

# Financial Assurance in Schools & Academies



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# Introduction

## Financial Assurance in context



The growth of autonomous schools has accelerated since the Academies Bill was passed in August 2010. There are now circa 5000 schools operating outside local authority control.

With these new freedoms, schools have had to accept new levels of rigorous and direct accountability. An Academy is required to respond to the regulatory frameworks of a limited company, a charity and a government body. The accounting requirements for an Academy are therefore significantly more complex than those of an LA maintained school.

Parliament expects the Department for Education to provide “Assurance” that Academy finances are being appropriately administered for the benefit of the pupils they serve and in accordance with their “Funding Agreement”. Assurance is monitored through the National Audit Office who act on behalf of parliament and then report any concerns.

The EFA (Education Funding Agency – an arm of the DfE) are responsible for providing the NAO and in turn parliament with confidence in the assurance regime for Academies and therefore are responsible for producing the relevant guidance, directives and procedures that Academies must comply with.

Requirements change according to the confidence that the NAO and ultimately parliament have in the current assurance regime. As the Academies programme has grown, we have seen numerous changes to financial returns and reporting requirements.

The Academy sector is getting to grips with the rigour of Academy Assurance and practitioners are developing the technical skills required to operate in these complex settings.

We hope this guide, supported by our professional partners, helps further clarify your responsibilities towards Assurance.

*Stephen Morales*

Stephen Morales

Executive Director – NASBM

# What is Financial Assurance?

Schools and Academies must effectively account for the spending in their schools, have effective controls and procedures, and comply with statutory guidance.

School Business Managers or equivalent finance professionals are centre stage in terms of ensuring adherence and compliance with the assurance regime.

This guide addresses some of the legal aspects of financial assurance, areas of risk and responsibility, and gives practical advice on risk mitigation. It also offers case studies and useful resources and links.

The guide has been developed by NASBM in association with NASBM Approved Partners Browne Jacobson and Lloyds Bank.



1. Estimating the relationship between school resources and pupil attainment at Key Stage 3 (2005). Report: Institute of Education, UCL (for the Department of Education and Skills).
2. <http://www.clerktogovernors.co.uk/ofsted/what-have-ofsted-said-recently-about-governance-primary-schools/>,  
<http://www.clerktogovernors.co.uk/ofsted/what-have-ofsted-said-recently-about-governance-secondary-schools/>

# What happens when it goes wrong?

This section outlines two high-profile cases of misappropriation of school funds and fraud, which resulted from a lack of sufficient financial assurance and processes. Both had taken a considerable amount of time to be discovered and later reported by the press, but once they were, it was clear the losses were substantial, both in financial and reputational terms.

After this section, the guide then describes how schools should implement financial assurance systems and processes with the aim of helping schools to avoid the kinds of financial and reputational dangers outlined in these examples.

## Case study 1: Misappropriation of School Funds

A recent case of fraud took place at an Academy in Bradford, where the Head-teacher had been under investigation after auditors discovered monies provided by the DfE were 'not being used [for their] intended purpose.' The charges related to transactions made between April and August 2011.

On initially hearing the allegations, the DfE had referred the case over to Action Fraud for further investigation.

Subsequently, in March 2015, the founder and former principal of the school was charged with fraud. The Crown Prosecution Service (CPS) had authorised West Yorkshire Police to charge the principal with the following:

- three offences of fraud by abuse of position
- three offences of false accounting
- two offences of obtaining a money transfer by deception and
- one offence of fraud by false representation

### Links to reports about the case

<http://www.telegraph.co.uk/education/educationnews/10924000/Head-of-free-school-arrested-again-over-fraud-allegations.html>

<http://www.telegraph.co.uk/education/educationnews/10561768/Free-school-principal-arrested-in-fraud-investigation.html>

<http://www.theguardian.com/education/2014/apr/01/kings-science-academy-questions-over-free-schools-policy>

# What can go wrong, and what happens when it does?

## Case study 2: Fraud

Another recent case involved the loss of £2million to a MAT operating in New Cross, Bromley and Crayford. According to one news article, over £1 million of unauthorised transfers were made in 2011, and over £900,000 in 2012. Other articles suggest the overall fraud might have amounted to £4.1 million.

