

Financial reporting developments

Academies Accounts Direction 2021 to 2022 (AAD)

The Education & Skills Funding Agency (ESFA) have recently issued the annually updated AAD, which lists changes in respect of Academies' financial statements for the accounting period ending on 31 August 2022.

We have set out below the main changes made this year.

Changes in relation to Financial Statements

Trustees' Report

The updated AAD clarifies that an academy trust should, in line with the Charities statement of recommended practice (SORP), describe the organisational structure of any subsidiaries within their trustees' report, as well as also describing the organisational structure of any joint ventures or associates.

Suggested Action:

Any academies with subsidiaries, joint ventures, or associates, should consider the wording of their trustees report and disclose details of the organisational structure of these if not already included. The information listed in paragraph 2.8 of the AAD should be included where it is relevant.

Governance statement - management of conflicts

A new section has been added to the governance statement which required academy trusts to explain how conflicts of interest are managed. Guidance on management of conflicts of interest has been published by the Charity Commission.

<https://www.gov.uk/government/publications/conflicts-of-interest-a-guide-for-charity-trustees-cc29>

Suggested Action:

Consider whether any conflicts of interest exist within the academy, and ensure that where this is the case, disclosure is made in the governance statement.

Disclosure of severance payments

The ESFA have introduced a new disclosure requirement on severance payments to reflect changes in guidance published by HM Treasury, amount must now be disclosed in set bandings. This does not change the existing disclosure on special staff severance payments.

Concession arrangements

There is updated guidance on service concession arrangements. Where academy trusts are committed to such payments, they are also encouraged to provide narrative to support the numerical disclosures to describe what these payments relate to. An example is set out in 3.46 of the AAD.

Accounting for buildings

The AAD includes new guidance on accounting for buildings whose construction was overseen by the Department for Education or a local authority and transferred to the academy trust on completion.

The DfE has been undertaking two major capital programmes – Free Schools (FS) and Priority Schools Building Programme (PSBP). Through the FS programme, the DfE acquires property and develops a new school site. Through the PSBP programme, DfE undertakes a major refurbishment or rebuild of an existing school's site/buildings.

During the construction phase the site is managed by the DfE project team and construction costs are funded by DfE. The site is not in educational use at this stage and there should be no recognition in the academy trust's financial statements. If the academy trust is partly funding construction on the site these costs should be shown as assets under construction in the academy trust financial statements.

When control of the site is handed over to the academy trust, the academy trust will need to recognise an opening value in its financial statements. The accounting entry will generally be to recognise freehold or leasehold buildings, and to also recognise the value within "donations and capital grants" in the Statement of Financial Activities (SOFA).

Business rates

A new section is included to provide guidance on the accounting treatment for business rates.

From 1 April 2022, the business rates payment process for academies is changing. For those billing authorities who opt in to the new process, academies will no longer need to pay their business rates bills to the billing authority and then submit their business rates bill to ESFA to recoup the costs. Instead, ESFA will pay the bills on the academy's behalf. The academies will retain liability for their business rates so will need to account for these within their financial statements. To do this, academy trusts will need to gross up the value of GAG received by the value of their business rates bills and include a matching expense. For those billing authorities who do not opt in to the new process, the previous process will remain unchanged.

Suggested Action:

Do not forget to enter the cost and the income into the accounts as "netting off" is not permitted.

Teaching school (Hubs)

The requirement to produce trading accounts for teaching school (hubs) as separate notes to the financial statements has been removed. Greater clarity has however been included in the AAD to set out where transactions relating to such activities should be shown in the rest of the financial statements.

The academy trust must determine the status of the entity through which activities are delivered, to consider if it has separate legal identity or is part of the academy trust. Where the former, it will be necessary to consider what control exists to determine if or how the entity should be recognised in the academy trust's financial statements.

- ❑ There is no requirement to include a separate note to the financial statement which shows the financial transactions of the activity.

- ❑ Where the transactions relating to the activity are material, then they should be shown as a separate line on the face of the (SOFA) and analysed in the relevant notes to the accounts.
- ❑ The model accounts have been updated to clarify where such activities should be disclosed.

Other matters

Non-compliance with the direction

The AAD includes updated feedback on non-compliance with the Accounts Direction, and updated themes arising from ESFA's assurance work.

The following areas have been identified where compliance with the AAD could be improved:

- ❑ It is the responsibility of trustees to ensure the content of their accounts fairly reflects their academy trust's performance and circumstances and is compliant with the financial reporting framework.
- ❑ In some cases, the Coketown model accounts provide example text, which, if relevant and appropriate to the academy trust, would meet the requirements in sufficient detail. Unless the AAD (or other financial reporting framework) requires that specific text must be included without exception or amendment, it should only be copied into an academy's accounts where it reflects the trust's performance or circumstances.
- ❑ The ESFA continue to identify regular instances which suggest that the text produced by the academy trust does not fairly reflect the circumstances and performance of the academy trust, specific examples being;
 - Where an academy trust has significant governance, control or financial management issues, yet the relevant sections of the annual report paint a conflicting picture because the text from the model accounts is used without amendment.
 - Where an academy trust's governance statement states that the internal scrutiny function has conducted a review during the year of a key process or risk area, yet this area is not listed in the areas reviewed in the annual internal scrutiny report submitted with the accounts.
 - Where the governance statement states that the board of trustees has met a given number of times, yet the attendance record for individual members indicates a different number of meetings being held.

Where the AAD and/or the model accounts state points that must be covered, the academy trust **must not omit these sections**. The following requirements of the Direction were not always adhered to;

Section of the accounts	Sub-heading / section	Requirements omitted
Governance statement	Governance reviews	Key changes in the composition of the board of trustees.
		Where an academy trust has not completed a governance review, no indication is given as to when it intends to do so.
		Where the board have met less than 6 times in the year, details of how effective oversight has been maintained.
Governance statement	The risk and control framework	Details of the frequency of internal scrutiny activity being conducted.
Notes to the financial statements	Related party transactions – Trustees’ remuneration and expenses	Disclosure of both the salary and name of a staff member who is also a trustee.

Suggested Action:

Review paragraphs 1.21 and 1.22 of the latest AAD and ensure that any points relevant to your academy are addressed when the next set of financial statements are drafted.

Dormant accounts

The requirement to submit dormant accounts to the ESFA has now been removed. However, please be aware that despite this, dormant accounts should still be submitted to Companies House.