (immediately prior to the year of funding)** – DfES sends the academy a schedule setting out its monthly profile of GAG payments. These will be made as follows:
    - 4% of GAG to be paid on the first working day in September, in recognition of the additional resources that may be required at the start of the year such as stocks of consumables and staff training;
    - 8% of GAG to be paid on or before 25th September;
    - 8% of GAG to be paid in monthly instalments thereafter on or before 25th of each month.
- 3.16 Academies are encouraged to raise funds from other sources, and any such income will not adversely affect the amount of GAG that the DfES awards.



## Start-Up Grant

3.17 Two Start Up Grants are available to support additional temporary costs for a period after the academy opens:

- **Start Up Grant Part a** - This grant is for the purchase of a basic stock of teaching and learning materials including library books, text books, software, stationery, science equipment, PE equipment and other consumables.

The DfES will notify the academy of its Start Up Grant Part a in its annual funding letter alongside the other elements GAG; it does not require a bid from the academy.

In an academy's first year after opening it will receive an allocation comprising a lump sum plus an amount based on the estimated number of pupils on roll in that year. The academy will be asked for these estimates in the autumn term prior to opening. In subsequent years the academy will receive amounts based on the *increase* in pupil numbers over the previous year, until the academy reaches its planned capacity. If the academy opens with 90% or more of its planned pupil capacity it will receive all of its allocation in year one.

In each year the grant will be paid in three instalments in September, October and November.

- **Start Up Grant Part b** - This grant is primarily to address the following issues:
  - Diseconomies of scale - Where an academy opens with only a proportion of its planned body of pupils its pupil number-based GAG may, for a period, fail to cover all of the Academy's long-term fixed costs. A proportion of costs, typically senior management team salaries, may therefore be supported by Start Up b, the amount being related to the percentage by which pupil numbers fall below the planned total. However where pupil numbers reach 90% of the planned total, it is expected that diseconomies would be managed within GAG.
  - Transitional costs - This comprises costs that do not represent long term obligations, for example additional staff costs arising from the need to complete courses begun by students at the predecessor school, but which do not form part of the academy's own curriculum ('dual curriculum costs'), and initial staff training.

Academies are required to bid to the Department in order to receive Start Up Grant Part b. Invitations to bid will be issued in the autumn term one year before the academy is due to open. Grant will be paid in monthly instalments alongside the other elements of GAG.

## Redundancy Funding

3.18 The Department will meet, subject to prior agreement, costs arising from the inclusion of academies in the Schedules to the *“Redundancy Payments (Continuity of Employment in Local Government) (Modification) Order 1999”*. This means that:

- where an academy opens with employees that have transferred from designated local government employers without a break in service, such as those transferring from a local authority maintained school, their service will be treated as continuous for the purposes of calculating any subsequent redundancy payments; and
- in these circumstances the DfES will meet the element of statutory redundancy costs attributable to the employee’s service prior to working for the academy, while the academy must meet the element attributable to service at the academy.

## Capital Grant

### Funding Necessary to Establish an Academy Building

- 3.19 Since the beginning of the academies programme the construction, or initial refurbishment, of academy buildings has been overseen by the DfES, and funded largely by capital grant provided directly by the Department. In March 2006 the Minister of State for Schools announced that the oversight and funding of the academies building programme would, in future, be carried out by Partnership for Schools (PfS). PfS is a non-departmental public body which was established in March 2004 to work with local authorities and the private sector to rebuild or refurbish the secondary school estate under the Building Schools for the Future (BSF) programme.
- 3.20 Whilst virtually all academy buildings in the future are expected to be procured through BSF, there are a significant number of building projects already passing through the DfES route, and the capital funding for those projects will continue to be delivered by the Department. The following section explains the arrangements for claiming capital grant for DfES-funded projects. The arrangements for BSF projects are outside the scope of this Handbook.

### DfES Capital Grant to Establish an Academy

- 3.21 All projects overseen by the DfES require Departmental approval of all plans and specifications in terms of what is actually being built, the appointment of contractors, provisions regarding the planned dates for completion and occupation of the new Academy, and assurances that all planning and other consents necessary for the development and all related infrastructure have been obtained. The DfES must also be able to monitor and inspect the progress of the development once capital projects have commenced. The DfES must be consulted on the issue of certificates of practical completion and the issue of the final certificate to ensure that the development has been properly signed off.
- 3.22 The amount of capital grant that the DfES awards for the construction or initial refurbishment of academy buildings will be specified in the academy's Funding Agreement. **There is an expectation that academies will contribute to the capital cost by raising private sector sponsorship, the amount of which will also be specified in the Funding Agreement.** Taken together, DfES capital grant and the academy's sponsorship are referred to as the *capital cash limit*. Where capital expenditure has previously been incurred in the feasibility phase, any DfES capital grant paid at that time will become a first charge on the capital cash limit.
- 3.23 Capital expenditure beyond the cash limit will require specific approval from the Secretary of State. The Academy and the DfES will share the burden of any such capital expenditure in a proportion to be agreed.
- 3.24 The academy must submit a capital cash flow budget to the DfES, and have it approved, before any claims can be made for capital grant. The budget should be submitted on **form CAP 1 (annex 3h)**, and will form a part of the Funding Agreement. Budgeted expenditure should be profiled over the expected period of the capital project – initially monthly for year one and, if applicable, in summarised form for subsequent years. The form will need to be re-submitted after one year to provide a monthly breakdown of expenditure for year two and, if relevant, for subsequent years in due course. Note that any DfES capital grant received during the feasibility phase should be included on the form in the column headed "From Annex 9", this being a reference to the part of the Funding Agreement that covers feasibility funding. Form CAP 1 must also record the timing and amount of expected sponsorship contributions.
- 3.25 Claims for capital grant should be submitted to the Department on **form CAP 2 (annex 3i)**, generally monthly in arrears, attaching originals of all relevant invoices and surveyor's/architects certificates. The form should also report the amount of capital expenditure that has been funded by sponsorship in the period, and should enclose copies of the invoices/certificates relating to that expenditure. The Department may query claims that vary significantly from the budget profile.

3.26 The following general principles in claiming capital grant should be noted:

- grant will only be paid against claims supported by appropriate documentation demonstrating evidence of need;
- grant may only be used for the purposes for which it has been allocated and will be subject to the terms and conditions notified in the Funding Agreement and/or in any approval letter(s) issued by the Secretary of State;
- the Secretary of State may require the repayment of any grant not used, and may, without prejudice to any other form of recovery, recover the whole or any part of that sum by deducting it from any grant otherwise payable by him;
- approval for a project does not convey any right to spend 'savings' on the project on other work; and
- evidence of the academy's full sponsorship contribution will be required before the final grant payment will be made.

3.27 If it becomes necessary to transfer the approved capital budget between individual headings, any significant adjustments should be set out on a revised form CAP1 and be submitted to the DfES for approval. Similarly a revised form CAP1 must be submitted where a significant change in the *timing* of expenditure is foreseen. Academies should ensure that no pattern of spending is allowed to develop which cannot be contained within the approved budget; the DfES should be informed immediately where this appears likely.

#### **DfES Capital Grant for Projects Overseen by PfS**

3.28 Where the major construction cost of an academy's buildings is to be handled by Partnership for Schools, some initial minor works may be necessary in the short term to bring existing or temporary buildings up to an adequate standard, pending the delivery of new or fully refurbished premises. The DfES will provide an appropriate amount of capital grant for such minor works, on a basis to be agreed with individual academies.

#### **Funding for Capital Expenditure Beyond the Initial Building Project**

3.29 The Department anticipates that there will be a need eventually for Academies to incur additional capital costs to ensure that buildings remain fit for purpose. Academies occupying premises more than three years old are eligible to receive an annual allocation of Devolved Formula Capital Grant from the Standards Fund (distributed by the local authority) and this should generally support the cost of minor capital works and ICT replacement. Additionally all academies should budget for routine repairs and maintenance from within General Annual Grant or other existing resources. The Department is continuing to monitor academies' needs as the programme develops, to ensure that capital issues that might otherwise impact on the delivery of education are adequately addressed.

## **Earmarked Annual Grant**

- 3.30 Earmarked Annual Grants (EAGs) are a means of providing funding in exceptional circumstances to support unexpected costs (either recurrent or capital) that an academy is unable to cover from existing resources. By their nature, bids for EAGs are expected to be very rare; generally academies should manage their costs within existing capital and recurrent grant regimes, and by drawing on privately-generated income as available. Bids should normally be made before the year to which they relate.

## Sponsorship

- 3.31 Twice a year academies are required to return a copy of **form 5 (annex 3j)** to the Department setting out the amount of sponsorship received in the preceding six months. This should be submitted as follows:
- **By 31 March** – submit details of sponsorship received between 1 September and 28 February;
  - **By 30 September** – submit details of sponsorship received between 1 March and 31 August.
- 3.32 The returns must distinguish between sponsorship received for capital purposes and for general purposes, and between cash and donations in-kind.

**Annex 3a****AUTHORISED SIGNATURES FOR GRANT CLAIMS****FORM 6****Academy name.....**

From .....(insert date) the persons listed below are authorised signatures for the following types of grant / DfES return (delete as appropriate):

*Recurrent grants;  
Capital grants.  
Balance sheet*

1.     NAME (block capitals)           .....  
        POSITION:                           .....  
        SAMPLE SIGNATURE               .....
  
2.     NAME (block capitals)           .....  
        POSITION:                           .....  
        SAMPLE SIGNATURE               .....
  
3.     NAME (block capitals)           .....  
        POSITION:                           .....  
        SAMPLE SIGNATURE               .....
  
4.     NAME (block capitals)           .....  
        POSITION:                           .....  
        SAMPLE SIGNATURE               .....

*Note: Authorised signatories should be limited to senior post holders and governors.*

### Annex 3b

#### BANK DETAILS

#### **FORM 7**

**Academy name** .....

From .....(insert date) please make payments of the grants listed below to the following account:

*(Delete as appropriate)  
Recurrent grants;  
Capital grants.*

#### Bank or Building Society

Name: .....

Address: .....

.....

.....

.....

.....

Sort Code: 

--	--	--	--	--	--	--	--	--	--

Account No. 

--	--	--	--	--	--	--	--	--	--

Account title .....

Account type .....

Change of bank details authorised by:

Signature 1: ..... Signature 2: .....

Name: ..... Name: .....

Position: ..... Position: .....



**Annex 3c**

**PLANNED FEASIBILITY PHASE EXPENDITURE**

**Form FEAS 1**

Academy Project: .....

RECURRENT		Financial Year 20..... - 20..... (£)	Financial Year 20..... - 20..... (£)	TOTAL (£)
<b>Estimated Cash Flow (figures to include VAT)</b>				
Project Management	1, 7, 8			
Stakeholder Consultation	2			
Vision, Curriculum, Organisation	3			
Establishing Trust	4			
Building Liaison	5			
Sponsor Issues	6			
Other (including legal fees)	-			
<b>TOTAL</b>				

CAPITAL		Financial Year 20..... - 20..... (£)	Financial Year 20..... - 20..... (£)	TOTAL (£)
<b>Estimated Cash Flow (figures to include VAT)</b>				
Professional Advice				
Surveys & Studies				
Planning Applications				
<b>TOTAL</b>				

Form submitted by:

Signature:

.....

Name:

.....

Position:

.....

Date:

.....

**Annex 3d****MONTHLY FEASIBILITY CLAIM FORM****Form FEAS 2**

Academy Project: .....

Claim against actual expenditure for the month of: .....

<b>RECURRENT</b>		<b>Monthly expenditure claimed (£)</b>	<b>Total expenditure to date (£)</b>
<b>Project Management</b>	<b>1, 7, 8</b>		
<b>Stakeholder Consultation</b>	<b>2</b>		
<b>Vision, Curriculum, Organisation</b>	<b>3</b>		
<b>Establishing Trust</b>	<b>4</b>		
<b>Building Liaison</b>	<b>5</b>		
<b>Sponsor Issues</b>	<b>6</b>		
<b>Other</b>	<b>-</b>		
<b>TOTAL</b>		<b>0</b>	<b>0</b>

<b>CAPITAL</b>		<b>Monthly expenditure claimed (£)</b>	<b>Total expenditure to date (£)</b>
<b>Professional Advice</b>			
<b>Surveys &amp; Studies</b>			
<b>Planning Applications</b>			
<b>TOTAL</b>		<b>0</b>	<b>0</b>

On behalf of the above-named Academy Project, I the undersigned:

- (a) claim payment in respect of the expenditure recorded above;
- (b) certify that all the particulars furnished above are correct and that payment is now due;
- (c) certify that all the work has been carried out and is satisfactory.

Signature: .....

Name: .....

Position: .....

Date: .....

***Please attach copies of all relevant invoices.***

**Annex 3e**

**PLANNED IMPLEMENTATION PHASE - RECURRENT EXPENDITURE**

Form IMP 1

Academy: .....

Estimated Cash Flow (Figures to include VAT)	Year 1 - Financial Year 20 / 20													Year Two by Quarters				TOTAL
	£000s													20 / 20				
	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	1	2	3	4	£	
Academy lead in costs	-																0	
Project Management	1, 14-16																0	
School Development	2-5																0	
Staff Policy	6-7																0	
Finance & Marketing	8, 9, 13																0	
Building Project	10-12																0	
Other	-																0	
<b>TOTAL</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	

Form submitted by: Signature 1: .....  
 Name: .....  
 Position: .....  
 Date: .....

Signature 2: .....  
 Name: .....  
 Position: .....  
 Date: .....

**Annex 3f**

**MONTHLY IMPLEMENTATION PHASE CLAIM - RECURRENT EXPENDITURE**

**Form IMP 2**

Academy:

.....

Claim against actual expenditure for the month of: .....

		Total grant expenditure to date (£)	Forecast monthly expenditure as per IMP 1 (£)	Actual monthly expenditure claimed (£)	Difference between forecast and claim (£)
Academy lead in costs	-				
Project Management	1,14-16				
School Development	2-5				
Staff Policy	6-7				
Finance & Marketing	8, 9, 13				
Building Project	10-12				
Other	-				
<b>TOTAL</b>					

On behalf of the Trustees of the above-named Academy, we the undersigned:

- (a) claim grant in respect of the expenditure recorded above;
- (b) certify that all the particulars furnished above are correct and that payment is now due;
- (c) certify that all the work has been carried out and is satisfactory.

Signature 1: .....  
 Name: .....  
 Position: .....  
 Date: .....

Signature 2: .....  
 Name: .....  
 Position: .....  
 Date: .....

**Please attach copies of all relevant invoices.**

# Annex 3g

## VAT GRANT CLAIM

Form VG(a)

### Revenue Expenditure Statement

Academy Name: .....

Actual Results for Academic Year: 2004/05

	Actual Outturn
	£
<b>Total Gross Expenditure from Revenue Funds *</b>	
<b>Less Deductions:</b>	
Start Up Grant Part a expenditure	
Start Up Grant Part b expenditure	
DfES grants deemed VAT-inclusive	
Other government grants expenditure (not Standards Fund)	
Sponsorship towards revenue expenditure	
Business income funded expenditure	
Other non-DfES & non-LEA funded expenditure	
<b>Total Relevant Expenditure</b>	

\* Includes capital items purchased from revenue funds, but excludes depreciation charges.

#### DECLARATION:

On behalf of the Trustees of the above named Academy, we the undersigned:

- (a) certify that all the information provided above is complete and accurate;
- (b) claim VAT grant for 2005/06 and 2006/07 on the basis of the expenditure recorded above

Signed by:	Block Capitals	Position	Date
<b>Block Capitals</b>			
(1).....	.....	.....	.....
(2).....	.....	.....	.....

Return to: DfES, Academies Finance Team, 2F Area E, Mowden Hall, Staindrop Road, Darlington, DL3 9BG



**Annex 3i**

**CLAIM FOR PAYMENT OF CAPITAL GRANT**

**Form CAP 2**

**Academy:**.....

	<b>Total Costs Approved</b>	<b>Funding received to date excl this claim</b>	<b>Amt profiled for this claim period (on CAP 1)</b>	<b>Claim for this period</b>	<b>Remaining Funding</b>
	<b>(£)</b>	<b>(£)</b>	<b>(£)</b>	<b>(£)</b>	<b>(£)</b>
Building Project management					
Professional Advice					
Surveys and Studies					
Planning					
Building Works					
Furniture & Equipment					
Other					
<b>Total</b>					
<b>From Sponsors or other sources</b>					
<b>From DfES</b>					

On behalf of the Trustees of the above named Academy, we the undersigned:

- (a) claim grant in respect of the expenditure recorded above;
- (b) certify that all the particulars furnished above are correct and that payment is now due;
- (c) certify that all the work has been carried out and is satisfactory.

Signature 1: .....  
 Name: .....  
 Position: .....  
 Date: .....

Signature 2: .....  
 Name: .....  
 Position: .....  
 Date: .....

***Please attach copies of all relevant invoices and, where relevant, a certificate from your Quantity Surveyor or Architect confirming that the expenditure claimed has been incurred.***

### Annex 3j

BI-ANNUAL SPONSORSHIP RETURN

**FORM 5**

**Academy .....**      **Six months ending .....**

	Amount received in half year (£)
<b>Sponsorship Received for Capital Purposes:</b>	
Cash received from sponsors	
In - kind donations received (ie goods and services)	
<b>Sponsorship Received But Not Earmarked For Capital Purposes:</b>	
Cash received from sponsors	
In - kind donations received (ie goods and services)	
<b>Total</b>	

<p><b>Signature (1)</b> .....</p> <p><b>Block Capitals</b> .....</p> <p><b>Position</b> .....</p> <p><b>Date</b> .....</p>	<p><b>Signature (2)</b> .....</p> <p><b>Block Capitals</b> .....</p> <p><b>Position</b> .....</p> <p><b>Date</b> .....</p>
--	--



# Part 4

## Financial Planning and Monitoring

### Financial Management

- 4.1 It is a condition of DfES funding that the governing body ensures it has sound financial systems in place. Where the governing body is unable to account properly for the use of its resources, or there is evidence that resources have not been used in accordance with the academy's objectives, or regard has not been paid to the need to ensure value for money, then the Department reserves the right to immediately terminate the payment of grant and to demand the repayment of any grant which has not been confirmed to be properly used.
- 4.2 The governing body must ensure that financial planning and management controls (including controls against misappropriations, fraud and theft) are appropriate and sufficient to safeguard public funds. The precise financial management arrangements of each governing body will vary according to its size, organisation and particular needs. However in all cases appropriate financial management arrangements will need to be established over all income, expenditure and the use of resources.
- 4.3 The governing body will need to consider how it can best deliver the financial and accounting functions which will be needed. It is important to recognise that the overall responsibility for the effectiveness of the financial management arrangements remains with the governing body.

## Budget Setting

### Preparation

- 4.4 The governing body must prepare an annual budget which sets out the expected income and expenditure of the academy month by month over the budget period. The budget should:
- estimate the direct running costs of the academy necessary to achieve its objectives, and should explore ways to reduce costs where possible as it is a requirement of the Department to ensure value for money in the use of public funds;
  - estimate income including funding from the DfES and from other public sector and non-public sector sources (such as contributions and gifts in kind from sponsors);
  - balance income with expenditure, where necessary identifying the committed areas of expenditure such as contracted payments and salaries for those staff on fixed term contracts. The governing body should ensure that these commitments can be met out of 'known' income i.e. DfES General Annual Grant (GAG).
- 4.5 If there is a shortfall of expected resources the budgeting process should be used to make decisions over competing priorities for expenditure. Except with the Secretary of State's prior agreement, the governing body must not budget for expenditure in any year in excess of expected income nor enter into commitments which are likely to have substantial implications for future levels of grant, or for the period grant may be required. No decision by the governing body will commit the Secretary of State to any particular amount of grant.
- 4.6 The annual budgeting process should incorporate the following features:
- written procedures allocating responsibility for budget preparation;
  - a timetable which ensures that an approved, firm budget can be submitted to the DfES by the end of June for the following financial year (see next section);
  - approval by the Headteacher and the governing body;
  - a requirement to ensure that planned expenditure for each financial year does not exceed the available income received during the year, except where this is due to non-recurring expenditure which can be financed from funds carried forward; and
  - a profiled budget reflecting likely spending and income patterns.
- 4.7 The academy should also consider benchmarking its costs against comparable institutions, for example by establishing links with other academies or by using data available on maintained schools held on the Department's Consistent Financial Reporting website (accessible at [www.teachernet.gov.uk/management/schoolfunding/schoolfinance](http://www.teachernet.gov.uk/management/schoolfunding/schoolfinance)).
- 4.8 The budget setting process and the budget itself should be as robust as possible. At the same time budgeting is not an exact science and therefore governing bodies will need to incorporate an element of flexibility to allow for contingencies and unforeseen expenditure. The funding available to each academy will change annually, but this should not preclude the outline of the priority areas for spending as identified in its Development Plan.

