

Our Ref: DC/SH/HFKN200

Date: 23 November 2021

The Board of Trustees
Knightsfield School
Knightsfield
Welwyn Garden City
Herts
AL8 7LW
England

Dear Sirs/Mesdames

AUDIT FINDINGS REPORT – KNIGHTSFIELD SCHOOL

During the audit of the financial statements for the year ended 31 August 2021, we examined and sample tested the accounting systems which the academy trust has established to ensure that the accounting records are accurate, reliable and to ensure that its assets are safeguarded.

We enclose a report which details weaknesses in accounting and internal controls which came to light during the course of the audit.

The report includes explanations of how the weaknesses could affect the Trust and our recommendations on how to improve the Trust's systems – see appendix 1 - 4.

We have also included in this report a schedule showing the adjusting and unadjusted journals found during the audit – please see appendix 5.

Our report also includes details of recently released accounting standards and legislation which we would like to bring to your attention – see appendix 6. This section is for information only. Appendix 7 also lists all the “musts” that are included within the Academy Trust Handbook 2021.

We would like to take this opportunity to thank you and your staff for the assistance given to us during the course of the review.

If you wish to discuss any of the issues raised in the attached appendix in more detail, please do not hesitate to contact us.

Please note that the report has been prepared for the use of the Trustees only.

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Yours faithfully

Azets Audit Services

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CONTENTS

- 1. Scope of the audit**
- 2. Independence issues**
- 3. Compliance with legal and regularity requirements**

Audit recommendations:

Appendix 1 – Executive Summary

Appendix 2 - Issues identified in current year audit

Appendix 3 - Unresolved issues from previous years

Appendix 4 - Resolution of previous year's issues

Appendix 5 – Adjusting and un-adjusting journals

Appendix 6 – Emerging Issues for Information Only

Appendix 7 – Reminder of MUSTS as set out in the Academies Financial Handbook 2021

1. Scope of the audit

Our audit was carried out in accordance with Auditing Standards and with reference to the legal and regulations requirements as detailed in Section 3 of this report. Our audit approach is designed to ensure that our tests are focused in those areas where in our judgement the risk of errors is high, and where the likely impact of such errors would be significant. More specifically, this involved:-

- a. Subjecting systems, controls, transactions and balances to substantive testing on a sample basis;
- b. Revising our audit plan for any significant financial matters;
- c. Subjecting the financial statements to detailed analytical review, examining key ratios, trends and other statistics, obtaining and testing explanations for any unusual or unexpected variations;
- d. Reviewing minutes of meetings; and
- e. Reviewing statutory financial statements where prepared by the Academy.

It must be appreciated that the matters dealt with in this report arose from the conduct of our normal audit procedures which are designed primarily to enable us to express an opinion on the financial statements of the Academy and do not necessarily involve an examination of all aspects of your internal control procedures. The responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with Trustees.

For the above reasons, our comments cannot be regarded as a full analysis of all the weaknesses or irregularities in the system of internal control or of all the financial trends or other performance data relevant to the Academy's which might be disclosed by a more detailed review nor, since we are not specifically required to search for fraud, can our audit be relied upon to disclose such matters. However, our audit was planned so that we would have reasonable expectation of detecting material misstatements of the financial statements.

This report has been prepared for the private use of the Trustees and its contents may not be disclosed to any third party without our express written consent. We assume no responsibility to any other person.

1. Independence Issues

On 9 July 2021 we wrote to you identifying our perception of the principal threats to our objectivity and independence in carrying out this audit, along with the safeguards in place to mitigate those threats.

We have extended the cyclical inspection of our completed audit engagements that is performed for quality control purposes to include a random selection of audit engagements where non-audit services have been provided. This independent review will comment on whether the safeguards being implemented by the firm on all audit clients are sufficient to address the threats identified.

The independent review will also comment on whether audit work is being conducted in accordance with relevant standards and will ensure that sufficient audit work has been carried out, regardless of who prepared the original data.

The principal threats and safeguards are repeated below:-

Principal threats	Safeguards Implemented (and why they are considered effective)
<p>We are responsible for the preparation of the financial statements in addition to carrying out the audit. The service will not involve initiating transactions.</p> <p>There is a threat that, as a firm, we are perceived as being too closely aligned with the views of management to provide an independent review and/or that members of the audit team could be reviewing their own accounting work.</p>	<p>Our staff only assist with the mechanical process of preparing the financial statements in statutory format from information given by your finance team and systems. Our staff make no decisions on behalf of the Trust's management team.</p>

We consider that the safeguards in place have been sufficient to ensure our independence and objectivity has not compromised during the course of the audit.

3. Compliance with Legal and Regulatory Requirements

In undertaking our work, we reviewed compliance with the following legal and regulatory requirements:-

- Relevant Academies Accounts Direction issued by the ESFA
- Applicable accounting standards (UK Generally Accepted Accounting Practice)
- Companies Act 2006
- Charities Statement of Recommended Practice (SORP) 2019

No matters came to our attention that suggested any significant breach of these requirements.