The fraud involved a single member of staff, an accountant at the school, and was first reported in July 2014 but was first discovered in October 2012. The accountant had been transferring monies into a Nigerian bank account to a company which was being run by the accountant's wife in Nigeria.

The case is said to represent the biggest ever loss of money in a British school due to fraud. As a result of this, the case was high profile, receiving a considerable amount of press. The school group also had to go through the process of recovering the stolen monies via a civil court case.

### Links to reports about the case

<http://www.bbc.co.uk/news/uk-england-london-28267071>

<http://www.dailymail.co.uk/news/article-2699331/Nigerian-accountants-4million-fraud-academies-Gove-hailed-Staff-member-said-spent-cash-extravagant-lifestyle.html>



# Importance of Financial Assurance and Financial Assurance Policies

Financial assurance is essential for all schools regardless of the type of school, as highlighted by the National Audit Office in their report to parliament in 2011.

It noted that weak financial management and weak academic performance often go hand in hand. The report also noted that the Department has a limited role in relation to the financial management of schools. It sets standards but responsibility for financial management and cost reductions lies with schools themselves, with local authorities responsible for exercising effective oversight.

It is therefore fundamentally important that all schools take the matter of financial assurance seriously and ensure that systems and procedures are put in place to ensure that all funds within schools are correctly managed.

There are specific requirements that academies must meet and these are set out in the Academies Financial Accountability Framework and assurance arrangements, the main components of which are set out below:

**The Academies Financial Handbook** sets out the basic financial management, control and reporting requirements that apply to academy trusts. It describes a financial framework for trusts that reflects their accountability to Parliament and the public, and the freedoms that they can exercise in their day-to-day business. Compliance with the handbook is a condition of an academy trust's funding agreement.

The handbook also describes the delegated financial authority levels that the Secretary of State for Education has given to academy trusts and the circumstances when trusts must seek the Secretary of State's consent.

The 2014 edition strengthens the requirements on academy trust governance, develops the principles when trading with connected parties, and introduces a requirement that a trust's register of interests captures all relevant business and pecuniary interests. The main changes are summarised on pages 5 to 8 of the handbook.

Compliance with the handbook is a condition of an academy trust's funding agreement. The handbook is updated annually and comes into effect on 1 September each year.

# Financial Management and Governance Self-Assessment (FMGS)

This is a short self-assessment checklist that highlights the main requirements new academy trusts must have in place soon after opening. It provides a simple way for you and the EFA to gain assurance that your academy trust's financial management and governance arrangements meet these requirements.

## The Academies Accounts Direction

This is the reference pack for academy trusts and their auditors to use when preparing and auditing financial statements for the accounting period ending on 31 August annually. It supplements the Academies Financial Handbook.

The Accounts Direction outlines the requirements set out in academy trusts' funding agreements with the Secretary of State where each academy trust must:

- prepare an annual report and financial statements to 31 August
- have these accounts audited annually by independent registered auditors
- produce a statement of regularity, propriety and compliance and obtain a regularity assurance report on this statement from the auditor
- submit the audited accounts and auditor's regularity assurance report to the EFA by 31 December
- file the accounts with the Companies Registrar as required under the Companies Act 2006
- publish the audited accounts on the trust's website by 31 January.



# Reasons for financial assurance: the legal aspects

SBMs play a critical role in supporting the academy trust to deliver financial assurance. Academy Trusts will deliver assurance through an effective financial assurance framework which will be used to provide assurance to the Board and DfE. Before looking at some key areas to consider it is worth reflecting on why financial assurance is so important.

## Drivers for sound financial assurance

### Funder's Requirements

Trusts are obliged to provide assurance to the DfE that the public funds it has received have been used for the intended purpose. This obligation falls on the Board and is clearly set out in the Funding Agreement and Academies Financial Handbook.

*Whilst the Trust's Accounting Officer (the Principal in a single trust or CEO/Executive Principal in a MAT) has personal responsibility for assuring the Board that there is compliance with the Handbook and the Funding Agreement, the SBM (defined as the chief financial officer in the Handbook) also has a key role:*

*Whilst the trust's accounting officer is accountable for the trust's financial affairs, for keeping proper financial records, and for the management of opportunities and risks, the delivery of the trust's detailed accounting processes will be delegated to a chief financial officer, who will perform the role of finance director, business manager or equivalent. (paragraph 1.5.24 of the Handbook).*

Under the Handbook the role of the chief financial officer (CFO) includes:

- ensuring sound and appropriate financial governance and risk management arrangements are in place;
- preparing and monitoring of budgets; and
- ensuring the delivery of annual accounts.