### Approval and Change

- 4.9 The governing body must approve the budget.
- 4.10 It is recognised that, from time to time, academies' financial plans and budget priorities may change, for example as a result of the success or failure of an initiative, or due to timing differences. The governing body (or Finance Committee to whom responsibility for financial matters has been delegated) must agree procedures so that all significant amendments to budgets such as transfers between budget headings ('virements') are promptly notified to them for approval.

## Reporting the Budget to the DfES

4.11 Academies are required to submit a copy of their annual budget to the Department. This should be in the format of an income and expenditure statement on an accruals basis, which means that:

- income is recorded when it is due to the academy whether or not it has actually been received (other than pledged donations);
- expenditure is recorded at the point when the relevant goods and services are received, whether or not payment has actually been made. No values should be shown on the returns for goods which were ordered in the period covered by the return but have not yet been received by the academy, although there should be a system for recording and reporting such commitments to the governing body in order that the true position can be monitored.

4.12 There are two key dates by which academies must send budget details to the DfES.

- **By 15 February: An indicative budget must be submitted on form GAG 1 (see annex 4a)** summarising the Academy's planned income and expenditure for the *forthcoming* academic year running from 1 September to 31 August. This should be prepared with reference to the academy's *indicative* General Annual Grant (GAG) allocation for the forthcoming academic year which the Department will notify to the academy in the preceding December. **Chapter 4 provides guidance on the calculation, timing and payment of GAG;**

Note that a new academy should submit its *first* form GAG 1 in the February *prior to opening*;

- **By 30 June: A final, firm budget must be submitted on form GAG 2 (see annex 4b)** setting out the academy's plans for the forthcoming academic year in more detail. This should be prepared with reference to the academy's *final* General Annual Grant allocation for the forthcoming academic year which the Department will notify to the academy in March.

Note that a new academy should submit its *first* form GAG 2 in the June *prior to opening*;

4.13 These forms are intended to record recurrent costs only. All capital funding (grants and other income received specifically for capital purposes) and the corresponding capital expenditure (depreciation charge) should be excluded from the forms. Where GAG (recurrent grant) is to be used to purchase capital items the full cost of the purchases, not just the depreciation charge, should be recorded on the budget forms as a "transfer to fixed asset fund".

NB: Where a single charitable company operates more than one academy, individual budget forms are required for each academy.

## Carry Forward Limits

4.14 Both forms GAG1 and GAG2 should declare any unspent funds expected to be brought forward at the beginning of the year, and any funds expected to be carried forward at the end of the year. However it is important that grant is spent as intended rather than being accumulated unnecessarily so the Department sets limits on the amount that can be carried forward from one year to the next.

4.15 The maximum amount of GAG that can be carried forward is 12% of the GAG income for the year just ended, of which:

- up to 2% can be spent on either recurrent costs or capital costs; and
- any remaining balance up to the total of 12% can only be spent on the upkeep and

improvement of premises including the costs of equipment and routine repairs and maintenance, and on capital expenditure.

- 4.16 Any surplus GAG other than that allowed under these carry forward regulations may be taken into account in the payment of subsequent years grant.

Nb: Academies may accumulate funds from private sources to defray for the benefit of the academy as the governing body sees fit.

## Budget Monitoring

### Management Team and Governors' Responsibilities

- 4.17 Monthly reports detailing actual income and expenditure against budget should be prepared and should highlight any unusual or exceptional items. The reports should be available for distribution two weeks after the month end to which they relate. At least two levels of report should be produced:
- a detailed statement, designed for individual budget holders, setting out the amount spent and committed to date against budget;
  - a summary income and expenditure report which summarises the financial position of the academy.
- 4.18 The monthly reports should be reviewed by the Director of Finance, the Responsible Officer, and the Headteacher. Where necessary, corrective action should be taken to ensure the authorised budget is not exceeded.
- 4.19 Financial reports must also be submitted to both the Finance & General Purposes Committee and the governing body. The governors should receive at least quarterly reports and may decide they need to be kept informed on a monthly basis.
- 4.20 The summary income and expenditure report should usually include:
- details of actual income and expenditure against budget for each main type of cost (as set out on form GAG 2) and each cost centre (it is for each academy to determine its cost centre structure, e.g. based on a departmental structure);
  - a forecast of the likely out-turn for the remainder of the financial year;
  - a monthly balance sheet;
  - a narrative explanation of significant variations from the approved budget, together with how they are being managed; and
  - a statement which summarises progress on current capital projects.
- 4.21 In monitoring the budget the governing body (or Finance Committee) should proactively review priorities and assess whether it is necessary to reallocate funds to achieve the academy's objectives.

### Reporting Budget v Actual Results to the DfES

- 4.22 Academies must submit budget monitoring returns to the DfES, on an accruals basis, at two stages in the accounting year.
- **By 31 March: A mid-year budget review statement must be submitted on form GAG 2A (annex 4c), setting out:**
    - actual income and expenditure in the first six months of the *current* academic year, compared to the budget;
    - a revised budget projection for the final six months of the current academic year, in the light of actual expenditure to date;
    - reasons for any significant over or underspends against budget together with details of remedial action being taken. If the space on the form does not allow for a full explanation, then academies should provide a separate narrative to the Department.

It is expected that academies will be re-forecasting budgets as part of their routine internal management accounting procedures. Hence, the GAG 2A should merely repeat this

information. However expenditure need only be split on the form between salaries and non-salary costs, unless the academy needs to show more detail in order to explain a significant or unusual variance.

The existence of the GAG 2A does not preclude any academy from highlighting financial problems at an earlier stage, and the Department urges any academy experiencing or anticipating financial problems to contact the Department at the earliest opportunity, and not to wait until the GAG 2A is due.

- **By 30 September: A provisional final outturn statement must be submitted on form GAG 3 (annex 4d)** setting out actual income and expenditure for the academic year just ended. This form should reflect, as closely as possible at the time, the figures that are being reported in the academy's draft statutory financial statements.

It is important than detailed monthly monitoring of the academy's financial position has been undertaken by the Finance Director and by the Finance and General Purposes Committee during the year, so that the outturn position detailed on the GAG 3 is as close to budget as possible. Where there is a variance on any line of more than 10% from the original budget figure, academies are required to provide an explanation, together with any action taken / to be taken to redress the variance, in a separate note.

Nb: Where a single charitable company operates more than one academy, individual budget forms are required for each academy.

- 4.23 Forms GAG 2A and GAG3 are intended to record recurrent costs only. All capital funding (grants and other income received specifically for capital purposes) and the corresponding capital expenditure (depreciation charge) should be excluded from the forms. Where GAG is used to purchase capital items the full cost of the purchase, not just the depreciation charge, should be recorded on the budget forms as a "transfer to fixed asset fund".
- 4.24 Whilst the requirement to submit the forms described in this chapter provides a framework budget monitoring regime, the Department reserves the right to request additional financial and monitoring information with reasonable notice from academies at any time.

## Links to Development Plans

- 4.25 Academies are required to produce development plans specifying their educational objectives. This development planning process should be linked to the financial planning process to ensure that budgets are set to reflect the activity in the academy.
- 4.26 The Development Plan should be updated annually and submitted to the Department by 30 September. Academies will receive each year (in June or July) detailed guidance covering the following aspects:
- the three year academy-wide Development Plan;
  - target setting;
  - pupil number increases;
  - performance indicators;
  - indicative grants;
  - financial implications of the Development Plan; and
  - capital bids for the next financial year.
- 4.27 The extent to which the desired objectives can be achieved may be dependent on the funding available, and the financial implications of the Development Plan need to be estimated and included in the plan. The Development Plan should therefore incorporate sufficient flexibility to enable the academy to react to a change in cost of achieving objectives or in the expected level of funding. The plan should thus be based on a hierarchy of priorities and assumptions so that the academy has a clear view of the available options, as actual income and expenditure become known.
- 4.28 As part of the development planning process academies are expected to draw up performance indicators and to make these available to the Department. Performance indicators provide a basis for setting measurable and quantified targets for improving the academy's performance against stated timescales. This information is useful both to the academy as part of the development planning process and to the Department for national comparison. The performance indicators to be used may vary from year to year and guidance on their format will be given to academies in June or July each year as part of the Capital Bid/Academy Development Plan letter.
- 4.29 Academies are encouraged to devise their own performance indicators to measure performance against Development Plan objectives.

**Annex 4a**

**INDICATIVE BUDGET**

**Form GAG 1**

**ACADEMY NAME** .....

**FINANCIAL YEAR** .....

	Line No	Sept- Nov £000	Dec - Feb £000	Mar-May £000	June - Aug £000	Total £000
<b>INCOME</b>						
GAG: School Budget Share	1					0
Local Authority Holdback	2					0
Specialist School Funding	3					0
School Standards Grant	4					0
VAT	5					0
Insurance	6					0
Teacher Threshold	7					0
Local Govt Pension Scheme	8					0
School Meals Grant	9					0
Start Up Grant Part a	10					0
Start Up Grant Part b	11					0
Other (please specify)	12					0
Other DfES Grants: excluding Capital Grants	13					0
Other Govt Grants: including Standards Fund, excluding Capital Grants	14					0
Sponsorship: not for capital purposes	15					0
Other Income: not for capital purposes	16					0
<b>TOTAL INCOME</b>	17	0	0	0	0	0
<b>EXPENDITURE</b>						
Salaries: Teaching Staff	18					0
Salaries: Non-teaching Staff	19					0
Other Expenditure: excluding capital	20					0
<b>TOTAL EXPENDITURE</b>	21	0	0	0	0	0
<b>SURPLUS/DEFICIT FOR THE PERIOD (17 - 21)</b>	22	0	0	0	0	0
<b>Plus balance expected to be B/Fwd from previous period</b>	23		0	0	0	0
<b>Less amount transferred to fixed asset fund (see note below)</b>	24					0
<b>Balance expected to be C/Fwd to next period (22 + 23 - 24)</b>	25	0	0	0	0	0

If the academy intends to spend any of the income on this form on capital items, the full cost should be deducted at line 24.

Signed by	Block Capitals	Position	Date
(1) .....	.....	.....	.....
(2) .....	.....	.....	.....



**Annex 4b**

**FINAL BUDGET**

**Form GAG 2**

**ACADEMY NAME .....**

**FINANCIAL YEAR .....**

	Line No	Sept- Nov £000	Dec - Feb £000	Mar-May £000	June - Aug £000	Total £000
<b>INCOME</b>						
GAG: School Budget Share	1					0
Local Authority Holdback	2					0
Specialist School Funding	3					0
School Standards Grant	4					0
VAT	5					0
Insurance	6					0
Teacher Threshold	7					0
Local Govt Pension Scheme	8					0
School Meals Grant	9					0
Start Up Grant Part a	10					0
Start Up Grant Part b	11					0
Other (please specify)	12					0
Other DfES Grants: excluding Capital Grants	13					0
Other Govt Grants: including Standards Fund, excluding Capital Grants	14					0
Sponsorship: not for capital purposes	15					0
Other Income	16					0
<b>TOTAL INCOME</b>	17	0	0	0	0	0
<b>EXPENDITURE</b>						
<b>GAG Expenditure:</b>						
Salaries: Teaching Staff	18					0
Salaries: Educational Support	19					0
Salaries: Other	20					0
<b>Total GAG Salary Costs</b>	21	0	0	0	0	0
Maintenance of Premises	22					0
Other Occupancy Costs	23					0
Educational Supplies and Services	24					0
Other Supplies and Services	25					0
Furniture and Equipment: not capitalised	26					0
Technology Costs: not capitalised	27					0
Staff Development	28					0
Other GAG Expenditure	29					0
<b>Total GAG Expenditure</b>	30	0	0	0	0	0
<b>Non GAG Expenditure:</b>						
Salaries	31					0
Other Expenditure: not capitalised	32					0
<b>TOTAL EXPENDITURE</b>	33	0	0	0	0	0
<b>SURPLUS/DEFICIT FOR THE PERIOD (17 - 33)</b>	34	0	0	0	0	0
Plus balance expected to be B/Fwd from previous period	35		0	0	0	0
Less amount transferred to fixed asset fund (see note below)	36					0
<b>Balance expected to be C/Fwd to next period (34 + 35 - 36)</b>	37	0	0	0	0	0

If the academy intends to spend any of the income on this form on capital items, the full cost should be deducted at line 36.

Signed by	Block Capitals	Position	Date
(1) .....	.....	.....	.....
(2) .....	.....	.....	.....

## Annex 4c

## MID-YEAR BUDGET REVIEW

Form GAG 2A

ACADEMY NAME .....

FINANCIAL YEAR .....

	Line No	Sept - Feb		Mar - Aug		Total Revised Budget £000
		Final Budget £000	Actual Results £000	Final Budget £000	Revised Budget £000	
<b>INCOME</b>		(A)	(B)	(C)	(D)	(B + D)
GAG: School Budget Share	1					0
Local Authority Holdback	2					0
Specialist School Funding	3					0
School Standards Grant	4					0
VAT	5					0
Insurance	6					0
Teacher Threshold	7					0
Local Govt Pension Scheme	8					0
School Meals Grant	9					0
Start Up Grant Part a	10					0
Start Up Grant Part b	11					0
Other (please specify)	12					0
Other DfES Grants: excluding Capital Grants	13					0
Other Govt Grants: including Standards Fund, excluding Capital Grants	14					0
Sponsorship: not for capital purposes	15					0
Other Income: not for capital purposes	16					0
<b>TOTAL INCOME</b>	17	0	0	0	0	0
<b>EXPENDITURE</b>						
Salaries: Teaching Staff	18					0
Salaries: Non-teaching Staff	19					0
Other Expenditure: excluding capital	20					0
<b>TOTAL EXPENDITURE</b>	21	0	0	0	0	0
<b>SURPLUS/DEFICIT FOR THE PERIOD (17 - 21)</b>	22	0	0	0	0	0
<b>Plus balance B/Fwd from previous period</b>	23			0	0	0
<b>Less amount transferred to fixed asset fund (see note below)</b>	24					0
<b>Balance C/Fwd to next period (22 + 23 - 24)</b>	25	0	0	0	0	0

If the academy spends any of the income on this form on capital items, the full cost should be deducted at line 24.

Comments on budget variances and actions taken should be attached on a separate sheet.

Signed by	Block Capitals	Position	Date
(1) .....	.....	.....	.....
(2) .....	.....	.....	.....

## Annex 4d

## END-YEAR PROVISIONAL OUTTURN STATEMENT

Form GAG 3

ACADEMY NAME .....

FINANCIAL YEAR .....

	Line No	Actual Results £000
<b>INCOME</b>		
GAG: School Budget Share	1	
Local Authority Holdback	2	
Specialist School Funding	3	
School Standards Grant	4	
VAT	5	
Insurance	6	
Teacher Threshold	7	
Local Govt Pension Scheme	8	
School Meals Grant	9	
Start Up Grant Part a	10	
Start Up Grant Part b	11	
Other (please specify)	12	
Other DfES Grants: excluding Capital Grants	13	
Other Govt Grants: including Standards Fund, excluding Capital Grants	14	
Sponsorship: not for capital purposes	15	
Other Income	16	
<b>TOTAL INCOME</b>	17	0
<b>EXPENDITURE</b>		
<b>GAG Expenditure:</b>		
Salaries: Teaching Staff	18	
Salaries: Educational Support	19	
Salaries: Other	20	
<b>Total GAG Salary Costs</b>	21	0
Maintenance of Premises	22	
Other Occupancy Costs	23	
Educational Supplies and Services	24	
Other Supplies and Services	25	
Furniture and Equipment: not capitalised	26	
Technology Costs: not capitalised	27	
Staff Development	28	
Other GAG Expenditure	29	
<b>Total GAG Expenditure</b>	30	0
<b>Non GAG Expenditure:</b>		
Salaries	31	
Other Expenditure: not capitalised	32	
<b>TOTAL EXPENDITURE</b>	33	0
<b>SURPLUS/DEFICIT FOR THE PERIOD (17 - 33)</b>	34	0
<b>Plus balance B/Fwd from previous period</b>	35	
<b>Less amount transferred to fixed asset fund (see note below)</b>	36	
<b>Balance C/Fwd to next period (34 + 35 - 36)</b>	37	0

If the academy spent any of the income on this form on capital items, the full cost should be deducted at line 36.

Signed by

Block Capitals

Position

Date

(1) .....

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(2) .....

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# Part 5

## Annual Accounts

### Introduction

- 5.1 As charitable companies, academies must comply with company law as set out in the Companies Act 1985 (and subsequent Acts) and with charity law. This includes a requirement to prepare a governors' report and financial statements ('annual accounts') and to arrange for these to be independently audited by a registered auditor.
- 5.2 The financial statements should be prepared to **31 August each year** and should give a true and fair view of the academy's financial position at the balance sheet date and of the financial activities and cash flows for the period ended on that date. They should include:
- incoming resources from all sources receivable in the period;
  - resources expended on all activities within the period;
  - all assets and liabilities of the academy at the balance sheet date;
  - all cash received and expended within the period; and
  - notes to the accounts.
- 5.3 In order to give a true and fair view the financial statements must be prepared according to the requirements not only of the Companies Act, but also applicable accounting standards and the Charity Commission's current **Statement of Recommended Practice - Accounting and Reporting by Charities ('the Charities SORP')**. They must also be prepared in accordance with the accounting policies agreed by the academy's governing body. NB: a copy of the Charities SORP is available from the Charity Commissioner, Woodford House, Tangier, Taunton, Somerset, TA1 4BL, tel 01823 345427, [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk). The Further and Higher Education SORP may also be a helpful source of guidance on issues not directly addressed by the Charities SORP.
- 5.4 The aim of the following notes is to translate the above requirements into a general reference source detailing the financial reporting obligations of academies, to set out the format of the annual accounts (a model set of accounts is at **annex 5a**) and to reduce potential diversity in accounting practice between academies by suggesting best practice accounting treatment for particular transactions.
- 5.5 **There are certain elements of best practice which can facilitate an efficient and effective accounting and audit process:**
- **The model format of accounts which is included in these notes should be used by all academies in completing their financial statements.** The auditors will be expected to check that the accounts submitted to them by an academy are in the given format. Following the guidance should therefore eliminate a potential cause of overrun in the audit process. There may, however, be situations that require additional narrative disclosures to explain circumstances specific to an individual academy, eg after the disposal of fixed assets. Where an academy has no disclosures to make, eg where stocks are nil, then these sections of the financial statements should be omitted;
  - Accounts should be prepared by a qualified accountant. Ideally, to maximise flexibility, academies should directly employ such an accountant rather than relying on external accountancy support;
  - **The accounts should be independently reviewed before submission to the governing body and the auditors.** This should cover the format of the accounts to ensure that they agree with the model, to check that they add up, that the notes cross-reference correctly

and to check that prior year comparative figures agree with the prior year accounts. It should also include a review of the current year's figures to ensure they look reasonable in comparison to the previous year and in relation to the academy's development plan. The review does not need to be undertaken by an accountant, just by someone with an eye for detail who has been independent of the accounts preparation process. A checklist is provided at **annex 5b** to help with the review;

- An audit file containing working papers should be prepared which provides an audit trail that fully cross references to the financial statements;
- Any request by the auditor for information prior to their audit visit should be supplied promptly;
- All recommendations made by the auditor in their annual *management letter* should be dealt with by the governing body in a timely manner and should be considered as part of the accounts preparation process for the next year;
- Staff involved in the accounts preparation and audit process should have access to, and consider, all relevant guidance supplied by the DfES;
- It is recommended that the year-end budget outturn information recorded in the financial statements is reconciled to the planned cost of the academy's objectives set out in its development plan. This information should be of use to the governing body and should be prepared as part of the management information cycle in any case.

