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Academies Financial Handbook 2020

Our summary of the key changes for trustees and finance staff.

The Education and Skills Funding Agency (ESFA) have published the Academies Financial Handbook (AFH) 2020, which will be effective from 1 September 2020.

The AFH sets out the financial management, control and reporting requirements that apply to all academy trusts. It describes a financial framework for trusts that focuses on principles rather than detailed guidance, and reflects their accountability to parliament and to the public.

Compliance with the Handbook is a condition of each trust's funding agreement. Therefore, it is vital that your academy trustees, finance staff and your Accounting Officer are all aware of the forthcoming changes, so that they can ensure the trust is fully compliant from the effective date.

In her opening Executive Summary Baroness Berridge, who became the minister responsible for the school system back in February, emphasises that the AFH is a contractual arrangement between the DfE and each trust, and that the ESFA hold trusts to account by it.

Sections of the media seem content to portray academies in a negative light wherever possible, so Baroness Berridge's positive comments about the accountability and transparency in the sector are welcome. She contrasts this to local maintained schools, referring to the consultation last year aimed at levelling up financial transparency across the whole school system.

The new AFH continues to refine the ESFA's message about internal scrutiny, emphasising the increased importance they are placing on a robust assurance programme.

This year's Handbook update contains a number of key changes. As has become customary in recent years, the handbook itself does contain a summary highlighting these amendments, but we have outlined these here with our own insight and commentary on what the changes may mean in practice, along with the action we recommend that you take to prepare.

The key changes

A new 'must' requirement to appoint a clerk to the board [1.40]. The academy trust must appoint a clerk to support the board of trustees who is someone other than a trustee, principal or chief executive of the trust.

UHY commentary

In the previous edition of the AFH, this was a 'should' requirement and so has been upgraded. In reality, most trusts will have a clerk although sometimes it can be difficult for trusts to find a good, competent clerk. The role comprises more than administrative support; it is partly about providing independent and expert advice to ensure boards work in compliance with relevant law and regulation and hence a good, well-informed clerk can help with the efficient functioning of the board. The DfE Clerking Competency Framework describes professional-quality clerking as critical to the effectiveness of a governing board.

The ESFA see an effective programme of internal scrutiny to be a key part of good governance. We have continually enhanced our internal scrutiny service for academies, broadening the scope of the work we are able to complete into increasingly non-financial areas.

Internal scrutiny. There are a number of changes and clarifications regarding internal scrutiny, with a significant one for many trusts being the removal of the option for internal audit to be performed by the external auditor [3.17 and 3.20]

Updated text also clarifies that internal scrutiny covers non-financial controls as well as financial ones [3.1] and that trusts should use additional individuals or organisations to support internal scrutiny where special non-financial knowledge is required [3.18 and 3.23]

UHY commentary

The new requirement to separate the external and internal audit provision has also been covered in the 2019/20 Accounts Direction (please see our summary of the AAD changes here).

To date, many trusts have used the same audit firm for both services so this is potentially a big change for a significant proportion of the sector. The change stems from a new ethical standard which affects the non-audit services that all audit firms can provide (across all sectors, not just to academies).

The new rules came into effect on 15 March 2020 but transitional arrangements apply, allowing existing internal audit arrangements for the 2019/20 year to be completed.

Trusts that will be faced with finding a new provider should give early thought to this so that prospective firms can be contacted, proposals received and considered and, with current working arrangements, virtual meetings held where this is felt necessary.

UHY offer a detailed programme of internal scrutiny checks which we will be offering to non-external audit clients from September.

Publication of information about high executive pay [2.32]. Trusts must publish on their website, in a separate readily accessible form, the number of employees whose benefits exceeded £100k, in £10k bandings. Benefits for this purpose include salary, other taxable benefits and termination payments, but not the trust's own pension costs.

UHY commentary

Trusts already publish this information in their annual accounts, but the new 'must' requirement goes further and requires a separate extract from the disclosure in its financial statements for the previous year ended 31 August to be available on the trust website.

There is no requirement to name the individuals, so this new disclosure is really in the interests of increasing transparency and merely repeats information already publicly available.

As a reminder, larger trusts with over 250 employees have a separate requirement to publish information on their website (and on the Government's own reporting website) about the gender pay gap in their organisation.

Members – working with trustees [1.8]. The importance of keeping members informed about trust business so they can be assured that the board is exercising effective governance is stressed.

UHY commentary

This is a subtle yet important change. The role of the member is not changing, but in this year's AFH, the ESFA are choosing to emphasise how members can be involved. The responsibilities of members of academy trusts have often been misunderstood. Powers include the ability to appoint trustees and auditors. Members are akin to shareholders in a company limited by shares with an 'eyes-on and hands-off approach'.

The foreword to the AFH talks about 'placing greater focus on members remaining informed'. Communication will be key to this working. There is no prescribed way to keep members informed, but we would suggest it would be wise to provide copies of board meeting minutes. Members need to be kept well informed of the skills the board needs to be effective so significant changes to the board, particularly changes that leave skills gaps, should be reported to them. Members need to have confidence in their boards.

The AFH continues to state that the members must not be employees of the trust, but it is now clarified that this also includes being an employee on an unpaid voluntary basis (effective from 1 March 2021).

Many trusts do have some overlap between their members and trustees and this can be another way of keeping members informed and engaged. Note the AFH continues to encourage 'significant separation' between the individuals who are members and those who are trustees. Members can sit on the board, but to avoid the risk to objectivity, the DfE have a strong preference for a majority of members to be independent of the board of trustees. Interestingly, this does fall short of being a 'must' requirement.

From September 2020, when members start to receive more information about their trust, they will need to be careful to avoid overstepping their powers or undermining trustees.

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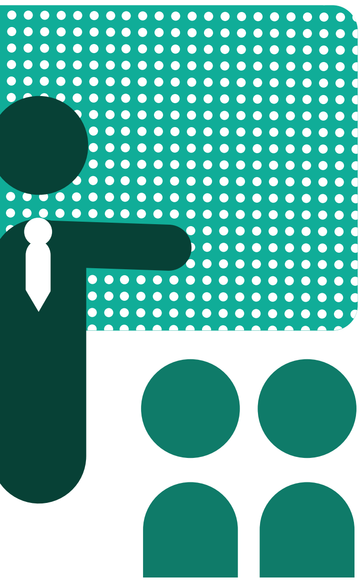

Technically, failure to update the register, even for a minor change, will be a breach of the AFH.

Keeping register of interests up to date [5.46]. It is must requirement of the AFH for boards of trustees to keep their register of interests up-to-date at all times.

UHY commentary

This means the register needs to be updated promptly each and every time there is a change. Technically, failure to update the register, even for a minor change, will be a breach of the AFH. It is best practice for the pecuniary interests to be at the top of the agenda of all board and sub-committee meetings.

This is one must that we feel will be easy for trusts to slip up on innocently. Business registers must continue to identify material interests from close family relationships between the academy trust's members, trustees, local governors or senior employees which means for larger trusts, in particular, there could be a lengthy list.

Note that whilst trusts continue to have discretion over the publication of interests of close family relationships or senior employees (unless also a trustee), they would still need to ensure their internal register is fully up to date at all times.

Trusts are being encouraged to consider accountancy qualifications for their CFO and for all CFOs to maintain professional development [1.37 and 1.38]. The AFH continues to state that the CFO and their finance staff must be appropriately qualified and/or experienced. Now all trusts must assess whether the CFO, and others holding key financial posts, should have a business or accountancy qualification and hold membership of a relevant professional body. All CFOs are required to maintain continuing professional development (CPD) and to undertake relevant ongoing training.

UHY commentary

The ESFA recognise that this is not a one size fits all approach, but it is clear they expect trusts to at least consider this. Boards should ensure they have the discussion early in 2020/21 and that they document there conclusions. It is reasonable to expect a larger trust, with a higher degree of risk, scale and complexity, to employ a more highly qualified CFO. The ESFA are encouraging larger trusts to consider the range of accountancy qualifications available and to take this into account when filling CFO vacancies.

Interestingly, they do not provide a definition of 'large' for this purpose, instead choosing to provide an example of trusts with over 3,000 pupils. There could be other definitions, however, so would a trust with seven or eight relatively small primary schools be classed as large?

Boards will need to reach their own conclusions. If the complexity of their trust is such that it does not require a qualified CFO, then this should be documented. Imagine a scenario where a trust finds itself in Financial Notice to Improve and the ESFA deem that the CFO was not adequately qualified. How would the board's decision over their CFO be viewed?

