

## Academies Financial Handbook 2019 – What you need to know



**T**he Academies Financial Handbook (AFH 2019) was published in June 2019 and is effective for all trusts from 1 September 2019.

### What is the Academies Financial Handbook?

The ESFA's Academies Financial Handbook provides a financial and governance 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 meet the public standard of accountability while not compromising too much of the financial freedoms which they need over their day-to-day operations. The Handbook covers six main areas which are:

- Roles and responsibilities;
- Main financial requirements;
- Internal scrutiny;
- Annual accounts and external audit;
- Delegated authorities; and
- The regulator and intervention.

Since its inception in 2012 the guidance has been re-issued every year with changes made by the ESFA in response to sector developments and trusts' experiences. The changes to the 2019 edition, as set out below, reflect the ESFA's increasing emphasis on the importance of strong financial control and governance.

### Internal scrutiny

The most significant change to the Handbook this year is the inclusion of a much expanded section on internal scrutiny. It has always been a requirement that trusts have in place an effective internal assurance programme, with this needing to be described in the Governance

Statement in trusts' year-end financial statements. AFH 2019 stipulates in far more detail than in previous versions the required approach to internal scrutiny with reference to risk management, increase detail about the role of the **audit committee** and introduces a new requirement to submit an **annual summary report** on internal assurance to the ESFA.

AFH 2019 states that internal scrutiny should focus on:

- Evaluating the suitability of, and level of compliance with, financial and other controls. This includes assessing whether procedures are designed effectively and efficiently, and checking transactions to confirm whether agreed procedures have been followed;
- Offering advice and insight to the board on how to address weaknesses in financial and other controls, acting as a catalyst for improvement, but without diluting management's responsibility for day to day running of the trust; and
- Ensuring all categories of risk are being adequately identified, reported and managed.

It is now a 'must' requirement that all trusts maintain a risk register, and AFH 2019 states that trusts must identify on a risk-basis which areas on which to seek internal scrutiny each year, using its risk register.

### Audit committee

AFH 2019 includes more detail around the role of the Audit committee – a separate committee which must exist where trust annual income is over £50 million (or which may be combined with another committee where income is lower than this). Such a committee should meet at least three times a year. It should agree

an annual programme of work for internal scrutiny which provides coverage across the year, and which is driven by its assessment of risk. It should consider reports arising from the work at each meeting and track progress with addressing any recommendations.

## Annual summary report

Finally, AFH 2019 introduces the requirement that trusts submit an annual summary report of the internal assurance programme to the ESFA by 31 December of each year along with its financial statements which are submitted for the same period. Eileen Milner's recent letter to Accounting Officers (dated 19 July 2019) confirmed that this will be required for the year ending 31 August 2020, with submission by 31 December 2020. However, in the meantime, by 31 December 2019, trusts should submit the most recent internal scrutiny findings, e.g. the latest report from its internal auditor.

For trusts who already have an established programme of annual internal assurance work with clear reporting lines to the Audit Committee and Board, the above requirements should not be onerous or require too much additional work (with the exception of the submission of the annual summary report to the ESFA). However, those trusts who carry out a minimum level of internal assurance work or who have not revised their approach in a number of years should consider carefully how they plan to achieve the required level of scrutiny for the year beginning 1 September 2019. Audit Committees should be agreeing now their annual programme for the upcoming financial year.

*Buzzacott delivers an established internal assurance service to academy trusts of all sizes. If you would like advice on options for your internal assurance delivery, or have any queries on this matter please speak to your usual Buzzacott contact.*

## Management accounts

The previous version of the Handbook made it compulsory that academy trusts prepare management accounts every month, setting out the Trust's financial performance and position, comprising budget variance reports and cash flow forecasts with sufficient information to manage cash, debtors and creditors. These must be shared by the Chair of the Trust Board monthly.

AFH 2019 expands on the existing guidance to describe more explicitly the required format of a trust's management accounts – that they should include an income and expenditure account, variation to budget report, cash flows and balance sheet.

AFH 2019 also requires trusts to select key financial performance indicators and measure its performance against them regularly, including analysis of this in the annual Trustees' Report as explained in the ESFA's Accounts Direction.

The Handbook now refers the reader to further guidance on the mechanics of management accounts, which can be found in the ESFA's library of Academy Trust financial management good practice guides, at: <https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides>

## Governance

Governance continues to be a key focus of the 2019 edition of the Handbook. A new requirement is that every academy trust should appoint a 'Clerk' to support the Board of Trustees, who is someone other than a Trustee, Principal or Chief Executive of the trust. A Clerk can help the efficient function of the Board by providing:

- administrative and organisational support;
- guidance to ensure the Board works in compliance with the appropriate legal and regulatory framework, and understands the potential consequences of non-compliance; and
- advice on procedural matters relating to the operation of the Board.

A full copy of AFH 2019 is available to download here:

<https://www.gov.uk/government/publications/academies-financial-handbook>

A full list of the changes to in AFH 2019 are given on page 8 of the Handbook.

**For advice or guidance on any of the changes please speak to your usual Buzzacott contact or email: [enquiries@buzzacott.co.uk](mailto:enquiries@buzzacott.co.uk)**