MOORE

ACADEMIES ACCOUNTS DIRECTION 2020/21

What significant changes are in the Academies Accounts Direction 2020/21?

The Academies Accounts Direction (AAD) 20/21 has been published by the Education and Skills Funding Agency (ESFA) for accounting periods ending 31 August 2021. You can view the direction in full here.

The overall theme of this direction is continuing to stress the importance of robust governance and oversight. In particular the ESFA is emphasising the importance of trusts communicating much more on their financial review. There are also a few smaller changes and clarifications included, (for example leases and long term commitments).

What is welcomed, by the new format, is that trust accounts are moving to an even more transparent manner for non accountants - a point that is important so that all stakeholders can understand what are very lengthy and detailed financial statements. -Ann Mathias

This year the AAD document has a new format and is split into three important documents:

- The main AAD –split into three sections:

Part 1 – Sets out the financial reporting requirements for academy trusts and also highlights common issues identified by the ESFA from the review of its previous accounts

Part 2 – Explains in detail the elements making up academy trust accounts

Part 3 – Provides structure and more detailed and technical guidance on specific matters affecting the accounts

- The model set of accounts (Coketown Academy Trust): and

- The Framework and Guide for external auditors

The AAD document includes more references to the ESFA's good practice guides together with a link to those documents (Page 5) as well as a new section being added which provides feedback from the ESFA to the sector (Page 13) relating to the application of and compliance with AAD.

There are several changes to the contents to the Direction, such as:

- Structure of the direction
- Links to other documents
- Feedback to the sector
- Trustee's report – Financial review
- Auditor Opinion
- Staff costs disclosure
- Note on funding received for the academy trust's educational operations
- Leases
- Long-term commitments
- Feedback (including a short survey)

The main changes

1. Funding for the academy trust's educational operations

To align more closely with the Academies Accounts Return (AAR), the headings within note 4 to the model accounts have been revised, so that material grants from the DFE/ESFA are shown separately on a line by line basis. More clarity is given on what is included within each heading in para 2.97 to 2.99 (page 34 of the AAD). The comparative 2020 figures will also require reclassifying. The Coketown model accounts gives an example of the narrative to include by explaining the changes made (see page 42 to Coketown).

Interestingly, on page 42 to Coketown accounts, the guidance also suggests details being given of those material activities generated from any other charitable objective. For example, some academies have the provision of leisure and welfare. In these circumstances it would be appropriate to disclose such transactions in the notes to the financial statements and either as part of notes 4-9 (see Coketown accounts) or as separate notes. To avoid numerous notes, it is likely most trusts will prefer presenting the figures as part of notes 4-9 rather than showing separately. - Ann Mathias

2. Trustees' report

The standard content of the financial review section of the trustees' report must now:

- Explain the financial effect of significant events on the financial performance and financial position of the trust

- Explain the trust's principal risks and uncertainties, as well as its plan for managing those risks. This was previously shown separately within the trustees' report but is now required within the financial review section

- 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 academy trust and reporting date, paying particular attention to material or significant balances and transactions.

This is a welcome requirement because information can be presented in a manner that is more meaningful for non accountants. As part of our closing meetings with trust boards, we present an overview statement which breaks down and reconciles the true revenue funds a trust has to carry forward. Such a template can be introduced into the financial review section. - Ann Mathias

- Identify any fund or subsidiary undertaking that is materially in deficit, explaining the circumstances giving rise to the deficit and the actions being taken to eliminate the deficit.

This is not particularly new because details of fund deficits and remedial action is highlighted in the funds note accompanying the financial statements (see note 20 in the model Coketown accounts). However by including details here, key deficits are highlighted early within the accounts. - Ann Mathias

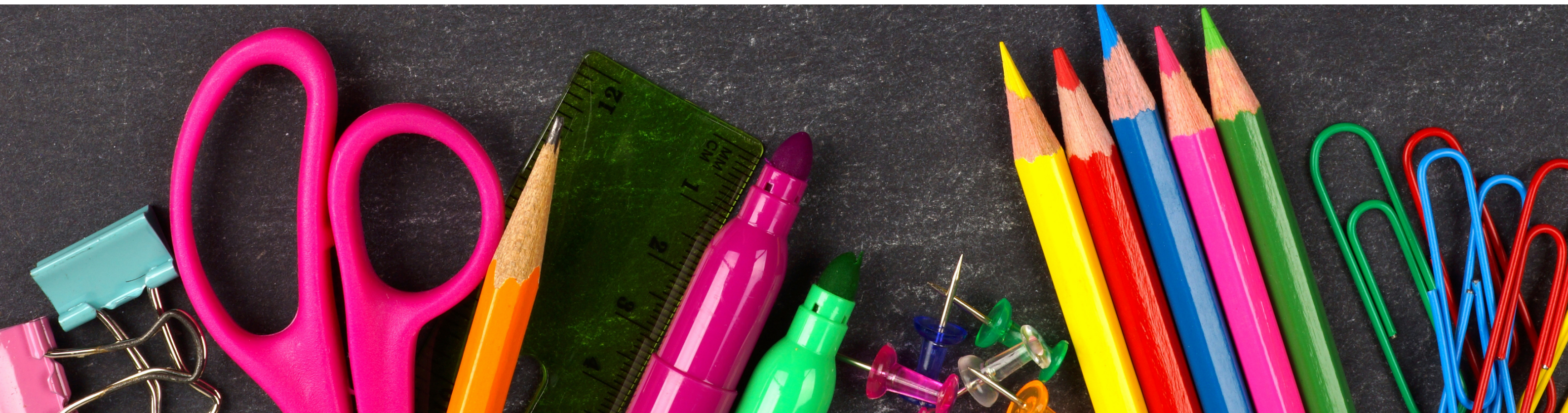
In addition, more emphasis is made within the trustees' report regarding a financial notice to improve (FNtI). Essentially, if a trust receives a financial notice to improve (FNtI) during the year, they must now declare this within their financial review section and, hence, providing more information in their accounts. This includes:

- Explaining the period the FNtI was or is in place for

- Providing a working link to the FNtI on the ESFA section of the Government website

- If the trust has had its FNtI closed, detailing the actions taken to achieve this

If the trust has not had its FNtI ended, it must detail the actions already taken and the actions it plans to take in order to end its FNtI including when it expects to satisfy all the FNtI's conditions.



3. Governance statement

The ESFA have called attention to areas that are often missed in the governance statement. There is a well presented table (page 14 of the AAD) showing what requirements have been missed from sets of accounts. These include;

- Key changes to the composition of the board of trustees
- Coverage of the board's work
- Details of actions taken to review the effectiveness of the board through a governance review
- Where the board has met less than six times in the year including details of how effective oversight has been maintained
- Details of how the internal scrutiny function has been delivered and how the system of internal control has been reviewed for its effectiveness, including which areas informed their review
- Details of remedial actions taken or proposed to deal with any significant control issues identified

4. Staff costs disclosure

A new disclosure requirement has been set within the staff costs note whereby payments made under an "off-payroll" arrangement for services to an individual who is not an employee, must now also be included within the staff costs note. Therefore the main examples of such costs to include would relate to Accounting Officers, Chief Financial Officers and other Key Management who are not paid through the payroll.

If the payments are above £60,000, then their payments will also be disclosed in the bandings of £10,000. To add to this, if the "off-payroll" worker is part of the key management personnel, they should also be added to the key management personnel disclosure.

Trusts should act with caution in paying individuals outside their usual PAYE scheme. We would be pleased to explain the rules.

You will also recall that for payments made under "off payroll" to Accounting Officers or Chief Financial Officers, ESFA approval is required (applies to new contract payments from 1 September 2020)

Conclusion

Although there are no significant changes to the format of the financial statements for 2021 audits, there are some helpful guidelines to ensure the financial statements of all academy trusts disclose information on a more level playing field and are more understandable to non accountants. In addition, the disclosures of income aligning far better to the requirements of the Annual Return will reduce the need for income figures to be re-worked.

At planning meetings with our clients, we are suggesting, they start drafting the trustees' report and governance statement now. A lot of the narrative can be discussed before the end of term. In addition, we are asking trust boards to consider, now, why they believe the trust will be a going concern within twelve months of the issue of the financial statements - again, something that has to be considered within the narrative of the trustees' report and the accounting policies - and , again, something that can take time to draft appropriately and should not be left until last minute. In addition, it will be good to revisit the narrative in the trustees report and the impact of Covid in this academic year. The ESFA have yet to issue their guidance in a supplementary annual accounts direction but this will be issued shortly.

Finally, the framework and guidance for auditors and reporting accountants which was mentioned at the start of this article has not been really discussed here. Suffice to say, we would recommend audit committees discuss the guidance with their auditors to understand the types of audit reports that can be issued when an auditor cannot issue an unqualified report. It also covers the areas of irregularity that can happen and when we have to report on such matters. It also explains what matters of material significance are and when they have to be reported on. - Ann Mathias

Contact us

If you would like to discuss any of the changes to the Academies Accounts Direction, or would like more information, then please contact our education team today.
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