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Academies Accounts Direction 2023 to 2024

Our own summary of the Academies Accounts Direction changes for 2023 to 2024

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The Education and Skills Funding Agency (ESFA) have published the Academies Accounts Direction (the Direction) 2023 to 2024, 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 2024.

Although both the Direction itself and the model financial statements published at the same time contain 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?

The changes this year are again subtle with few updates of any real significance. It is nevertheless important that anyone involved with preparing academy trust financial statements or writing the trustees' report are clear on the new requirements.

We detail the changes, but also take the opportunity to provide clarification in the areas affected:

A new "What an academy trust must do" section (page 4)

This has been introduced at the start of the AAD to help academy trusts understand their obligations. The new section highlights the key requirements in relation to an academy trust's accounts, but it should be stressed that it does not cover all 'must' requirements.

UHY commentary: This section is fundamentally a brief summary of the main practical 'musts', but the list included does not add much in terms of a technical point of view, and mainly states what in our view are fairly obvious requirements that, on the whole, are adhered to as a matter of course.

It is worth a reminder that since all trusts are required to publish a copy of the full accounts on the trust website by 31 January, all trusts should, by now, have published their 2022/23 financial statements on their websites.

Clarity on the relationship between the financial statements and other financial returns (para 1.4 – 1.5)

This section explains that as academy trusts are required to produce their accounts under the Accounts Direction, Companies Act, Financial Reporting Standards and the Charities SORP, they may find that some of the reporting requirements for the financial statements differ from those of the Academies Accounts Return (AAR). This is because the AAR is used to produce the (consolidated) Sector Annual Report and Accounts, which report under a different accounting framework2. Academy trusts may wish to check their accounts against the AAR guidance and validation rules before the annual accounts are finalised, to help minimise AAR validation errors.

UHY commentary: Many academy trusts have already adopted the DfE Chart of Accounts, and others may be considering this. We find trusts often adopt the model Chart of Accounts after changing accounting software. The structure and mappings worksheet within the Chart of Accounts workbook may help trusts understand the relationship between account codes, the AAR and the financial statements.

Para 1.5 also mentions the possible benefit of using automation technology for the AAR and draft financial statements, where the Chart of Accounts has been adopted. Such automation techniques remain in their infancy, and for such techniques to work trusts need to be fairly sophisticated and probably be at the stage where they are preparing their own financial statements, as opposed to relying on the external auditor to prepare the accounts on their behalf.

It is important that anyone involved with preparing academy trust financial statements or writing the trustees' report are clear on the new requirements.

Effectiveness of the system of internal control (Governance Statement)

The model annual accounts now include an expanded review of effectiveness of the system of internal control section, to include a conclusion on whether the academy trust has an adequate and effective framework for governance, risk management and control. It is mandatory for all trusts to include this new conclusion (paragraph 1.17 and paragraph 2.48).

UHY commentary: Trusts will need to ensure this new mandatory conclusion is included. If trustees feel that they cannot conclude that their trust has an adequate and effective framework in place, the reason for this conclusion must be stated, along with the plan for improvement.

The new conclusion sits at the end of the section of the Governance Statement that details the extent of the review of effectiveness of the system of internal control and the areas that have informed the review. This section should continue to include an outline of actions taken or proposed to deal with any significant new or pre-existing control issues, if applicable. Areas that will inform the review include:

- the work of the internal scrutiny function
- the financial management and governance self-assessment process or the school resource management self-assessment tool
- the work of the executive managers within the academy trust who have responsibility for the development and maintenance of the internal control framework
- the work of the external auditor
- correspondence from ESFA for example FNtI/NtI and 'minded to' letters.

Updated ESFA feedback to the sector on the outcomes of its assurance work updated ESFA (paragraphs 1.20-1.23) and Annex A

The Direction makes it clear how the ESFA oversees the arrangements that provide Parliament with assurance that academy trusts operate to high standards of propriety and regularity.

It provides a link to the ESFA annual report on the themes arising from its assurance work.

The feedback section in the main part of the Direction has been shortened, with a new Annex A introduced, comprising a list of the areas where the ESFA feel trust could improve compliance.

UHY commentary: The ESFA have published a 'common themes' report for a number of years now, so this is not new. Whilst useful, the report focuses on the 2021/22 reporting season and so doesn't look at particularly current information.

The report outlines data such as how many trusts submitted accounts on time and how many accounts were qualified, and the reasons why.

The report also looks at the outcome of financial management and governance reviews conducted by the ESFA. These reviews are designed to provide assurance that trusts have appropriate financial management and governance arrangements and that those arrangements ensure trusts' compliance with the Academy Trust Handbook. The areas highlighted where further development is required include:

- establishing an audit and risk committee, to agree a programme of work to address risks to financial control (internal scrutiny)
- delivery of an appropriate internal scrutiny programme and oversight of the implementation of recommendation
- monitoring the budget – including the production of management accounts, ensuring they contain all required elements, are shared with all trustees six times a year, and support appropriate board action to review and maintain financial viability
- trusts maintaining and publishing the register of business and pecuniary interests of its' trustees and governing structure on their website
- oversight of risk and regular review of the risk register
- publication of governance arrangements.

Another area the report looks at is the outcome of pre-16 grant funding audits. Funding audits check for errors relating to both the pupil census numbers, which are used to calculate the main school funding blocks and the entitlement to free school meals numbers, which is the main factor in determining pupil premium funding. The number of errors across the sector remain low. The main reason for errors was where academies retained insufficient evidence to support the census data returns for free school meal and service children.

Annex A contains six areas where compliance with the Direction could be improved:

1. