



ACADEMIES FINANCIAL HANDBOOK 2019 UPDATE

The ESFA published the Academies Financial handbook 2019 (“AFH2019”) in June 2019. The AFH2019 should be read by the academy’s members, trustees, local governors, the accounting officer and chief financial officer.

The AFH2019 is effective from 1 September 2019. As in the past the handbook sets out the framework for implementing effective financial management and control and academy trusts must comply with the handbook as a condition of the funding agreement. Each year areas are expanded in line with the ESFA’s strategy. The handbook is becoming more detailed each year as the ESFA strives for the highest standards of governance.

On page 8 academy trusts can find a list of all the changes to the AFH2019. This includes a number of points of clarification and emphasis on previous handbooks issued.

The key points this year are as follows:

- **MANAGEMENT ACCOUNTS** - The AFH2019 contains more information on the requirements of producing management accounts. The handbook now clearly states that management accounts must be prepared monthly and include an income and expenditure account, reporting variations to budget, cash flow and balance sheet.

Management accounts need to be shared with the chair of trustees every month and other trustees six times a year. The board also need to consider the management accounts when it meets.

Academies must also select key financial performance indicators (KPIs) and measure performance against them regularly.

Management accounts are a key area of focus going forward and we recommend that academy trusts review their current reporting arrangements in light of the handbook.

- **SETTING EXECUTIVE PAY** - the ESFA again emphasises that the board of trustees must ensure its decisions about levels of executive pay follow a robust evidence based process. The board of trustees must document the rationale behind the decision making process each year.

■ **WHISTLEBLOWING** - the academy trust must have procedures in place for whistleblowing to protect its staff. The policy must be agreed by the trustees.

■ **INTERNAL SCRUTINY** - The AFH2019 has expanded the internal scrutiny section significantly. Academy trusts must have a programme of internal scrutiny to provide assurance to the board on its financial controls each year.

Each academy must have a dedicated audit committee or combine it with another committee. Employees of the trust should not be members of the audit committee and the chair of trustees should not chair the audit committee.

Academy trusts have a number of options to provide the internal scrutiny. The options include employing an in-house internal auditor, buying in an internal auditor service (this can be provided by the external auditor under a separate letter of engagement), appointment of non-employed trust and a peer review by the finance team of another academy trust.

When considering the above options, the trust must ensure the work is carried out by a suitably qualified and experienced person. It also must consider if the internal scrutiny is being directed appropriately.

From December 2020, academy trusts will need to submit the internal scrutiny reports to the ESFA by 31 December each year. This represents a key change in the handbook.

■ **RISK REGISTER** - The risk register is now mandatory for academy trusts. In previous handbooks this has been a suggestion.

■ **RELATED PARTY TRANSACTIONS** - the ESFA has reiterated the reporting requirements for related party transactions that came in to effect from April 2019. Academy trusts must report all contracts (and other agreements) with related parties to the ESFA in advance of commencing the contract. Where the contract is above £20,000, prior approval must be obtained from the ESFA. This does not include payments under employment contracts.

■ **CLERK TO THE BOARD** - The AFH2019 includes an expectation that academy trusts should appoint a clerk to the board.

The ESFA is continuing the increase the procedures and standards of governance and will be increasing the level of their monitoring going forward. It is strongly recommended that trusts review the AFH2019 in detail and review the current processes in place to consider its compliance and best practice.

If you would like any further information or support, please get in contact and we will be more than happy to help.



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