

# Financial reporting developments

## Academies Accounts Direction 2024 to 2025 (AAD)

On 26 March 2025, 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 2025.

This year’s version has included the fewest number of changes since the AAD was released, which will be welcome news due to the challenging financial backdrop across the sector.

There have been no substantial changes to the trustees report this year either, although trustees must still ensure compliance with certain disclosures for large companies if in-year growth has led to a change in company size.

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.*

### Finance leases – model format of notes (paragraph 3.128)

This year’s AAD has provided relevant disclosures within the accounts where an Academy Trust is a lessee under a finance lease, which is summarised below:

#### ▣ Note 1 - Accounting Policy

There is updated wording to be included within the accounts, being:

“Leasing agreements, which transfer to the academy trust substantially all the risks and rewards incidental to ownership of an asset, are treated as finance leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset or, if lower, the present value of minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under finance leases are included in tangible fixed assets and depreciated over the shorter of the lease term and the estimated useful economic life of the asset and assessed for impairment losses in the same way as for owned assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges are allocated to the statement of financial activities, over the period of the lease, in proportion to the capital element outstanding.”

#### ▣ Note 1 - Critical areas of judgement

If it is concluded that the academy trust’s judgement of whether leases entered into are operating or finance leases as deemed to be critical, then additional wording will need to be included within the critical areas of judgement section.

This will primarily depend on an assessment of whether substantially all the risks and rewards incidental to ownership have been transferred from the lessor to the lessee on a lease-by-lease basis.

#### ❑ **Note 15 – Tangible Fixed Assets**

Additional disclosure is required within the tangible fixed asset note to disclose the type and amount. Example being:

“The net book value of [insert class of tangible fixed asset; i.e. motor vehicles] includes an amount of [insert for each class of fixed asset; i.e. £x (2024 - £y) in respect of assets held under finance leases.”

#### ❑ **Note 18 – Creditors: amounts falling due within one year**

An extra line will be required within note 18, being:

“Obligations under finance leases”.

#### ❑ **Note 19 – Creditors: amounts falling due in greater than one year**

An extra line will be required within note 19, being:

“Obligations under finance leases”.

#### ❑ **New note (after creditors) – Finance lease obligations**

There will be a new note required which discloses the “total of future minimum lease payments which the academy trust is committed to” in a tabular format which discloses the amount for both the current and prior year in the following bands: “In one year or less”, “Between two and five years”, and “In five years or more”.

This is similar to the current disclosure for operating leases, as shown within Note 23a of the model accounts.

#### ❑ **Note 25 – Cash flow from financing activities**

Two additional lines will be required within note 25, being:

“‘Capital element of finance leases’ and ‘Interest element of finance leases’”.

#### ❑ **Note 28 – Analysis of changes in net debt**

A new column will be required within this note for ‘New finance leases’, along with a new row which will disclose the “finance lease obligations”.

#### **Suggested Action:**

Ensure correct classification for all leases is identified, and where the academy trust has entered into finance leases, ensure that calculations are completed such that the additional disclosures above can be completed within your accounts. Separate nominal codes or cost centres may be helpful for finance leases, so these can be easily identified.

## **Other matters**

### **Non-financial and sustainability information statement (paragraph 2.13)**

This year’s AAD reminds academy trusts to consider whether they must include a non-financial and sustainability information statement within their strategic report, as required by the Companies Act [Section 414CA and 414CB].

This requirement is only for the larger academy trusts as it applies when revenue is more than £500m and over 500 employees.

#### Suggested Action:

Ensure these thresholds are monitored and where relevant, the contents of the non-financial and sustainability information statement is included within the trustees report, in compliance with section 414CB of the Companies Act.

#### Leasing (paragraph 2.137)

Within the 'Notes to the financial statements' section (commencing on page 46 of the AAD) there are additional details relating to leases, which clarifies that under the Academy Trust Handbook 2024, academy trusts have delegated authority to enter into categories of finance lease that appear on the DfE approved list.

Where an academy trust has entered into such a finance lease, the lease should be accounted for in accordance with FRS102 section 20.

#### Suggested Action:

Review the DfE approved list and ensure that finance leases are only entered into when they are included on this list.

#### Academies model accounts 2024 to 2025

In addition to the AAD, an updated set of model accounts has been released, which like the AAD, has had minimal changes which have been summarised below:

- ❑ Content included to reflect the Academy Trust Handbook 2024 requirements on how trusts, with an annual revenue income over £50 million, should deliver internal scrutiny.
- ❑ Wording in the accounting officer's statement of regularity, propriety and compliance has been updated to make the statement clearer.
- ❑ Wording of the auditor's report on the financial statements and the reporting accountant's report on regularity has been updated, to reflect the DfE's review of the "Auditor Framework and Guide".
- ❑ Note 32 relating to the valuation of teacher's pension fund has been updated, to reflect the implementation date for the next valuation, being 1 April 2027.
- ❑ Updates included throughout to reflect the transfer of ESFA functions to the DfE.

#### Suggested Action:

Ensure trustees, accounting officers and CFOs are aware of the changes.

## Framework and guide for external auditors and reporting accountants of academy trusts – March 2025

In addition to the AAD, the separate auditor framework and guide has been released, which is primarily aimed at external auditors and reporting accountants, but could also be of interest to trustees, accounting officers and CFOs.

There has been a redrafting this year with the aim of making the DfE's expectations clearer and more focused, with the main changes listed below:

- ❑ A list of the range of other assurance activities has been included which the DfE's accounting officer relies upon, and that the external auditor will want to be aware of ([paragraph 1.3](#)).
- ❑ A new [Annex A](#) has been included which sets out clauses for inclusion in the letter of engagement, relating to both the audit of the annual accounts and the regularity engagement.
- ❑ [Annex B](#) has been updated to make the academy trust's responsibilities clearer and to recognise the role of each party in data protection, within the pre-agreed terms of engagement for regularity.
- ❑ [Annex C](#) has been updated to show the types of tests that can be used by the reporting accountant to provide evidence in the regularity report.
- ❑ [Annex D](#) has had minor edits to ensure the reporting accountant's regularity report is consistent with its limited assurance basis.
- ❑ Clarification of the reporting accountant's discretion to report matters of impropriety ([paragraphs 4.50-4.51](#)).

### Suggested Action:

Ensure trustees, accounting officers and CFOs are aware of the changes.

Expect a revised Letter of Engagement to sign this year.

This document has been prepared for information purposes only and does not constitute advice. All information correct as at March 2025.