Detailed Summary of the Academies Financial Handbook 2020

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Part 1 of the new handbook – Roles and responsibilities

Members

- Trustees and management must have the skills, knowledge, and experience to run the academy trust and must apply the highest standards of conduct and ensure robust governance (1.11)
- The trust must have at least 3 members, but at least 5 is preferred
- Members must not be employees of the trust, nor occupy staff establishment roles on an unpaid voluntary basis from 1 March 2021.
- There should be significant separation between members and trustees. If members sit on the board of trustees this may reduce objectivity. DfE prefer the majority of members to be independent.
- Members should be 'eyes on and hands off'
- It is important for members to be kept informed about trust business so they can be assured that the board is exercising effective governance Trustees
- The Board must appoint an audit and risk committee to advise the board on the adequacy of the trust's internal control framework, to direct a programme of internal scrutiny and to consider the results and quality of external audit
- The board may delegate functions to other committees and each committee must contain a majority of trustees, but may include other people the board chooses to appoint
- New trusts producing audited accounts for the time must include in their first governance statement what they have done to review and develop their governance structure and the composition. Established trusts should include an annual assessment, including review of the board's composition in terms of skills, effectiveness, leadership, and impact.
- The audited accounts must be:
  - submitted to ESFA by 31 December
  - published on the trust's website by 31 January
  - filed with Companies House under company law, usually by 31 May
  - provided to every member (under the Companies Act)
  - provided to anyone who requests a copy (4.4)

The accounting officer

- The board of trustees must appoint in writing a senior executive leader who may be appointed as a trustee. In single academy trusts this should be the principal. In multi-academy trusts with multiple academies it should be the chief executive
- The board must also appoint in writing a named individual as its accounting officer. This should be the senior executive leader
- The individual must be a fit and suitable person for the role
- The roles of senior executive leader and accounting officer must not rotate
- The accounting officer should be employed by the trust. If not, prior EFSA approval is required.
- The accounting officer must complete and sign a statement on regularity, propriety, and compliance each year and submit this to ESFA with the audited accounts.
- They must demonstrate how the trust has secured value for money
- They must take personal responsibility for assuring the board that there is compliance with the funding agreement and handbook.
- They must advise the board in writing if action it is considering is incompatible with the articles, funding agreement or handbook
- They must advise the board in writing if the board fails to act where required by the funding agreement or handbook. If the board proceed against their advice and the accounting officer still considers the action to be a breach, they must notify ESFA's accounting officer immediately in writing

The Chief Financial Officer (CFO)

- The board must appoint a CFO who is the trust's finance director, business manager or equivalent
- They should be employed by the trust and the trust must obtain prior EFSA approval if it is seeking to appoint a CFO who is not an employee
- The CFO and their finance staff must be appropriately qualified and/or experienced.

The clerk to the board

- The trust must appoint a clerk to support the board of trustees who is someone other than a trustee, principal of chief executive of the trust (1.38)

Part 2 of the handbook - Main financial requirements

Financial oversight

- Board meetings must take place at least 3 times a year, although trusts should consider meeting more frequently. If the board meets less than 6 times a year it must describe in its governance statement how it maintained effective oversight of funds with fewer meetings

Financial planning

- The board of trustees must ensure financial plans are prepared and monitored satisfying that the trust remains a going concern and financially sustainable

Monitoring the budget

- The trust must prepare management accounts every month setting out its financial performance and position (2.18)
- The format of monthly management accounts must include and income and expenditure account, variation to budget report, cash flows and balance sheet (2.21)
- Where the board has concerns about financial performance, it should at quickly ensuring the trust has adequate financial skills in place (2.23)

Procurement and spending decisions

- The board of trustees must ensure its decisions about levels of executive pay follow a robust evidence based process and are a reasonable and defensible reflection of the individual's role and responsibilities (2.30)
- The board must discharge its responsibilities effectively ensuring its approach to pay and benefits is transparent (2.31)
- The trust is reminded of requirements under legislation for organisations with 250 or more employees to publish on their website and on the government's reporting website about the gender pay gap in their organisation (2.32)
- The trust must ensure its senior employees' payroll arrangements fully meet their tax obligations ad comply with HM Treasury's guidance about the employment arrangements of individuals on the avoidance of tax (2.33)

Risk Management

- The trust must manage risks to ensure its effective operation and must maintain a risk register (2.36)

Whistleblowing (2.41 to 2.46)

- The academy trust must have procedures for whistleblowing, to protect staff who report individuals they believe are doing something wrong or illegal.
- The trustees must agree the whistleblowing procedure.
- The trust should appoint at least one trustee and one member of staff who other staff can contact to report concerns.
- The trust must ensure all staff are aware of the whistleblowing process, and how concerns will be managed.
- Staff should know what protection is available to them if they report someone, what areas of malpractice or wrongdoing are covered in the trust's whistleblowing procedure, and who they can approach to report a concern.
- The trust must ensure all concerns raised with them by whistleblowers are responded to properly and fairly.