Appendix 1 – Executive Summary

From the review performed, the issues noted during the review are as documented below (**Significant**, **Important**, **Limited**, **Advisory**):

Issues identified in current year audit

ISSUE	RECOMMENDATION	MANAGEMENT RESPONSE
The fixed asset register provided by the client did not agree to the draft trial balance.	We recommend maintaining and regularly reconciling the fixed asset register to the software, FMS	The FMS software is corrupted and cannot be reconciled. The school keeps a spreadsheet of assets and depreciation and journals are posted against this. The auditors will need to correct the FMS depreciation figures.
The 3 members (T Kemp, J Stark and J Mollison) had not completed declaration of interest forms.	We recommend that all trustees and members complete declaration of interest forms.	The school will circulate Declaration of Interest forms to all members.
An historic element of the 16-19 bursary has not been spent and has been carried forward for over one year. Of the £1,909 from FY20, only £500 has been spent.	Per the ESFA, discretionary bursary funding cannot be carried forward for more than one year. We recommend ensuring that the bursary is spent within the time frame and that the ESFA is informed of any remaining balances	The school has detailed the rationale for the unspent 16-19 bursary and explained it will be used in the 22/23 academic year as we have a high percentage of FSM pupils entering sixth form who, without help, will not be able to access specialist teaching for the deaf due to the cost of school transport.
Mrs Suzanne Thrower listed as Ex Officio on the school's website.	School website should not refer to Headteacher as ex-officio. We recommend updating this to say staff trustee.	The school website will be changed to refer to the Headteacher as 'Headteacher & Accounting Officer'.
T Kemp, J Stark and J Mollison are members disclosed as directors on Companies House which is incorrect as they are not "Trustees"	We recommend ensuring that Companies House is updated to not include members.	The school will not log members at Companies House in line with auditors' recommendation.

Unresolved issues from previous years

None.

Reviewed by the Board of Trustees and signed on their behalf

.....
Name:

.....
Date:

Appendix 2

Issues identified in current year audit

Important:

1. The fixed asset register provided by the client did not agree to the draft trial balance.

Limited:

2. The 3 members (T Kemp, J Stark and J Mollison) had not completed declaration of interest forms.

Advisory:

3. An historic element of the 16-19 bursary has not been spent and has been carried forward for over one year. Of the £1,909 from FY20, only £500 has been spent.
4. Mrs Suzanne Thrower listed as Ex Officio on the schools website.
5. T Kemp, J Stark and J Mollison are members disclosed as directors on Companies House which is incorrect as they are not "Trustees"

1. Fixed asset register

Observation

The fixed asset register provided by the client did not agree to the draft trial balance.

Issue

The fixed asset register is not maintained and could lead to fixed assets being materially misstated.

Recommendation

We recommend maintaining and regularly reconciling the fixed asset register to the software, FMS.

Response

The FMS software is corrupted and cannot be reconciled. The school keeps a spreadsheet of assets and depreciation and journals are posted against this. The auditors will need to correct the FMS depreciation figures.

2. Declaration of interests

Observation

The 3 members (T Kemp, J Stark and J Mollison) had not completed declaration of interest forms.

Issue

There is a risk that not all conflicts of interests have been declared.

Recommendation

We recommend that all trustees and members should complete declaration of interest forms.

Response

The school will circulate Declaration of Interest forms to all members.

3. 16-19 Bursary

Observation

An historic element of the 16-19 bursary has not been spent and has been carried forward for over one year.

Issue

Per the ESFA, discretionary bursary funding cannot be carried forward for more than one year. There is a risk that the Academy is breaching the ESFA's rules on bursaries.

Recommendation

We recommend ensuring that the bursary is spent within the time frame and that the ESFA is informed of any remaining balances.

Response

The school has detailed the rationale for the unspent 16-19 bursary and explained it will be used in the 22/23 academic year as we have a high percentage of FSM pupils entering sixth form who, without help, will not be able to access specialist teaching for the deaf due to the cost of school transport.

4. Website

Observation

Mrs Suzanne Thrower listed as Ex Officio on the school's website.

Issue

There is a risk that the website is not up to date and correctly listing the staff members.

Recommendation

School website should not refer to Headteacher as ex-officio. We recommend updating this to say staff trustee.

Response

The school website will be changed to refer to the Headteacher as 'Headteacher & Accounting Officer'.

5. Companies House

Observation

T Kemp, J Stark and J Mollison are members disclosed as directors on Companies House which is incorrect as they are not "Trustees".

Issue

There is a risk that the Trust would become non-compliant with the requirements of the Companies Act.

Recommendation

We recommend ensuring that Companies House is updated to not include members.

Response

The school will not log members at Companies House in line with auditors' recommendation.

Appendix 3

Unresolved issues from previous years

None.

Appendix 4

Resolution of previous years issues

1. Website list of members
2. Internal scrutiny function

1. WEBSITE LIST OF MEMBERS

Observation 2020

At the time of the audit the website list of members was not up to date.