## Timetable for Financial Reporting

- 5.6 **By 31 December at the very latest (4 months after the end of the accounting year)** hard copies of the audited accounts, comprising the governors annual report and the financial statements, containing signatures of the governing body and auditor, should be submitted to the Department for Education and Skills at the following address:

Department for Education and Skills  
Academies Finance Team  
2F Area E  
Mowden Hall  
Staindrop Road  
Darlington  
Co. Durham  
DL3 9BG

- 5.7 The Governing Body should prepare and agree with their auditors an accounts preparation and audit timetable which enables the 31 December deadline to be achieved. The timetable should incorporate the date of the governors' meeting at which the accounts will be approved.
- 5.8 **As soon as possible after the above DfES deadline, but by no later than 30 June (10 months after the end of the accounting year)**, a copy of the governors annual report and audited financial statements must be sent to the Companies Registrar and to the Charity Commission. An automatic penalty of at least £100 will be levied by the Companies Registrar if accounts are filed late. At the same time the Charity Commission will also require the completion and submission of a Charities Annual Return detailing such matters as the composition of the board of trustees and summary financial results. A blank copy of the return can be viewed on the Charity Commission's website.

## Elements of the Report and Financial Statements

5.9 The report and financial statements should include:

- a governors' report;
- an independent auditors' report (guidance on the appointment of external auditors is given at **annex 5c**);
- a statement of financial activities;
- a summary income and expenditure account, and statement of total recognised gains and losses;
- a balance sheet;
- a cash flow statement;
- accounting policies;
- other notes to the financial statements; and
- a supplementary detailed income and expenditure account.

## Governors' Report

### Purpose of the Report

- 5.10 All of the trustees (governors) are jointly responsible for the preparation of an annual report in addition to the financial statements (accounts). Whilst the report is a legally separate document from the accounts, they are presented together in the same publication.
- 5.11 The governors' report should describe what the academy is trying to do and how it is going about it, demonstrating whether and how the academy has achieved its objectives during the year and explaining the academy's plans for the future.

### Legal Obligations

- 5.12 The governors' report should meet:
- the basic requirements for the directors' report as described in s234 and schedule 7 to the Companies Act 1985.
  - the requirements of a "trustees' annual report" as set out in regulations made under section 45(1) of the Charities Act 1993. These regulations (the latest ones being the Charities (Accounts and Report) Regulations 2005 – SI 572, 2005) include the key recommendation of the Charities SORP. Following the Charities SORP will ensure that matters related to the Business Review now required by the Companies Act are also covered. The main elements for inclusion in the report are illustrated in the SORP. Whilst this guidance highlights the areas that must be included in the governors' report, the SORP encourages charities to provide additional information where this would give a greater insight into their activities and achievements.
- 5.13 Note, in particular, that the governors' report must include a statement "confirming that the major risks to which the academy is exposed have been reviewed and systems have been established to mitigate those risks". Governors need to think about these issues from the outset in order to make and sign up to that statement. For example, governors should determine what the risks are to the academy, what likelihood there is of those risks arising, the potential impact if they did arise and what systems or procedures have been put in place to mitigate the risks.
- 5.14 The annual report and accounts should be approved by the governors as a body and both documents should be signed on behalf of the governors (usually by the Chair). The date of approval should also be stated.

### The Main Elements for Inclusion in the Governors' Report are as follows.

- 5.15 **Reference and Administrative Details of the Charity, its Trustees and Advisors** - details provided should include:
- the full name of the academy;
  - the names of the governors acting during the course of the year indicating which governors are members of sub-committees;
  - the name of the Principal or other senior staff to whom the governors delegate day-to-day management;
  - the address of the registered office of the academy;
  - charity and company registration numbers;
  - the names and addresses of other relevant organisations or persons including bankers, solicitors, auditors and investment advisers.



### 5.16 Structure, Governance and Management:

- **the nature of the governing document** (memorandum and articles of association, scheme of government);
- **constitution** - how the charity is constituted (for academies this is 'limited company');
- **governors** - the method of appointment, or election, of governors together with the name of any body or person entitled to nominate or appoint one or more governors; and policies and procedures for the induction and training of governors;
- **governors' responsibilities** - Statement of Auditing Standard 600 requires the respective responsibilities of governors' and auditors to be set out. The governors' responsibility statement does not have to form part of the governors' report but this is the preferred location because the responsibilities are then formally acknowledged by the governors and it avoids cluttering the expanded audit report;
- **organisational structure** and how decisions are made;
- **subsidiaries and connected organisations** - statements regarding the relationship between the charity and related parties and with any other charities and organisations with which it co-operates in the pursuit of its charitable objectives (e.g. subsidiaries, other academies, business sponsors);
- **risk management** - a statement confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed, and that systems or procedures have been established to manage these risks;
- **a statement on the system of internal financial control** - drawn initially from the Cadbury Code, this statement, although not legally necessary, is an important confirmation that governors have carried out their responsibility for ensuring that effective management systems, including financial monitoring and control systems, have been put in place.

### 5.17 Objectives and Activities:

- a summary of the **objects** of the academy by reference to the governing document;
- an explanation of the academy's **aims** including the changes/differences it seeks to make through its activities;
- an explanation of the academy's main **objectives** for the year;
- an explanation of the academy's **strategy** for achieving its objectives;
- details of significant activities (as identified in the SOFA)
- a summary of the policies adopted to further the objects of the academy;
- any material changes in policies since the last report;
- **employees and disabled persons** - where the average number of employees exceeds 250 the company must make a statement covering the employment policies for disabled employees and employee consultation in decisions affecting them. Few academies are likely to employ more than 250 people and strictly this disclosure is not required. The disclosure, particularly in relation to disabled persons, is seen as good practice and academies are encouraged to continue making the disclosure.

### 5.18 Achievements and Performance:

- summary of the main achievements during the year;
- in connection with academy activities, an explanation of performance achieved against objectives set, together with relevant qualitative or quantitative information;
- comments on other factors which are relevant to the achievement of objectives (for example, relationship with stakeholders and the academy's position in the wider community);
- where applicable, information on fundraising and investment performance.
- the performance of any subsidiary and associated undertakings.

### 5.19 Financial Review - a review of the financial position of the academy and its subsidiaries including:

- the charity's **policy on reserves** stating the level of reserves held and why they are held (e.g. what the amounts carried over are to be used for);

- where applicable, the **investment policy** and performance against policy (this may be relevant if academies receive cash donations from sponsors which they invest);
  - whether social, environmental or ethical considerations have been taken into account in any investments undertaken;
  - where funds are in deficit, an explanation of why they are in deficit and what action is to be taken on them;
  - the **financial position** at the balance sheet date in context of future plans and commitments;
  - the reasons for any changes in accounting policies;
  - effect on accounts of any revaluation of fixed assets;
  - the extent to which the Academy is financially dependent upon the support of the DfES, or any organisations or individuals;
  - statement of payment practice to suppliers in accordance with CA 1985 regulation 1997(SI 1997/571). The report must state the figure expressed in days, representing the total amount of trade creditors at the year-end multiplied by the number of days in the financial year, divided by the total amount that suppliers invoiced during the year. (ie  $A = (X \times B) / Y$ )  
Where: A= number of days to be disclosed; B= Number of days in the financial year; X= Total amount owed to trade creditors at the end of the year; Y= Total amount invoiced by suppliers during the year.
- 5.20 **Plans for Future Periods** - plans for the future including aims and key objectives together with any activities planned to achieve them.
- 5.21 **Re-appointment of Auditors** - it is usual, although not legally necessary, for the governors' report to indicate what resolution will be put to the AGM as regards the appointment of auditors.
- 5.22 **Signature** - The governors' report must be approved by the governors as a body and signed on behalf of the governors by one of their number authorised to do so. It is necessary to specify the name of the governor who signed the report. The date of approval must also be given.

## Independent Auditors' Report

- 5.23 The governors' report and financial statements must be supported by a report setting out the independent auditors' opinion on them. The format of the auditor's report should follow the examples shown in *Practice Note 11, The Audit of Charities*, issued by the Auditing Practices Board. The normal Companies Act opinion should state whether:
- the financial statements give a true and fair view of the state of affairs of the academy as at the period-end date, and of its incoming resources and application of resources for the period.
- 5.24 In addition, academy auditors must express an opinion on whether:
- the financial statements have been prepared in accordance with the financial reporting and annual accounts requirements issued by the DfES in respect of the relevant financial year (ie the Financial Handbook);
  - proper accounting records have been kept by the academy throughout the financial year;
  - grants made by the DfES have been applied for the purposes intended;
  - the information in the governors' report is consistent with the financial statements.
- 5.25 Standard wording for the auditors' report and certificate is given in the model accounts at **annex 5a**. If the auditors deem it necessary to qualify their opinion they will amend the statement after the audit.

## Statement of Financial Activities

- 5.26 The preparation of a Statement of Financial Activities (SOFA) is a requirement of the Charities SORP. The SOFA sets out all incoming resources and resources expended, analysed between unrestricted income funds, restricted income funds and endowment funds. The statement should reflect the movement in each category of funds so that the net movement in funds of the SOFA reconciles with the balance sheet movement of such funds.

### Analysis of Funds

- 5.27 The columns in the SOFA should divide the academy's income and expenditure into the following funds (see also layout at **annex 5a**):

- **Unrestricted Fund(s)** - resources which can be expended on any purpose of the academy at the discretion of the governors, including:
  - gifts and donations with no restrictions attached;
  - hiring out of facilities and sundry income.
- **Restricted General Fund(s)** - resources which can only be expended on particular purposes, including:
  - DfES General Annual Grant;
  - other DfES recurrent grants
  - other government recurrent grants;
  - sponsorship of particular projects or activities;
  - gifts and donations with restrictions attached (ie received for specific recurrent purposes);
- **Restricted Fixed Asset Fund** - resources to be spent on particular capital purposes, including:
  - DfES capital grants (for the purchase of fixed assets);
  - other government capital grants
  - sponsorship monies received for capital projects.

### Further Analysis of Income and Expenditure

- 5.28 The rows in the SOFA should further categorise incoming and outgoing resources as 'Generation of Funds', 'Charitable Activities' and 'Other' (eg 'Governance Costs'):

- **Generation of Funds** - within incoming resources, generated funds should be broken down into:
  - 'Voluntary Income', which includes gifts, donations, sponsorship, membership subscriptions, gifts in kind and donated goods and services;
  - 'Activities for Generating Funds';
  - 'Investment Income'.

Resources expended should be broken down into:

- 'Costs of Generating Voluntary Income';
- 'Fundraising Trading';
- 'Investment Management Costs'.

All incoming resources and resources expended should be shown 'gross'. In particular the cost of fundraising trading should not be netted off against incoming resources.

- **Charitable Activities** - incoming resources should include DfES Grants and hire of facilities to charitable users. Resources expended should comprise all expenditure directly relating to the objects of the academy i.e. on the provision of education.

In the notes to the accounts, charitable expenditure should be analysed under relevant sub headings, for example 'Direct Provision of Education' and 'Support Costs'.

Expenditure on the direct provision of education should include teaching costs, teaching support e.g. classroom assistants and laboratory technicians, premises costs and depreciation of equipment used for teaching. Support costs should include the costs of directly administering and supporting the school as an educational establishment e.g. admissions, pupil records etc.

- **Governance Costs** - expenditure on the governance of the academy will normally include both direct and related support costs. Direct costs will include such items as internal and external audit, legal advice for governors and costs associated with constitutional and statutory requirements e.g. the cost of governor meetings and preparing statutory accounts.

#### **Other Recognised Gains and Losses**

- 5.29 Where relevant these should be broken down under the headings of 'Gains and Losses on Fixed Assets', 'Gains and Losses on Investment Assets' and 'Actuarial Gains or Losses on Defined Benefit Pension Schemes'.

#### **Income and Expenditure Allocation**

- 5.30 All funds for which the governing body is responsible should be included in the annual accounts. The main areas of complexity concern:

- the allocation of resources expended between the categories of charitable expenditure – cost of activities in furtherance of charitable objects (provision of educational and support costs), fundraising costs and governance costs;
- the identification of incoming resources, resources expended and assets and liabilities that represent restricted funds; and
- the expenditure analysis used in the summary income and expenditure account.

- 5.31 The majority of salary costs and some expenditure items can be directly allocated to the expenditure categories required by the SOFA. There will, however, be some items of expenditure and some assets which involve more than one cost category. An example is where the administration department occupies part of the main school building. Where this is the case items of expenditure should be apportioned on a reasonable, justifiable and consistent basis e.g. number of people employed or capacity of accommodation occupied.

- 5.32 The degree to which items need to be apportioned will depend on the materiality of the amounts involved. Academies are encouraged to agree with their governors and their auditors suitable bases for apportionment for each item of expenditure/category of asset.

#### **Accounting for Sponsorship Income**

- 5.33 The recommended treatment for sponsorship income depends on the purpose for which it was given and any restrictions the sponsor may place on the use of the money.

- 5.34 If the monies received represent a sponsor's contribution to the acquisition of fixed assets, or can only be used for a purpose specified by the sponsor, the income is classified as "restricted income" and is recognised in the SOFA on a receivable basis:

- Restricted income received for the acquisition of fixed assets should be shown in the '**Restricted Fixed Asset Fund**' column of the SOFA on a receivable basis and therefore included in the Restricted Fixed Asset Fund balance on the balance sheet.

- All restricted incoming resources for specific non-fixed asset purposes should be included in the statement of financial activities on a receivable basis. The balance on the statement of financial activities of the restricted incoming resources received but not matched to relevant expenditure in the period should be included in the '**Restricted General Fund**' *balance* on the balance sheet.
- 5.35 Where income is received from sponsors and can be used for general purposes at the discretion of the academy it should be included in the statement of financial activities on a receivable basis. Any unexpended balance at the year-end should be included in the '**Unrestricted Fund**'.
- 5.36 If the money is in essence a donation then it should be treated as voluntary income, otherwise it should be treated as part of activities for generating funds (Charities SORP paras 121/137).

#### **Purchase of Fixed Assets from Recurrent Grant**

- 5.37 General Annual Grant (GAG) is intended to cover academy running costs but could be used in part for purchases which could be accounted for as fixed assets e.g. computer software and hardware. Such relevant portion of the grant should be shown in the 'Restricted General Fund'. Academies are also allowed to "carry forward" up to 12% of their GAG and carried forward amounts can be used for capital (fixed asset) purposes.
- 5.38 The normal accounting treatment for the purchase of fixed assets from this recurrent grant would be to show the purchase as a fixed asset on the balance sheet and to depreciate the asset in accordance with the academy's depreciation policy. The annual depreciation charge would be a charge against the GAG fund in the restricted general fund column of the statement of financial activities.
- 5.39 When fixed assets are purchased in this way, the balance of the restricted general fund will include both cash resources that can be spent by the academy and fixed assets that will be depreciated as the assets are utilised by the academy.
- 5.40 An alternative method of accounting would be to show the purchase as a fixed asset on the balance sheet and transfer (below the line) an amount equal to any purchase of fixed assets from the restricted general fund to the restricted fixed asset fund. This would result in all fixed assets being reflected in the restricted fixed asset fund. For this reason this is the preferred accounting treatment.

## Income and Expenditure Account

- 5.41 Generally companies must prepare a profit and loss account in accordance with one of the four statutory formats required by the Companies Act 1985 schedule 4 part I. However, where a company does not trade for profit, s262 of the Companies Act 1985 permits an income and expenditure account instead of a profit and loss account.
- 5.42 As the Statement of Financial Activities is designed to include all the gains and losses of a charity which would be found in the income and expenditure account and the statement of total recognised gains and losses as required by FRS3, a separate income and expenditure account may not necessarily be required to comply with the Companies Act.
- 5.43 However, even if an income and expenditure account is not deemed necessary under the Act, the DfES still requires an income and expenditure account to be included, to link with the detailed income and expenditure account described later. The captions used in the accounts can be amended to provide more appropriate information, which reflects the activities of the company. The format of the income and expenditure account to be prepared by academies is illustrated in **annex 5a**. The income and expenditure account should be derived from, and cross-referenced to, the corresponding figures in the Statement of Financial Activities.
- 5.44 Note that **recurrent expenditure funded from central or local government departments and agencies** must be analysed in the income and expenditure account according to the source of funding rather than under the normal objective headings, ie:
- GAG related expenditure;
  - Other DfES grant related expenditure;
  - Other government grant related expenditure.
- 5.45 **Depreciation** - the whole of the depreciation charge for the year should be included against this expenditure heading. Exceptionally, a government grant may allow a charge for depreciation to be made under the terms of the grant and where this is the case a proportion of the depreciation charge may be shown under the appropriate grant heading.
- 5.46 **Other Expenditure** - should include any expenditure incurred on income generating activities such as:
- hiring of accommodation/sports facilities;
  - cost of providing music tuition;
  - cost of academy trips.
- 5.47 The method of apportioning expenditure is a matter for each academy to agree with its auditors but should have regard to:
- any conditions attached to grants, or funds received from sponsors;
  - the rules regarding unexpended grant at the end of the financial year;
  - equity, for example, the costs of income generating activities (other than school meals) should be shown as "other expenditure" rather than a charge against GAG.

## Balance Sheet

- 5.48 The statutory balance sheet formats are more prescriptive than those for the income and expenditure account, both as regards order and the items that must be disclosed on the face of the balance sheet. The recommended balance sheet format for academies is illustrated in the model set of accounts shown in **annex 5a**. Definitions of the balance sheet elements are given below.
- 5.49 **Tangible Fixed Assets** - are those assets intended to be held for use on a continuing basis in connection with the activities of the academy. All fixed assets acquired since the academy was established should be included in this balance sheet category. On the face of the balance sheet the only figure which should be disclosed is the net book value of fixed assets after deductions for depreciation and impairment. The notes to the accounts should analyse the cost, depreciation, (impairment if any) and net book value of assets in the following categories:
- land and buildings, analysed between freehold and leasehold;
  - plant and machinery;
  - furniture and equipment;
  - computer equipment and software;
  - assets under construction.
- 5.50 For capitalised leased assets, **SSAP 21** requires a separate analysis of leased assets to be given (by category) or the leased assets to be included with owned assets and the total amount of leased assets included in the balance sheet to be disclosed.
- 5.51 Academies should also include in the fixed asset note an analysis of the source of funding for the fixed assets acquired.
- 5.52 **Investments** - may be shown as either fixed or current assets. Generally only investments which the trustees intend to realise without reinvestment will be shown in current assets. All investment assets should be included at market value.
- 5.53 **Stocks** - if any, should be included at the lower of cost or net realisable value.
- 5.54 **Debtors** - all amounts owing to the academy or prepaid by the academy should be included under this balance sheet heading. If any debts are due after more than one year they should be separately disclosed in a note to the accounts.
- 5.55 **Cash at Bank and in Hand** - include the balances held in all academy bank accounts plus any miscellaneous cash holdings e.g. petty cash balances.
- 5.56 **Creditors and Debtors** - should include all amounts owed or accrued by the academy including any debt. The amount owed should be split between amounts falling due within one year and amounts falling due after more than one year. **FRS 4** requires an analysis of debt by maturity between < 1 year, 1-2 years, 2-5 years, and > 5 years and this analysis should be included where applicable.
- 5.57 **Defined Benefit Pension Scheme Asset/Liability** - any asset or liability derived from a surplus or deficit in a defined benefit pension scheme (calculated in accordance with **FRS 17: Retirement Benefits**) should be included within this category and disclosed on the face of the balance sheet. A model letter is included at **annex 5d**, which can be sent to the pension scheme administrator to obtain this information.
- 5.58 **Restricted Fixed Asset Fund:**
- **Government Funded** - include under this heading all government funded fixed assets including GAG;
  - **Sponsorships & Donations** - include under this heading all other sources of contributions.