Information about key individuals in the trust (2.51 – 2.55)

- The trust must notify ESFA of changes to the governance information described in this section within 14 calendar days of the change.
- Notification must be through the governance section of DfE's Get information about schools (GIAS) register, accessed via DfE Sign-in.
- All fields specified in GIAS for the individuals must be completed and the trust must ensure its record in GIAS for the individuals is kept up to date.
- The records required in GIAS for the trust are (including direct contact details for all):
  - Members
  - chair of trustees
  - all other trustees
  - accounting officer
  - chief financial officer
- The records required in GIAS for constituent academies in a multi-academy trust are:
  - headteacher, including direct contact details
  - chairs of local governing bodies (where adopted), including direct contact details
  - local governors (where adopted)

Internal scrutiny

- All academy trusts must have a programme of internal scrutiny to provide independent assurance to the board that its financial and others controls, and risk management procedures, are operating effectively (3.1)
- Internal scrutiny must 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 conrols, acting as a catalyst for improvement, but without diluting management's responsibility for day to day running of the trust
  - ensuring all categories of risk are being adequately identified, reported and managed (3.2)
- The trust must identify on a risk-basis (with reference to its risk register) the areas it will review each year, modifying its checks accordingly. For example, this may involve greater scrutiny where procedures or systems have changed. (3.3)
- Internal scrutiny should take account of output from other assurance procedures to inform the programme of work. For example, it should have regard to recommendations from the trust's external auditors as described in their management letter, and from relevant reviews undertaken by ESFA. (3.4)
- Independence in internal scrutiny must be achieved by establishing appropriate reporting lines whereby those carrying out checks report directly to a committee of the board, which in turn provides assurance to the trustees. (3.5)
- The academy trust must establish an audit committee, appointed by the board.
  - Trusts with an annual income over £50 million must have a dedicated audit committee.
  - Other trusts must either have a dedicated audit committee or can combine it with another committee. (3.6)
- The audit committee should meet at least three times a year. (3.7)
- The audit committee's role must include directing the trust's programme of internal scrutiny and reporting to the board on the adequacy of the trust's financial and other controls and management of risks. (3.8)
- Employees of the trust should not be audit committee members, but the accounting officer and chief financial officer should attend to provide information and participate in discussions. (3.9)
- The chair of trustees should not be chair of the audit committee. (3.10)
- Where the audit committee is combined with another committee, employees should not participate as members when audit matters are discussed. (3.11)
- The committee must:
  - have written terms of reference describing its remit
  - agree a programme of work annually to deliver internal scrutiny that provides coverage across the year
  - review the risk register to inform the programme of work, ensuring checks are modified as appropriate each year
  - agree who will perform the work
  - consider reports at each meeting from those carrying out the programme of work
  - consider progress in addressing recommendations
  - consider outputs from other assurance activities by third parties including ESFA financial management and governance reviews, funding audits and investigations
  - have access to the external auditor as well as those carrying out internal scrutiny, and consider their quality (3.12)

- In MATs, the committee's oversight must extend to the financial and other controls and risks at constituent academies. (3.13)
- Oversight must ensure information submitted to DfE and ESFA that affects funding, including pupil number returns and funding claims (for both revenue and capital grants) completed by the trust and (for MATs) by constituent academies, is accurate and in compliance with funding criteria. (3.14)
- Internal scrutiny must:
  - be independent and objective – for example it must not be performed by the trust's own accounting officer, chief financial officer or other members of the finance team
  - be conducted by someone suitably qualified and experienced and able to draw on technical expertise as required
  - be covered by a scheme of work, driven and agreed by the audit committee, and informed by risk be timely, with the programme of work spread appropriately over the year so higher risk areas are reviewed in good time
  - include regular updates to the audit committee by the person or organisation carrying out the programme of work, incorporating:
    - a report of the work to each audit committee meeting, including recommendations where appropriate to enhance financial and other controls and risk management
    - a short annual summary report to the audit committee for each year ended 31 August outlining the areas reviewed, key findings, recommendations and conclusions, to help the committee consider actions and assess year on year progress. (3.15)
- Whilst the audit committee is responsible for directing the internal scrutiny, the findings must also be made available to all trustees promptly. (3.16)
- The trust must deliver internal scrutiny in the way most appropriate to its circumstances. Options include:
  - employing an in-house internal auditor
  - a bought-in internal audit service, under a separate letter of engagement if internal audit and external audit is performed by the same firm
  - the appointment of a non-employed trustee
  - a peer review by the chief financial officer, or other member of the finance team, from another academy trust. The trust should satisfy itself that the trust supplying the reviewer has a good standard of financial management and governance and should minute the basis for its decision. (3.17)
- The trust may combine the above options. (3.18)
- To ensure those carrying out the programme of work are suitably qualified and/or experienced:
  - internal auditors should be members of a relevant professional body
  - trustees and peer reviewers performing the work should have qualifications in finance, ac counting or audit, and appropriate internal audit experience. (3.19)
- The trust must keep its approach to internal scrutiny under review. If it changes in size, complexity or risk profile, it should consider whether its approach remains suitable. (3.20)
- The trust must confirm in its governance statement, accompanying its annual accounts, which of the internal scrutiny options it has applied and why. The outcome of the work must also inform the accounting officer's statement of regularity in the annual accounts. (3.21)