The DfE acknowledge that CFOs do need not discharge all of their duties personally. It is therefore important to ensure that SBMs are clear the areas where external support will be used (e.g. accounts preparation).

### Regulatory

As stated in the introduction to this guidance, Trusts are charitable companies. This means they need to comply with both company and charity law.

Charities and their trustees are required to use charitable funds and assets reasonably, and only in furtherance of the charity's objects. They must avoid undertaking activities that might place the charity's funds, assets or reputation at undue risk. The DfE is the principal regulator of academies and is responsible for overseeing their compliance with charity law.

Companies and their directors are also under a number of duties. The general obligations of a company and its directors in relation to keeping accounting records annual accounts and reports are set out in detail in Part 15 of the Companies Act 2006. This deals with obligations relating to the preparation of the accounts, the directors' report and the strategic report and the approval, signing, publication, laying and filing of the accounts and reports.

### Good business sense

Every organisation – charitable or otherwise – will want to make sure that it has appropriate systems and controls in place to safeguard its money and ensure it is well spent.

# Legal aspects and reasons for financial assurance, and areas of risk and responsibility

## Key areas to consider

There are a number of areas in particular that you should make sure that both your policies and your procedures in practice are fit for purpose.

### Connected parties

SBMs need to be particularly cautious when buying goods or services from individuals or entities where trustees and members of the trust have a connection. Both the Articles and the Handbook set out detailed rules on when the trust pays for goods or services from “connected parties” to avoid any real and perceived conflicts of interests in any connected party relationships. It is important to fully understand these rules and to ensure appropriate controls are in place to ensure they are observed across the Trust. In particular, SBMs should ensure they are familiar with the definition of a “connected party” because it is broad, covering close family members and business partners amongst others (see paragraph 3.2 of the Handbook and article 6 of the Articles).

### Conflicts of interests

The Trust must have proper measures in place to manage conflicts of interest. Transparency is achieved by requiring explicit authorisation of the benefit prior to it arising, and by ensuring that any particular conflict of interest is properly and openly managed.

When dealing with conflicts there are two key considerations:

- is there an actual or potential conflict? If so this should be managed appropriately; and
- is there a benefit? If so this will need to be authorised by the Articles and Handbook if that is possible.

The Handbook requires Trusts to maintain a register of interests which must capture relevant business and pecuniary interests of members, trustees, local governors of academies for multi-academy trusts and senior employees (see paragraph 3.1.17). Interests are not limited to those expressly set out in the Handbook and the trustees may exercise their discretion to include other individuals such as employees or a connected party's interests on the register. The register must be published on the Trust's website.

In addition to the above SBMs should reflect on:

- the Scheme of Financial Delegation you are required to have in place under the Handbook should be a “living document”. This means it should be reviewed periodically to make sure it is still appropriate (e.g. to take into account growth of the Trust and other relevant changes) and that it is adhered to in practice. Obtaining retrospective approval under the scheme is a sign that the controls are not working and should be taken seriously;
- contract due diligence should be carried out. In particular, it is sensible to carry out checks on a contractor's financial health. Even if you pay on completion if work has to be rectified later you may be left without any practical solution and be forced to pay another contractor; and
- keeping a master list for contacts over a certain financial threshold with key dates, including termination dates. This will minimise the risk of missing a date for giving notice to terminate. This can also strengthen your negotiating position on any renewal.

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# Fraud, risk and financial irregularities in academies

The wider public often don't appreciate that running a school needs skills, guidelines and controls very similar to those that any business requires. On the financial side, without adequate and appropriate controls and guidelines in place, schools leave themselves potentially open to fraud, both internal and external.

The UK loses a substantial amount of money every year to fraud and schools are no exception. The true figure lost through fraud in schools isn't known, but I've heard figures in the hundreds of millions discussed and much of it could be avoided with some relatively simple changes to procedures and controls.