Issue 2020

The school's website list of members must stay up to date with Companies House. We understand that there was delay in updating the website due to a new site being developed but the publicly accessible website should always be up to date.

Recommendation 2020

The website should accurately reflect Companies House.

Management response 2020

Member information has now been added to the website.

Auditor comments 2021

Website has been updated.

ISSUE RESOLVED

2. INTERNAL SCRUTINY FUNCTION

Observation 2020

The internal scrutiny function has not been sufficiently performed during the year.

Issue 2020

The Internal Auditors issued a checklist of items checked during the visit, but no report was issued highlighting any deficiencies in internal control.

We have noted that management had made the board aware of this and that it is the board of trustees responsibility to ensure the trust has an operational and effective programme of internal scrutiny. We can see the board had done this after the yearend by appointing Herts for Learning.

Recommendation 2020

The board of trustee should ensure there are regular internal audit visits throughout the year. We have also provided the board with a list of what we considered to be the areas that internal audit should cover for reference.

Management response 2020

Herts for Learning have undertaken one visit in October which focused on Trustee 10 'musts' and 2019/20 month end procedures. Internal audit were happy with all areas and Knightsfield will continue to contract their internal audit service to satisfy Accounts Direction requirements.

Auditor comments 2021

Internal scrutiny function has been performed sufficiently.

ISSUE RESOLVED

Appendix 5

Correcting and uncorrected misstatements

We are required to inform you of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. Details of items corrected following discussions with you and your team are as below:

Corrected misstatements

No	Detail	Income and Expenditure		Balance Sheet		Surplus effect
		Dr £'000	Cr £'000	Dr £'000	Cr £'000	£'000
	Surplus/(deficit) as presented for audit planning					63
	Adjustments made by auditor:					
1	Pension FRS102 liability adjustment	333			333	(333)
2	To expense incorrectly capitalised assets	9			9	(9)
3	Correction of bank unreconciled items			60	60	-
4	Reallocation of Sports England grant to agency creditor	5			5	(5)
5	Reallocation of PTA balance to agency creditor	7			7	(7)
6	Funds transfer adjustment			37	37	-
7	Reallocation of 16-19 bursary expenditure		1	1		1
	Surplus/(deficit) per accounts					(290)

Uncorrected misstatements

A number of non-trivial uncorrected misstatements were discovered during the course of our audit and these are summarised below.

No	Detail	Income and Expenditure		Balance Sheet		Surplus effect
		Dr £'000	Cr £'000	Dr £'000	Cr £'000	£'000
	Surplus/(deficit) per accounts					(290)
1	Deferral of 7 months of DFC grant	4			4	(4)
2	Deferral of an element of Sports England Grant	3			3	(3)
3	Pupil Premium adjustment	2			2	(2)
4	Depreciation adjustment		2	2		2
	Potential Surplus/(deficit) per accounts					(297)

We have discussed the uncorrected misstatements with management and have confirmed that individually and in aggregate the effect is not material.

Appendix 6

Emerging Issues for Information Only

Roles and responsibilities

1. Suitability checks
2. Parents in governance structure
3. Safeguarding, health and safety and estates management
4. Senior executive leader as a Trustee
5. External reviews of governance
6. Senior executive leader leaving the Trust
7. Clerk
8. Disclosure and Barring Service checks

Financial Requirements

9. Scheme of delegation
10. Publication of executive pay
11. Special staff severance payments
12. Documents available for public inspection

Internal Scrutiny

13. Chair of audit committee
14. Internal scrutiny independence

External Scrutiny and regulator intervention

15. External audit re-tender
16. ESFA authority to obtain third party information
17. Cybercrime
18. Financial Notice to Improve

Other

19. ESFA Good Practice Guidance
20. VAT

ROLES AND RESPONSIBILITIES

1. Suitability checks

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

In the current Keeping Children Safe in Education statutory guidance (KCSIE), academies must carry out a section 128 check for all new Governors/Trustees.

Section 128 checks complement DBS checks by looking at the parts of someone's history that may not necessarily be criminal, but would still be worrying.

For example:

- Someone who undermines mutual respect for those of different faiths may not be charged with a hate crime, but you still wouldn't want them associated with your school
- An accountant who has breached the code of ethics set out by their professional body by using confidential client information for personal gain hasn't necessarily committed a crime, but you probably wouldn't want them overseeing your school's accounts

You protect your school or trust's best interests by making sure you have a full picture of someone's suitability.

If you carry out an enhanced DBS check with barred list information on an individual, with 'children's workforce independent schools' specified in the parameters, the certificate will detail whether they are subject to a section 128 direction.

1. Parents in governance structure

The Trustees of the academy trust are both charity Trustees and company Trustees. The handbook refers to them as Trustees.

The trust's articles of association will set out conditions determining the minimum number of Trustees the trust will have.

