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Academies Accounts Direction

2020/21

Helping you prosper

The Education and Skills Funding Agency (ESFA) have published the Academies Accounts Direction (AAD) 2020 to 2021, which is the guidance pack for academy trusts and their auditors to use when preparing their annual reports and financial statements for accounting periods ending on 31 August 2021, or for trusts preparing short period cessation accounts beginning 1 September 2020.

Although the AAD contains a summary of the main changes, we have once again produced our own summary of these changes along with our commentary and views on the implications, drawn from our extensive sector knowledge and experience.

What has changed?

There are not a significant number of changes this year but here we outline the main changes academy trustees and finance staff need to be aware of:

New format

For the first time the AAD has been de-constructed into three separate parts:

- The main AAD

Two supporting documents:

- A model set of accounts – the "Coketown model"
- A framework and guide primarily aimed at academy trust auditors.

In addition, just as it did last year, the ESFA intends to publish a supplementary bulletin to the Direction which will separately cover matters relating to the reporting and auditing of COVID-19-related matters.

UHY commentary

This is welcome, and means this year's main AAD is a mere 90 pages compared to 170 for 2019/20. The main AAD contains the detailed guidance that trustees and their advisors should turn to, and the then model accounts are available as a separate document.

The main AAD itself is split into three parts: part 1 sets out the financial reporting requirements and highlights common issues identified by the ESFA, part 2 explains the elements making up trust accounts and part 3 provides more detailed technical guidance on certain topics affecting the accounts.

Sector feedback

At the end of Part 1 of the AAD is a new section called "Feedback to the sector from ESFA". This outlines common areas the ESFA have identified, whilst reviewing academy trust accounts in their role overseeing the sector, where compliance could be improved.

One observation they have made is that too many trusts' accounts carry text copied from the Coketown model accounts.

The ESFA have also identified that the Governance Statement contains several sections where the requirements are not always fully met including:

- stating key changes in the composition of the board of trustees
- where the board have met fewer than six times in the year, details of how effective oversight has been maintained
- details of remedial actions taken or proposed to deal with any significant control issues.

UHY commentary

It is easy for trustees' reports and the governance statements to become too 'boiler plate' especially where a trust leans heavily on support from its auditor. The annual report is an opportunity for each trust to publish information about how it operates and it really should be a personalised document that focuses on the trust's unique characteristics and position. The wording in Coketown is often a good starting point, but specific text should only be copied where it is reflective of the trust's circumstances.

Trustees' report – financial review

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

It also introduces a new requirement for trusts who have had a Financial Notice to Improve in place at some point during the year to declare this and provide more information.

UHY commentary

Some of the guidance now included in the AAD was previously included within the model accounts section in previous editions anyway. Section 2.14 of the new AAD makes the elements of a good financial review clear, also stating that terms which a non-accountant would understand should be used where possible.

Here at UHY we do spend time assisting our clients with the writing of the financial review to help them get it right. However, like the rest of the trustees' report, it is a section academy trusts do need to take ownership over. Auditors should not be writing this narrative, merely agreeing the review is consistent with the financial statements themselves.

One key change is that the financial review needs to explain the trust's principal risks and uncertainties and its plan for managing those risks. This is perhaps information trusts have included elsewhere in their trustees' reports in previous years, rather than specifically within the financial review.

There is also a new requirement to identify any fund or subsidiary undertaking that is materially in deficit, explaining the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit. This means there is considerable overlap with the reserves policy section of the trustees' report, and it may be that trusts need to spend some time restructuring these sections of their trustees' report so that the information flows correctly and is included in the correct places.

We continue to see good and bad examples of financial reviews. Some are far too brief and do not explain financial performance in sufficient detail. We recommend highlighting the result arising on revenue income funds by reconciling from the overall funds movement per the Statement of Financial Activities using a table e.g.:

	(£000s)
Overall net movement in funds for the year per SOFA	50
Decrease/(increase) attributable to fixed asset fund	100
LGPS actuarial (gain)/loss	(140)
LGPS service and interest costs	60
Increase/(decrease) in revenue funds during the year	70
Add: Transfers from revenue to capital to fund fixed asset additions (if relevant)	10
Less: Revenue funds inherited from joining academy (if relevant)	(50)
Operational surplus on revenue funds before transfers to capital	30

Note also that reviews should describe any key factors that are likely to affect the trust's financial performance or position going forward. This might include any known expansion (or shrinking) of the trust.

