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Guidance

Common themes arising from ESFA's assurance work in 2018 to 2019

Updated 3 March 2020

Contents

1. [Objective](#)
2. [Academy trust financial statements](#)
3. [Financial management and governance self-assessment \(FMGS\)](#)
4. [Academy funding audits](#)

1. Objective

This briefing note provides an overview of the key assurance findings from the ESFA assurance year 2018 to 2019, including the review of academy trust financial statements, academy funding audits and financial management and governance returns (FMGS).

2. Academy trust financial statements

2.1 Overall findings

We found that:

- The percentage of accounts received by 31 December for the 2017 to 2018 trust financial year was 97% (95% 2016 to 2017).
- The submission of late returns took place over an extended period – the main reasons for delays was where trusts closed during the year and had not submitted accounts as part of the closure process. In addition, several trusts that were in intervention had not submitted by the deadline.
- The percentage of qualified financial statements for the 2017 to 2018 year was 1.2% (1.5% 2016 to 2017), although there was a 1.1% increase in 'emphasis of matter' or 'material uncertainty' opinions.
- The main increase in emphasis of matter opinions was due to 'going concern', as a result of the trust having closed or proposing to close within the following 12 months.
- The percentage of modified regularity opinions in the 2017 to 2018 year was 5.9%, which was higher than in the previous year, (4.5% 2016 to 2017). Whilst the percentage has increased, the associated irregularity value has remained consistent.

2.2 Financial statements audit opinions

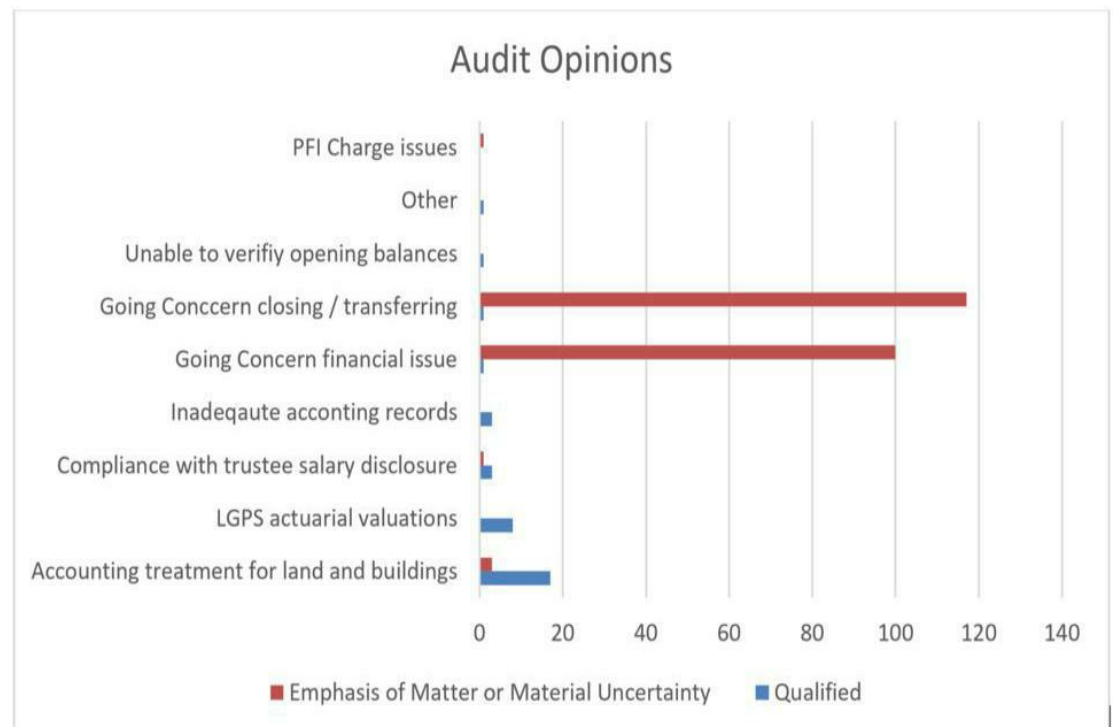


Figure 1: Breakdown of the reasons for qualified and emphasis of matters opinions