All trusts should have reserved places for parents, carers or other individuals with parental responsibilities in their governance structure; trusts should hold elections to fill these places, as appropriate.

- Single academy trusts should have at least two such places on the board
- Trusts with multiple academies should have at least two such places on the board or at least two such places on each local governing body where the trust has established them

3. Safeguarding, health and safety and estates management

The 2021 handbook highlights trust's obligations in relation to safeguarding, health and safety and estates management.

Safeguarding

Academy trust boards have a duty to:-

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

For further guidance see the Education (Independent School Standards) Regulations 2014.

Health and Safety

The main legislation covering this area is the Health and Safety at Work etc. Act 1974 and its regulations. Under the Act the academy trust, as an employer, is responsible for the health and safety of its staff, pupils, and any visitors.

Trust boards should follow the Department's 'Health and Safety: responsibilities and duties for schools' as well as 'Health and Safety Executive (HSE) guidance for Education'.

Estates Management

An academy trust's estate is both an asset and a mechanism to deliver outcomes for pupils. The DfE expects academy trusts to manage their school estate strategically and maintain their estate in a safe working condition.

Find advice, standards and tools for academy trusts at 'Good Estate Management for Schools'. This includes guidance on developing an estates strategy and asset management plan, and a self-assessment to identify estate management priorities.

4. Senior executive leader as a Trustee

From 1 March 2022 any newly appointed senior executive leader can only be a Trustee if the members decide to appoint them as such, the senior executive leader agrees and the trust's articles permit it. The Department's strong preference is for no other employees to serve as Trustees, nor for Trustees to occupy staff establishment roles on an unpaid voluntary basis, in order to retain clear lines of accountability.

5. External reviews of governance

An objective independent external review of the effectiveness of the board can be a more powerful diagnostic tool than a self-evaluation. External reviews are particularly important before the board undertakes any significant change - for example before a trust grows significantly, or in cases where concerns around governance arise. The Department's strong preference is that external reviews of governance are also conducted routinely as part of a wider programme of self-assessment and improvement. Reviews should also consider the interaction between members and Trustees, including the extent to which members are able to assure themselves that the Trustees undertake their duties effectively.

6. Senior executive leaving the trust

When the senior executive leader is planning to leave the trust (for example retirement or resignation), the board of Trustees should approach their Regional Schools Commissioner (RSC) in advance to discuss their structure and options, including plans for recruitment.

7. Clerk

The handbook has introduced new terminology – the Clerk to the board is now to be called the Governance Professional.

The academy trust must appoint a governance professional to support the board of Trustees who is someone other than a Trustee, principal or chief executive of the trust.

8. Disclosure and Barring Service checks

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

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

FINANCIAL REQUIREMENTS

9. Scheme of delegation

The academy trust must have sound internal control, risk management and assurance processes. This should follow a tiered approach comprising:-

- clearly communicated procedures, structures and training of staff
- appropriate day to day supervision and checks by management
- internal scrutiny overseen by an audit and risk committee
- external audit and assurance

The control framework must:-

- ensure delegated financial authorities are complied with and maintain appropriate segregation of duties
- co-ordinate the planning and budgeting process
- apply discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations
- manage and oversee capital projects and assets, and maintain a fixed asset register
- ensure regularity, propriety and value for money in the organisation's activities
- ensure a risk register is maintained and reviewed by the board drawing on advice provided to it by the audit and risk committee
- reduce the risk of fraud and theft

- deliver independent checking of controls, systems, transactions and risks

10. Publication of executive pay

The trust must publish on its website in a separate readily accessible form the number of employees whose benefits exceeded £100k, in £10k bandings, for the previous year ended 31 August. Benefits for this purpose include salary, employers' pension contributions, other taxable benefits and termination payments. Trusts may wish to display this information in a tabular form showing in each column salary, pension etc.

Where the academy trust has entered into an off-payroll arrangement with someone who is not an employee, the amount paid by the trust for that person's work for the trust must also be included in the website disclosure where payment exceeds £100k as if they were an employee.

The trust is reminded of requirements under the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 for organisations with 250 or more employees to publish information on their website and on the government's reporting website about the gender pay gap in their organisation.

11. Special staff severance payments

Where the academy trust is considering a staff severance payment including a non-statutory/non-contractual element of £50,000 or more, (gross, before income tax or other deductions), ESFA's prior approval must be obtained before making any binding offer to staff. ESFA will refer such transactions to HM Treasury, so trusts should allow sufficient time for proposals to be considered.

Examples of approval requirements are as follows:-

Statutory/ contractual payment		Non-statutory/ non-contractual payment	ESFA/ HM Treasury approval required?
£30,000	+	£30,000	No
£60,000	+	£30,000	No
£30,000	+	£50,000	Yes- for £50,000

Academy trusts should demonstrate value for money by applying the same scrutiny to a payment under £50,000 as those over £50,000, and have a justified business case. Settlements must not be accepted unless satisfying the conditions in this handbook and in ESFA's guidance and submission template.

