

Financial reporting developments

Academies Accounts Direction 2023 to 2024 (AAD)

On 27 March 2024, the Education & Skills Funding Agency (ESFA) issued the annually updated AAD, which sets out requirements and provides guidance for academy trusts preparing their annual report and financial statements (the “accounts”) for the accounting period ending on 31 August 2024. We have set out below the main points to note.

Changes in relation to Financial Statements

**n.b. references to ‘Note # to the accounts’ are based on the order set out within the model accounts.*

16-19 core education funding disclosure (paragraph 2.98)

Guidance has been added within the ‘funding for the academy trust’s educational operations’ section, under the ‘Charitable activities’ heading which confirms that 16-19 funding should be disclosed within note 4 to the accounts.

Academy trusts should separately disclose material non-GAG DFE/ESFA grants they have received in this note. This could include student support services, 16-19 core education funding, pupil premium and service premium, pupil number adjustment, universal infant free school meals, insurance, PE and sports grant and teachers pay grant.

Suggested Action:

Ensure any ‘16-19 core education funding’ is included in a separate nominal code or cost centre, so we can identify these and ensure your accounts are compliant with the AAD. Figures will be needed for the year ending 31 August 2024 and the comparative for 31 August 2023.

Staff costs note disclosing ‘other employee benefits’ (paragraph 2.134)

Clarification has been added within the staff costs section, which confirms that note 10 to the accounts should separately disclose costs relating to ‘other employee benefits’, in line with FRS102 section 28.

FRS102 defines employee benefits as “all forms of consideration given by an entity in exchange for services rendered by employees”. Examples of ‘other’ include non-monetary benefits such as medical care, housing, cars and free or subsidised goods or services for current employees. (This is in addition to wages, salaries, social security, paid annual leave, paid sick leave, profit-sharing, bonuses and pension costs).

Suggested Action:

Ensure any ‘other employee benefits’ are included in a separate nominal code or cost centre, so we can identify these and ensure your accounts are compliant with the AAD. Figures will be needed for the year ending 31 August 2024 and the comparative for 31 August 2023.

Valuation for initial recognition of long leasehold premises (paragraph 3.27)

Most schools that convert to academy status continue to occupy the premises occupied by the predecessor school on a long-term basis, but do not acquire the freehold.

In this instance, the fair value of the premises will need to be determined in order to recognise them initially as an asset within the accounts. The valuation will need to be a reliable estimate, compliant with FRS102 and the AAD has provided the below information sources as options:

- ❑ i) Obtaining a valuation from a chartered surveyor
- ❑ ii) Obtaining a valuation from the relevant local authority
- ❑ iii) Obtaining a valuation from the construction company, where appropriate
- ❑ iv) Assessing the value of any assets from a transferring academy trust
- ❑ v) Assessing valuation certificates provided by the DfE. However, these valuations are prepared under international financial reporting standards (IFRS) and their primary purpose is to enable the DfE to place a value on the national school estate rather than at a local level
- ❑ vi) Insurance valuations, but this is unlikely to be appropriate if they simply represent the rebuilding cost of the asset rather than its fair value.

* The AAD states that v) & vi) above should not be used as options in their own right but can be used for comparative purposes.

Suggested Action:

Ensure the trust board considers what valuation technique it deems to be appropriate and obtain the valuation. Seek professional advice if you are unsure or want a second opinion.

Agency arrangement disclosure (paragraph 3.132)

The AAD has been updated for the information to be disclosed for agency arrangements within note 34 to the accounts. The accompanying accounting policy within note 1 to the accounts remains unchanged.

The accounts now require disclosure of cumulative unspent fund balances as at the balance sheet date, as opposed to previously when it only required disclosure of in-year movement.

Suggested Action:

Ensure any 'agency arrangements', for example 16-19 bursary funds, are included in a separate nominal code or cost centre, so we can identify these and ensure your accounts are compliant with the AAD. Figures will be needed for the year ending 31 August 2024 and the comparative for 31 August 2023.

Other matters

The accounting officer's statement of regularity, propriety and compliance (paragraph 2.57)

This year's AAD includes one further example for a source of information to inform the accounting officer's statement as they must ensure the academy trust is working within the boundaries of regularity and propriety:

- Review of other external sources of assurance available to the academy trust over the year, for example, specialist reviews or inspections.

For the full list, please refer to AAD 2.57.

Suggested Action:

Ensure the accounting officer is aware of this new requirement and information contained within it is considered as part of their oversight of internal control.