- The trust must submit its annual summary report of the areas reviewed, key findings, recommendations and conclusions (as presented to the audit committee under section 3.15 by the person or organisation carrying out the programme of work) to ESFA by 31 December each year when it submits its audited annual accounts. The trust must also provide ESFA with any other internal scrutiny reports if requested. (3.22)
- The board must appoint an audit committee – either a dedicated committee or combined with another committee, in accordance with section 3.6, to advise on the adequacy of financial and other controls and risk management arrangements, to direct a programme of internal scrutiny and to consider the results and quality of external audit. (1.17)

Delegated authorities

- The academy trust has autonomy over financial transactions arising in the normal course of business. However, some transactions have delegated authority limits beyond which trusts must obtain prior ESFA approval.
- A schedule of delegated authorities is at section 5.64. Trusts must ensure they are familiar with these requirements and ESFA may intervene where trusts do not seek the required ESFA approval in advance. (5.1)
- Trusts must report all contracts and other agreements with related parties to ESFA in advance of the contract or agreement commencing, using ESFA's related party on-line form. This requirement applies to all such contracts and agreements made on or after 1 April 2019.(5.40)
- Trusts must obtain ESFA's prior approval, using ESFA's related party on-line form, for contracts and other agreements for the supply of goods or services to the trust by a related party agreed on or after 1 April 2019 where any of the following limits arise:
  - a contract or other agreement exceeding £20,000
  - a contract or other agreement of any value that would mean the cumulative value of con tracts and other agreements with the related party exceeds, or continues to exceed, £20,000 in the same financial year ending 31 August (5.41)
- For the purposes of reporting to, and approval by, ESFA contracts and agreements with related parties do not include salaries and other payments made by the trust to a person under a contract of employment through the trust's payroll. (5.42)
- Novel, contentious and/or repercussive related party transactions are subject to separate arrangements. Trusts must obtain ESFA's prior approval for any contracts and other agreements with related parties that are novel, contentious and/or repercussive, regardless of value. Approval must be sought using ESFA's enquiry form, not through the related party on-line form. Trusts should carefully consider the impact of this requirement and its relevance to transactions involving the board chair and/or the accounting officer. (5.43)

The regulator and intervention

- Where a trust is subject to an Financial Notice to Improve (FNtI), it must publish the FNtI on its

website within 14 days of it being issued, and retain it on the website until the FNtI is lifted by ESFA. (6.15)

- If an FNtI is issued, the delegated authorities in sections 5.6 to 5.30 of this handbook are revoked, and all transactions of this nature must be approved in advance by ESFA, specifically:
  - special staff severance payments
  - compensation payments
  - writing off debts and losses
  - entering into guarantees, indemnities or letters of comfort
  - disposals of fixed assets beyond any limit in the funding agreement
  - taking up a leasehold or tenancy agreement on land or buildings of a duration beyond any limit in the funding agreement
  - carry forward of unspent GAG from one year to the next beyond any limit in the funding agreement
  - pooling of GAG

The trust may also be prevented from entering into transactions with related parties without approval. These delegated authorities shall be returned once the FNtI has been complied with, and improvement is sustainable. (6.17)

- Where the Secretary of State has concerns about an individual managing an academy trust, he may take action to address those concerns. (6.19)
- Subject to the relevant provisions being present in the trust's funding agreement, the Secretary of State can require the trust to remove a member or trustee. This can include where the individual has been convicted, cautioned or engaged in relevant conduct and, as a result, the Secretary of State considers them unsuitable to take part in management of the academy trust. (6.20)
- The Secretary of State can also make directions under section 128 of the Education and Skills Act 2008prohibiting individuals from taking part in academy trust management. This could prevent an individual from acting as a member, trustee or executive leader of a trust. The circumstances are prescribed in regulations but can include where the individual is subject to a caution or conviction or has engaged in relevant conduct, and the Secretary of State considers that because of that caution, conviction or conduct that individual is unsuitable to take part in management of a school. (6.21)
- Where there is a concern, ESFA may refer trusts to the Charity Commission, reflecting the Commission's interest in addressing non-compliance with legal or regulatory requirements or misconduct or mismanagement in the administration of any charity, and in ensuring individuals running the charity (in particular, but not limited to, the trustees) do so in compliance with their legal duties. The Commission may use its regulatory powers as described in its Memorandum of Understanding with DfE. (6.22)
- ESFA may refer academy trustees, as directors, to the Insolvency Service who may consider whether the conduct of a director is such that they are unfit to be involved in management of a company and whether or not it would be in the public interest for a disqualification order to be sought. (6.23)

For any further information please contact Gemma Duxbury, Senior Associate, Governance, Procurement & Information

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