

Management Accounting in your School

As the School Business Manager, you will likely be producing the management accounts and reports, or you will be leading on the development work either within the school or with accounting partners.

The role of management accounting in schools is crucial for understanding the status of accounting reports, and for strategic level decision making on resources. Where there has been an enormous amount of changes within the schools system over the last few years, knowing how to decide on all kinds of resources and having those tools in place is critical.

This factsheet outlines statutory obligations, and provides hints and tips on setting up overall management accounts. The following section then outlines guidance for monthly management accounts.

Statutory Obligations

Per the Academies Financial Handbook 2015, the academy trust must have in place sound internal control, risk management and assurance processes. This internal control framework must include:

- co-ordinating the planning and budgeting processes
- applying discipline in financial management, including managing banking, debt and cash flow, with appropriate segregation of duties
- preparation of monthly budget monitoring reports

These statutory obligations can be viewed as a hindrance to Trusts, however there are a number of benefits from adhering to them. By applying the above requirements, the academy will be producing monthly management information, the financial part of which is referred to as management accounts. Management accounts and reports are a powerful source of information: actual results can be compared to budgets to establish where the Trust may have over/under spent during the period, allowing for an effective review of its forecast for the year. Regular re-forecasts allow the Trust to look ahead and determine where costs are too high, and therefore may need reducing, together with where there may be opportunities to capitalise on a better-than-expected income stream.

Other benefits include:

- An understanding of why variances have arisen
- Providing information about the level of costs e.g. staff costs in relation to income and whether this is at a reasonable level
- The provision of information to trustees on the current financial performance of the Trust

Automation

As a basic guide, management accounts should include an income and expenditure account, a cash flow and balance sheet. Trying to automate this process as much as possible would reduce the time taken to prepare the monthly accounts; many finance packages will have an in-built feature which will allow BMs to produce the relevant reports.

Hints and Tips

It is worth thinking about how your financial package can work for you e.g. whether your chart of accounts is set up in a way that aids your preparation of the year end accounts. Could you tailor the reports the package produces to make them more relevant to the Trust? Can you automate your fixed asset register and determine depreciation rates to be used on each asset class?

Steps to take when producing management accounts

If the process is automated, it should be a simple case of requesting the relevant reports from the system such as income and expenditure accounts, balance sheets, trial balances, and any other reports that the BM believes will aid understanding of the financial results. While producing the management accounts, the following actions should be taken. The table details the actions which should be taken prior to producing a set of management accounts. It is not exhaustive, but does cover the main points.

Action required	Completed
Reconciliation of the bank accounts (including credit cards)	
Reconciliation of the VAT account	
Reconciliation of payroll If payroll is calculated by an external provider, have the journals for the month being reviewed and signed as authorised?	
Calculation of necessary prepayments/accruals. Have the relevant journals being entered onto the finance system?	
Reconciliation of debtors and creditors account. Print aged debtors/aged creditors report.	
Is the fixed asset register up to date? Has depreciation being calculated for the month and a relevant journal being entered onto the system?	
Run a Trial balance	
Run an income and expenditure report	

Format of Management Accounts

As stated initially, the main benefit to producing management accounts is that it allows a Trust to monitor its financial results and have a more realistic outlook as to whether the budget will be met.

In order to gain a better understanding of the financial results, it may be beneficial to export the data collected by the finance system onto Excel. This will give SBMs the freedom to present the data in a way that works for them. There is no prescribed format for a set of management accounts. A basic format for a set of management accounts is available on the EFA Library (see Resources).

There are also a good deal of internet-based resources and management accountancy wizards. It is perhaps worth looking at these: <http://www.manager.io/> or <http://www.sage.co.uk/software-and-services/accounting-and-finance> are examples

The Finance Director should regularly discuss the format of the management accounts with the users; generally the Senior Leadership Team and the Governing Body. It may be that the information included within the management accounts is presented differently to these two groups. The more detailed version may be more beneficial to the Senior Leadership Team as this group will require a sufficient level of detail to understand which areas are over/under budget. However a more summarised version may suffice for the members of the Governing Body as they may not be too concerned with all the detail and, if they have no financial background, may be overwhelmed by all of the financial data.

It is useful to include commentary within the management accounts explaining any significant variances, noting any common trends or highlighting any potential areas of risk. Again, the users of the management accounts should be kept in mind and commentary should remain as informative as possible but without too much financial language used.

Monthly Management accounts

Internal control frameworks

The latest management accounts should be presented to each Finance Committee meeting and (in an appropriately summarised form) to each Governing Body meeting in advance.

As best practice, individual budget holders should also be provided with monthly income and expenditure accounts and/or transaction lists relating to their departments, for reconciliation.