Auditor opinion section

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

UHY commentary

It is surprising how often this is an issue, so the clarification is welcome. Trusts have to state the audit opinion when they complete the cover form when they submit annual documents to the ESFA, and fairly frequently when we are asked to give these a glance over before the client submits we notice that the wrong box has been ticked. The terminology used by auditors in their reports just leads to confusion!

Staff costs disclosure

Where the academy trust has entered into an "off-payroll" arrangement with someone who is not an employee the amount paid by the trust for that person's work for the trust in this role must also be included in this note as if they were an employee. This includes, but is limited to, where ESFA has exceptionally approved the appointment of an Accounting Officer (AO) or Chief Financial Officer (CFO). The prior year figure should also be reported and restated if necessary.

UHY commentary

It is sensible that this has been clarified since the cost incurred is in substance the same as staff costs.

Note on funding received for the academy trust's educational operations

This section clarifies which funding sources should be classed under each heading, to align more closely with the Academies Accounts Return.

UHY commentary

The change will require additional disclosures for most trusts. Previously it was necessary to disclose a section for DfE/ESFA grants and then separate ones for Other Government Grants and any other non-grant income derived from education operations.

The level of detail provided by trusts varies enormously although most will disclose, in addition to core GAG funding, a certain amount of detail.

Now, as well as GAG, it is a specific requirement for any other material amounts to be listed in the note, with any remaining sources of funding from these providers grouped together. The AAD, together with Coketown, suggests the disclosures might include, but not be limited to, Pupil Premium, Pupil Number Adjustment, UIFSM, PE and Sports Grant, Teachers' Pay Grant, Rates Reclaim etc.

Coketown also clarifies which of the other agencies and public bodies that support the DfE should be classed within the Other DfE group grants line.

Where the new requirement results in reclassification the prior year figures will need to be shown as "restated" and an example explanatory paragraph might be:

Following the reclassification in the Academies Accounts Direction 2020/21 of some grants received from the Department for Education and ESFA, the academy trust's funding for Universal Infant Free School Meals and Pupil Premium is no longer reported under the Other DfE Group grants heading, but as separate lines under the Other DfE/ESFA grants heading. The prior year numbers have been reclassified.

Links to other documents

This year the ESFA has made greater reference to their good practice guides.

UHY commentary

These guides are useful documents as we would encourage all finance staff working in academy trusts to be familiar with the resources here. Current guides cover the following topics:

- Streamlined Energy & Carbon Reporting
- Operating an academy trust as a going concern
- Choosing an external auditor
- Academy trust deficit recovery
- Risk management
- Leasing guidance
- Management accounting
- Internal scrutiny
- Management letters
- External audit preparation checklist and guidance

Leases

There is a reminder for academy trusts to ensure the correct identification, classification and treatment of finance and operating leases.

UHY commentary

The reminder draws particular attention to the possibility of embedded leases being present as part of larger contracts, such as catering contracts. Embedded leases can be a problem and are those where the contract does not necessarily contain the word lease but the substance is that a lease arrangement exists over an identified asset which the trust controls. Catering contracts are a particular problem because catering suppliers often agree to install new equipment as part of the arrangement, but we have seen numerous cases where the supporting paperwork is lacking or at best unclear. With trusts unable to enter finance leases – deemed a form of borrowing – this can be an issue especially since some suppliers do push arrangements that are dressed up to try and avoid being treated as finance leases when in reality they meet the definition.

Long-term commitments

The AAD has clarified that service concession commitments e.g. payments made under secondary agreements with local authorities, should be disclosed as part of the long-term commitments note.

UHY commentary

This is unlikely to be relevant to many trusts and relates generally to private finance initiative (PFI) contracts. An issue arises with secondary agreements since these usually cover the same 25 year period as the initial PFI agreement, and so are classed as long term commitments.

Final thought

Thankfully there are few major changes. Many trusts engage their external auditors to prepare the financial statements and so the changes to the educational income note will be for the auditors to deal with. Trusts can, however, ensure the different income streams are sufficiently split out on their accounting systems.

For trustees and CFOs the changes and recommendations for the trustees' report and governance statement are the key issues, and we would encourage those tasked with writing the narrative for 2020-21 to begin this early. Much of the report can be written before 31 August so it is not something that needs to be left until closer to the audit.

The next step

You can read the full AAD 2020 to 2021, the Coketown model accounts and the framework guide for auditors here. If you have any questions after reading our summary, or indeed in respect of reporting requirements for academies more generally, please contact your usual UHY adviser or find your local academy expert on our website at www.uhy-uk.com/sectors/academy-schools.