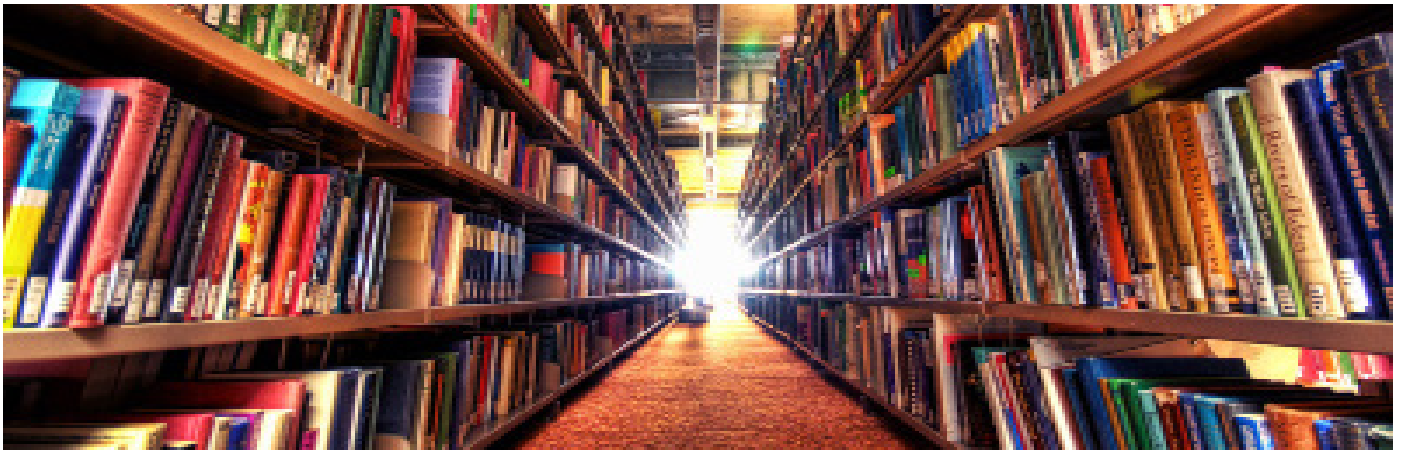


## Academies Financial Handbook 2018 - the key points



The Academies Financial Handbook ("AFH 2018") was published in June 2018 and is effective for all trusts from 1 September 2018. Key themes include; more stringent reporting requirements for related party transactions, clarification of roles and responsibilities at Board and Member level and emphasis on the need for appropriate means of external scrutiny and assurance. In this article we discuss the aims of the Academies Financial Handbook and provide an overview of the key changes in the seventh version of the guidance.

### What is the Academies Financial Handbook?

The ESFA's Academies Financial Handbook provides a financial framework for academy trusts, with Handbook compliance being a key clause within every trust's funding agreement.

It attempts to set out the requirements for effective financial governance and management of funds, so that trusts can meet the public standard of accountability, while not compromising the financial freedoms they need over their day-to-day operations.

The Handbook covers four main areas, which are:

- Roles and responsibilities;
- Main financial and governance requirements;
- Delegated authorities; and
- Audit requirements.

Since its inception in 2012, the guidance has been re-issued annually to include changes made by the ESFA in response to sector developments and trusts' experiences. More recently, we are seeing fewer changes each year as the document matures, with new 'requirements' seemingly geared more towards clarifying and emphasising the matters introduced in previous editions.

However, trusts should note the small number of new requirements effective from 1 September 2018 set out below to remain compliant. Read on to find out the key changes.

### Related party transactions

Related party transactions, defined as transactions occurring between the trust and its Members, Trustees, or the relatives of either, continue to be of keen interest to the ESFA.

One notable change in AFH 2018 is that from 1 April 2019 trusts must now report all transactions with related parties to the ESFA in advance via an online form. Where contracts for the supply of goods or services from related parties are likely to exceed £20,000, approval must be sought from the ESFA prior to entering into the transaction.

Unchanged from AFH 2017 is the requirement that any transactions determined to be 'novel, contentious or repercussive' must receive advance ESFA approval.

