



Academies Financial Handbook 2020 (AFH 2020)

Today 23rd June 2020, the ESFA published the latest AFH 2020, which will come into effect from 1st September 2020 and replace the 2019 version.

We therefore strongly advise that that the AFH 2020 is read by all those involved in making decisions on behalf of the trust.

‘Compliance with the handbook is a requirement in trusts’ funding agreements with the Secretary of State.’

A full copy of AFH 2020 can be found [here](#).

Internal scrutiny is focused on within the changes in the AFH this year. The change emphasises the importance of this work in academy Trusts and confirming that Trusts must have a programme of internal scrutiny covering both financial and non-financial controls, to ensure they are fully compliant.

The changes as always, reflect the main areas identified to improve Trusts, along with small clarifications.

The ESFA has summarised all the changes on page 9 of AFH 2020 so that they can be easily identified.

Services 4 Schools have reviewed these changes and have highlighted the key changes below which will impact your trust.

Changes in the AFH 2020	Implications
<u>Governance</u> - Further information on governance arrangements including trustees’ responsibility to maintain the trust as a going concern (1.14, 2.5 and 2.8).	<p>The importance of Trustees taking ownership with regards to assessing the academy trust’s ability to continue as a going concern.</p> <p>The ESFA have produced a good practice guide on going concern: https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/operating-an-academy-trust-as-a-going-concern</p> <p>This provides Trustees with the definition of going concern along with helpful points to enable Trustees to challenge the financial status of the trust more effectively.</p>
<u>Governance</u> - Confirmation that members must not be employees or occupy unpaid staff roles (1.4).	<p>Members must not also be employees of the academy trust.</p> <p>This now also includes being an employee on an unpaid voluntary basis.</p> <p>This requirement is effective from 1 March 2021.</p>



<p>Governance - Members must remain informed about trust business (1.8).</p>	<p>As well as members continuing to receive the annual accounts, they must also be kept informed regarding trust business.</p> <p>It is therefore advised that there are regular discussions between the trust board and members throughout the year to ensure this can be achieved.</p>
<p>Governance - Trusts must appoint a clerk to the board (1.40).</p>	<p>Last year it was a “should” and now it is a “must” that trusts appoint a clerk to support the board.</p>
<p>Governance - Clarifying that trusts must keep their register of interests up to date (5.46).</p>	<p>Trusts’ Register of Interests must be kept up to date on a regular basis.</p> <p>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.</p> <p>It is therefore advised that this becomes part of a standing agenda item on business interests, for all meetings.</p>
<p>Executive Team - Confirmation that both the accounting officer and chief financial officer (CFO) should be employees, and a requirement for ESFA approval if, exceptionally, they are not (1.26 and 1.36).</p>	<p>Both the Accounting Officer and Chief Financial Officer (CFO) should be employees however, as of 1 September 2020, where either position is taken by a person who is not an employee, the trust must obtain ESFA approval prior to the appointment.</p> <p>This will be particularly relevant where there is a sudden departure from either role and trusts look to appoint a replacement on an interim basis.</p>
<p>Executive Team - Encouraging larger trusts to consider relevant accountancy qualifications for their CFO, and for all CFOs to maintain professional development (1.37 and 1.38).</p>	<p>The expectations for the CFO role have increased.</p> <p>For larger trusts (those with more than 3,000 pupils) Trustees are now expected to consider whether the CFO should hold a business or accountancy qualification for a relevant professional body.</p> <p>This should be taken into account when considering a vacancy in the CFO role. Examples of professional bodies include the ICAEW, ACCA, CIMA and CIPFA.</p> <p>Those CFOs who have such qualifications should maintain their professional development and take relevant ongoing training (CPD), which is expected as part of their membership to the professional bodies.</p>

General controls and transparency - Updated clarifications including:

- maintenance of a fixed asset register (2.7),
- termly review of pupil number projections (2.12),
- use of integrated curriculum and financial planning (2.13),
- avoidance of overdrafts (2.24),
- publication of information about high pay (2.32) and whistleblowing (2.44),
- confirmation that the trust's funds must not be used to purchase alcohol (2.35),
- board and committee responsibilities for risk management (2.38, and 3.6 to 3.8),
- completion of the School resource management self-assessment tool (6.8).

The AFH2020 increases the expected controls and transparency that trusts should have in place going forward.

These include:

- Trusts must maintain a fixed asset register
- Trustees should challenge pupil number estimates and review these termly
- Boards are encouraged to adopt integrated Curriculum Financial Planning (ICFP) to ensure curriculum planning provides the best education with the resources available
- Trusts must avoid using bank overdrafts – this includes individual accounts, not just an overall position
- Those employees whose benefits (gross pay, taxable benefits and termination payments) are more than £100k must be published on the trust's website as an extract from your financial statements for the preceding accounting period.

Therefore, from 1 September 2020, the details of those meeting this threshold in the 2019 financial statements should be published until your 2020 financial statements are finalised. The information should be reported in £10k bandings.

- Continued confirmation that alcohol must not be purchased, however there is now an exception where it is for religious services.
- Whistleblowing procedures must be published on the trust website.
- The trust's risk register must be reviewed by the board of trustees (at least annually) who retain overall responsibility for the register and should only receive support from the audit committee, not delegate responsibility to.
- Clarification that the audit committee must also report to the board on the controls around non-financial risks as well financial ones.

<p>Internal scrutiny - Updated text including;</p> <ul style="list-style-type: none"> ➤ clarification that internal scrutiny covers both financial and non-financial controls (3.1), ➤ removal of the option for internal audit to be performed by the external auditor (3.17 and 3.20) ➤ confirmation that trusts can use additional individuals or organisations to support internal scrutiny where specialist nonfinancial knowledge is required (3.18 and 3.23). 	<p>The internal scrutiny process should have consideration for the non-financial risks as well as financial risks.</p> <p>The AFH2020 makes it clear that 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.</p> <p>Trusts should also consider other individuals/organisations to cover the non-financial risks they will look to seek assurance on. Therefore, internal audit is not solely to be undertaken by persons with financial expertise, but more of a collective effort.</p> <p>The reports and findings of both the financial and non-financial risk reviews should then be included in the internal scrutiny summary document submitted to the ESFA by 31 December annually.</p>
<p>Annual accounts - More on the audit and risk committee’s ole in relation to external audit (4.17).</p>	<p>The remit of the audit committee must 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.</p> <p>This includes consideration such as:</p> <ul style="list-style-type: none"> • 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