- 5.59 **Restricted General Fund** - the amount included in this fund represents the cumulative amount carried forward which has not been set aside for the fixed assets fund and has been provided by sponsors (public and private) for restricted revenue purposes.
- 5.60 **Unrestricted Fund** - include in this fund any amounts not included in the above funds and which are available for general use.
- 5.61 **Pension Reserve** - this reserve will relate to unrestricted funds. When there is a surplus or a deficit on a defined benefit pension scheme that results in an asset or a liability being recognised, the recognition of the pension asset or liability will result in the creation of a pension reserve. This reserve will be negative in the case of a liability.

## Cash Flow Statement

- 5.62 FRS 1 permits cash flow statements to be presented using the direct or indirect method. With the direct method (illustrated in **annex 5a**) individual operating activity cash flows are shown including:
- cash received analysed by source;
  - cash payments to and on behalf of employees;
  - cash payments to suppliers;
  - other cash payment.
- 5.63 The above cash flows are not shown under the indirect method. Instead operating cash flow is arrived at by adjusting operating profit inter alia for:
- movements in stock;
  - movements in debtors;
  - movements in creditors;
  - depreciation;
  - (profit)/loss on sale of fixed assets.
- 5.64 The direct method gives cash flows that are easy to understand and which contain important information to help the Department reconcile grant payments. Therefore although FRS 1 does not require the use of the direct method academies should adopt this method when preparing their annual financial statements.

### Requirements of FRS1

(1) Entities to report on a standard basis their cash generation/absorption.

(2) Standard headings:

- Operating activities
- Dividends from joint ventures and associates
- Returns on investments and servicing of finance
- Taxation
- Capital expenditure and financial investment
- Acquisitions and disposals
- Equity dividend paid
- Management of liquid resources
- Financing

Not all the standard headings will be applicable to an academy.

(3) A note to the cash flow statement should be provided with an analysis of net debt.

## Notes to the Financial Statements (including Accounting Policies and Carry Forward Calculation)

5.65 Notes to the financial statements should be prepared that provide additional information on financially significant issues and to aid the reader's understanding of the accounts. Academies' accounts should include notes detailing the following items:

- **accounting policies** adopted by the academy;
- an analysis of the major items included in the Statement of Financial Activities and Income and Expenditure Account including:
  - **General Annual Grant** received, spent and any balance carried forward to the next accounting period;
  - **voluntary income** (sponsorship and donations);
  - **income from activities for generating funds**;
  - **investment income**;
  - **funding of educational operations**;
  - **total resources expended**;
  - **cost of charitable activities** divided between direct costs and support costs;
  - **governance costs** including auditors' remuneration (for external audit and other services);
  - **staff costs and numbers** including:
    - the number of employees whose emoluments for the year fall within each band of £10,000 from £60,000 upwards;
    - pension details for higher paid staff (i.e. above £60,000) detailing contributions in the year for the provision of defined contribution schemes (normally money purchase schemes) and the number of staff to whom retirement benefits are accruing under money purchase and defined benefit schemes respectively;
- **governors' remuneration, benefits and expenses**;
- **governors' and officers' insurance**;
- **explanation of any exceptional items**, including details of any ex-gratia payments;
- **tangible fixed assets** and depreciation;
- **fixed asset investments**;
- **stocks**;
- **debtors and creditors**;
- **provisions** for liabilities and charges;
- **deferred grants**;
- **disclosure of the purpose of each fund** and any restrictions imposed on it;
- **an analysis of the movements on the major funds** together with an explanation of the reasons for any unexpended balance (any funds in deficit should be separately disclosed and an explanation for any deficits should also be given in the trustees' report);
- **an analysis of assets and liabilities between funds**;
- **financial commitments and contingencies**;
- **pension scheme commitments**;
- **post balance sheet events** (if any);
- **details of subsidiaries** consolidated into the accounts;
- the name of any subsidiary excluded from the consolidation and the reasons for the exclusion, the aggregate capital and reserves at the subsidiary's most recent financial year end and its profit or loss for that year;
- **related party transactions**;
- any other matters to which a reader ought to be drawn in order to understand the accounts.

### Note on Accounting Policies

5.66 The Companies Act 1985 (Schedule 4(35) and (36)) and **FRS 18** require that accounting policies "judged to be material or critical in stating the financial position" should be included as a note to the accounts. In some circumstances **FRS 18** also requires specific disclosures about estimation techniques. Disclosure of accounting policies is necessary even if they all accord with applicable accounting standards.

- 5.67 **FRS 18** sets out the principles to be followed in selecting accounting policies and the disclosures needed to help users understand the policies adopted. Where accounting standards permit a choice, **FRS 18** requires an entity to select those policies judged to be most appropriate to its particular circumstances and also provide a true and fair view. The choice should be made against the objectives of relevance, reliability, comparability and understandability, and these different objectives must be balanced as well as cost/benefit considerations considered.
- 5.68 The statement of accounting policies should explain the treatment of material items where there is a choice of accounting basis and judgement has been exercised in choosing the most appropriate treatment. The Charities SORP provides a detailed list of policies that are appropriate for charities and includes many of the significant matters for which different accounting bases are recognised and which may have a material effect on the financial position of academies.
- 5.69 The accounting policies adopted should be reviewed regularly and new policy only implemented if it is judged more appropriate to the entity's circumstances. Where a material change in accounting policy occurs a prior period adjustment is required.
- 5.70 The accounting policies note for academies should cover the following areas:
- **Basis of Accounting** - The financial statements should be prepared under the historic cost convention, as modified by the revaluation of investment assets at market value (where applicable), and in accordance with applicable accounting standards.
  - **Recognition of Incoming Resources** - All incoming resources should be reported gross. Incoming resources received for specific purposes, that is restricted income, should be included in the statement of financial activities. Where all the resources are not expended in the year a fund (restricted or unrestricted) will be carried forward on the Balance Sheet. This will be particularly relevant to Government grants and sponsorship earmarked for capital (fixed asset) purposes. Where sponsorship monies are received but there is no restriction on use they should be credited directly to the unrestricted fund in the statement of financial activities.
  - **Categorisation of Expenditure** - The policy for including items within types of resources expended should be given. For example, the differentiation between direct provision of education and education support costs, and how costs are categorised as governance or fundraising costs.
  - **Allocation and Apportionment of Costs** - Where it has been necessary to allocate or apportion costs between direct charitable expenditure, fundraising costs and governance costs, the basis of allocation or apportionment must be explained if the amounts are material.
  - **Accounting for Fixed Assets** - Tangible fixed assets acquired since the academy was established should be included in the accounts initially at cost and accounted for to the requirements of **FRS15**. If the fixed asset was a gift or donation the initial carrying amount should be the current value of the asset at the date of receipt. Where the carrying value of any separable asset or income generating unit exceeds its recoverable amount then **FRS11** (Impairment of Fixed Assets ) requires an impairment review to be undertaken. \*
- FRS11's** objective is to ensure that where fixed assets have a recoverable amount (the higher of value in use and net realisable value) that is significantly below the carrying value, the asset's carrying value is reduced. Generally this will only apply to assets depreciated over the long term (eg buildings). Where assets are being depreciated over relatively short periods, depreciation will tend to take care of any impairment problems. Any assessment of value in use in charities can take account of service potential as well as cash flow generation (see Charities SORP para 268).

- **Depreciation of Fixed Assets** - Depreciation should be provided for in accordance with **FRS15**, and the basis used fully disclosed in the financial statements. Individual Academies should determine appropriate depreciation rates in consultation with their external auditors. Freehold land should not be depreciated. If the estimated remaining useful economic life of the tangible fixed asset exceeds 50 years depreciation will normally be immaterial and instead a review for impairment in accordance with **FRS11** should be made at the end of each reporting period.
- **Revaluation of Fixed Assets** - In accordance with **FRS 15**, fixed assets do not need to be revalued unless the charity adopts a policy of revaluation. Any such policy should be disclosed. However, if an individual fixed asset is revalued, all other fixed assets in that class (e.g. all buildings) would need to be revalued at the same time. If a policy of revaluation is adopted then assets should be revalued (using any reasonable basis) at least every 5 years.
- **Accounting for Grants for Fixed Assets (Capital Grants)** - Grants received should be credited to the restricted fixed asset funds account in the statement of financial activities and not deducted from the purchase price of the assets concerned. The asset should be depreciated over its expected useful economic life on a basis consistent with depreciation policy. This complies with the Charities SORP (which conforms with accounting standards) as the most appropriate way for accounting for funds received for fixed assets.
- **Accounting for Donated Assets** - Assets donated by third parties should be credited to the restricted fixed asset fund account in the statement of financial activities at the current value on receipt. The asset should be depreciated over its expected useful economic life on a basis consistent with depreciation policy.
- **Accounting for Leases** - The rental under an operating lease should be charged on a straight-line basis over the lease term unless another more systematic and rational basis is more appropriate. Finance leases should not be taken out by academies as they represent borrowing. Some Academies will occupy land or premises which are owned by other bodies for which no annual or a nominal rental payment is made. In these circumstances the current value on receipt of the asset should be credited to the restricted fixed asset fund account in the statement of financial activities with details of the terms of the lease included as an additional note to the fixed asset note.
- **Accounting for Fixed Asset Investments** - Fixed asset investments should be carried at market value, with the valuation updated annually. This should comply with the Charities SORP.
- **Accounting for Current Asset investments** - Current asset investments should be included in the balance sheet at market value.
- **Accounting for Stocks** - The value of stocks, if material, should be brought into account at the lower of cost or net realisable value in accordance with **SSAP 9**.
- **Pensions** - Academies should follow the requirements of **FRS 17**. The Teachers Pension Scheme would be classed as a multi employer scheme and as such it should be treated as a defined contribution scheme. The note should disclose the fact that it is a defined benefit scheme but that the associated assets and liabilities and details of any surpluses/deficits in the scheme cannot be identified.
- **Provisions, Contingent Liabilities and Contingent Assets** - Academies should comply with **FRS12**. Any provisions currently held in the accounts, which do not comply with **FRS12**, should be reversed. Academies can set aside funds to cover building maintenance etc. by making a transfer from restricted general funds to a designated fund which is shown in the Statement of Financial Activities and Balance Sheet as part of unrestricted funds.
- **Liabilities** - The policy for the recognition of liabilities, including constructive obligations, should be given. Where liabilities are included as provisions, the point at which the

provision is considered to become binding should be given.

- **Related Party Transactions** - Financial statements should disclose material transactions undertaken by the academy with related parties as required by **FRS 8**, Related Parties Transactions. Disclosure should detail the names of the related parties and a description of the relationship between the parties (including the interest of the related parties in the transaction). Disclosure should be made irrespective of whether a price is charged and whether or not the transaction was at arms length. Examples of related party transactions include;
  - purchases, sales, leases and donations of goods, property, money and other assets to or from the related party;
  - the supply of services by the related party to the charity or vice versa;
  - any of the allowable payments and other benefits made to trustees.

5.71 Note: These policies listed above are not intended to be exhaustive and may need to be varied to the individual circumstances of each academy.

#### **Note on GAG Carry Forward Calculation**

5.72 Academies are allowed to carry forward an amount of GAG equal to 12% of the GAG awarded for the year just ended. This carry forward allowance can be used as follows:

- up to 2% of GAG can be used for any of the purposes for which GAG is paid, and/or for capital purposes;
- any balance in excess of 2% of GAG can only be used for capital purposes.

5.73 The DfES may require any unspent GAG in excess of the 12% threshold to be surrendered.

5.74 The carry forward calculation must be disclosed in the note to the financial statements relating to GAG. The format of the note should be as follows:

	<b>Current Year £000</b>	<b>Previous Year £000</b>
<b>a. Results and Carry Forward for the Year</b>		
GAG brought forward from previous year	f	a
Add: GAG allocation for current year	g	b
Total GAG available to spend	<u>h</u>	<u>c</u>
Less: Recurrent expenditure from GAG	(i) *	(d)
Capital expenditure from GAG	(j)	(e)
<b>GAG carried forward to next year</b>	<u>k</u>	<u>f</u>
Less: Maximum permitted GAG carried fwd at end of current year	<u>(g) x 12%</u>	
<b>GAG to surrender to DfES</b> (12% rule breached if result is positive)	<u><u>l</u></u>	
<b>c. Use of GAG Brought Forward from Previous Year for Recurrent Purposes</b>		
Recurrent expenditure from GAG in current year	i	
Less: GAG allocation for current year	(g)	
Less: GAG allocation for previous year x 2%	<u>(b) x 2%</u>	
<b>GAG b/f from previous year in excess of 2%, used on recurrent expenditure in current year</b> (2% rule breached if result is positive)	<u><u>m</u></u>	

\* To be taken from line 51 of the Detailed Income & Expenditure Account

- 5.75 The amount carried forward should always be positive or zero. Where academy expenditure exceeds the level of GAG the balance should be funded from other resources by a transfer from the Unrestricted to the Restricted General Fund column and suitably described in the notes.

## Consolidated Accounts

- 5.76 The conditions under which consolidated financial statements should be prepared by company charities are determined by FRS 2, the Companies Act and the Charities SORP (para 383-5). In most cases it is not necessary for academies to prepare consolidated financial statements either because:
- most academy companies have low levels of activity which are not material to the group; or
  - academies are small or medium sized groups as defined by section 248 of the Companies Act and are not required to prepare consolidated accounts.
- 5.77 The Charities SORP recommends consolidation for small and medium sized groups where the gross income of the group exceeds the threshold for a statutory audit (currently £250,000 but rising to £500,000 if relevant legislation is passed). However, the Charities SORP recognises that where the results of subsidiaries are not material to the group consolidation is not required. Where governors are unsure whether the subsidiaries are sufficiently material to require consolidation this matter should be discussed with the academy's auditors.
- 5.78 If consolidated financial statements are not prepared, the governors' report should comment on the trading performance of the subsidiary and the notes to the accounts should specify: the name of the subsidiary, particulars of the academy's shareholding, how the activities of the subsidiary relate to those of the academy, the aggregate amount of capital and reserves, fixed assets, current assets and liabilities, a summary of turnover, expenditure and profit or loss, and particulars of any audit qualification.



## Supplementary Detailed Income and Expenditure Account

- 5.79 Academies are also required to prepare and submit a detailed income and expenditure account to the DfES to support the statutory financial statements. The format of the detailed income and expenditure account is shown at the end of the model set of accounts in **annex 5a**. There is no requirement for the detailed income and expenditure accounts to be included within the scope of the auditor's opinion. It is important that academies stick rigidly to the format of this account as detailed in the example. **In particular the Department draws attention to line 51. Only expenditure directly attributable to GAG must be included in this calculation. This is the figure to be used in the calculation of the GAG surplus/(deficit) in note 2 of the accounts.**

### Definitions for Financial Reporting

- 5.80 The following definitions apply to the detailed income and expenditure account required for the Department. This is a different analysis from that used in the SOFA.

#### Income

- **General Annual Grant** - the amount included should be the gross General Annual Grant payable in the year. The gross GAG should not be adjusted for any amounts carried over from previous years.
- **Other DfES Grants** include all other grants received from the DfES (in the detailed income and expenditure account these should be identified separately).
- **Other Government Grants** include all other grants from central and local government or executive agencies.
- **Private Sector Sponsorship**, include all amounts received from private sector sponsors. Examples of income which should be included in this category are:
  - donations of cash;
  - donations of assets;
  - donations of services.
- **Other Income** include all income not accounted for in the above categories examples include:
  - sale of school meals;
  - examination fees;
  - hiring of accommodation/sports facilities;
  - fees charged for music tuition;
  - interest;
  - academy trips.

#### Expenditure

- **Expenditure funded from central or local government departments and agencies** should be analysed in the detailed income and expenditure account according to the source of funding, ie:
  - GAG related expenditure;
  - Other DfES grant related expenditure;
  - Other government grant related expenditure.

These should be further subdivided according to the following definitions (as illustrated in the model accounts at **annex 5a**):

- **Staff Costs** - include the full costs of employment including gross pay, bonuses, overtime,

employers' NI, superannuation contributions, maternity and sick pay. Also include indirect employee expenses such as premature retirement compensation, seconded teacher expenses, ex-gratia payments, compensation payments and removal costs. Costs should be analysed over the following headings:

- Teaching - include all full time and part-time teaching staff including any peripatetic and supply staff;
  - Educational support - include all staff who have an input into educational activities but do not actually teach e.g. laboratory, workshop and technical assistants, librarians, technicians;
  - Other - include costs of all staff not included in the above categories.
- **Maintenance of Premises** - include costs incurred in the repair and maintenance of:
    - buildings and associated plant and machinery;
    - outworks – roads, fences, drains etc.;
    - grounds and gardens.

excluding those costs which can be capitalised under the academy's accounting policy.

- **Other Occupancy Costs** - include all costs, other than staff and maintenance costs, related to the occupancy of the premises and grounds, e.g.:
  - cleaning;
  - water;
  - fuel;
  - rates;
  - rent;
  - insurance;
  - security.
- **Educational Supplies and Services** - include the cost of all supplies and services used directly for educational purposes such as:
  - books;
  - educational equipment;
  - stationery and materials;
  - transport;
  - examination fees;
  - fees for external educational advisers.
- **Other Supplies and Services** - include the costs of all non-educational supplies and services other than occupancy costs, such as:
  - catering provisions;
  - legal and professional fees;
  - telephones;
  - travel and subsistence;
  - printing;
  - advertising;
  - maintenance contracts;
  - pupil recruitment;
  - pupil support.
- **Furniture and Equipment** - include the costs of purchases of furniture and equipment other than those capitalised under the Academy's accounting policy.
- **Technology Costs** - include the cost of any hardware and software purchased not

capitalised under the Academy's accounting policy (but not staff costs).

- **Staff Development** - include costs of staff development other than staff costs.
- **Other Costs**, include any other expenditure not recorded above.
- **Depreciation** - the whole of the depreciation charge for the year should be included against this expenditure heading. Exceptionally, a government grant may allow a charge for depreciation to be made under the terms of the grant and where this is the case a proportion of the depreciation charge may be shown under the appropriate grant heading.
- **Other Expenditure** - should include any expenditure incurred on income generating activities such as:
  - hiring of accommodation/sports facilities;
  - cost of providing music tuition;
  - cost of Academy trips.

## **Annex 5a: Pro-forma Financial Statements**

**DARLINGBRIDGE ACADEMY  
(A Company Limited by Guarantee)**

**REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 AUGUST 2006**

***Company Limited by Guarantee  
Registration Number:  
18623XX (England and Wales)***

***Charity Registration Number: 1995XX***

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**DARLINGBRIDGE ACADEMY****REFERENCE AND ADMINISTRATIVE DETAILS OF THE ACADEMY, ITS GOVERNORS AND ADVISORS**

Governors (Trustees)	P S Small (Chairman) C J Goodyear K Harris* (Appointed 2 <sup>nd</sup> March 2006) A Mcguire* (Responsible Officer) L Miller J Murray O Reville (Resigned 1 <sup>st</sup> February 2006) T Sheraton* C Wilkins
* = members of the Finance and General Purposes committee	
Secretary	P H Daniels
Senior managers	
. Principal	G Smith
. Deputy Principal	T Harvey
. Deputy Principal	L. Jones
. Deputy Principal	M Patel
. Director of Finance and Administration	M Connor
Registered Office	10 Kings Street Darlingbridge DB3 8QZ Tel: 01325 391033
Company Registration Number	18623XX (England and Wales)
Charity Registration Number	1995XX
Auditors	Dolittle Mawper Chartered Accountants 186 Crown Street London EC1
Bankers	Natland PLC 2 Lloyd Mews Darlingbridge DB1 4TY
Solicitors	Clifford Smith 13 Chancery Street Darlingbridge DB2 4XX
Surveyors	Structural Surveys The Mall Darlingbridge

## DARLINGBRIDGE ACADEMY

### REPORT OF THE GOVERNORS 31 August 2006

The governors present their report together with the financial statements of the charitable company for the year ended 31 August 2006. The report has been prepared in accordance with Part VI of the Charities Act 1993.

The financial statements have been prepared in accordance with the accounting policies on pages 18 to 20 of the attached financial statements, and comply with the charitable company's memorandum and articles of association, the Companies Act 1985, and the requirements of the Statement of Recommended Practice "Accounting and Reporting by Charities" as issued in March 2005 ('SORP 2005').

### STRUCTURE, GOVERNANCE AND MANAGEMENT

#### Constitution

The Academy is a company limited by guarantee with no share capital (registration no. 18623XX) and a registered charity (registration no. 1995XX). The charitable company's memorandum and articles of association are the primary governing documents of the Academy. Members of the charitable company are nominated by either the Secretary of State for Education and Skills or by Marston PLC, the main sponsors of the Academy. The articles of association require the members of the charitable company to appoint at least four governors to be responsible for the statutory and constitutional affairs of the charitable company and the management of the Academy.

#### Members' liability

Each member of the charitable company undertakes to contribute to the assets of the company in the event of it being wound up while he/she is a member, or within one year after he/she ceases to be a member, such amount as may be required, not exceeding £1, for the debts and liabilities contracted before he/she ceases to be a member.

#### Governors

The governors are directors of the charitable company for the purposes of the Companies Act 1985 and trustees for the purposes of charity legislation.

Governors are subject to retirement by rotation but are eligible for re-election at the meeting at which they retire. At each Annual General Meeting of the charitable company one third of the governors retire by rotation. The governors to retire are those who have been longest in office since their last election or appointment.

The governors who were in office at 31 August 2006 and served throughout the year, except where shown are listed on page 3.

During the year under review the governors held 6 meetings. In addition, there was a full day's facilitated training event covering Governors' responsibilities and changes in the new Charities SORP. The training and induction provided for new Governors will depend on their existing experience. Where necessary induction will provide training on charity and educational legal and financial matters. All new Governors will be given a tour of the Academy and the chance to meet with staff and students. All governors are provided with copies of policies, procedures, minutes, accounts, budgets, plans and other documents that they will need to undertake their role as governors. As there are normally only two or three new governors a year, induction tends to be done informally and is tailored specifically to the individual.

#### Responsibilities of the Governors

Company law requires the governors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charitable company at the end of the financial year and of its incoming resources and application of resources, including its income and expenditure, for the financial year. In preparing financial statements giving a true and fair view, the governors are required to:

**DARLINGBRIDGE ACADEMY****REPORT OF THE GOVERNORS 31 August 2006****STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)****Responsibilities of the Governors (continued)**

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in operation.

The governors are responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the charitable company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The governors are responsible for the maintenance and integrity of the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

The governors confirm that so far as they are aware, there is no relevant audit information of which the charitable company's auditors are unaware. They have taken all the steps that they ought to have taken as governors in order to make themselves aware of any relevant audit information and to establish that the charitable company's auditors are aware of that information.

**Organisational Structure**

During the year a unified management structure was introduced to help improve the way the Academy is run. The structure now consists of three levels: the Governors, The Senior Managers and the Management Team. The aim of the management structure is to devolve responsibility and encourage involvement in decision making at all levels.

The Governors are responsible for setting general policy, adopting an annual plan and budget, monitoring the Academy by the use of budgets and making major decisions about the direction of the Academy, capital expenditure and senior staff appointments.

The Senior Managers are the Principal, three Deputy Principals and the Director of Finance and Administration. These managers control the Academy at an executive level implementing the policies laid down by the Governors and reporting back to them. As a group the Senior Managers are responsible for the authorisation of spending within agreed budgets and the appointment of staff, though appointment boards for posts in the Management Team always contain a Governor. Some spending control is devolved to members of the Management Team, with limits above which a Senior Manager must countersign.

The Management Team includes the Senior Management, the five Heads of School and the seven Curriculum Area Managers. These managers are responsible for the day to day operation of the Academy, in particular organising the teaching staff, facilities and students.



**DARLINGBRIDGE ACADEMY****REPORT OF THE GOVERNORS 31 August 2006****STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)****Subsidiary company**

The Academy owns 100% of the issued ordinary shares of **PFI Ltd** a company incorporated in England (registration no. **XXXXXX**). In the year to 31 March 2006 the subsidiary achieved a profit of £16,974. Of this £5,000 was retained in the subsidiary and the remainder gift-aided to the Academy. Further details regarding the subsidiary company are given in note 13 to the financial statements.

**Connected organisations**

**Marston PLC and the Jacobs' Association** are sponsors to Darlingbridge Academy and since the Academy's founding have donated £3 million to assist the Academy in achieving its objectives.

**Risk management**

The governors have assessed the major risks to which the Academy is exposed, in particular those relating to the specific teaching, provision of facilities and other operational areas of the Academy, and its finances. The governors have implemented a number of systems to assess risks that the school faces, especially in the operational areas (e.g. in relation to teaching, health and safety, bullying and school trips) and in relation to the control of finance. They have introduced systems, including operational procedures (e.g. vetting of new staff and visitors, supervision of school grounds) and internal financial controls (see below) in order to minimise risk. Where significant financial risk still remains they have ensured they have adequate insurance cover. The Academy has an effective system of internal financial controls and this is explained in more detail in the following statement.

**Statement on the system of internal finance control**

As governors, we acknowledge we have overall responsibility for ensuring that Darlingbridge Academy has an effective and appropriate system of control, financial and otherwise. We are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Academy and enable us to ensure the financial statements comply with the Companies Act. We also acknowledge responsibility for safeguarding the assets of the Academy and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities and to provide reasonable assurance that:-

- The Academy is operating efficiently and effectively;
- Its assets are safeguarded against unauthorised use or disposition;
- The proper records are maintained and financial information used within the Academy or for publication is reliable;
- The Academy complies with relevant laws and regulations.

The Academy's system of internal financial control is based on a framework of regular management information and administrative procedures including the segregation of duties and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting and monitoring systems with an annual budget and periodic financial reports which are reviewed and agreed by the governing body;
- regular reviews by the Finance and General Purposes committee of reports which indicate financial performance against the forecasts and of major purchase plans, capital works and expenditure programmes;
- setting targets to measure financial and other performance;
- clearly defined purchasing (asset purchase or capital investment) guidelines.
- delegation of authority and segregation of duties;
- identification and management of risks.

**DARLINGBRIDGE ACADEMY****REPORT OF THE GOVERNORS 31 August 2006****STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)****Statement on the system of internal finance control (continued)**

In addition, the governors have considered the guidance for directors of public listed companies contained within the Turnbull Report. They believe that although it is not mandatory for the Academy it should, as a publicly funded body, adopt these guidelines as best practice. Accordingly they have:

- set policies on internal controls which cover the following:
  - the type of risks the Academy faces;
  - the level of risks which they regard as acceptable;
  - the likelihood of the risks materialising;
  - the Academy's ability to reduce the incidence and impact on the Academy's operations of risks that do materialise;
  - the costs of operating particular controls relative to the benefits obtained;
- clarified the responsibility of the Management Team to implement the governors' policies and to identify and evaluate risks for the governors' consideration;
- explained to employees that they have responsibility for internal control as part of their accountability for achieving objectives;
- embedded the control system in the Academy's operations so that it becomes part of the culture of the Academy;
- developed systems to respond quickly to evolving risks arising from factors within the Academy and to changes in the external environment; and
- included procedures for reporting failings immediately to appropriate levels of management and the governors together with details of corrective action being undertaken.

The governors have considered the need for a specific internal audit function and have decided not to appoint an internal auditor. However, the governors have appointed **A McGuire**, a governor, as Responsible Officer (RO). The RO's role includes giving advice on financial matters and performing a range of checks on the Academy's financial systems. **[On a quarterly basis, the RO reports to the governing body on the operation of the systems of control and on the discharge of the governing body's financial responsibilities.] OR [As permitted by the DfES Financial Handbook for Academies, this task has been outsourced to the external auditors. On a quarterly basis the external auditors report to the governing body on the operation of the systems of control and on the discharge of the RO's financial responsibilities.]**

These arrangements can provide only reasonable and not absolute assurance that assets are safeguarded, transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

**OBJECTIVES AND ACTIVITIES****Objects, aims and objectives**

The principal object and activity of the charitable company is the operation of the Darlingbridge Academy to provide education for pupils of different abilities between the ages of 11 and 19 with an emphasis on science and technology.

In accordance with the articles of association the charitable company has adopted a "Scheme of Government" approved by the Secretary of State for Education and Skills. The Scheme of Government specifies, amongst other things, the basis for admitting students to the Academy, the catchment area from which the students are drawn, and that the curriculum should comply with the substance of the national curriculum with an emphasis on science and technology and their practical applications.

## DARLINGBRIDGE ACADEMY

### REPORT OF THE GOVERNORS 31 August 2006

#### OBJECTIVES AND ACTIVITIES (continued)

The main objectives of the Academy during the year ended 31 August 2006 are summarised below:

- to ensure that every child enjoys the same high quality education in terms of resourcing, tuition and care;
- to raise the standard of educational achievement of all pupils;
- to improve the effectiveness of the Academy by keeping the curriculum and organisational structure under continual review;
- to provide value for money for the funds expended;
- to comply with all appropriate statutory and curriculum requirements;
- to maintain close links with industry and commerce; and
- to conduct the Academy's business in accordance with the highest standards of integrity, probity and openness.

#### Strategies and activities

The Academy's main strategy is encompassed in its mission statement which is 'To build a learning community which has access to the best possible teaching facilities and staff'. To this end the activities provided include:

- tuition and learning opportunities for all students to attain appropriate academic qualifications;
- training opportunities for all staff, and especially teaching staff;
- secondments and placing of students with industrial and commercial partners;
- a programme of sporting and after school leisure activities for all students;
- a system of after school clubs to allow students to explore science and engineering in a practical and project oriented way;
- a careers advisory service to help students obtain employment or move on to higher education.

#### Equal opportunities policy

The governors recognise that equal opportunities should be an integral part of good practice within the workplace. The Academy aims to establish equal opportunity in all areas of its activities including creating a working environment in which the contribution and needs of all people are fully valued.

#### Disabled persons

Lifts, ramps and disabled toilets are installed and door widths are adequate to enable wheelchair access to all the main areas of the Academy. The policy of the Academy is to support recruitment and retention of students and employees with disabilities. The Academy does this by adapting the physical environment, by making support resources available and through training and career development.

## ACHIEVEMENTS AND PERFORMANCE

The Academy is now in its sixth year of operation and continues to achieve the forecast numbers of students. Total students in the year ended 31<sup>st</sup> August 2006 numbered 915 and the Academy has a full complement in all year groups. The Academy has obtained agreement from the Department for Education and Skills (DfES) to admit 150 students each year from September 2007 which represents an increase of 15 students in each year group.

Examination results for 2006 were very pleasing. At A and AS level candidates achieved an average of over 17 points per candidate (2005 average = 14). There was an 86% pass rate (2005 = 84%) and 55% of grades were A-C (2005 = 53%). At GCSE 53% of grades were A-C (2005 = 54%) and 49% of students achieved 5 or more passes at this level (2005 = 48%).

## DARLINGBRIDGE ACADEMY

### REPORT OF THE GOVERNORS 31 August 2006

#### ACHIEVEMENTS AND PERFORMANCE (continued)

To ensure that standards are continually raised the Academy: operates a programme of observation of lessons; is visited by inspectors; undertakes a comparison of results from entry to Key Stage 3 to GCSE and from GCSE to A level to assess the added value. The Academy also participates in national programmes looking at added value through the key stages.

*Other items that could be included are:*

- number of courses run and spread of subjects? What is the balance between national curriculum and science/technology? Any specific indications of the science bias – pupils entering competitions, projects produced?
- number of planned and actual secondments/work experience
- number of students getting jobs, number going on to higher education.
- details of community involvement –charity fundraising, assistance with youth groups, sporting activities etc.
- staff achievements – qualifications gained etc.

#### FINANCIAL REVIEW

##### Financial report for the year

Most of the Academy's income is obtained from the DfES in the form of recurrent grants, the use of which is restricted to particular purposes. The grants received from the DfES during the year ended 31 August 2006 and the associated expenditure are shown as restricted funds in the statement of financial activities.

The Academy also receives grants for fixed assets from the DfES and its sponsors, **Marston PLC and the Jacobs' Association**. In accordance with the Charities Statement of Recommended Practice, 'Accounting and Reporting by Charities' (SORP 2005), such grants are shown in the Statement of Financial Activities as restricted income in the fixed asset fund. The restricted fixed asset fund balance is reduced by annual depreciation charges over the expected useful life of the assets concerned.

During the year ended 31 August 2006, total expenditure of £5,211,000 was more than covered by recurrent grant funding from the DfES together with other incoming resources. The excess of income over expenditure for the year (excluding restricted fixed asset funds) was £48,000.

At 31 August 2006 the net book value of fixed assets was £10,518,000 and movements in tangible fixed assets are shown in note 12 to the financial statements. The assets were used exclusively for providing education and the associated support services to the pupils of the Academy.

*Further points to mention:*

- Any large/unusual transactions during the year
- FRS 17 & pension scheme deficit & Prior Year Adjustment
- How expenditure in the year has supported the key objectives

**DARLINGBRIDGE ACADEMY****REPORT OF THE GOVERNORS 31 August 2006****FINANCIAL REVIEW (continued)****Reserves policy and financial position****Reserves policy**

The governors review the reserve levels of the Academy annually. This review encompasses the nature of income and expenditure streams, the need to match income with commitments and the nature of reserves. The governors have determined that the appropriate level of free reserves should be equivalent to xx weeks expenditure, approximately £x. The reason for this is to provide sufficient working capital to cover delays between spending and receipt of grants and to provide a cushion to deal with unexpected emergencies such as urgent maintenance. The academy's current level of free reserves (total funds less the amount held in fixed assets and restricted funds) is £x which is less than is needed. The Academy intends to continue building up free reserves to the level needed.

**Financial position**

The Academy held fund balances at 31 August 2006 of £9,731,000 comprising £10,686,000 of restricted funds and £102,000 of unrestricted general funds and a pension reserve deficit of £1,054,000.

**[Further details required:**

- *A comparison of actual reserves not invested in fixed assets against the policy above*
- *If a fund is in deficit, the circumstances giving rise to the deficit and steps being taken to eliminate the deficit – huge deficit per SOFA due to pension reserve balance ]*

**Investment policy**

*Only necessary if there are material investments*

**PLANS FOR FUTURE PERIODS**

The Academy will continue striving to improve the levels of performance of its students at all levels and will continue its efforts to ensure its students get jobs or a place in higher education once they leave. The Academy will also increase its recruitment up to the new agreed levels, accepting transfers from other schools and colleges into years x to y where possible.

The Academy aims in the future to provide the opportunity for a technological education to a greater number of students. To achieve this we are drawing up a community development plan, based on an identification and analysis of need. The plan's aim is to establish ways to benefit the wider community (from links with mainly local secondary and primary schools) and direct access to the Academy's technology facilities, curricular materials and the expertise of Academy staff.

*Also include, if applicable, details of:*

- *Post balance sheet events, include any important events affecting the company which have occurred since the year end;*
- *Donations, give details of any donations made during the financial year;*
- *Deficit in any funds, explain why they are in deficit and what action is to be taken.*

**DARLINGBRIDGE ACADEMY**

**AUDITORS**

The auditors, Dolittle Mawper, are willing to continue in office and a resolution to appoint them will be proposed at the annual general meeting.

The report of the governors was approved by the governors on 15 December 2006 and signed on their behalf by:

**Peter Stephen Small,  
Chairman**

**DARLINGBRIDGE ACADEMY****REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF DARLINGBRIDGE ACADEMY 31 August 2006**

We have audited the financial statements on pages 14 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 19 and 21.

This report is made solely to the charitable company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of governors and auditors**

As described on page 4 the governors (who act as trustees for the charitable activities of the Darlingbridge Academy and are also the directors for the purposes of company law) are responsible for the preparation of the governors' report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the governors' report is not consistent with the financial statements, if the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding governors' remuneration and transactions with the charitable company is not disclosed.

We report to you whether in our opinion the information given in the governors' report is consistent with the audited accounts.

We read other information contained in the governors' report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the charitable company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

**DARLINGBRIDGE ACADEMY**

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF DARLINGBRIDGE  
ACADEMY 31 August 2006**

**Opinion**

In our opinion:

- a) the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Academy at 31 August 2006, and of its incoming resources and application of resources including its income and expenditure in the year then ended and have been properly prepared in accordance with the Companies Act 1985;
- b) the financial statements have been prepared in accordance with the Financial Reporting and Annual Accounts Requirements issued by the Department for Education and Skills in respect of the relevant financial year;
- c) proper accounting records have been kept by the Academy throughout the financial year;
- d) grants made by the Department for Education and Skills have been applied for the purposes intended; and
- e) the information given in the governors' report is consistent with the financial statements.

**Dolittle Mawper  
Chartered Accountants and Registered Auditors  
London  
15 December 2006**



**DARLINGBRIDGE ACADEMY****STATEMENT OF FINANCIAL ACTIVITIES  
for the year ended 31 August 2006**

	Note	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	<b>Total 2006 £000</b>	Total 2005 £000
<b>Incoming resources</b>						
<i>Incoming resources from generated funds:</i>						
. Voluntary income	2	25	-	344	<b>369</b>	275
. Activities for generating funds	3	8	-	-	<b>8</b>	26
Investment Income	4	17	-	-	<b>17</b>	18
<i>Incoming resources from charitable activities:</i>						
. Funding for the Academy's educational operations	5	-	4,349	1,224	<b>5,573</b>	5,330
<b>Total incoming resources</b>		<b>50</b>	<b>4,349</b>	<b>1,568</b>	<b>5,967</b>	<b>5,649</b>
<b>Resources expended</b>						
<i>Cost of generating funds:</i>						
. Costs of generating voluntary income		14	-	4	<b>18</b>	34
. Investment management costs						
<i>Charitable activities:</i>						
. Academy's educational operations	7	-	4,228	846	<b>5,074</b>	4,911
<i>Governance costs</i>	8	87	12	20	<b>119</b>	81
<b>Total resources expended</b>	6	<b>101</b>	<b>4,240</b>	<b>870</b>	<b>5,211</b>	<b>5,026</b>
<b>Net incoming (outgoing) resources before transfers</b>		<b>(51)</b>	<b>109</b>	<b>698</b>	<b>756</b>	<b>623</b>
Gross transfers between funds	17	-	(10)	10	-	-
<b>Net incoming (outgoing) resources before other recognised gains and losses</b>		<b>(51)</b>	<b>99</b>	<b>708</b>	<b>756</b>	<b>623</b>
<b>Other recognised gains and losses</b>						
Actuarial (losses) gains on defined benefit pension schemes	22	(133)	-	-	<b>(133)</b>	71
<b>Net movement in funds</b>		<b>(184)</b>	<b>99</b>	<b>708</b>	<b>623</b>	<b>694</b>
Total funds brought forward at 1 September 2005		(768)	90	9,786	<b>9,108</b>	8414
<b>Funds carried forward at 31 August 2006</b>		<b>(952)</b>	<b>189</b>	<b>10,494</b>	<b>9,731</b>	<b>9,108</b>

**DARLINGBRIDGE ACADEMY****INCOME AND EXPENDITURE ACCOUNT  
for the year ended 31 August 2006**

Line No		Note	2006 £000s	2005 £000s
	<b>Income</b>			
1	General Annual Grant (GAG)	1	4,257	4,080
2	DfES capital grants	5	1,224	1,067
3	Other DfES grants	5	56	53
4	Other Government grants	5	36	130
5	Private sponsorship and donations	2	369	275
	Gift Aid payment from subsidiary		12	8
	Interest and receivable		5	10
6	Other income	3	8	26
7	<b>Total income</b>		<b>5,967</b>	<b>5,649</b>
	<b>Expenditure</b>			
8	General Annual Grant (GAG) related expenditure	6	4,148	3,995
9	Other DfES grant expenditure		56	53
10	Other grant expenditure		36	130
11	Depreciation	12	870	825
12	Other expenditure		101	23
13	<b>Total expenditure</b>		<b>5,211</b>	<b>5,026</b>
14	<b>Excess of income over expenditure</b>		<b>756</b>	<b>623</b>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
for the year ended 31 August 2006**

		2006 £000s	2005 £000s
	Excess of income over expenditure	756	623
	Actuarial (losses) gains on defined benefit pension schemes	(133)	71
	<b>Total recognised gains and losses for the year</b>	<b>623</b>	<b>694</b>
	<b>Net movement to (from) funds</b>		
15	Restricted funds	807	557
16	Unrestricted fund	(184)	137
		<b>623</b>	<b>694</b>

The income and expenditure account and statement of total recognised gains and losses are derived from the statement of financial activities on page 14 which, together with the notes to the financial statements on pages 22 to 35 provides full information on the movements during the year on all the funds of the Academy.