Remember that relevant apprenticeships are available at levels four and six for CFOs and other finance staff seeking qualifications for their level of responsibility. Trusts should also remember that the apprenticeship levy can be used for professional development of finance staff.

Approval is now required if either the Accounting Officer (AO) or Chief Financial Officer (CFO) is not an employee of the trust [1.26 and 1.36]. The AFH continues to state that both the AO and CFO should be employed by the trust but now states that prior ESFA approval must be obtained if the trust is proposing, in exceptional circumstances, to appoint an AO or CFO who will not be an employee.

UHY commentary

It is interesting that the requirement for the AO and the CFO to be employees continues as a 'should' rather than a 'must'. Maybe the ESFA have stopped short because they acknowledge that in some instances an alternative approach is in the best interests of the trust. For example, we have seen cases where trusts already working closely with another local MAT have appointed the other trust's AO as their own alongside a SLA for the educational support. The preference for these roles to be filled by employed individuals stems from the requirement 2.34 of the AFH to ensure that senior employees' payroll arrangements fully meet tax obligations and comply with HM Treasury guidance about the employment arrangements of individuals on the avoidance of tax.

We foresee that the new approval rule could cause a problem for some smaller trusts who do not currently employee a full time CFO, instead choosing to outsource the service to a self-employed individual or company providing part-time services as required.

It is not clear what the ESFA would consider as exceptional circumstances, although this is likely to include short term cover needs if there is a need to appoint a replacement on an interim basis.

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Other changes:

So far we have picked out what we consider to be the key changes with the most far-reaching impact. The other changes that follow contain a number of new 'must' requirements and should therefore still be read carefully.

Role of the audit and risk committee in relation to the external audit [4.17]. The AFH now contains more detail explaining the audit (or similar) committee's role in the external audit process.

UHY commentary

There is nothing radical in here, but the section is a useful reminder of how audit committees should approach the audit process and how they should engage with auditors.

Going concern [1.14, 2.5 and 2.8]. Further information is provided explaining trustees' responsibility to maintain the trust as a going concern.

UHY commentary

The ESFA's good practice guide, explaining this in more detail, was updated in June 2020. This touches on some of the issues auditors consider and why the trustees' opinion regarding going concern reflects a short-term view of solvency over the coming 12 months (from the date of approval of the accounts) rather than a medium or longer term view of sustainability. The guide stresses that a clean audit opinion does not give a green light that all is well in the longer term, since the audit opinion does not take into account longer term financial issues, even in two or three years' time.

Annex A of the going concern good practice guide is particularly useful for trustees and we recommend all trustees read this. This raises a number of questions for trustees to consider both in terms of short term finances (going concern) and longer term finances (sustainability).

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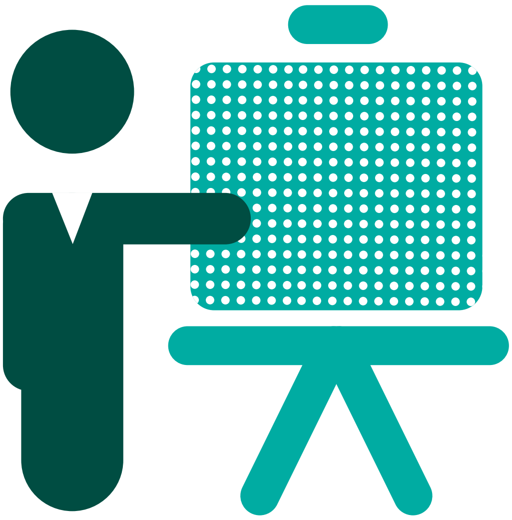
Whistleblowing [2.44]. The trustees must agree the whistleblowing procedure and publish it on the trust's website.

UHY commentary

The requirement to have a suitable whistleblowing procedure and policy is not new, but this must now be available on the trust website.

Funds must not be used to purchase alcohol [2.35]. The purchase of alcohol continues to be generally prohibited, however there is now an exception where it is for religious services.