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

- an exit package which includes a special severance payment is at, or above, £100,000; and/or
- the employee earns over £150,000. Find out more about severance payments. Use of confidentiality clauses 5.13 Academy trusts must ensure confidentiality clauses associated with staff severance

12. Documents available for public inspection

The trust must make available for public inspection:-

- the agenda for every meeting of the Trustees, local governing bodies and committees
- the approved minutes of each meeting
- any report, document or other paper considered at each meeting

The trust may exclude from any item any material relating to:-

- a named teacher or other employee or proposed employee
- a named pupil or student at the academy, or candidate for admission or referral to it
- any matter which, by reason of its nature, the Trustees are satisfied should remain confidential

INTERNAL SCRUTINY

13. Chair of audit committee

The chair of Trustees should not be chair of the audit and risk committee. Where the finance committee and audit and risk committee are separate, the chair should not be the same.

The academy trust must establish an audit and risk committee, appointed by the board.

- Trusts with an annual income over £50 million must have a dedicated audit and risk committee
- Other trusts must either have a dedicated audit and risk committee or can combine it with another committee, such as finance

The audit and risk committee should meet at least three times a year.

The audit and risk committee must:-

- oversee and approve the trust's programme of internal scrutiny
- ensure that risks are being addressed appropriately through internal scrutiny
- report to the board on the adequacy of the trust's internal control framework, including financial and non-financial controls and management of risks

Employees of the trust should not be audit and risk committee members, but the accounting officer and chief financial officer should attend to provide information and participate in discussions.

Where the audit and risk committee is combined with another committee, employees should not participate as members when audit matters are discussed.

14. Internal scrutiny independence

Internal scrutiny must:

- be independent and objective – for example it must not be performed by the trust’s own accounting officer, chief financial officer or other members of the senior leadership or finance team
- be conducted by someone suitably qualified and experienced and able to draw on technical expertise as required
- be covered by a scheme of work, driven and agreed by the audit and risk committee, and informed by risk
- be timely, with the programme of work spread appropriately over the year so higher risk areas are reviewed in good time
- include regular updates to the audit and risk committee by the person(s) or organisation(s) carrying out the programme of work, incorporating:-
- a report of the work to each audit and risk committee meeting, including recommendations where appropriate to enhance financial and non-financial controls and risk management
- an annual summary report to the audit and risk committee for each year ended 31 August outlining the areas reviewed, key findings, recommendations and conclusions, to help the committee consider actions and assess year on year progress

EXTERNAL SCRUTINY AND REGULATOR INTERVENTION

15. External audit re-tender

Under the Companies Act 2006, academy trusts must appoint an auditor to give an opinion on whether their annual accounts present a true and fair view of the trust’s financial performance and position (appointment being by the members, other than where the Companies Act permits the Trustees to appoint – for example for the trust’s first period of account). Trusts should retender their external audit contract at least every five years and must consider the relevant points below when evaluating:-

- the auditor’s sector expertise
- their understanding of the trust and its activities
- whether the audit process allows issues to be raised on a timely basis at the appropriate level
- the quality of auditor comments and recommendations in relation to key areas
- the personal authority, knowledge and integrity of the audit partners and their staff to interact effectively with, and robustly challenge, the trust’s managers
- the auditor’s use of technology

16. ESFA authority to obtain third party information

ESFA or its agents may carry out audits and investigations at an academy trust. The trust must provide ESFA with access to all books, records, information, explanations, assets, premises and staff, and ESFA may take copies of relevant documents. ESFA may conduct interviews during its audits and investigations. ESFA will give reasonable notice in writing of proposed audits.

Where ESFA has concerns about financial management and/or governance at an academy trust, it may wish to obtain from third parties information or documentation about the trust which ESFA considers relevant for the purposes of its investigation. Academy trusts must provide ESFA with written authority giving permission for any third party to provide such information and documentation to ESFA or its agents on request of ESFA.

17. Cybercrime

Academy trusts must be aware of the risk of fraud, theft and irregularity and address it by putting in place proportionate controls. Trusts must take appropriate action where fraud, theft or irregularity is suspected or identified.

Academy trusts must also be aware of the risk of cybercrime, put in place proportionate controls and take appropriate action where a cyber security incident has occurred.

Trusts must obtain permission from ESFA to pay any cyber ransom demands. ESFA supports the National Crime Agency's recommendation not to encourage, endorse, or condone the payment of ransom demands. Payment of ransoms has no guarantee of restoring access or services and is likely to result in repeat incidents.

18. Financial notice to improve

The handbook has introduced new terminology – the financial notice to improve is now to be called a Notice to improve.

Where ESFA has concerns about financial management and/or governance in an academy trust it may issue, and publish, a Notice to Improve (Ntl). The trust must comply with the Ntl. Failure to comply will be deemed a funding agreement breach. The funding agreement may be terminated due to non-compliance with a Ntl.

