

# New Academies Financial Handbook focuses on strengthening governance and compliance

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As with previous iterations, there is an element of increased 'governance creep' and focus on compliance which stems from Lord Agnew's concern that the majority of bad headlines surrounding the academies sector are largely generated by weak governance.

The key changes are highlighted below.

## Governance (Sections 1.11 and 1.38)

There is nothing revolutionary in terms of changes to governance. These changes are mainly for the sake of clarification and emphasising what is considered good governance practice.

These include:

- updating the role members to align with the Governance Handbook;
- greater emphasis is place on trustees in applying the highest standards of governance (again with clear reference to the [Governance Handbook](#));
- emphasising that each board of trustees must have a clerk (who is not a trustee or the accounting officer; and
- clarifying that the ESFA need to be alerted within 14 calendar days when there is a change/appointment of members, trustees, CEO/ CFO.

## Executive pay (Section 2.30 and 2.31)

Much more detail has now been set out in the Academies Financial Handbook around executive pay, clarifying that the rules do not only include salary but also benefits. Trustees must "*follow evidence based process and a reasonable and defensible reflection on the individual's role and responsibilities.*"

Whilst the changes are not extensive, Trusts should reflect on whether their policies reflect this new wording.

## Whistleblowing (Section 2.41 to 2.46)

The advice on whistleblowing procedures has been strengthened, compared with previous editions, including a structure that protects and supports staff so they can report concerns without reprisals.

Trusts must ensure that all staff are aware of the process and know who to approach to report concerns. Trusts must ensure that concerns are responded to "*properly and fairly*".

Trusts should therefore review their whistleblowing policies to ensure that they are in line with the new regulations.

## Internal controls (3.1 to 3.22 and 2.36)

One of the most notable changes is around internal controls and reflects the current culture that governance should be focused on compliance. The section has been rewritten to put more of an onus on Trusts to have “*a programme of internal scrutiny to provide independent assurance to the board that its financial and other controls and risk management procedures are operating effectively.*”

The new changes include:

- having internal scrutiny focussing on evaluating compliance with financial controls; offering advice and insight to the board on how to address weakness in controls; and ensuring risks are identified and managed;
- ensuring reporting lines are independent and to the board/ audit committee (rather than the CFO or executive team);
- setting out in much more detail regulations around the membership and operations of the audit committee which should not include employees or the Chair of the Trustee (although the CEO and CFO should attend audit committee meetings and report to the meeting)
- 3.15 of the Academies Financial Handbook goes into far much greater detail about how internal scrutiny should be delivered including it being driven by a scheme of work, being focused on high risk areas and having regular updates to the committee – with a short annual summary each year on 31 August;
- the internal control annual summary must be delivered to the ESFA by 31 December each year with the annual accounts (beginning December 2020);
- the Trust must maintain a risk register.

## Regulator intervention (Sections 6.19 to 6.23)

A new section has been added to flag DfE intervention powers. Whilst the Academies Financial Handbook doesn't extend any intervention powers the DfE have, a notable clarification is that a trust which has been issued with a Financial Notice to Improve (FNtI) must publish the FNtI on its website within 14 days of this having been issued. Section 6.9 of the Academies Financial Handbook also sets out the Secretary of State's powers in relation to removing trustees and members (providing such powers are in the Trust's funding agreements).

## Financial planning (Sections 2.18, 2.21 and 2.23)

The new Academies Financial Handbook has clarified the position on Management Accounts. Management Accounts must be prepared monthly and contain some bare essentials, including income and expenditure account, cash flows and balance sheets. Key financial indicators should also be included.

Reminders are also included about gender pay gap information (when it is a requirement) and the need for senior leadership to be on the payroll.

## Related party transactions (Sections 5.40 to 5.43)

Clarity is added to the changes made last year around pre-authorisation of related party transactions. The new Academies Financial Handbook makes reference to Section 33 of FRS 102, SORP and the Accounts direction in determining entities caught by related party transactions and clarifies that trading subsidiaries are caught by the regime.

## Conclusion

As stated above, this year's Academies Financial Handbook is a further step in the onward advance towards encouraging Trusts to push financial management and governance higher up the agenda.

Trusts should be very mindful of these changes and adopt their approach and policies accordingly. However, at the same time, boards should be very careful not to focus too much on compliance at the expense of other strategic priorities.

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