All of the Academy's activities derived from continuing operations during the above two financial periods.

## DARLINGBRIDGE ACADEMY

## BALANCE SHEET at 31 August 2006

	Note	2006 £000s	2005 £000s
<b>Fixed assets</b>			
18	12	10,518	9,706
19	13	2	2
20		<u>10,520</u>	<u>9,708</u>
<b>Current assets</b>			
21	14	5	6
22	15	84	141
23		263	303
24		<u>352</u>	<u>450</u>
<b>Current liabilities</b>			
25	16	(87)	(216)
26		<u>265</u>	<u>234</u>
27		<b>10,785</b>	9,942
<b>Net assets excluding pension liability</b>			
	22	<u>10,785</u>	9,942
		<u>(1,054)</u>	(834)
<b>Net assets including pension liability</b>			
		<u>9,731</u>	<u>9,108</u>
<b>Funds</b>			
<i>Income funds</i>			
<b>Restricted funds</b>			
28	17	10,494	9,786
29	17	189	90
		<u>10,686</u>	<u>9,876</u>
31		<b>102</b>	66
	22	(1,054)	(834)
<b>Total unrestricted funds</b>			
		<u>(952)</u>	<u>(768)</u>
		<u>9,731</u>	<u>9,108</u>

The financial statements on pages 14 to 16 were approved by the governors on 15 December 2006 and signed on their behalf by:

.....  
**Peter Stephen Small**  
 Chairman

**DARLINGBRIDGE ACADEMY****CASH FLOW STATEMENT  
for the year ended 31 August 2006**

	<b>2006</b> <b>£000s</b>	2005 £000s
<b>Operating activities</b>		
<b>RECEIPTS</b>		
Recurrent grants received from the DfES		
. General Annual Grant (GAG)	<b>4,257</b>	4,080
. Other grants	<b>30</b>	28
Other receipts from the DfES	<b>26</b>	25
Other receipts from Government	<b>36</b>	128
Private sponsorship	<b>22</b>	26
Other receipts	<b>20</b>	52
	<u><b>4,391</b></u>	<u>4,339</u>
<b>PAYMENTS</b>		
Staff costs	<b>(3,278)</b>	(3,259)
Other cash payments	<b>(1,052)</b>	(781)
	<u><b>(4,330)</b></u>	<u>(4,040)</u>
<b>Net cash inflow from operating activities</b>	<u><b>61</b></u>	<u>299</u>
<b>Returns on investments and servicing of finance</b>		
Interest received	<b>21</b>	30
Interest paid	<b>(8)</b>	(6)
	<u><b>13</b></u>	<u>24</u>
<b>Taxation</b>	<u>-</u>	<u>-</u>
<b>Capital (expenditure)/income</b>		
Capital grants from DfES	<b>1,224</b>	975
Other capital grants received from central and local government	<b>-</b>	24
Capital funding received from sponsors	<b>344</b>	125
Purchase of tangible fixed assets	<b>(1,682)</b>	(1,324)
Receipts from sale of tangible fixed assets	<b>-</b>	-
	<u><b>(114)</b></u>	<u>(200)</u>
<b>Management of liquid resources and financing</b>		
<b>(Decrease) increase in cash</b>	<u><b>(40)</b></u>	<u>123</u>
<b>Reconciliation of net cash flow to movement in net funds</b>		
(Decrease) increase in cash	<u><b>(40)</b></u>	123
Change in net funds	<u><b>(40)</b></u>	123
Net funds at 1 September 2005	<b>303</b>	180
Net funds at 31 August 2006	<u><b>263</b></u>	<u>303</u>

Note 1

**DARLINGBRIDGE ACADEMY****CASH FLOW STATEMENT  
for the year ended 31 August 2006****NOTE TO THE CASHFLOW STATEMENT****1 Analysis of changes in net funds**

	At 1 September 2005 £'000s	Cash flows £'000s	At 31 August 2006 £'000s
Cash in hand and at bank	303	(40)	263
Current asset investments	-	-	-
	<u>303</u>	<u>(40)</u>	<u>263</u>

**DARLINGBRIDGE ACADEMY****PRINCIPAL ACCOUNTING POLICIES 31 August 2006****Format of financial statements**

The standard format for the financial statements as required by the Companies Act 1985 schedule 4 part I has been adapted to provide more appropriate information which complies with the Statement of Recommended Practice 'Accounting and Reporting by Charities' issued in March 2005 ('Charities SORP 2005') and reflects the activities of the Academy.

**Basis of accounting**

The financial statements are prepared under the historic cost convention and in accordance with applicable accounting standards and the Charities SORP 2005.

**Incoming resources*****Grants receivable***

Grants are included in the statement of financial activities on a receivable basis. The balance of income received for specific purposes but not expended during the period is shown in the relevant funds on the balance sheet.

***Sponsorship income***

Sponsorship income provided to the Academy which amounts to a donation is recognised in the statement of financial activities in the period in which it is receivable.

***Donations***

Donations are included in the statement of financial activities on a cash received basis or on an accruals basis where they are assured with reasonable certainty and are receivable at the balance sheet date.

***Donated services and gifts in kind***

The value of donated services and gifts in kind provided to the Academy is recognised in the statement of financial activities as incoming resources and resources expended at their estimated value to the Academy in the period in which they are receivable, and where the benefit is both quantifiable and material.

***Interest receivable***

Interest receivable is included within the statement of financial activities on a receivable basis.

**Resources expended**

Resources expended are recognised in the period in which they are incurred and include irrecoverable VAT. They have been classified under headings that aggregate all costs relating to that activity.

***Allocation of costs***

In accordance with the Charities SORP, expenditure has been analysed between the cost of generating funds, the Academy's charitable activities and governance. Items of expenditure which involve more than one cost category have been apportioned on a reasonable, justifiable and consistent basis for the cost category concerned. Central staff costs are allocated on the basis of time spent on each activity and depreciation charges on the basis of the proportion of the assets' use which is utilised by each activity.

***Governance costs***

Governance costs include the costs attributable to the Academy's compliance with constitutional and statutory requirements, including audit, strategic management and governors' meetings and reimbursed expenses. Such costs include both direct and allocated support costs.

**DARLINGBRIDGE ACADEMY****PRINCIPAL ACCOUNTING POLICIES 31 August 2006****Fund accounting**

General funds represent those resources which may be used towards meeting any of the objects of the Academy at the discretion of the governors.

Restricted funds comprise grants from the DfES and other donors which are to be used for specific purposes as explained in note 17.

**Tangible fixed assets**

Tangible fixed assets acquired since the Academy was established are included in the accounts at cost.

Where tangible fixed assets have been acquired with the aid of specific grants, either from the Government or from the private sector, they are included in the balance sheet at cost and depreciated over their expected useful economic life. The related grants are credited to a restricted fixed asset fund (in the statement of financial activities and carried forward in the balance sheet). The depreciation on such assets is charged in the statement of financial activities over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Assets costing less than £500 are written off in the year of acquisition. All other assets are capitalised.

**Depreciation**

Depreciation is provided on a straight line basis on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Freehold buildings	2%
Long leasehold property	2%
Plant and machinery	15%
Furniture and equipment	10 - 15%
Computer equipment and software	20%

Assets in the course of construction are included at cost. Depreciation on these assets is not charged until they are brought into use.

**Investments**

The Academy's share holding in the wholly owned subsidiary, PFI Limited, is included in the balance sheet at the cost of the share capital owned. There is no readily available market value and the cost of valuation exceeds the benefit derived.

**Stock**

Unused stationery and catering stores are valued at the lower of cost or net realisable value.

**DARLINGBRIDGE ACADEMY****PRINCIPAL ACCOUNTING POLICIES 31 August 2006****Leased assets**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the statement of financial activities on a straight line basis over the lease term.

**Taxation**

The Academy is a registered charity and as such is exempt from income tax and corporation tax under the provisions of the Income and Corporation Taxes Act 1988. The cost of irrecoverable VAT incurred by the Academy has been included in the statement of financial activities.

**Pensions**

Academy staff are members of one of three pension schemes, two of which are defined benefit schemes and one defined contribution scheme. More details of the schemes are given in note 22

***Defined Benefit Schemes******Teachers' Pension Scheme***

Full-time and part-time teaching staff employed under a contract of service are eligible to contribute to the Teachers' Pension Scheme (TPS). The TPS, a statutory, contributory, final salary scheme is administered by Capita Teachers' Pensions on behalf of the Department for Education and Skills. As the Academy is unable to identify its share of the underlying (notional) assets and liabilities of the scheme, the Academy has taken advantage of the exemption in Financial Reporting Standard (FRS) 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The pension costs for the scheme represent the contributions payable by the Academy in the year.

***Local Government Pension Scheme***

Non teaching members of staff are offered membership of the Local Government Scheme (LGPS). The LGPS is a defined benefit pension scheme and is able to identify the Academy's share of assets and liabilities and the requirements of FRS 17, Retirement Benefits, have been followed.

The Academy's share of the LGPS assets are measured at fair value at each balance sheet date. Liabilities are measured on an actuarial basis using the projected unit method. The net of these two figures is recognised as an asset or liability on the balance sheet. Any movement in the asset or liability between balance sheet dates is reflected in the statement of financial activities.

***Defined contribution scheme***

The Academy also operates a defined contribution scheme. The assets of this scheme are held separately from those of the Academy, being invested with insurance companies. The pension costs for the scheme represent the contributions payable by the Academy in the year.



**DARLINGBRIDGE ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS 31 August 2006**

	<b>2006</b>	2005
	<b>£000s</b>	£000s
<b>1 GENERAL ANNUAL GRANT (GAG)</b>		
<b>a. Results and Carry Forward for the Year</b>		
GAG brought forward from previous year	<b>90</b>	5
GAG allocation for current year	<b>4,257</b>	4,080
<b>Total GAG available to spend</b>	<b>4,347</b>	4,085
Recurrent expenditure from GAG	<b>(4,148)</b>	(3,995)
Fixed assets purchased from GAG	<b>(10)</b>	-
<b>GAG carried forward to next year</b>	<b>189</b>	90
Maximum permitted GAG carry forward at end of current year (12% of allocation for current year)	<b>(511)</b>	(490)
<b>GAG to surrender to DfES</b> (12% rule breached if result is positive)	<b>(322)</b> (no breach)	(400) (no breach)
<b>b. Use of GAG Brought Forward from Previous Year for Recurrent Purposes</b> (Of the amount carried forward each year, a maximum of 2% of GAG can be used for recurrent purposes. Any balance, up to a maximum of 12%, can only be used for capital purposes)		
Recurrent expenditure from GAG in current year	<b>4,148</b>	3,995
GAG allocation for current year	<b>(4,257)</b>	(4,080)
GAG allocation for previous year x 2%	<b>(81)</b>	(74)
<b>GAG b/fwd from previous year in excess of 2%, used on recurrent expenditure in current year</b> (2% rule breached if result is positive)	<b>(190)</b> (no breach)	(159) (no breach)
<b>2 VOLUNTARY INCOME</b>	<b>2006</b>	2005
	<b>£000s</b>	£000s
Private sponsorship		
. Marston PLC	<b>11</b>	11
. Jacobs' Association	<b>11</b>	11
. Donations for Fixed Assets	<b>344</b>	250
Miscellaneous donations	<b>3</b>	3
	<b>369</b>	275
<b>3 ACTIVITIES FOR GENERATING FUNDS</b>	<b>2006</b>	2005
	<b>£000s</b>	£000s
Hire of facilities	<b>8</b>	26
<b>4 INVESTMENT INCOME</b>	<b>2006</b>	2005
	<b>£000s</b>	£000s
Gift Aid payment from wholly owned subsidiary	<b>12</b>	8
Bank Interest	<b>5</b>	10
	<b>17</b>	18

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****5 FUNDING FOR THE ACADEMY'S EDUCATIONAL OPERATIONS**

	<b>2006</b> <b>£000s</b>	2005 £000s
Department for Education and Skills grants		
. General Annual Grant (GAG) (note 1)	<b>4,257</b>	4,080
. XYZ scheme	<b>56</b>	53
. Capital grants	<b>1,224</b>	1,067
	<b>5,537</b>	5,200
Other Government grants		
. Smallpiece Teacher Training grant	<b>36</b>	30
. Special educational projects	<b>-</b>	100
	<b>36</b>	130
	<b>5,573</b>	5,330

**6 RESOURCES EXPENDED**

	Staff Costs £000s	Depreci- ation £000s	Other costs £000s	<b>Total 2006 £000s</b>	Total 2005 £000s
Costs of generating voluntary income	10	4	4	<b>18</b>	34
Academy's educational operations					
. Direct costs	2,843	566	457	<b>3,866</b>	3,809
. Allocated support costs	494	280	434	<b>1,208</b>	1,102
	<b>3,337</b>	<b>846</b>	<b>891</b>	<b>5,074</b>	4,911
Governance costs including allocated support costs	87	20	12	<b>119</b>	81
	<b>3,434</b>	<b>870</b>	<b>907</b>	<b>5,211</b>	5,026

The method used for the apportionment of support costs is disclosed in the accounting policies on page 19.

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****7 CHARITABLE ACTIVITIES – ACADEMY'S EDUCATIONAL OPERATIONS**

	<b>2006</b> <b>£000s</b>	2005 £000s
<b><i>DIRECT COSTS</i></b>		
Teaching and educational support staff costs	<b>2,843</b>	2,755
Depreciation	<b>566</b>	525
Books, apparatus and stationery	<b>418</b>	500
Examination fees	<b>3</b>	3
Staff development	<b>19</b>	11
Educational consultancy	<b>2</b>	2
Other direct costs	<b>15</b>	13
	<b><u>3,866</u></b>	<u>3,809</u>
<b><i>ALLOCATED SUPPORT COSTS</i></b>		
Support staff costs	<b>494</b>	396
Depreciation	<b>280</b>	280
Pupil recruitment and support	<b>10</b>	9
Maintenance of premises and equipment	<b>111</b>	138
Cleaning	<b>10</b>	10
Rent and rates	<b>42</b>	39
Heat and light	<b>58</b>	56
Insurance	<b>13</b>	12
Security	<b>10</b>	9
Transport	<b>35</b>	33
Catering	<b>72</b>	68
Technology costs	<b>60</b>	38
Bank interest and charges	<b>4</b>	4
Other support costs	<b>9</b>	10
	<b><u>1,208</u></b>	<u>1,102</u>
	<b><u>5,074</u></b>	<u>4,911</u>

**8 GOVERNANCE COSTS**

	<b>2006</b> <b>£000s</b>	2005 £000s
Support costs	<b>107</b>	70
Legal and professional fees	<b>5</b>	3
Audit fees	<b>5</b>	5
Governors' reimbursed expenses	<b>2</b>	3
	<b><u>119</u></b>	<u>81</u>

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****9 STAFF COSTS**

The average number of persons (including senior management team) employed by the Academy during the year ended 31 August 2006 expressed as full time equivalents was as follows:

	<b>2006</b>	2005
	<b>No.</b>	No.
<b>Charitable Activities</b>		
Teachers	<b>65</b>	62
Administration and support	<b>21</b>	16
Management	<b>8</b>	8
	<b>94</b>	86
<b>Governance activities</b>		
	<b>2</b>	2
	<b>96</b>	88
Staff costs comprise:		
	<b>2006</b>	2005
	<b>£000s</b>	£000s
Wages and salaries	<b>2,648</b>	2,609
Social security costs	<b>267</b>	258
Other pension costs	<b>519</b>	362
	<b>3,434</b>	3,229

Four employees earned more than £60,000 per annum (including taxable benefits but excluding employers' pension contributions) during the year ended 31 August 2006. The total emoluments of these employees were in the following ranges:

	<b>2006</b>	2005
	<b>No.</b>	No.
£60,001 - £70,000	<b>3</b>	3
£70,001 - £80,000	<b>1</b>	1

All of the above employees earning more than £60,000 per annum participated in the Teachers' Pension Scheme. During the year ended 31 August 2006, pension contributions for these staff amounted to £40,000 (2005: £36,000).

**10 GOVERNORS' REMUNERATION AND EXPENSES**

The governors of the Academy did not receive any payment from the Academy other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

During the year ended 31 August 2006, travel and subsistence expenses totalling £1,800 (2005 - £1,000) were reimbursed to 8 governors (2005 - 8).

**Interests in transactions**

P S Small is a director of Black Limited to which the Academy paid £35,421 during the year ended 31 August 2006 (2005 - £nil) in respect of stationery supplies. The services were provided to the company at an arm's length value following competitive tendering.

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****11 GOVERNORS' AND OFFICERS' INSURANCE**

In accordance with normal commercial practice the Academy has purchased insurance to protect governors and officers from claims arising from negligent acts, errors or omissions occurring whilst on Academy business. The insurance provides cover up to £1,000,000 on any one claim and the cost for the year ended 31 August 2006 was £1,540 (2005 - £1,496).

**12 TANGIBLE FIXED ASSETS**

	Freehold Land and buildings	Leasehol d Land and building	Furniture & equipment	Computer equipment & software	Assets under constructio n	<b>Total</b>
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost</b>						
At 1 September 2005	6,424	1,606	2,625	643	-	<b>11,298</b>
Additions	-	-	883	784	15	<b>1,682</b>
Disposals	-	-	-	-	-	-
At 31 August 2006	<b>6,424</b>	<b>1,606</b>	<b>3,508</b>	<b>1,427</b>	<b>15</b>	<b>12,980</b>
<b>Depreciation</b>						
At 1 September 2005	385	96	769	342	-	<b>1,592</b>
Charged in year	128	32	459	251	-	<b>870</b>
Disposals	-	-	-	-	-	-
At 31 August 2006	<b>513</b>	<b>128</b>	<b>1,228</b>	<b>593</b>	<b>-</b>	<b>2,462</b>
<b>Net book values</b>						
At 31 August 2006	<b>5,911</b>	<b>1,478</b>	<b>2,280</b>	<b>834</b>	<b>15</b>	<b>10,518</b>
At 31 August 2005	<b>6,039</b>	<b>1,510</b>	<b>1,856</b>	<b>301</b>	<b>-</b>	<b>9,706</b>

The above net book value at 31 August 2006 represents fixed assets used for:

	Freehold Land and buildings	Leasehol d Land and buildings	Furniture & equipment	Computer equipmen t & software	Assets under constructio n	<b>Total</b>
	£000s	£000s	£000s	£000s	£000s	£000s
Educational provision	3,325	1,478	1,594	545	15	<b>6,957</b>
Support services	1,700	-	559	186	-	<b>2,445</b>
Governance	813	-	116	94	-	<b>1,023</b>
Generating funds	73	-	11	9	-	<b>93</b>
	<b>5,911</b>	<b>1,478</b>	<b>2,280</b>	<b>834</b>	<b>15</b>	<b>10,518</b>

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****12 TANGIBLE FIXED ASSETS (CONTINUED)**

<b>Source of funding for assets acquired (cumulative to date)</b>	<b>2006</b>
	<b>£'000s</b>
DfES capital grants	10,002
Other DfES grants	56
Other government grants	47
Private sector capital sponsorship	2,586
Capital funds advanced by DfES in lieu of sponsorship	200
General purpose fund (grant income)	40
Other funds (non grant income)	49
<b>Cost of fixed assets at 31 August 2006</b>	<b>12,980</b>
Less: Accumulated depreciation	<b>(2,462)</b>
<b>Net book value of fixed assets at 31 August 2006</b>	<b>10,518</b>

**13 INVESTMENTS**

	<b>2006</b>	2005
	<b>£'000s</b>	£'000s
Investment in wholly owned subsidiary company at cost	<b>2</b>	<b>2</b>

The Academy owns 100% of the issued ordinary shares of PFI Limited, a company incorporated in England (registration number XXXXX). The principal business activity of PFI Limited is the rental of property.