ESFA will notify the trust of the date of which ESFA has published the Ntl. The trust must then publish the Ntl on its own website within 14 days and retain it on the website until the Ntl is lifted by ESFA.

A Ntl describes what a trust must do to address concerns about financial management or governance. For example, a Ntl may be issued due to an actual or projected deficit, cash flow problems, insolvency risk, irregular use of public funds, or inadequate governance and management (including weak oversight by Trustees, poor internal scrutiny and breaches of related party requirements).

OTHER

19. ESFA good practice guidance

The ESFA have issued a number of good practice guides. They do not replace or modify any requirements set out in the Academy Trust Handbook and the Academies Accounts Direction. They aim to provide suggestions about good practice.

Currently the following is available as a good practice guide:-

- Streamlined Energy and Carbon reporting
- Operating an academy trust as a going concern
- Choosing an external auditor for an academy trust
- Academy trust deficit recovery
- Academy trust risk management
- Leasing guidance for academy trusts
- Academy trust management accounting
- Internal scrutiny in academy trusts
- Academy trust management letters
- External audit preparation checklist for academy trust guidance
- External audit preparation checklist

20. VAT – audit review

The academy is currently VAT registered and reclaiming VAT via the Form 126

Our audit does not examine VAT in detail and our audit procedures are not designed to detect immaterial fraud or error. Therefore, we have not reviewed individual streams of income to:-

- a. Assess whether the academy is over the VAT registration threshold
- b. Ascertain whether the VAT reclaimed is correct

There are a number of income streams that may be liable to VAT, we have provided some common areas below, but please note this is not an exhaustive list:-

1. Contracts whereby you receive commission or the net of income/costs for items such as uniforms. The contract may be worded in such a way that you are actually the primary supplier and not an agent, if this is the case then you may be liable to register and charge VAT on these items.
2. The sale of meals to staff is a supply liable to VAT. The VAT treatment of outsourced catering contracts means that an Academy will act as principal in the sale of all meals. The sale of a meal to a member of staff (not a duty meal) will count towards the VAT registration limit.
3. Certain supplies under salary sacrifice schemes can have a VAT implication either as the amounts count towards the VAT registration limit or VAT on expenses could be restricted.
4. Although the majority of income from letting the premises will be exempt depending on the exact nature of the "let" and to whom the let could be "taxable". If additional services are supplied as a separate cost, they would be seen as taxable. Any charges for parking would be taxable.

From experience most Academies have some business income and if not VAT registered we would expect there to be some irrecoverable VAT and is the Academy carrying out the appropriate restrictions and checks on the VAT claimed via the VAT 126 form.

If required Azets can organise an initial meeting with our VAT experts to discuss any potential issues or pitfalls with you.

Appendix 7

MUSTS as set out in the Academies Trust Handbook 2021

The requirements in the handbook brought together into one list: the 'musts'. It abbreviates these requirements and so cannot be used as a substitute for the full handbook. Links to the relevant sections are included, which must be read in full.

Top 10 'musts' for chairs and other Trustees

Personal responsibilities

- Apply highest standards of conduct and ensure robust governance, comply with charitable objects, with duties as company Trustees, with charity law and the funding agreement [1.13 and 1.14]

Structures

- Ensure the board of Trustees meets at least three times a year, and conducts business only when quorate [2.3]
- Approve a written scheme of delegation of financial powers [2.4]

Relationships

- Manage conflicts of interest, be even-handed with related parties, and ensure goods or services provided by them are at no more than cost, beyond the limits in this handbook [5.35 to 5.59]
Money and oversight
- Ensure the board approves a balanced budget for the financial year and minutes their approval [2.10]
- Share management accounts with the chair of Trustees monthly, with the other Trustees six times a year, and consider when the board meets, taking action to maintain financial viability [2.19 and 2.20]
- Ensure decisions about executive pay follow a robust evidence-based process reflecting the individual's role and responsibilities, and that the approach to pay is transparent, proportionate and justifiable [2.30 and 2.31]
- Appoint an audit and risk committee (either dedicated or combined with another committee) to advise on the adequacy of the trust's controls and risks [1.24 and 3.6 to 3.14]

Accountability and audit

- Submit audited accounts to ESFA by 31 December [4.4]
- Ensure an appropriate, reasonable and timely response to findings by auditors, taking opportunities to strengthen financial management and control [4.16]

Roles and responsibilities

- Adhere to The 7 principles of public life
- Have the skills, knowledge and experience to run the trust [1.1]
- Have at least three members, although the Department's strong preference is for five [1.3]
- Have suitability checks in place for members to ensure they are not subject to a direction under section 128 of the Education and Skills Act 2008 [1.4]

