2020 Academies Financial Handbook

What has changed?

Contents

Governance

Trustees need to achieve the three elements of value for money:

- Economy
- Efficiency
- Effectiveness

- The trustees must also take ownership of the trust's financial sustainability and its ability to operate as a going concern:
  - strategic leadership that sets and champions vision, ethos and strategy
  - accountability that drives up educational standards and financial performance
  - people with the right skills, experience, qualities and capacity
  - structures that reinforce clearly defined roles and responsibilities
  - compliance with statutory and contractual requirements
  - evaluation of governance to monitor and improve its quality and impact
- The ESFA have produced a good practice guide on going concern
- The academy trust should have a finance committee to which the board delegates financial scrutiny and oversight, and which can support the board in maintaining the trust as a going concern.
- Members **must not** be employees of the trust, nor occupy staff establishment roles on an unpaid voluntary basis
  - This requirement is effective from 1 March 2021. **Key change!**

Governance

- The trust **must** provide members with the trust's audited annual report and accounts so they can be assured that the board is exercising effective governance.
- 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.
  - Last year it was a "should" and now it is a "**must**" that trusts appoint a clerk to support the board. **Key change!**

The clerk should be:

- Knowledgeable
- Well trained
- Independent

- Trusts should consider whether other interests should be registered, and if in doubt should do so. Boards of trustees must keep their register of interests up-to-date at all times.
- For non-executive trustees a knowledgeable clerk to the board is an essential part of their tool kit.
- Often trusts tend to update the register on an annual basis but it is clear this is no longer sufficient and that going forward the register should be updated regularly. We would recommend that this takes place in conjunction with your meetings as part of a standing agenda item on business interests. **Key change!**

Executive team

- The board must also appoint appropriately qualified and/or experienced individual as its accounting officer;
  - this should be the senior executive leader
  - the roles of senior executive leader and accounting officer must not rotate
  - the accounting officer should be employed by the trust
- The board must appoint an appropriately qualified and/or experienced Chief Financial Officer (CFO), who is the trust's finance director, business manager or equivalent, to whom responsibility for the trust's detailed financial procedures is delegated.
- The CFO should be employed by the trust, and the trust must obtain prior ESFA approval if it is proposing, in exceptional circumstances, to appoint a CFO who will not be an employee. **Key change!**
- ESFA encourages the CFO of larger trusts (for example over 3000 pupils) to have qualifications from professional bodies such as the ICAEW, ACCA, CIMA or CIPFA. **Key change!**
- CFOs should maintain continuing professional development and undertake relevant ongoing training.

General controls & transparency

- Fixed Asset Registers **must** be maintained;
  - The board itself must review the risk register at least annually. Risks management covers the full operations and activities of the trust, not only financial risks.
- The academy trust **must** establish an audit and risk committee, appointed by the board. Trusts with an annual income over £50 million must have a dedicated audit and risk committee. Other trusts must either have a dedicated audit and risk committee or can combine it with another committee, such as finance.
- Termly review of pupil projections is now a **must** to challenge the budgets and forecasts.
- Boards are encouraged to take an integrated approach to curriculum and financial planning.
- The trust **must** manage its cash position robustly to avoid becoming overdrawn on any of its bank accounts so that it does not breach restrictions on borrowing.
  - It may be required to report on its cash position to ESFA where there are concerns about financial management.

Things to publish on the schools website:

  - The number of employees, whose benefits exceeded £100k, in £10k bandings, as an extract from the disclosure in its financial statements for the previous year ended 31 August (excluding pensions).
  - The trust's whistleblowing procedure.
- The trust's funds **must** not be used to purchase alcohol for consumption, except to be used in religious services.
- All trusts must complete the school resource management self-assessment tool and submit their completed checklist to ESFA by the specified annual deadline.

Internal scrutiny

- All academy trusts **must** have a programme of internal scrutiny to provide independent assurance to the board that its financial and non-financial controls and risk management procedures are operating effectively.
  - Internal scrutiny is now seen as a critical piece of work that helps support finance committees and the trust board in maintaining oversight.
- The trust **must** deliver internal scrutiny in the way most appropriate to its circumstances.

For example:

  - Employing an in-house internal auditor or
  - Bought-in internal audit service from a firm
  - Individual with professional indemnity insurance
  - The appointment of a non-employed trustee
  - Peer review by the Chief Financial Officer from another academy trust

- From 1 September 2020 accountancy firms who undertake both the external and internal audit can no longer offer both services to a trust in-line with the Financial Reporting Council's latest Ethical Standard. Therefore, trusts will need to identify a new provider for their internal audit service where this is the case.
- The trust **must** submit its annual summary report of the areas reviewed, key findings, recommendations and conclusions to ESFA by 31 December each year when it submits its audited annual accounts.
  - If the trust uses additional individuals or organisations where specialist non-financial knowledge is required, it should reflect their findings, recommendations and conclusions as part of the summary document submitted to ESFA.
  - The trust must also provide ESFA with any other internal scrutiny reports if requested.

Annual accounts

Specifically, the audit and risk committee must:

- Review the external auditor's plan each year
- Review the annual report and accounts
- Review the auditor's findings and actions taken by the trust's managers in response to those findings
- Assess the effectiveness and resources of the external auditor to provide a basis for decisions by the trust's members about the auditor's reappointment or dismissal or retendering.

Considerations may include:

- The auditor's sector expertise
- Their understanding of the trust and its activities
- Whether the audit process allows issues to be raised on a timely basis at the appropriate level.
- The quality of auditor comments and recommendations in relation to key areas
- The personal authority, knowledge and integrity of the audit partners and their staff to interact effectively with, and robustly challenge, the trust's managers.
- The auditor's use of technology
- Produce an annual report of the committee's conclusions to advise the board of trustees and members, including recommendations on the reappointment or dismissal or retendering of the external auditor, and their remuneration.

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