

Financial reporting developments

Academies Accounts Direction 2020 to 2021 (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 2021.

A major change to the document is to its' structure, to improve the flow of its content. As part of this;

- ❑ the "Coketown" model accounts have been split out to be a separate standalone document.
- ❑ sections aimed at auditors and reporting accountants have been moved to a separate document.
- ❑ the Direction consists of three well-defined parts;
 - 1) Part 1 - sets out the financial reporting requirements for academy trusts and highlights common issues identified by the ESFA from its review of previous accounts.
 - 2) Part 2 - explains in more detail the elements making up academy trust accounts.
 - 3) Part 3 - provides more detailed and technical guidance on specific matters affecting the accounts.
- ❑ wording in some sections has been refined to communicate points more clearly.

Changes in relation to Financial Statements

Trustees' Report

The updated AAD provides greater clarity on the content of the financial review section of the trustees' report.

The financial review section allows academy trusts an opportunity to shed light on the numbers shown in the financial statements, including why and how they have arisen, in terms that a non-accountant would understand.

The financial review **must**;

- ❑ explain the financial effect of significant events.
- ❑ explain the trust's principal financial risks and uncertainties, and its plan for managing these.
- ❑ describe any key factors that are likely to affect the trust's financial performance or position going forward.
- ❑ explain the overall financial position of the trust at the reporting date.
- ❑ identify any fund or subsidiary undertaking that is materially in deficit.

The financial review **should**;

- ❑ explain the financial performance of the academy trust in the year.
- ❑ describe the principal funding sources of the trust and explain how the key resources support the key objectives of the trust.
- ❑ explain the academy's investment policies.
- ❑ describe the academy trust's fundraising practices.

There is also a new requirement for trusts that have had a financial notice to improve in place at some point during the year to declare this and provide more information within the financial review section of the trustees' report.

Suggested Action:

When writing the trustees report, ensure that all points listed in the AAD have been addressed.

Staff costs disclosure

Where academies entered into "off-payroll" arrangements with someone who is not an employee, the amount paid by the academy for that person's work for the trust must also be included in the staff costs disclosure note as if they were an employee. The prior year figure should also be reported and restated if necessary.

This includes, but is not limited to, where the ESFA has exceptionally approved the appointment of an Accounting Officer or Chief Financial Officer.

Suggested Action:

Ensure you consider if you have any payments that need including this year or last year.

Notes on funding received for educational purposes

The AAD sets out which funding sources should be classed under each heading, to align the financial statements more closely with the Academies Accounts Return (AAR).

Some academies' may now find that the grants they receive which were previously reported under the heading "Other DfE Group grants", no longer meet this definition. Any individually material grants received either from the DfE or ESFA should be listed out separately within the funding notes. For example, Teachers' Pay Grants, UIFSM, PE and Sports Grants and Rates relief.

Suggested Action:

Ensure your chart of accounts splits out all material sources of grant income.

Leases

A reminder has been added for trusts to ensure the correct identification, classification and treatment of finance and operating leases.

Academy trusts should pay close attention to the identification of leases and classify and account for them in accordance with FRS102. They should be particularly aware of the possibility of embedded leases being present as part of larger contracts, such as catering contracts.

Suggested Action:

Check all your current leases / contracts, any renewals and any new leases.

Long-term commitments

Clarification has been added in respect of service concession commitments e.g. payments made under secondary agreements with local authorities should be disclosed as part of the long-term commitments note e.g. PFI agreements.

Suggested Action:

Consider if you have any of these commitments and gather information to disclose in the accounts, see Coketown note 23.

Other matters

Links to other documents

Greater referencing to ESFA's good practice guides are included and technical accounting definitions have been moved to footnotes.

Auditor opinion

A new section has been included in the AAD to aid trusts by explaining the main types of audit opinion on financial statements, and when they will be expressed by an auditor.

The different types of opinion an auditor may express are;

❑ Unqualified:

- this is the opinion that academy trusts hope to receive each year.
- expressed when auditors have concluded that the financial statements give a true and fair view and have been prepared in accordance with relevant legislation.

❑ Qualified:

- the auditor, having obtained sufficient appropriate audit evidence, concludes that the misstatements, individually or aggregately, are material, but not pervasive to the financial statements; or
- the auditor is unable to obtain sufficient appropriate evidence on which to base the opinion, but the auditor concludes that the possible effect on the financial statements of undetected misstatements, if any, could be material but not pervasive.

❑ Adverse:

- expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or aggregately, are both material and pervasive to the financial statements.

❑ Disclaimer of opinion:

- the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effect on the financial statements of undetected misstatements, if any, could be both material and pervasive, or
- in extremely rare circumstances involving multiple uncertainties, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their cumulative effect on the financial statements.

❑ Material uncertainty relation to going concern:

- added to the audit report when the financial statements have been appropriately prepared on a going concern basis, but material uncertainty exists that is appropriately disclosed in the financial statements.

❑ Emphasis of matter:

- added to the audit report when a matter, appropriately disclosed or presented in the financial statements, is of such importance that it is fundamental to the users' understanding of the financial statements. The auditor does not modify the opinion but adds an Emphasis of matter paragraph to the report.

Feedback to the sector

A new section has been included which provides feedback from the ESFA to the sector relating to the application of and compliance with the AAD.

From a review of the 2019/20 financial statements, the ESFA have highlighted the following common areas where compliance with the AAD could be improved;

- unless the AAD requires it specifically, standard wording from the model “Coketown” accounts should be amended or removed so that the financial statements are relevant to your academy’s own circumstances and performance.
- Where the AAD and/or the model accounts state points that must be covered, the trust should not omit these sections. The following requirements of the AAD were identified where not all academy trusts produced content that was required;

Section of the accounts	Sub-heading / section	Requirements omitted
Governance statement	Governance	Key changes in the composition of the board of trustees.
Governance statement	Governance	Coverage of the board’s work.
Governance statement	Governance reviews	Details of actions taken to review the effectiveness of the board through a governance review.
Governance statement	Governance reviews	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 how the internal scrutiny function has been delivered, how the system of internal control has been reviewed for its effectiveness including which areas informed their review.
Governance statement	The risk and control framework	Details of remedial actions taken or proposed to deal with any significant control issues identified.

Suggested Action:

Consider the points listed above when writing the trustees’ report for inclusion within the financial statements.