- Not have members as employees, nor have members occupy staff roles on an unpaid voluntary basis [1.5]
- Ensure regularity, propriety and value for money [1.21, 1.38 and 2.7]
- Trustees to take ownership of financial sustainability and ability to operate as a going concern [1.21]
- Ensure committees contain a majority of Trustees [1.25]
- Not have de facto Trustees or shadow Trustees [1.26]
- Include a review of the trust's governance structure and board composition in the governance statement when producing audited accounts for the first time [1.28]
- Appoint a senior executive leader (should be principal or chief executive) [1.33]
- Appoint an accounting officer (the senior executive leader) with responsibility for regularity, propriety and value for money and for assuring the board about compliance with the funding agreement and handbook [1.34 to 1.44]
- Demonstrate in the governance statement how the trust has secured value for money [1.41]
- Include a statement on regularity, propriety and compliance, signed by the accounting officer, in the audited accounts [1.41 and 4.13]
- Appoint a chief financial officer to lead the finance department [1.45]
- Have appropriately qualified and/or experienced finance staff [1.46]
- Appoint a governance professional (clerk to the board) [1.49]
- Arrange DBS checks as appropriate [1.51 and 1.52]

Main financial requirements

- Maintain robust oversight of the trust [2.1]
- Take responsibility for financial affairs, stewardship of assets and use resources efficiently [2.2]
- Describe in the governance statement how the board has maintained effective oversight if meeting less than six times a year [2.3]
- Have sound internal control, risk management and assurance processes [2.6]
- Establish a control framework that includes:-
 - ensuring delegated financial authorities are complied with, and segregation of duties maintained
 - co-ordinating the planning and budgeting process
 - discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations
 - planning and oversight of capital projects
 - management and oversight of assets including maintenance of a fixed asset register
 - regularity, propriety and value for money
 - reducing fraud and theft
 - independent checking of controls, systems, transactions and risks
 - a competitive tendering policy [2.7 and 2.28]
- Prepare and monitor financial plans to ensure the trust remains a going concern and ensure rigour and scrutiny in budget management [2.8 and 2.9]
- Ensure budget forecasts are accurate, based on realistic assumptions and reflective of lessons learned from previous years [2.11]
- Submit a budget forecast return outturn and 3-year budget forecast return to ESFA [2.15 and 2.16]
- Notify ESFA within 14 days if proposing a deficit revenue budget for the current financial year which it cannot address after taking into account unspent funds from previous years, as this would be non-compliant with the funding agreement and this handbook [2.17]
- Prepare management accounts every month and take appropriate action. Measure key financial performance indicators regularly and analyse in annual Trustees' report [2.18, 2.21 and 2.22]

- Manage cash position robustly and avoid becoming overdrawn [2.24]
- Have a cautious approach to investments in line with the handbook principles [2.25]
- Show that public funds have been used as intended by Parliament [2.27]
- Publish on trust's website the number of employees whose benefits exceeded £100k, in £10k bandings [2.32]
- Ensure senior employees' payroll arrangements meet HM Treasury's tax requirements [2.34] 70
- Not use trust's funds to purchase alcohol for consumption, except where it is to be used in religious services [2.35]
- Charge for boarding provision in line with this handbook [2.37]
- Manage risks, including contingency and business continuity planning and maintain a risk register. Board to retain oversight of risk and review risk register at least annually. [2.38 and 2.39]
- Have adequate insurance or be a member of DfE's risk protection arrangement [2.40]
- Implement reasonable risk management audit recommendations [2.42]
- Have published procedures for whistleblowing and respond properly and fairly [2.43 to 2.48] •
- Be transparent with governance arrangements [2.49]
- Publish the trust's governance arrangements in its governance statement and in a readily accessible form on its website [2.50]
- Ensure governance documents are available for public inspection [2.51].
- Provide ESFA or its agents with information of sufficient quality to meet funding requirements [2.52]
- Notify DfE via Get information about schools within 14 days of changes in information about members, Trustees, local governors, chair of Trustees, chairs of local governing bodies, accounting officer and chief financial officer [2.54 to 2.58]

Internal scrutiny

- Check financial and non-financial controls and risks [3.1 to 3.5]
- Oversee controls and risks at constituent academies [3.13]
- Ensure information submitted to DfE and ESFA affecting funding is accurate and compliant [3.14]
- Internal scrutiny must be viewed in the same way as internal audit [3.20].
- Ensure checks are conducted by someone independent, suitably qualified and experienced [3.15 to 3.21]
- Provide internal scrutiny reports to the audit and risk committee and make the findings available to all Trustees promptly [3.15 and 3.16]
- Confirm in the governance statement which internal scrutiny option has been applied and why [3.22]
- Provide annual summary of internal scrutiny to ESFA by 31 December, and provide other internal scrutiny reports on request [3.23] 71

Annual accounts and external audit

- Produce audited accounts, publish on the trust's website by 31 January and file with Companies House [4.1 to 4.4]
- Appoint an external auditor in writing, for the annual accounts [4.5 and 4.6]
- Put any additional services from the external auditor in a separate letter of engagement [4.6]
- Provide in the audit contract for the removal of external auditors [4.7]
- Notify ESFA immediately of the removal or resignation of external auditors, and the reasons [4.8]
- Prepare information, at DfE's request, for the sector annual report and accounts [4.9 and 4.10]

