

# New year, new Academies Financial Handbook

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24 August 2020

On 1 September 2020, the latest iteration of the [Academies Financial Handbook](#) (AFH) came into force. At the end of July the ESFA also published the [Academies Accounts Direction 2019 to 2020](#), as well as a [Supplementary Bulletin](#) to the Academies Accounts Direction providing guidance on matters arising from the Covid-19 pandemic, which may impact on the 2019/2020 accounts (the bulletin has the same status as the Accounts Direction).

These are important documents for academy trusts that every trustee and accounting officer will need to read and understand. As in previous updates the ESFA includes in the guidance a summary of the main changes:

- [Academies Financial Handbook](#) – see page nine of the guidance; and
- [Accounts Direction](#) – see page four of the guidance.

We recommend that trustees and accounting officers ensure that they have familiarised themselves with the changes. It is also sensible to ensure that everyone has read Part 8 of the [Academies Financial Handbook](#) (page 60) which sets out the ESFA's list of "musts".

## Proactive, not reactive

We also recommend that the board take some time at a forthcoming meeting to discuss the changes and consider in light of that discussion what, if any, changes to approach the trust should make in light of any lessons learned and/or any areas of focus for the year ahead.

We recommend this because whilst it is an important compliance exercise, the annual update is also a good opportunity to pause, learn and reflect on your Trust's arrangements for effective management and control to ensure compliance with the funding agreement. The changes should not be simply seen as another compliance box to tick, but rather as an opportunity to learn from the issues that the ESFA has identified in the sector and has sought to address through the update to the Academies Financial Handbook.

This is a good time to go beyond the headline technical change and reflect on how your trust is doing on the underlying issues that the change is seeking to address.

## Broader reflections

In this briefing, rather than list the changes which the ESFA summarises in its guidance, we stand back and offer three reflections the board and executive team may wish to consider (we anticipate that you may well identify your own in addition to these through board discussion):

### 1. Going concern

The financial pressures affecting the sector over the last few years are well documented and understood by trust leaders. The ESFA have provided several school resource management and benchmarking tools in recent years. However, the fact the ESFA have again taken the opportunity in the latest edition of the AFH to ESFA emphasise the trustees' responsibility to maintain the trust as a going concern appears to show that the ESFA is still having to intervene and provide cash to support trusts and demonstrates that this is an issue boards should be aware of.

With Covid-19 and resultant challenges in the year ahead, trustees are going to need to provide effective oversight in respect of the trust's financial position. The Department updated guidance in June this year specifically on operating an academy trust as a going concern. The guidance states:

"The best step for any academy trust facing a deficit budget or reduced liquidity is early intervention. Sometimes difficult decisions must be made which have longer-term implications, like restructures and the postponement of capital plans. However, to ensure that an academy trust remains a going concern requires detailed and relentless focus on shorter-term issues and especially asking the right questions at the right time."

Earlier on in the guidance it states: "Even businesses with strong balance sheets and adequate reserves can find themselves in this situation if they have insufficient "liquid" (i.e. cash or near-cash) assets. The issue therefore commonly manifests itself as a cashflow problem."

## 2. **Interaction between members, trustees and senior leaders**

The interaction between members, trustees and senior leaders is clearly still causing concern to the Department. In the latest edition the AFH, it:

3. clarifies that members cannot occupy unpaid staff roles (this is an addition to the existing position of not being an employee);
4. emphasises that members must remain informed about trust business;
5. reiterates the importance of having the register of interests up to date (this means when interests arise and not simply through an annual declaration which may be months later);
6. requires the accounting officer and chief financial officer to be employees of the trust.

A common factor is transparency, accountability and separation of roles.

Covid-19 has tested us all, and the boards and executive leaders will have learnt a lot from how their trust has navigated and continues to navigate the challenges presented by the pandemic. This year is likely to be a very good year to take stock of your governance arrangements and identify what has worked well and what could be improved.

A good starting point is making sure you have a common understanding of the respective roles and responsibilities. Taking members as an example, despite the importance of the role placed on them by the Department for Education, the reality is their role and responsibilities are still not widely understood. There is good reason for this - there has been uncertainty about the responsibilities of members of charitable companies limited by guarantee generally, which the Supreme Court has only recently ruled on. You can read our legal opinion on the judgement [here](#).

We have developed a number of helpful resources to support trusts including a member's handbook and code of governance. We are also running a webinar on 6 October on the interactions between the key actors in the governance and leadership of the trust.

## 7. **Managing risk and internal scrutiny**

The latest AFH looks to make a number of changes to strengthen the requirements on managing risk and internal scrutiny. Clearly, you will want to make sure your arrangements comply with the latest requirements, but perhaps having dealt with the first wave of a pandemic it is a good time to reflect on how robust your arrangements are.

Under the AFH:

8. the board must review the risk register annually and has responsibility for risk management and cannot delegate responsibility to the audit and risk committee (who can provide advice to the board);
9. it clarifies that the board's effective management of risk includes financial and non-financial risk;
10. auditors can no longer offer both external and internal audit to a trust.

Some questions you might like to consider include:

11. what does the board's latest review of the risk register tell you?
12. what have you learned over the last 6 months as a board in terms of the way the organisation has managed risk?

Please do [get in touch](#) if you want to discuss any of the issues above or are interested in discussing the ways we can support the board and executive leaders with their strategic functions.

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