2.3 Financial statements regularity opinions

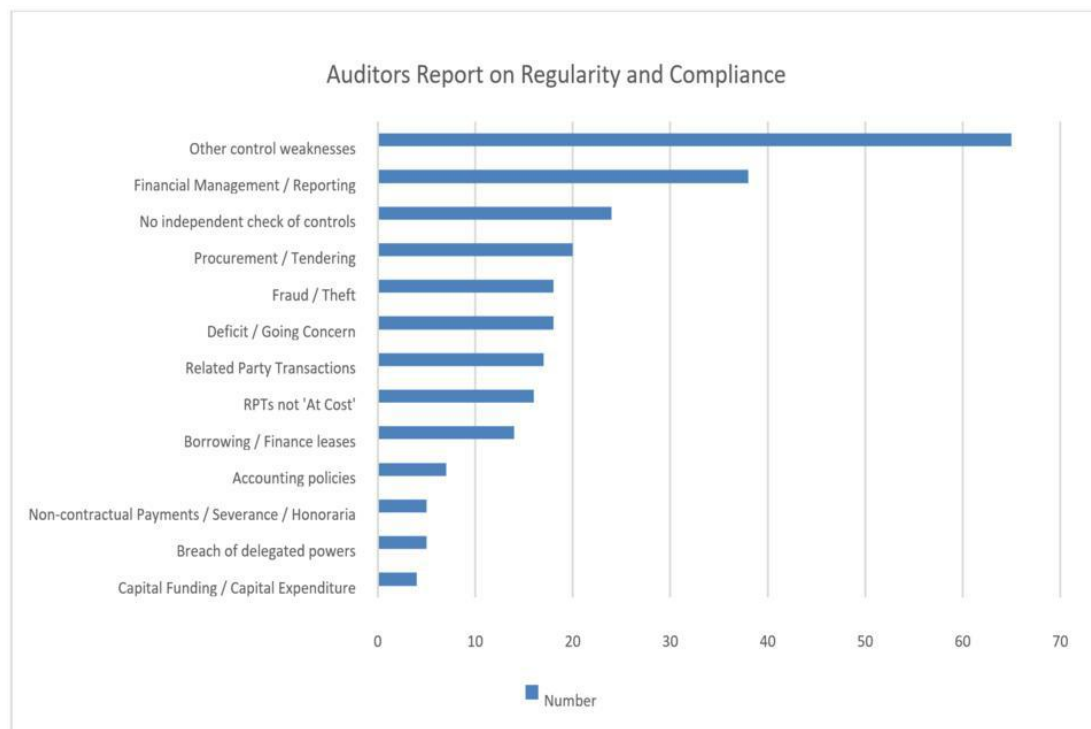


Figure 2: Breakdown of the reasons for modified regularity opinions

We found that:

- The main reasons for modified regularity opinions are consistent with the previous year, with the top reasons being non-compliant procurement practices, weak internal control arrangements and inadequate financial management and reporting arrangements.
- Non-compliant procurement procedures continue to include trusts unable to demonstrate goods and services procured 'at cost', non-compliance with own procurement procedures, particularly; single supplier arrangements, urgent purchases and sponsor procurements.
- Weak internal control arrangements, including: policies and procedures not being updated to consider the new requirements of the Academies Financial Handbook, no segregation of duties in relation to financial transactions, limited evidence to support credit card transactions and purchases made without appropriate approvals.
- Weak financial reporting arrangements include: the trustees not receiving sufficient information about financial performance on a regular basis and trusts not preparing monthly budget monitoring reports.
- Where the auditors have identified issues in the regularity report, for instance irregular spend or fraud, in several instances this was not quantified.
- Where there is an 'except for' modification in the Accounting Officer's Report we would also expect the same reference to be made in the Auditor's Regularity Report.
- Inadequate disclosures in the accounts, particularly for related party

transactions, which could be improved by detailing the procurement procedures followed and confirming that a statement of assurance was in place.

3. Financial management and governance self-assessment (FMGS)

Our assurance findings showed new academy trusts and those joining existing trusts were making good progress towards compliance with the Academies Financial Handbook (AFH). Areas for further development included:

- Audit committees or equivalent were not fully embedded and/or had not completed a full cycle of work.
- An appropriate committee of the board had not agreed a programme of work to address the risks to financial control and/or the arrangements were not fully embedded.
- Trusts had not published the pecuniary interest of its trustees and governing structure on their website.
- Contingency and business continuity plans were being developed and/or had not been formally ratified by the board.

We recognise that as FMGS returns are completed within 4 months of opening, it is reasonable that further time is required to embed some of the above arrangements.

4. Academy funding audits

Error rates relating to both census data and free school meal (FSM) entitlement remain low, which is consistent with previous years.

However, there were some cases where academies were not retaining evidence to demonstrate that learners' entitlement to free school meals had been checked at the census point. In some instances, academies were relying on the records held by the previous school.

In relation to student bursary funding, the following weaknesses were identified:

- Appropriate financial assessments were not always undertaken. Some academies use the claiming of FSM as a proxy for a financial assessment, but this is only an indication of eligibility and a financial assessment is still required.
- Some academies still pay blanket/flat rate payments (old EMA rules) when the guidance states payments must be made on an 'actual cost' basis.
- Some academies were unclear of the rules relating to unspent student support

funds and the rules around the carry forward of funding.

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