- Include a review of the accounting officer's statement on regularity, propriety and compliance within the external auditor's remit, and address the auditor's conclusions on regularity jointly to the trust and ESFA [4.15]
- Audit and risk committee to review the external auditor's plan, annual accounts, audit findings, management response and effectiveness of the external auditor and produce annual report of conclusions [4.17]

Delegated authorities

- Obtain ESFA's prior approval for transactions beyond the trust's delegated limits [5.1]
- Make financial disclosures in the annual accounts in line with this handbook [5.2 and 5.3]
- Refer novel, contentious and/or repercussive transactions to ESFA for prior approval [5.5]
- For staff severance payments, consider the following before committing:-
 - whether the proposed payment is in the trust's interests
 - whether payment is justified and value for money, based on a legal assessment
 - review the level of settlement, which must be less than the legal assessment of what the relevant body (e.g. employment tribunal) is likely to award [5.8]
- Obtain ESFA's prior approval for the non-contractual/non-statutory element of a staff severance payment of £50,000 or more (gross, before deductions) [5.10]
- Not accept a settlement for a staff severance payment unless satisfying the conditions in this handbook [5.11] 72
- Obtain prior approval for staff severance payments of £100k or more which include a non-statutory/non-contractual element, and/or where the employee earns over £150k [5.12]
- Ensure confidentiality clauses do not prevent an individual's right to make disclosures in the public interest [5.13]
- For compensation payments, base on appraisal, including legal advice, ensuring value for money [5.14]
- Obtain ESFA's prior approval for non-contractual/non-statutory compensation payments of £50,000 or more [5.15]
- Obtain ESFA's prior approval for ex gratia payments [5.18]
- Obtain ESFA's prior approval for writing off debts and losses, guarantees, letters of comfort and indemnities beyond limits in this handbook [5.19 and 5.20]
- Obtain ESFA's prior approval, before acquiring and disposing of fixed assets beyond limits in this handbook and ensure disposal achieves best price [5.23 and 5.24]
- Obtain ESFA's prior approval for leases beyond limits in this handbook [5.26 to 5.28]
- Not pool PFI funding across a trust with multiple academies [5.30]
- Consider the funding needs of individual academies if pooling GAG, and have an appeals mechanism [5.31]
- Ensure gifts by the trust have the decision documented, and have regard to propriety and regularity [5.32]
- Obtain ESFA's prior approval before borrowing, including finance leases and overdrafts, and only use credit cards for business expenditure [5.33]
- Ensure no member, Trustee, local governor, employee or related individual or organisation uses their connection to the trust for personal gain [5.36]
- Ensure no payments to Trustees unless permitted by the articles and comply with the terms of any agreement with the Secretary of State [5.36]
- Obtain Charity Commission prior approval for paying a Trustee for acting as a Trustee [5.36]
- Ensure the board chair and the accounting officer manage their relationships with related parties to avoid real and perceived conflicts of interest [5.38]

- Recognise that related party transactions may attract public scrutiny and require sufficient disclosure in annual accounts to support accountability and transparency [5.39 and 5.40]
- Report all contracts and other agreements with related parties to ESFA in advance [5.41] 73
- Obtain ESFA prior approval for contracts and other agreements with related parties beyond limits in this handbook [5.42 to 5.44]
- Capture in an up to date register of interests the relevant business and pecuniary interests of members, Trustees, local governors and senior employees [5.45] and interests of other individuals as described in [5.46]
- Publish relevant business and pecuniary interests of members, Trustees, local governors and accounting officers [2.50 and 5.48]

The regulator and intervention

- Arrange for letters to trusts' accounting officers from ESFA's accounting officer about the accountability framework to be discussed by the board and, where appropriate, strengthen the trust's systems [6.2]
- Provide ESFA with access to books, records, information, explanations, assets, premises and staff to assist with its audits [6.4]
- Provide ESFA with permission for any third party to provide requested information where there are concerns or an investigation is ongoing at a trust [6.5].
- Retain records for at least six years after the period to which funding relates [6.6]
- Send ESFA a financial management and governance self-assessment for new academy trusts, or constituent academies joining an existing trust [6.7]
- Submit school resource management self-assessment tool to ESFA annually [6.9]
- Be aware of the risk of fraud, theft and irregularity and address with proportionate controls and appropriate action [6.11]
- Notify ESFA of fraud or theft over £5,000, individually or cumulatively, or of any value where unusual or systematic [6.12]
- Be aware of the risk of cybercrime and put in place proportionate controls and appropriate action where a cyber security incident has occurred [6.16]
- Obtain permission from ESFA before paying any cyber ransom demands [6.17].
- Comply with a Trust Notice to Improve [6.18 and 6.20]
- Publish the NtI on the trust's website until it is lifted [6.19]
- Waive delegated authorities and obtain ESFA approval of certain transactions described in this handbook if the trust has an NtI [6.21]
- Cooperate with NAO and provide help, information and explanation [6.29]