Board and committee responsibilities for risk management [2.38, 3.6 – 3.8]. These sections contain updated clarifications only. A reminder that the full board of trustees maintains overall responsibility of the risk management process, and the risk register, even if they delegate some monitoring to the audit and risk or equivalent committee. In addition to any reviews of the risk register by committees, the full board must review the risk register as least annually. The AFH also stresses that risk management covers all operations of the trust and not just financial risks.

Pupil numbers underpin the entire budget so accuracy of projects are vital if boards are to be in a position to make informed decisions.

Completion of the School Resource Management Self-Assessment Tool [6.8]. Following the introduction of the SRMSA all trusts must complete this tool and submit their completed checklist to the ESFA by the specified deadline. In 2019 this was in mid-November.

Fixed asset register [2.7]. Within the basic control principles is a new requirement for trusts to maintain a fixed asset register.

UHY commentary

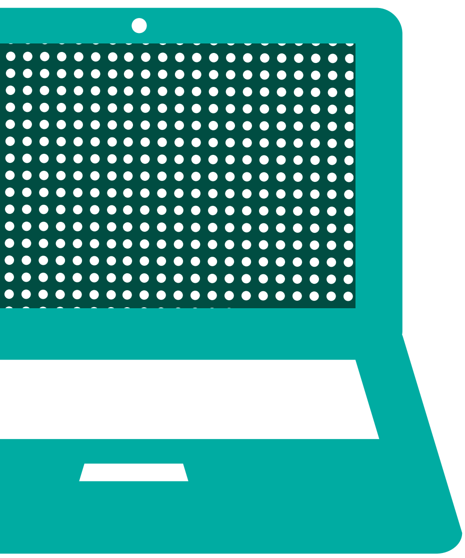
This is really just a clarification over something simple all trusts should be maintaining anyway, since auditors will ask for a register that ties back to the assets held on the balance sheet.

Termly review of pupil number projections [2.12]. The board of trustees should challenge pupil number estimates, as these underpin revenue projections, and review these termly.

UHY commentary

The previous edition of the AFH required the challenge of pupil numbers, but did not go as far as to require the termly review. It is not entirely clear how the ESFA envisage such a review is undertaken but the key here is for boards to challenge. Pupil numbers underpin the entire budget so accuracy of projects are vital if boards are to be in a position to make informed decisions.

Although 2.12 is a 'should' section, 3.14 of the AFH includes a 'must' requirement for boards to ensure information submitted to the DfE and ESFA that affects funding, including pupil number returns and funding claims (for both revenue and capital grants) completed by the trust and (for trusts with multiple academies) by constituent academies, is accurate and in compliance with funding criteria. Audit and risk committees should therefore be considering how a review of pupil number returns data is built into the programme of internal scrutiny checks.



If you have not yet seen UHY's 2020 benchmarking report, do check it out as it contains a useful benchmarking page which allows you to plot your own trust's data against the average per pupil results.

Integrated Curriculum Financial Planning [2.13]. Boards are encouraged to use ICFP so that they are confident about planning the best curriculum for their pupils and delivering the trust's educational priorities with the funding they have available.

UHY commentary

The 2019 AFH also included a clause encouraging the use of ICFP so the new handbook merely provides clarification on why the ESFA feel this is important.

The top 10 planning checks for governors remains an excellent resource and all forms of financial benchmarking can be beneficial. The DfE's own benchmarking site enables trusts to compare your finances against other similar schools or MATs, and if you have not yet seen UHY's 2020 benchmarking report do check this out. Included at the end of our report is a useful benchmarking page which allows you to plot your own trust's data against the average per pupil results in key areas, and we are also able to produce a tailored report with a graphical representation of your results.

Overdrafts [2.24]. Trusts must continue to manage their cash position robustly and avoid becoming overdrawn. The AFH now makes it explicitly clear that this means an overdraft on any of its individual bank accounts, and not just the overall position.

The next step

You can read the full AFH 2020 here.

We would also encourage all trustees, Accounting Officers and CFOs to re-read the Part 8 'must' requirements at the rear of the handbook. Part 8 should not be used as a substitute for the full handbook but it is an excellent resource for a refresher or as a starting point for anyone new to any of these roles.

If you have any questions or concerns over our summary, or indeed in respect of reporting requirements for academies more generally, please contact your usual UHY adviser or find your local academy expert on our website at www.uhy-uk.com/academy-schools.