Income and Expenditure Report - this should set out:

- budget for the month just ended against actual results for the month, and variance;
- budget for the academic year to date against actual results to date, and variance;
- budget for the full academic year against latest forecast for full year, and variance.

There should be separate income and expenditure accounts for recurrent and capital funds.

Areas to review:

- ensure that a supporting narrative is produced which adequately explains the reasons for any significant variances from the budget;
- there is no set amount for salary costs however guidance has suggested that staff costs are generally 70% to 80% of income;

- supply cover – review levels of sick leave (long and short term), maternity leave and other absences and consider whether action is needed to reduce cover costs;
- repairs, renewals and energy costs - consider whether sufficient provision is being made for these potentially significant items;
- if the academy is currently in receipt of Start Up Grant consider the impact once this ceases;
- consider whether private income is being generated as forecast (e.g. lettings / sales);
- consider where any activities should be extended or reduced in light of latest budget projections;
- If a deficit revenue budget is set and there are no sufficient reserves to cover it, per paragraph 2.2.5 of the Academies Financial Handbook, the Trust must notify the EFA within 14 days of the deficit revenue being set

Balance Sheet

Areas to review:

- debtors – this figure should represent monies due to the academy but not yet received. Ensure that a separate ‘aged debtor’ analysis of this figure is provided and that appropriate action is being taken to pursue significant overdue amounts;
- cash at bank - check that this figure does not show a negative balance (academies cannot borrow - this includes overdrafts);
- creditors and accruals – these should include invoices submitted and payable by the academy plus commitments made where the invoice has not yet been received. There may be anomalies some months which result in creditors being in excess of 20% of one month’s GAG.
- net current assets (current assets minus current liabilities) – check that these are positive. A negative balance is indicative of potential cash flow problems;
- pension scheme liabilities – the pension scheme actuary should be asked for a statement of liabilities each year when the annual accounts are being produced. Ensure that the impact of any change (e.g. a revised monthly pension contribution rate) is reflected in the income and expenditure budget. Since pension costs are outside the control of Trusts, it may be better to consider excluding these from management accounts.

Annual Accounts

These must be completed, audited, signed off and submitted to the DfE by 31 December each year.

Points to consider:

- ensure that an audit site visit has been arranged to review the draft accounts and underlying records (should be Oct/Nov);
- ensure that responsibility is assigned to write the accompanying Governor’s Report;
- ensure well in advance that a date has been set for a governors’ Annual General Meeting to authorise the accounts (should be Nov/Dec);
- ensure that any feedback from the auditors is acted upon (should be received before the AGM);
- review the appointment of auditors for the following year (at the AGM). Auditors can only be appointed for one year at a time although the governors may agree to re-appoint the current auditors at the AGM. A full re-tendering exercise must be carried out at least every five years.

Cashflows

A cashflow can be the most difficult part of producing management accounts, but it is an important tool in understanding where cash is being spent and whether the Trust has the potential to run out of cash during the year, or the months in which the cash balance could be low.

The EFA Library contains a model cashflow forecast, as well as other financial management models: <http://www.nasbm.co.uk/EfA-Academies-Library.aspx>

Other points to consider

Procurement

Academies must have a Scheme of Delegation agreed by the Governing Body including delegated limits for approving purchases and contracts.

- review proposed purchases beyond the value that can be approved by individual budget holders;
- ensure that alternative quotes are obtained and, for larger purchases, that a tendering exercise is carried out, in accordance with the academy's financial regulations;
- ensure that any purchases from related parties, including sponsors, are at arms-length and are declared as related party transactions in the academy's annual accounts;
- ensure that funds are available before commitments are made.

DfE Financial Management Reviews

- consider progress with the implementation of any recommendations arising from DfE reviews of the academy's financial systems and controls.

Risk Management

All academies should maintain a register of operational risks. A pro-forma is in the Academies Financial Handbook, in Annex D as one of the other sources of information for the Charity Commission.

- review the risk register on a regular basis (possibly rolling quarterly);
- consider whether the ranking of key risks is appropriate (likelihood and impact);
- consider whether the response to key risks is appropriate:
 - transfer (e.g. insure)
 - tolerate (accept risk as tolerable)
 - treat (e.g. take corrective action)
 - terminate (cease the activity)
- ensure clear responsibilities are assigned for managing individual risks.

Resources

The EFA Library also lists other factsheets produced in 2015 in internal control and scrutiny, choosing an auditor, fraud and leasing, all of which are inter-linked. The EFA Library can be accessed from here: <http://www.nasbm.co.uk/EfA-Academies-Library.aspx>