One of the oldest areas of fraud is through cheques, and whilst we write fewer cheques each year, the amount lost to cheque fraud runs into tens of millions of pounds. Many schools still insist on writing cheques to suppliers, and even those that utilise BACS payments still often write cheques.

Fraudsters have used advances in technology to manipulate real cheques or create fraudulent ones, and every cheque you write out and send has the school's bank account details on it alongside example signatures.

It is relatively easy for a school to move to completely cheque free payments if they have the ability to send BACS payments. Those schools that have managed it insist on all payments being made electronically; from teachers' expenses through to all supplier payments. Electronic payments will also remove the headache of reconciling outstanding cheques each month. For those schools that don't have the ability to make BACS payments, they should talk to their bank manager to explore how this might be introduced.

Of course, having an electronic method of paying suppliers requires its own controls and guidelines. Your bank software should allow the schools to set up multi party authority so that more than one person is involved in the preparation and authorisation of payments. Most schools tend to have this well under control, but not all schools have appropriate guidelines in place when a supplier, or a fraudster purporting to be a supplier, requests that funds are sent to a different bank account.

If a school gets a letter, email or telephone call stating that a supplier's bank account details have changed, it should have a robust process in place to verify that the request is genuine. This could include calling the supplier on a known number and verifying any changes with the finance team. Certainly funds should not be sent to a new bank account without being absolutely sure the change is genuine. Many finance software suppliers can "lock" the supplier's bank details so that only an administrator can change them, helping to reduce the risk of a junior member of staff changing them without appropriate checks being made.

# Fraud, risk and financial irregularities in academies

One payment type that schools have consistently struggled to completely remove is cash. Schools receive significant amounts of cash for a number of reasons, from dinner money, school trips, uniform shops and lettings to name but a few. A growing number of schools are now asking parents to pay for school meals electronically via the internet or, if unable to, in cash at a shop with the Paypoint network. However, this still leaves many millions of pounds finding their way from the breakfast table to the school office, often by an extended route from a school bag to the teacher's desk, and eventually to the school reception with the cash being passed through numerous pairs of hands. Schools are often reluctant to insist that parents only use a cashless system to pay for all items, due to concerns that payments for trips might reduce or parents might refuse to do so. Research has shown though that this isn't the case, and that schools often have a greater uptake in free school meals when removing cash from the process.

How you approach managing these risks will largely be based on a combination of the likelihood of it happening and the impact if it does. The following grid gives a good visual indication of how risk might be managed:

Likelihood ↓	inevitable	low	moderate	high	very high	very high
	likely	low	moderate	high	high	very high
	possible	low	moderate	moderate	high	high
	unlikely	low	low	moderate	moderate	moderate
	very rare	low	low	low	low	low
		insignificant	Minor	Significant	Major	Catastrophic
Impact						

For example, if pupils are running a tuck shop in the morning in a small primary school, the likelihood of money going missing or being stolen is possible but the impact would be reasonably insignificant so your approach to managing that risk would be different to, say, a staff member carrying thousands of pounds to the bank personally where the risk of loss or theft might also be possible but the significance could be major or catastrophic, depending on how any loss or theft occurred.

We've touched on a few areas where fraud does happen in schools and a couple of thoughts on how the risks might be reduced. Unfortunately fraud does happen and schools should look to their professional advisors – auditors, solicitors and banks – to understand more on how the risks can be managed according to the potential impact and likelihood.

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# Useful resources and links



## NASBM

The National Association of School Business Management is the UK's leading association working exclusively on behalf of school leaders and influencers. The Association offers the profession an influential voice in national educational policy and continually strives to raise the profile of school business management. We aim to provide professional advice and support to all of our members.

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Department  
for Education

## Department for Education: Academies Financial Assurance

EFA has published resources to support academy trust accounting officers to manage their finances in a transparent and effective way, and to reduce the risk of fraud or financial irregularities. These include a list of generic indicators of potential fraud and a checklist to help you review your academy trust's arrangements for preventing, detecting and dealing with fraud should it occur.

DfE, 2014. Academies Financial Assurance. Online [available]:

<https://www.gov.uk/academies-financial-assurance>.

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## Browne Jacobson

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The content has been produced by our professional partners and they have tried to clarify technical jargon.