New section - 'What an academy trust must do'

The AAD includes this new section, which aims to highlight the key requirements in relation to an academy trust's accounts, whilst not seeking to cover all the 'musts':

- i) prepare accounts for the academy trust's financial year (paragraph 1.6)
- ii) ensure the content of the accounts complies with company law, charity law and this AAD (paragraphs 1.1-1.3)
- iii) ensure a governance statement is included in the annual report, which provides a conclusion on whether the academy trust has an adequate and effective framework for governance, risk management and control (paragraph 2.48)
- iv) maintain adequate accounting records (paragraph 2.173)
- v) have the accounts audited by an independent registered auditor, who will express an opinion on their content (paragraphs 2.73 - 2.78)
- vi) ensure the accounting officer has made a statement on regularity, propriety and compliance (paragraphs 2.56 - 2.64)
- vii) include an independent reporting accountant's conclusion on regularity, as part of the accounts (paragraphs 2.79 - 2.80)
- viii) submit the audited accounts, external auditor's findings report and an annual internal scrutiny report to ESFA by 31 December 2024 (paragraph 1.13)
- ix) provide a copy of the accounts to every member and to every person who is entitled to receive notice of general meetings (paragraph 1.15)
- x) publish the full accounts on the academy trust's website by 31 January 2025 (paragraph 1.13)
- xi) file the accounts with Companies House by 31 May 2025 (paragraph 1.13).

Suggested Action:

Review the list, as good reminder of key matters, to ensure they are all actioned.

Relationship between the financial statements and other financial returns (paragraph 1.4-1.5)

The AAD confirms that there may be some differences in reporting requirements between the trust's accounts, and its academies accounts return (AAR), due to the fact that the AAR is used to produce the consolidated sector annual report and accounts (SARA), which are prepared under a different accounting framework to most trust's individual accounts.

It goes on to state that trusts ought to consider checking their accounts against the AAR guidance before finalising to help minimise AAR validation errors.

Furthermore, it states that trusts that have adopted the DfE chart of accounts (CoA), may find the structure and mappings worksheet helpful in understanding the relationship between accounts codes, the AAR and the accounts, and that the DfE CoA enables trusts to use automation technology for their AAR and accounts.

Suggested Action:

If not done so already, consider adopting the DfE CoA in order to simplify reporting requirements.

Conclusions with regards to internal controls (paragraphs 1.17 & 2.48)

This AAD expands the review of the effectiveness of the system of internal control, to include a conclusion on whether the academy trust has an adequate and effective framework for governance, risk management and control. It also confirms that this 'conclusion' must be included within the trust's accounts.

If it is concluded that the trust does not, the reason for this conclusion must be stated, along with the plan for improvement.

Suggested Action:

Ensure the board of trustees and accounting officer are aware of this new 'conclusion' requirement and that it is included within your trust's governance statement.

References to Covid-19 have been removed

This year's AAD has removed references to the Covid-19 supplementary bulletin, as Covid-19 grants have either stopped or become part of business-as-usual activity.

ESFA's feedback to the sector (paragraph 1.20-1.23 & Annex A)

As has become customary, this AAD provides an update on ESFA feedback to the sector on the outcomes of its assurance work and compliance with the AAD. From the ESFA's review of the August 2023 accounts, audit findings reports and internal scrutiny reports, it has identified the following areas which it states will help trusts improve compliance with the AAD:

Issue	Improvement
<p>i. Submission deadlines are not always achieved. For example, late accounts due to changes of staff, particularly the accounting officer.</p> <p>Consequence: potential follow up action by the ESFA.</p>	<p>Forward plan and establish a delivery timetable early in the year. Ensure there is always officers appointed to sign the accounts.</p>
<p>ii. The trustees' report does not always represent the academy trust's current circumstances. For example, text from the model accounts is copied without amendment or the report is not updated from the previous year's text.</p> <p>Consequence: stakeholders do not have the context to interpret the financial results/position of the academy trust.</p>	<p>Although trustees may seek assistance in drafting the report, the trustees must approve the final text.</p>
<p>iii. The elements of the governance statement covering internal scrutiny are not always consistent with the actual scrutiny arrangements at the academy trust. For example, the option chosen for delivering internal scrutiny reported in the annual scrutiny report, is different.</p> <p>Consequence: potential that information on the academy trust's internal control environment is misleading.</p>	<p>Trustees must be satisfied of the accuracy and consistency of the governance statement, before approving the final text.</p>
<p>iv. Internal scrutiny arrangements are weak. For example, areas for review are suggested by the internal scrutineer.</p> <p>Consequence: the board may not have assurance that the academy trust's system of internal control is effective.</p>	<p>The planning of the programme of internal scrutiny must be informed by the academy trust's risk register and agreed between the trust board, the audit and risk committee and the internal scrutineer.</p>
<p>v. High risk recommendations from the audit findings report are not always actioned in a timely manner. For example, outstanding recommendations are carried forward from year to year.</p> <p>Consequence: significant weaknesses in the academy trust's financial reporting procedures and internal controls are not rectified.</p>	<p>Ensure the audit and risk committee review the auditor's findings and monitor timely action taken by the academy trust's managers in response to those findings (ATH paragraphs 4.14-4.15).</p>
<p>vi. Where the model accounts provides statements that must be used, the academy trust must not omit that text. For example, additional statements relating to estates management, required in the 2022/23 Direction, have not always been included.</p> <p>Consequence: compliance with both the Direction and the Model Accounts is a requirement of the funding agreement.</p>	<p>Review the 'what has changed' sections of the Direction and Model Accounts for both 2022/23 and 2023/24 and ensure the academy trust's own financial statements template is updated for all required changes.</p>

Suggested Action:

Review the ESFA's feedback above, and if any areas are relevant to your trust, then ensure a plan is put in place to improve your compliance.