

# Financial reporting developments

## Academies Accounts Direction 2022 to 2023 (AAD)

On the 21<sup>st</sup> April 2023 The Education & Skills Funding Agency (ESFA) issued the annually updated AAD, which lists changes in respect of the annual report and financial statements for the accounting period ending on 31 August 2023.

We have set out below the main points to note.

## Changes in relation to Financial Statements

### Treatment of loans (paragraph 2.113)

Guidance has been added to clarify how loans should be treated in the financial statements.

All amounts owed, accrued, or deferred by the academy trust should be included as a creditor in the balance sheet at their settlement amount, and be split between amounts falling due within one year (current liability creditors), and amounts falling due in more than one year (long term liability creditors). Amounts falling due in more than one year may include:

- ❑ loans from ESFA under the Conditions Improvement Fund (CIF)
- ❑ loans inherited from the former local authority-maintained school on conversion
- ❑ Salix loans

### Disclosure of all material income sources (paragraph 2.130)

Academy trusts are reminded that any material funding sources must be separately listed in the income notes. Any remaining non-material sources of funding can be grouped together.

### Disclosure of teaching assistant costs (paragraph 2.137)

The Direction specifically sets out that the cost of teaching assistants should be disclosed as 'support costs' within the expenditure notes.

The administrative and support heading should include all staff who do not have day-to-day teaching duties, which will include teaching assistants.

#### Suggested Action:

Review your payroll posting of these costs and ensure the figures are in the correct heading "support costs". Figures will be needed for 31 August 2022 and 2023.

## Other matters

### How Trustees should use the Direction

Clarification has been added in the introduction of the new Direction, setting out the level of expectation regarding Trustees' understanding of the updated document. The following paragraph has been added;

'It is not expected that trustees have a detailed understanding of the Direction's technical accounting requirements and, where required, they should seek support from their chief financial officer. Nevertheless trustees, will find the Direction helpful in ensuring they fulfil their financial reporting responsibilities.'

### Interim arrangements, in the absence of key signatories (Paragraph 1.18)

Guidance has been added as to the expectation of Academies to have interim arrangements planned in the event of the departure or long-term absence of key signatories, including the accounting officer;

- ❑ The board should decide what interim arrangements are required
- ❑ The trust is expected to have an accounting officer in place at all times
- ❑ If the accounting officer leaves before the signing of the accounts, there should be sufficient briefing and/or information available to enable the new accounting officer to understand the key issues in the previous year

#### Suggested Action:

Ensure that the trust board considers and documents plans for interim arrangements in the event that signatories (including the accounting officer) are absent.

### Updated feedback on non-compliance with the Direction (Paragraph 1.21)

This section has been updated mainly to emphasise that Trustees are responsible for ensuring the content of their accounts fairly reflect their academy trust's performance and circumstances. The ESFA have highlighted the following areas where improvements can be made;

#### Annual report:

- ❑ Example text has been copied from the model accounts and not tailored to the academy trust
- ❑ Text has not been updated from the previous year
- ❑ There are inconsistencies, either within the report or between the annual report and other documents (e.g. the external auditor or internal scrutiny reports)

Academy trusts should be mindful of the need to forward plan to ensure the submission deadlines are achieved, particularly when changes to key staff are expected.

Where the Direction and/or the model accounts state points that must be covered, the academy trust must not omit these sections. The ESFA have identified the following requirements where compliance can be improved;

- ❑ Trustees report, structure governance and management – when describing the organisation structure, ensure information is included in relation to any subsidiaries, joint ventures and associates
  
- ❑ Governance statement;
  - ensure there is adequate information relating to the governance framework for the audit and risk committee
  - ensure there is an adequate description of the processes in place to manage conflicts of interest in the academy trust. These processes should extend beyond requiring declarations of business interests
  - ensure that processes in place to manage conflicts of interest, for any subsidiaries, joint venture or associates, are included
  - ensure there is an explanation as to why the academy trust chose a particular option for delivering internal scrutiny
  
- ❑ Related party transactions, trustees remuneration note – remember to make any relevant disclosures and to disclose the (personal) name of any staff member who is also a trustee.

#### Suggested Action:

Consider using the points set out in paragraph 1.21 of the Direction as a checklist to ensure that the areas above have been checked when drafting the annual report and accounts.

#### School buildings' safety risk

The Direction's content has been enhanced to include the following points;

- ❑ clarification added that the trustees' report on principal risks and uncertainties and consider those risks impacting on trustees' responsibilities to ensure the trust's estate is safe, well maintained and complies with relevant regulations
- ❑ clarification that the review of value for money statement encompasses estates safety and management
- ❑ a suggestion is included that accounting officers should consider demonstrating how they have effectively used relevant funding to ensure the trust's estate is safe, well-maintained, and complies with the relevant regulations, as one of their value for money examples
- ❑ clarification that the statement on regularity, propriety and compliance encompasses estates safety and management