The investment is shown in the balance sheet at cost. Consolidated financial statements are not required as the group is a 'medium group' for Companies Act 1985 purpose. The Governors have not prepared group accounts as they are of the opinion that the results of the subsidiary are not material to an understanding of the Academy's financial statements.

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****13 INVESTMENTS (CONTINUED)**

A summary of the results for the year ended 31 March 2006 and the balance sheet position at 31 March 2006 is shown below:

	<b>2006</b>	2005
	<b>£</b>	£
<b>Profit and loss account</b>		
Turnover	<b>133,276</b>	116,222
Expenditure	<b>(116,314)</b>	(103,167)
Interest receivable	<b>12</b>	7
Profit on ordinary activities before Gift Aid payment	<b>16,974</b>	13,062
Gift Aid payment to the Academy	<b>(11,974)</b>	(8,062)
Profit on ordinary activities after Gift Aid payment	<b>5,000</b>	5,000
Retained profits brought forward at 1 April 2005	<b>27,300</b>	22,300
Retained profits carried forward at 31 March 2006	<b>32,300</b>	27,300
<b>Balance sheet</b>		
Current assets	<b>35,856</b>	30,419
Current liabilities	<b>(1,556)</b>	(1,119)
	<b>34,300</b>	29,300
Called up share capital	<b>2,000</b>	2,000
Profit and loss account	<b>32,300</b>	27,300
Shareholder's funds	<b>34,300</b>	29,300

The audit report for PFI Limited for the year ended 31 March 2006 was unqualified.

**14 STOCK**

	<b>2006</b>	2005
	<b>£000s</b>	£000s
Stationery	<b>2</b>	3
Catering	<b>3</b>	3
	<b>5</b>	6

**15 DEBTORS**

	<b>2006</b>	2005
	<b>£000s</b>	£000s
Trade debtors	<b>22</b>	111
Prepayments	<b>53</b>	27
Sundry debtors	<b>7</b>	3
Amount due from subsidiary undertaking	<b>2</b>	-
	<b>84</b>	141

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2006</b> <b>£000s</b>	2005 £000s
Trade creditors	<b>18</b>	70
Taxation and social security	<b>31</b>	48
Sundry creditors	<b>12</b>	43
Accruals	<b>26</b>	55
	<b><u>87</u></b>	<b><u>216</u></b>

**17 RESTRICTED FUNDS**

The income funds of the Academy comprise the following balances of grants to be applied for specific purposes:

	Balance at 1 September 2005 £000s	Incoming resources £000s	Resources Expended £000s	Gains, losses and transfers £000s	<b>Balance at 31 August 2006 £000s</b>
<b>Restricted general funds</b>					
General Annual Grant (GAG)	90	4,257	(4,148)	<b>(10)</b>	<b>189</b>
XYZ scheme (note i)	-	56	(56)		-
Smallpiece Teacher Training grant (note ii)	-	36	(36)		-
	<u>90</u>	<u>4,349</u>	<u>(4,240)</u>	<b><u>(10)</u></b>	<b><u>189</u></b>
<b>Restricted fixed asset funds</b>					
DfES capital grants	8,567	1,224	(694)		<b>9,097</b>
Capital expenditure from GAG	30	-	(3)	10	<b>37</b>
Private sector capital sponsorship	1,189	344	(173)		<b>1,360</b>
	<u>9,786</u>	<u>1,568</u>	<u>(870)</u>	<u>10</u>	<b><u>10,494</u></b>
	<u>9,876</u>	<u>5,917</u>	<u>(5,110)</u>	<u>-</u>	<b><u>10,683</u></b>

*Notes*

- (i) General Annual Grant must be used for the normal running costs of the Academy. The Academy is allowed to carry forward up to 12% of the current (GAG). Of the carried forward amount, up to 2% of GAG can be used for general purposes at the discretion of the Academy, but any balance over 2% must be used for capital purposes.
- (ii) The XYZ scheme grant must be used to meet the costs of the introduction of the XYZ syllabus. Any unexpended balance of this grant must be surrendered to the DfES at the year end.



**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS****31 August 2006**

- (iii) The Smallpiece Teacher Training grant is given by the Teachers Training Agency (TTA) and must be used to train teachers in accordance with the Smallpiece programme. Any unexpended balance of this grant must be surrendered to the TTA at the year end.
- (iv) The gross transfer from the restricted general fund to the restricted fixed asset fund of £10,000 represents the total capital expenditure from the General Annual Grant (GAG) during the year.
- (iv) Restricted fixed asset were funded by government grants or sponsors.

**18 ANALYSIS OF NET ASSETS BETWEEN FUNDS**

Fund balances at 31 August 2006 are represented by:

	Unrestricted Funds £000s	Restricted general funds £000s	Restricted fixed asset funds		Total £000s
			Public £000s	Private £000s	
Tangible fixed assets	24	-	9,134	1,360	<b>10,518</b>
Investments	2	-	-	-	<b>2</b>
Current assets	84	268	-	-	<b>352</b>
Current liabilities	(8)	(79)	-	-	<b>(87)</b>
Pension scheme liability	(1,054)	-	-	-	<b>(1,054)</b>
	<b>(952)</b>	<b>189</b>	<b>9,134</b>	<b>1,360</b>	<b>9,731</b>

**19 CAPITAL COMMITMENTS**

	<b>2006</b> <b>£000s</b>	2005 £000s
Contracted for, but not provided in the financial statements	<b>43</b>	15
Authorised by governors, but not yet contracted	<b>20</b>	-

The above capital commitments will be met from DfES capital grants to be received in future years.

**20 LEASE COMMITMENTS*****Operating leases***

At 31 August 2006 the Academy had annual commitments under non-cancellable operating leases as follows:

	<b>2006</b> <b>£000s</b>	2005 £000s
Operating leases which expire:		
. Within one year	<b>21</b>	21
. Within two to five years	<b>42</b>	63

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****21 CONTINGENT LIABILITIES**

During the period of the Funding Agreement, in the event of the sale or disposal by other means of any asset for which a Government capital grant was received, the Academy is required either to re-invest the proceeds or to repay to the Secretary of State for Education and Skills the same proportion of the proceeds of the sale or disposal as equates with the proportion of the original cost met by the Secretary of State.

Upon termination of the Funding Agreement, whether as a result of the Secretary of State or the Academy serving notice, the Academy shall repay to the Secretary of State sums determined by reference to :

- (a) the value at that time of the Academy's site and premises and other assets held for the purpose of the Academy: and
- (b) the extent to which expenditure incurred in providing those assets was met by payments by the Secretary of State under the Funding Agreement.

**22 PENSION COMMITMENTS**

The Academy's employees belong to three principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by the [ ]; and the Ipswich Union 'contribution plus' scheme.

The total pension cost to the Academy during the year ended 31 August 2006 was £519,000 (2005 - £362,000) of which £227,000 (2005 - £192,000) relates to the TPS, £201,000 (2005 - £134,000) relates to LGPS and £91,000] (2005 - £36,000) to the Ipswich Union scheme.

**Teachers Pension Scheme (TPS)**

Under the definitions set out in Financial Reporting Standard 17, Retirement Benefits, the TPS scheme is classed as a multi-employer pension schemes. The Academy is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly, the Academy has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The Academy has set out below the latest information available for the scheme.

The Teachers' Pension Scheme (TPS) is a statutory, contributory, final salary scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 1997, as amended. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local education authorities and also to teachers in many independent and voluntary-aided schools and establishments of further and higher education. Teachers are able to opt out of the TPS.

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****22 PENSION COMMITMENTS (CONTINUED)****Teachers Pension Scheme (TPS) (continued)**

Although teachers are employed by LEAs and various other bodies, their retirement and other superannuation benefits, including annual increases payable under the Pensions (Increase) Acts, are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the TPS, which is an unfunded scheme, teachers' contributions, on a 'pay-as-you-go' basis, and employers' contributions are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Account, to be kept of receipts and expenditure (including the cost of pension increases). With effect from 1 April 2001, the Account will be credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Not less than every five years, the Government Actuary (GA), using normal actuarial principles, conducts an actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The actuarial review as at 31 March 2001 made the following assumptions. The balance in the Account as at 31 March 2001 shall be such that, in the current review, the value of the scheme assets equals the value of the scheme liabilities. The scheme assets consist of the notional investments and the future contributions in respect of existing members. Thus, the balance in the Account as at 31 March 2001 will be determined as the difference between the value of the scheme liabilities and the value of future contributions.

Contributions are assessed in two parts. First, a normal contribution is determined. This is the contribution, expressed as a percentage of the salary of a teacher newly entering service, which would defray the cost of benefits payable in respect of that service. Currently, teachers pay 6% of salary whilst their employers pay the balance of the normal contribution. Secondly, a supplementary contribution is payable by employers if, as a result of the actuarial investigation, it is found that the accumulated liabilities of the Account for benefits to past and present teachers are not fully covered by normal contributions to be paid in future and by the fund built up from past contributions. Because the liabilities were put into balance for the 2001 valuation there is no supplementary contribution. From 1 April 2003, employers pay 13.5% of salary.

The last valuation of the TPS was for the period 1 April 1996 - 31 March 2001. The GA's report of March 2003 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £142,880 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £142,880 millions. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 7%.

The pension cost charged in the financial statements for this scheme for the year ended 31 August 2006 was £227,000 (2005: £192,000) which were the contributions due for the year.

## DARLINGBRIDGE ACADEMY

## NOTES TO THE FINANCIAL STATEMENTS 31 August 2006

## 22 PENSION COMMITMENTS (CONTINUED)

## Local Government Pension Scheme

The Academy is one of several employing bodies included within the Local Government Pension Scheme (LGPS).

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The total contribution made for the year ended 31 August 2006 was £340,000 of which employer's contributions totalled £227,000 and employees' contributions totalled £113,000. The agreed contribution rates for the year ended 31 August 2006 were X% for employers and Y% for employees.

The following information is based upon a full actuarial valuation of the fund at 31 March 2004, updated to 31 August 2006 by a qualified independent actuary.

The major assumptions used by the actuary were:

	At 31 August 2006	At 31 August 2005	At 31 August 2004
Rate of increase in salaries	4.4%	4.4%	4.0%
Rate of increase in pensions	2.9%	2.9%	2.5%
Discount rate for liabilities	5.4%	5.5%	5.4%
Inflation	2.9%	2.9%	2.5%

The Academy's share of the assets and liabilities in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 Aug 2006	Value at 31 August 2006	Long-term rate of return expected at 31 Aug 2005	Value at 31 August 2005	Long-term rate of return expected at 31 August 2004	Value at 31 August 2004
		£'000		£'000		£'000
Equities	7.7%	2,556	7.7%	1,232	8.0%	817
Bonds	5.1%	954	5.1%	425	4.8%	356
Property	6.5%	159	6.5%	63	6%	54
<b>Total fair value of assets</b>		<b>3,669</b>		<b>1,720</b>		<b>1,227</b>
Present value of scheme liabilities		(4,723)		(2,554)		(2,063)
<b>Net pension liability</b>		<b>(1,054)</b>		<b>(834)</b>		<b>(836)</b>

## DARLINGBRIDGE ACADEMY

## NOTES TO THE FINANCIAL STATEMENTS 31 August 2006

## 22 PENSION COMMITMENTS (CONTINUED)

## Local Government Pension Scheme (continued)

## Analysis of amount chargeable to income and expenditure account

	2006 £000s	2005 £000s
Employer service cost (net of employee contributions)	254	176
Past service cost	12	-
<b>Total operating charge</b>	<b>266</b>	<b>176</b>

## Analysis of pension finance income (costs)

	2006 £000s	2005 £000s
Expected return on employer's share of scheme assets	128	90
Interest on pension liabilities	(150)	(117)
<b>Pension finance income (costs)</b>	<b>(22)</b>	<b>(27)</b>

## Amount recognised in the statement of total recognised gains and losses (STRGL)

	2006 £000s	2005 £000s
Actual return less expected return on pension scheme assets	181	224
Experience gains and losses arising on the scheme liabilities	(220)	(3)
Changes in financial and demographic assumptions underlying the present value of the scheme liabilities	(94)	(150)
<b>Actuarial (loss) gain recognised in STRGL</b>	<b>(133)</b>	<b>71</b>

## Movement in deficit during the year

	2006 £000s	2005 £000s
Deficit in the scheme at 1 September 2005	(834)	(836)
Movement in year:		
Current service cost	(254)	(176)
Employer contributions	201	134
Past service costs	(12)	-
Pension finance income (costs)	(22)	(27)
Actuarial (loss) gain	(133)	71
<b>Deficit in the scheme at 31 August 2006</b>	<b>(1,054)</b>	<b>(834)</b>

**DARLINGBRIDGE ACADEMY****NOTES TO THE FINANCIAL STATEMENTS 31 August 2006****22 PENSION COMMITMENTS (CONTINUED)****Local Government Pension Scheme (continued)****History of experience gains and losses**

	<b>2006</b>	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	<b>181</b>	224	(486)	89	(116)
Percentage of scheme assets	<b>4.9%</b>	13%	(39.6%)	16%	(26%)
Experience gains and losses on scheme liabilities					
Amount (£'000)	<b>(220)</b>	(3)	45	25	(23)
Percentage of scheme assets	<b>(15.4%)</b>	(0.1%)	2.2%	2%	(2%)
Actuarial gain (loss) recognised in STRGL					
Amount (£'000)	<b>(1334)</b>	71	(108)	66	(158)
Percentage of the present value of the scheme liabilities	<b>(2.8%)</b>	2.8%	(5.2%)	5%	(14%)

**Ipswich Union 'Contribution plus' scheme**

Non teaching staff can also participate in the Ipswich Union 'Contribution plus' pension scheme. The assets of the Scheme are held separately from those of the College in an independently administered fund.

This Scheme is a defined contribution scheme. The employer contribution during the year was 5.0%. The total pension cost for the scheme for the year ended 31 August 2006 was **£91,000 (2005 - £36,000)**.

**23 MEMBERS' LIABILITY**

Each member of the charitable company undertakes to contribute to the assets of the company in the event of it being wound up while he/she is a member, or within one year after he/she ceases to be a member, such amount as may be required, not exceeding £1 for the debts and liabilities contracted before he/she ceases to be a member.

**DARLINGBRIDGE ACADEMY****DETAILED INCOME AND EXPENDITURE ACCOUNT Year ended 31 August 2006**

This page does not form part of the statutory financial statements

Line No	<i>INCOME</i>	2006 £	2005 £
32	<b>GENERAL ANNUAL GRANT</b>	<b>4,257,127</b>	4,080,321
33	<b>DFES CAPITAL GRANTS</b>	<b>1,224,000</b>	1,067,000
34	<b>OTHER DFES GRANTS</b>		
	XYZ scheme	<b>56,014</b>	52,875
		<b><u>1,280,014</u></b>	<b><u>1,119,875</u></b>
35	<b>OTHER GOVERNMENT GRANTS</b>		
	Smallpiece Teacher Training grant	<b>35,987</b>	29,650
	Special educational projects	-	100,000
		<b><u>35,987</u></b>	<b><u>129,650</u></b>
36	<b>PRIVATE SECTOR SPONSORSHIP</b>		
	Marston PLC	<b>11,000</b>	11,000
	Jacobs Association	<b>11,000</b>	11,000
	Other donations	<b>3,000</b>	3,000
	Fixed Asset funding	<b>344,000</b>	250,000
		<b><u>369,000</u></b>	<b><u>275,000</u></b>
37	<b>OTHER INCOME</b>		
	Hire of facilities	<b>7,654</b>	8,854
	Gift Aid payment from subsidiary	<b>11,974</b>	8,062
	Interest receivable	<b>5,236</b>	10,321
	Sundry income	-	17,094
		<b><u>24,864</u></b>	<b><u>44,331</u></b>
38	<b>TOTAL INCOME</b>	<b><u>5,966,992</u></b>	<b><u>5,649,177</u></b>

## DARLINGBRIDGE ACADEMY

## DETAILED INCOME AND EXPENDITURE ACCOUNT Year ended 31 August 2006

This page does not form part of the statutory financial statements

Line No	EXPENDITURE	2006 £	2005 £
	<b>GENERAL ANNUAL GRANT EXPENDITURE</b>		
	<b>Staff costs</b>		
39	Teaching	2,489,283	2,396,072
40	Educational support	317,362	305,409
41	Other staff		
	. IT technical staff	103,417	97,860
	. Premises	71,988	59,989
	. Admin & clerical	276,174	251,094
	. Catering staff	-	31,674
	. Midday supervision	3,250	3,167
	. Other	38,727	12,835
42	<b>Total GAG staff costs</b>	<b>3,300,201</b>	<b>3,158,100</b>
43	<b>Maintenance of premises</b>		
	Building maintenance	76,134	104,864
	Grounds maintenance	21,947	11,791
		<b>98,081</b>	<b>116,655</b>
44	<b>Other occupancy costs</b>		
	Cleaning	10,491	10,291
	Water	3,476	3,200
	Fuel	58,167	56,232
	Rates	23,491	21,974
	Rent	15,460	14,150
	Insurance	12,991	12,267
	Security	9,867	8,697
	Other	2,164	3,210
		<b>136,107</b>	<b>130,021</b>
45	<b>Educational supplies and services</b>		
	Books	121,622	144,150
	Educational equipment	193,947	184,367
	Stationery and materials	47,042	41,461
	Transport	35,350	32,530
	Examination fees	3,000	2,987
	Fees for external advice	2,000	1,654
	Other	14,861	13,271
		<b>417,822</b>	<b>420,420</b>
46	<b>Other supplies and services</b>		
	Catering	71,543	68,147
	Legal and professional fees	5,427	3,225
	Auditors' remuneration	5,213	4,984
	Bank interest and charges	4,127	3,960
	Pupil recruitment	4,321	4,124
	Pupil support	5,417	5,327
		<b>96,048</b>	<b>89,767</b>
	<b>Balance carried forward to next page</b>	<b>4,048,259</b>	<b>3,914,963</b>



**DARLINGBRIDGE ACADEMY****DETAILED INCOME AND EXPENDITURE ACCOUNT Year ended 31 August 2005**

This page does not form part of the statutory financial statements

<b>Line No</b>	<b>EXPENDITURE</b>	<b>2006 £</b>	<b>2005 £</b>
	<b>GENERAL ANNUAL GRANT EXPENDITURE (CONTINUED)</b>		
	<b>Balance brought forward</b>	<b><u>4,048,259</u></b>	<b><u>3,914,963</u></b>
47	<b>Furniture and Equipment</b> Repairs and maintenance	<b><u>12,730</u></b>	<b><u>21,298</u></b>
48	<b>Technology costs (not capitalised)</b> Hardware Software Consumables	<b><u>14,561</u></b> <b><u>12,976</u></b> <b><u>32,384</u></b> <b><u>59,921</u></b>	<b><u>6,784</u></b> <b><u>9,909</u></b> <b><u>21,479</u></b> <b><u>38,172</u></b>
49	<b>Staff development</b>	<b><u>18,814</u></b>	<b><u>11,213</u></b>
50	<b>Other GAG expenditure</b>	<b><u>8,543</u></b>	<b><u>9,543</u></b>
51	<b>TOTAL GAG EXPENDITURE</b>	<b><u>4,148,267</u></b>	<b><u>3,995,189</u></b>
52	<b>OTHER DFES GRANT RELATED EXPENDITURE</b> Educational supplies	<b><u>55,648</u></b>	<b><u>52,874</u></b>
53	<b>OTHER GOVERNMENT GRANT RELATED EXPENDITURE</b> Staff costs Educational supplies	<b><u>36,323</u></b> <b><u>-</u></b> <b><u>36,323</u></b>	<b><u>52,874</u></b> <b><u>77,400</u></b> <b><u>130,274</u></b>
54	<b>OTHER EXPENDITURE</b> Staff costs Other occupancy costs	<b><u>97,420</u></b> <b><u>3,653</u></b> <b><u>101,073</u></b>	<b><u>18,174</u></b> <b><u>4,701</u></b> <b><u>22,875</u></b>
55	<b>DEPRECIATION</b>	<b><u>870,123</u></b>	<b><u>824,775</u></b>
56	<b>TOTAL EXPENDITURE</b>	<b><u>5,211,434</u></b>	<b><u>5,025,987</u></b>

## Annex 5b: Accounts Completion Checklist

		Done?
1.	Ensure that the academy's name appears at the top of every page.	
2.	Ensure that all pages are sequentially numbered.	
3.	Ensure that the contents page is correctly referenced.	
4.	Ensure that the <i>Notes to the Financial Statements</i> are sequentially numbered.	
5.	Ensure that all references to the period of account (year or x months) and comparatives are correct throughout the financial statements.	
6.	Ensure that all references to the results for the current period, ie surplus or deficit, are correct.	
7.	Ensure that all column headings are correct and consistent, ie £'000 or £'000s.	
8.	Ensure that any note and page number references in the <i>governors' report</i> are correct.	
9.	Ensure that any page number references in the <i>auditors' report</i> are correct.	
10.	Ensure that the note references on the <i>Statement of Financial Activities, Balance Sheet</i> and <i>Cash Flow Statement</i> are correct and that the amounts agree.	
11.	Ensure that all parts of the financial statements are cast and cross-cast.	
12.	Ensure that all figures in the financial statements are correctly aligned, both vertically and horizontally.	
13.	Check the <i>Cash Flow Statement</i> to ensure that "inflows/outflows" and "increases/decreases" are correctly labelled.	
14.	Ensure that all comparative figures have been agreed to the prior year financial statements.	

