

Financial reporting developments

Academies Accounts Direction 2019 to 2020 (AAD)

A little later than planned, as would be expected due to lockdown, the ESFA have issued the AAD which lists changes to the financial statements for accounting periods ending on 31 August 2020. In addition for larger academies there is also a Carbon Reporting Good practice guide to assist with your accounting disclosures.

<https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/streamlined-energy-and-carbon-reporting>

Most of the changes relate to Academy Trusts' reporting requirements in the Trustees Report.

There is increased disclosure in the following areas:-

- ❑ Engagement with employees (if >250 employees)
- ❑ Engagement with suppliers, customers and business relationships (if the Trust is large)
- ❑ A statement describing how the trustees have promoted the success of the academy (if the Trust is large)
- ❑ Energy and carbon reporting (as mentioned above, if the Trust is large*)

Large companies, as defined in sections 465 and 466 of the Companies Act 2006, are companies that meet **two or more of the following criteria:*

- *Turnover (or gross income) of £36 million or more.*
- *Balance sheet assets of £18 million or more.*
- *250 employees or more.*

Note that if academy trusts report at a group level, the thresholds should consider these figures at aggregate level, including subsidiaries.

For carbon reporting you also need to have consumed (in the UK), more than 40,000 kilowatt-hours (kwh) of energy in the reporting period.

If the trustees have reviewed and taken into account the guidance given in The Governance Handbook and the competency framework for governance, disclose this explicitly in the accounts under 'scope of responsibility' in the governance statement.

This year the Trust is also required to disclose how internal scrutiny arrangements have been affected by the new FRC Ethical standard.

Disclosure changes:-

- ❑ Legal costs need to be clearly identified and split between 'legal costs – conversion' and 'legal cost – other'
- ❑ A net debt note is now required to comply with the Charity SORP
- ❑ In MAT's if there are academies with a £nil fund balance at the year-end, narrative should be included to explain this.

Financial Statements

Trustees' Report

There is a new requirement to disclose how you engage with employees if the academy trust has >250 employees. Example of the note required is on page 90.

In addition, if the academy trust is classed as large, under Companies Act 2006, then you will also have to disclose how you engage with suppliers, customers and others. Example wording page 90.

For all sizes of Trust under 'objectives and activities', there is now a paragraph to describe how you have measured success. (Page 92).

Going concern is an area that may require more commentary this year and the ESFA have published a good practice guide on this. (Page 92).

Streamlined energy and carbon reporting (SECR), came into effect for accounting periods commencing after 1 April 2019, again for academy trusts classed as large under the Companies Act 2006. See the link mentioned above and page 96.

Suggested Action:

Ensure you have gathered the information required prior to the year end to be able to populate the new wording required in the trustees report.

Governance statement

Page 102 describes the requirement to note the academy trusts arrangements for internal scrutiny in light of the revised FRC Ethical standard.

Suggested Action:

If you have been using the same firm for external audit and internal scrutiny and the engagement was in place for this academic year, then this arrangement can continue up to 31 August 2020. Some academies may therefore need to change their arrangements for the year ended 31 August 2021.

There is also a new disclosure required if trustees have reviewed and taken into account guidance in the Governance Handbook and competency framework. (Page 99).

Suggested Action:

If your trustees have not yet reviewed this guidance then you should suggest it is scheduled for review. Any actions that the review identifies are put into a plan to work on, so that a positive disclosure can be made.

Statement on regularity, propriety and compliance

Where there are instances of material irregularity, impropriety or funding non-compliance, it has always been good practice to disclose amounts when the accounting officer has had to report in this statement. It is now it is a requirement (not just good practice) to state the monetary amount. (Page 104).

This then follows through to the report that your auditor produces and again the monetary amounts are required, if known. (Page 108).

More guidance is now given, when the accounting officer leaves during the year or up to the date of signing the regularity statement, for the new accounting officer signing the statement (including the period in the run up to disclosure). This may require liaison with the previous accounting officer. (Page 151).

Note 1: Accounting policies

Disclosure is required, if you have a Group, of transfers of activities to a wholly owned subsidiary under merger accounting as required under the SORP.

You must also state if you are excluding a subsidiary from consolidation as it is not material, but consideration needs to be given to the combined materiality of all subsidiaries excluded from consolidation. See SORP module 24.

Note 9: Charitable activities

The ESFA now require legal costs to be disclosed in the note and for the costs to be split between those incurred on conversion and other legal costs. (See page 122).

Suggested Action:

You may need to consider a separate code in your chart of accounts.

Note 19: Funds note when you are a Multi Academy Trust (MAT)

For transparency reasons if academies in the MAT have zero balances for both reporting years, you must declare this in the note. Suggested wording is on page 52.

Note 27: Changes in analysis of net debt (statement of cash flows)

This additional note is required to comply with the Charity SORP, but no comparative note is required. An example of the note is on page 134. This is where you would expect to see Salix loan balances.

Note 31: Local Government Pension Scheme (LGPS) and Teachers Pension Scheme (TPS)

The pension note has been changed (page 136) for the latest actuarial valuation.

Other matters

Preparing for audit

The ESFA has produced a good practice checklist called "prepare for external audit" to help academy trusts prepare for their external audit.

Suggested Action:

Review this checklist and our 'Preparation for the year end 31 August 2020' guide in advance of the start of the audit.