**Key point:** Trusts must ensure all related party transactions occurring from 1 April 2019 are reported to the ESFA via the online form, and consider the need to obtain advance approval with consideration of their value.

### Role responsibilities and financial oversight

As in order to encourage high standards of governance, in recent years the ESFA has focused on clarifying the roles and responsibilities of the Accounting Officer, the CFO, the Trustees and the Members.

AFH 2017 included a great deal more guidance on these areas than previous editions. AFH 2018 further sets out how Trustees should apply the highest level of governance, referring to both the duties of directors per the Companies Act and the duties of Trustees per Charity Commission guidance.

Trustees must ensure regularity and propriety in the use of the trust's funds, to achieve economy, efficiency and effectiveness. AFH 2018 states that in order to do so, the Board of Trustees must meet at least three times a year.

If the Board of Trustees meets fewer than six times in the year it must include discussion in its governance statement as to how it has maintained effective oversight of funds with fewer meetings.

**Key point:** Boards of Trustees must meet frequently enough to ensure regularity in the use of funds, and to meet the AFH requirement. Trusts should review the

number of times the Board met in the year and consider whether additional discussion is needed in their Governance Statement.

A key AFH 2018 change to be noted by all trusts is the need for full monthly management accounts to be prepared each month (irrespective of the trust's size) which are to be shared with the Chair of Trustees monthly. Management accounts must also be shared with the rest of the Board bi-monthly.

**Key point:** Chairs of Trust Boards must ensure they are in receipt of full management accounts monthly. The remainder of the Board should receive full management accounts bi-monthly.

## Executive pay

Another theme continued from AFH 2017 is that of executive pay. This reflects another key topical interest of the ESFA, with the Chief Executive having written to a selection of single and multi-academy trusts who pay their executives remuneration above a specific threshold (in most cases above £150k).

AFH 2018 reiterates that trusts must ensure their approach to pay is transparent, proportionate and justifiable. The Board must discharge its executive pay responsibilities effectively, with the procedure for determining executive pay being agreed and documented in advance, and with decisions reflecting independent scrutiny by the Board. Trusts should understand that inappropriate pay may be challenged by the ESFA.

**Key point:** Boards of Trustees must ensure they are discharging their responsibility to ensure fair executive pay effectively and recording it.

## Financial assurance

Building on another theme of AFH 2017, the 2018 handbook now makes it a requirement that trusts must ensure there is appropriate, reasonable and timely responses to any findings by auditors, taking these opportunities to strengthen the Trust's systems of financial management and control.

In respect of internal controls, the Trust's options for ensuring external oversight over its control environment remain unchanged, being one of:

- The appointment of an internal audit

service;

- A supplementary programme of work performed by the Trust's external auditor;
- The appointment of a non-employed Trustee; or
- A peer review.

AFH 2018 increases the onus on ensuring a sound methodology behind the choice of the above options, with a requirement that trusts must confirm in their Governance Statement which option they have chosen with justification as to why they believe this is the best choice for the Trust.

**Key point:** Trusts should ensure there is sound methodology behind their chosen approach to internal assurance, and this must be discussed in their Governance Statement. They should also ensure the timely implementation of recommendations made by their internal and external auditors.

## Schedule of 'musts'

The Handbook contains a summary list of all 'must' requirements, i.e. the requirements that are compulsory for trusts to implement. These are detailed in Annex C, which has been updated in AFH 2018 for the aforementioned 'musts', along with the following:

- Trusts must manage their cash position robustly; specifically trusts must avoid becoming overdrawn; and
- Trusts must ensure the proper handling of whistle-blowers, by ensuring that all concerns raised with them by whistle-blowers are responded to appropriately and fairly.

**Key point:** Trusts should review the Annex C of 'musts' to ensure they are fully compliant.

**A full copy of AFH 2018 is available to download here:** <https://www.gov.uk/government/publications/academies-financial-handbook>



## How we can help

Ask academies why they value us, and they will say it is our empathy with their work and understanding of the legal and accounting framework within which they must now operate.

For further guidance and advice tailored to your situation, please get in touch with your usual Buzzacott contact or the Buzzacott academy team:

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