## Annex 5c: Guidance on the Appointment of External Auditors

1. The appointment of external auditors should be for one year renewable at the discretion of the governing body. A formal reassessment of external auditors should take place every 5 years, usually by competitive tender. The governing body may wish to delegate responsibility for this work to the Finance & General Purposes Committee.
2. The governing body of the academy should agree a list of firms to be invited to tender, or open tender procedures should be followed as appropriate to the rules of each academy. A tender list of at least three suitably qualified firms should normally be adequate. Firms with experience of auditing charities or similar bodies and knowledge of the education sector would be an advantage.
3. The letter of invitation to prospective firms should describe the requirements of the basic audit service required and should stress the additional requirements over the normal Company Act audit which include an opinion on whether:
  - the financial statements have been prepared in accordance with the Financial Reporting and Annual Accounts Requirements (the Financial Handbook) issued by the Department for Education and Skills;
  - proper accounting records have been kept by the academy throughout the financial year and
  - grants made by the Department for Education and Skills have been applied for the purposes intended.
4. The invitation might also ask candidates to outline other, wider, services they would be able to offer to academies. The DfES may also ask the appointed firm to act for them and report directly on internal control arrangements.
5. The governing body should establish a committee of its members to conduct the appointment procedure (or should determine whether this task is appropriate to delegate to a committee, possibly finance).. The appointment committee should request written and oral presentations from the firms invited to tender. Firms will normally require a short scoping meeting to assess the audit approach to be adopted and the resources required to carry out the audit.
6. The contract for the audit should be in writing. This will take the form of a letter of engagement. A standard letter of engagement has been issued by the CCAB (Consultative Committee of Accountancy Bodies) with which the chosen auditor will be familiar. Academies should check the proposed letter of engagement against the standard letter and ensure that any differences are acceptable.
7. The letter of engagement should only cover the external audit. If additional services are to be purchased a separate letter of engagement should be obtained which should specify the precise requirements of the work and the fees to be charged.
8. The letter of engagement should provide for the removal of auditors before the expiration of the term of office in exceptional circumstances, notwithstanding the other terms of the contract. Proposals to remove auditors should require a majority vote of members of the governing body. If the auditors resign, there should be a requirement for them to state their reasons.
9. The governing body should notify the DfES immediately of the removal or resignation of auditors. In the case of removal, the governing body should notify the DfES of the reasons for the removal. In the case of resignation, auditors should copy to the Department a statement of their reasons as laid down in section 390 of the Companies Act 1985.

### Ongoing Monitoring of Audit Performance

10. The governing body should ensure that auditors are not free from oversight and that they are accountable for the work they do. At the appointment stage, consideration should be given to a set of performance criteria against which the audit service should be assessed.

### Reappointment of Auditors

11. Under company law a private company which has not elected to dispense with the laying of accounts must formally appoint an auditor each year. Where the existing auditors are re-appointed the arrangement should be confirmed by writing to the auditor by renewing the letter of engagement. The decision to reappoint auditors must be made after the audit report to the financial statements has been signed, to allow the governing body the opportunity to review how the audit was carried out. Each year, the governors must review the audit to satisfy themselves that they are getting work of a high standard and at a reasonable price. The governing body should consider the quality of the audit and the training and experience of senior and supervisory staff in relation to academies, before considering reappointment.
12. It should normally not be necessary to repeat a full selection process each time the auditors are re-appointed. Provided the governors are satisfied with the performance of the existing auditors the governing body may reappoint them unless a competition has not been held within the last 5 years.
13. A copy of the auditor's letter of engagement should be sent each year to the DfES with the Annual Accounts and Management Letter.

### Change of Auditors

14. The procedures to be applied when it is proposed to change auditors, at the end of a term of office, are specified by company law and include:
15. The governing body must send notice of the intended resolution to appoint new auditors to both the proposed new auditors and the outgoing auditors at least 28 days prior to the meeting of the governing body.
16. The outgoing auditors may make written representations with respect to the intended resolution and request circulation of these to the governing body. If the representations are not circulated the outgoing auditors may require the representations to be read out at the meeting. The outgoing auditors have a right to be heard orally and to attend the meeting.
17. The outgoing auditors must provide the governing body with either:
  - a statement of any circumstances connected with their removal which they consider must be brought to the governing body's attention or
  - a statement that there are no such circumstances.
18. Any statement received by the governing body should be copied to the Department.

### Resignation of Auditors

19. External auditors who have resigned during their term of office also have certain rights and obligations under company law and these include:
20. They must be entitled to attend the meeting of the governing body at which their term of office would otherwise have expired (i.e. once they have signed the audit report and the accounts have been presented to the governing body), or at which it is proposed to fill the vacancy caused by their resignation;
21. They must receive all notices of, or other communications relating to the meeting and must be heard on any part of the business which concerns them as former auditors of the academy.
22. They must provide the governing body with either:
  - a statement of any circumstances connected with their resignation which they consider must be brought to the governing body's attention; or

- a statement that there are no such circumstances. This statement is to accompany their written resignation.
23. If an auditor has completed an audit but does not wish to seek reappointment, 'resignation' is not required. However, the auditor must still provide a "statement of circumstances" which should be copied to the Department.
24. The governing body must convene a meeting where so requested by the auditors to consider the auditors' statement.

### **Removal of Auditors**

25. Where it is proposed to remove the auditors before the end of their term in office, the procedures discussed under "Change of Auditors" apply. In addition, the auditors who have been removed have a right to receive notice of, attend and be heard on any part of the business which concerns them as former auditors at the meeting
- 1) at which their term of office would otherwise have expired; or
  - 2) at which it is proposed to fill the vacancy caused by their removal.
26. In practice the meeting under (2) may be the same meeting at which the resolution for the appointment of new auditors is proposed.

### **Conflicts of Interest – Governors Who Are Practising Accountants**

27. All potential and actual conflicts of interest must not only be avoided but must also be seen to be avoided. These restrictions are particularly important for audit contracts to maintain independence.
28. If a governor has a direct or indirect interest in an office or firm of accountants which may wish to tender for the audit contract of that academy, then the governor must declare the possible conflict of interest to the governing body at the earliest available opportunity. This declaration must be noted in the minutes.
29. A direct interest in the firm wishing to tender is considered to exist where the governor is
- a partner in the firm or office of that firm of accountants;
  - an employee of the office or firm of accountants.
30. An indirect interest in the firm wishing to tender is considered to exist where the governor has a close relative, including spouse or partner who would be treated as having a direct interest as defined in the preceding paragraph.
31. If the governor has a direct interest then the governor should resign from the governing body if that firm in which he/she has a direct interest is appointed to audit the academy. The resignation should take place as soon as possible after the date when the governing body decided to appoint that firm as auditors.
32. A governor with a direct or indirect interest must:
- not take part in the consideration or discussion and must not vote in the selection, appointment or reappointment of the auditor;
  - play no part in the annual audit.
33. Governors who are accountants and who find themselves in this position are referred also to the ethical advice on independence issued by their professional body.

## Annex 5d: Pro-forma Pensions Information Request Letter

### Letter to be Sent to LGPS Scheme Administrator – to be passed to the Pension Scheme Actuary

To the Pension Scheme actuary

Dear Sirs

[        ] Academy – FRS 17 – Retirement Benefits

You may be aware that the Accounting Standards Board issued FRS 17 – Retirement Benefits in November 2000. FRS 17 requires organisations that are members of Defined Benefit Pension Schemes to include or disclose in their accounts their share of the assets and liabilities of the pension scheme at the date of their accounts.

The [...] Academy is required to comply with FRS 17 for its 31 August 2006 accounting year end. Accordingly I am writing to ask:

1. Are you able to provide us with the information required by FRS 17 on a consistent and reasonable basis;
2. Are you able to provide us with that information this year by xx /xx/xx when we will need to finalise our accounts;
3. If the information is not available this year, do you envisage that it will be available in future years.

I have attached as an appendix to this letter the information that we will require.

Please do not hesitate to contact me if you have any queries regarding this request.

Yours faithfully

Appendix to letter

**FRS 17 Information required by [ ] Academy as at 31 August 2006**

- Date of the most recent full actuarial valuation.
- Contribution rates for future years.
- Whether the scheme is closed to new entrants or has a significantly ageing active membership.
- Each of the main financial assumptions used to value the scheme liabilities at 31 August 2006 - the inflation assumption, the rate of increase in salaries, the rate of increase for pensions and deferred pensions, and the discount rate.
- Fair value of scheme assets at 31 August 2006, analysed between equities, bonds and other; expected rate of return for each class for the subsequent period.
- Actuarial value of scheme liabilities at 31 August 2006 (based on FRS 17's accounting assumptions).

**Surplus or deficit in the scheme (that is, the difference between the fair value of the scheme assets and the actuarial value of the scheme liabilities) at 31 August 2006.**

# Appendices

## Appendix 1: Financial Reporting Timetable

Month	Date	Action	Relevant form (where appropriate)
<b>September</b>	30 <sup>th</sup>	Submission of provisional I&E outturn statement for year just ended from 1 Sept to 31 August	Form GAG 3
		Submission of sponsorship return for six months just ended from 1 March to 31 August	Form 5
		Submission of Development Plan to DfES	-
<b>December</b>	31 <sup>st</sup>	Submission of annual report and financial statements to DfES for year just ended from 1 Sept to 31 August	Use pro-forma in chapter 5
		DfES issues draft annual funding letter for forthcoming academic year	-
<b>February</b>	15 <sup>th</sup>	Submission of indicative I&E budget for forthcoming year from 1 Sept to 31 August	Form GAG 1
<b>March</b>	31 <sup>st</sup>	Submission of interim I&E monitoring return for current year from 1 Sept to 31 August	Form GAG 2A
		Submission of sponsorship return for six months just ended from 1 Sept to 28 Feb	Form 5
<b>April</b>	1 <sup>st</sup>	DfES issues final annual funding letter for forthcoming financial year	-
<b>June</b>	30 <sup>th</sup>	Submission of finalised I&E budget for forthcoming year from 1 Sept to 31 August	Form GAG 2
		Deadline for filing audited accounts with Companies House and Charity Commission	-

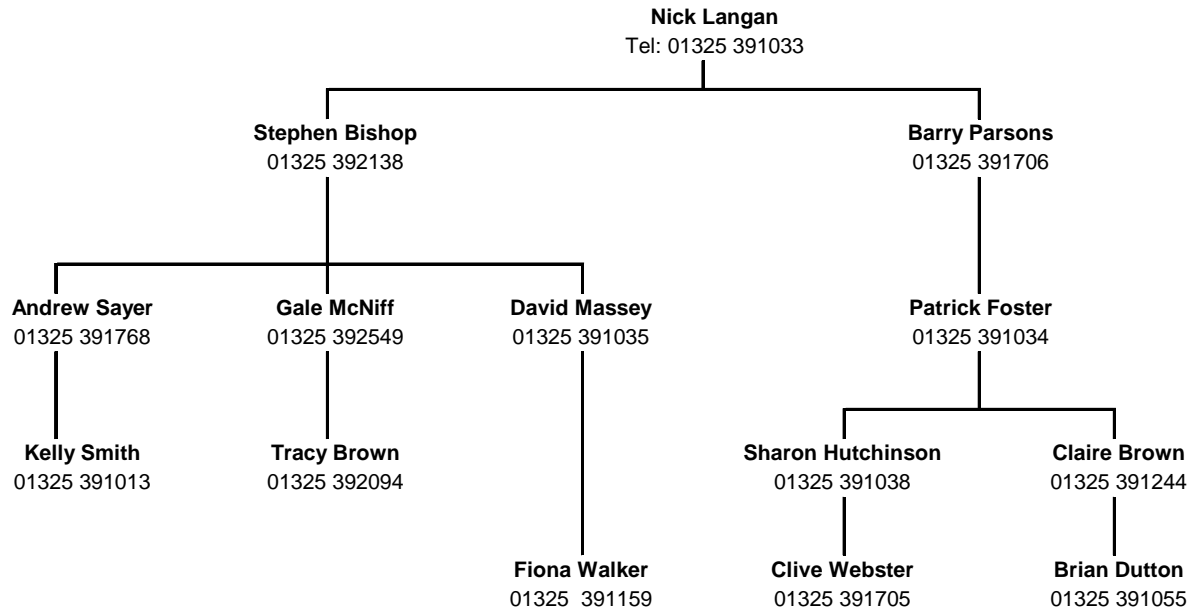


## Appendix 2: List of Forms to be Submitted to DfES

<b>FEAS 1</b>	Profile of budget for feasibility funding.
<b>FEAS 2</b>	Monthly claim for feasibility funding, recording actual spend.
<b>IMP 1</b>	Profile of budget for implementation grant.
<b>IMP 2</b>	Monthly claim for implementation grant, recording actual spend.
<b>CAP 1</b>	Cash flow forecast for capital building project to be submitted prior to beginning the project.
<b>CAP 2</b>	Monthly (or quarterly) claim for capital grant. To be supported by architect's completion certificates and invoices as appropriate.
<b>GAG 1</b>	Indicative (summary) income and expenditure budget for following financial year.
<b>GAG 2</b>	Final (detailed) income and expenditure budget for the following year. This will set out the breakdown of costs.
<b>GAG 2A</b>	Mid-year income and expenditure budget review, setting out how the academy is performing against budget, together with comments on variations from budget and actions taken.
<b>GAG 3</b>	Provisional annual income and expenditure statement. Produced at the end of the financial year, this form details the un-audited year-end outturn figures.
<b>VG(a)</b>	Declaration VAT-relevant expenditure for financial year just ended, to enable calculation of VAT grant for next financial year.
<b>FORM 5</b>	Bi-annual sponsorship return detailing sponsorship received in the last six months, split between that used for capital purposes and that available for general purposes. This form should be submitted even when there are no capital projects at an Academy, as all Academies should be aiming for sponsorship income or in-kind contributions.
<b>FORM 6</b>	Appointment/change of authorised signatories for claims. Signatories should be senior postholders and / or governors.
<b>FORM 7</b>	Notification/change of bank details, listing the account into which grants from the DfES should be paid.
<b>FORM 8</b>	Notification of Responsible Officer (RO) to the DfES.

## Appendix 3: DfES Finance Contacts

### Academies Finance Team Structure



**Address:** DfES  
Academies Finance Team  
2F Area E  
Mowden Hall  
Staindrop Road  
Darlington  
Co. Durham  
DL3 9BG

**Fax:** 01325 391010

**Email format:** [Christianname.Surname@dfes.gsi.gov.uk](mailto:Christianname.Surname@dfes.gsi.gov.uk)

**Academies Finance Team: Who Does What****Nick Langan****Head of Finance and Programmes Unit**

- a. Affordability, budget monitoring and forecasting in respect of academies programme, including CSR work
- b. Advice on academy Funding Agreements and Side Agreements
- c. Work arising from the ONS reclassification of academies as public sector bodies
- d. Also responsibility for finance work relating to CTCs, Specialist Schools, and SSG programme and running costs budgets.

**Stephen Bishop****Team Leader**

- a. Grants and recurrent funding methods for Academies
- b. Financial queries, guidance and monitoring

**Barry Parsons**

- a. Grants and recurrent funding methods for CTCs
- b. Budget management
- c. Clearance of expressions of interest and other submissions in relation to finance issues

**Andrew Sayer and Kelly Smith**

- a. Calculation of academies' annual recurrent grants (GAG) including:
  - School Budget Share for London/SE academies
  - LEA Holdback for London/SE academies
  - Specialist Schools Grant for all academies
  - VAT Grant for all academies
  - Insurance Grant for all academies
  - LGPS Grant for all academies
  - Start Up Grant Part b for London/SE academies
- b. Queries on above issues
- c. Review of academy funding arrangements

**Gale McNiff and Tracy Brown**

- a. Calculation of academies' annual recurrent grants (GAG) including:
  - School Budget Share for non London/SE academies
  - LEA Holdback for non London/SE academies
  - School Standards Grant for all academies
  - Teacher Threshold Grant for all academies
  - School Meals Additional Grant for all academies
  - Start Up Grant Part a for all academies
  - Start Up Grant Part b for non London/SE academies
- b. Queries on above issues
- c. Review of academy funding arrangements

**Patrick Foster**

- a. Management of payments staff and daily payments processing
- b. Calculation of CTCs' annual recurrent grants (APG)
- c. Budget monitoring and forecasting in respect of academies programme
- d. Preparation of Strategy Board budget papers

**Sharon Hutchinson and Clive Webster**

- a. Preparation, checking and authorisation of academies'/CTCs monthly recurrent grant payments and capital grant payments
- b. Maintenance of record of bank details and specimen signatures
- c. Advice on payment arrangements

**Academies Finance Team: Who Does What****Claire Brown and Brian Dutton**

- a. Preparation, checking and authorisation of academies' monthly recurrent grant payments and capital grant payments
- b. Maintenance of record of bank details and specimen signatures
- c. Advice on payment arrangements

**David Massey**

- a. Monitoring of academies' recurrent budgets/solvency
- b. Monitoring of submission of academies' annual accounts and oversight of review
- c. Follow-up of academies' financial management reviews
- d. 6-monthly review of academies sponsorship
- e. Briefings with new finance directors
- f. Review of academies' risk log
- g. Reviews and updates of Academies Financial Handbook
- h. Eligibility issues for Devolved Formula Capital Grant
- i. Accountancy queries

**Fiona Walker**

- a. Preparation of non-grant payments from academies programme budget
- b. Initial check of academies' financial monitoring returns (budgets and actuals)
- c. Maintenance of academies' risk log
- d. Team admin support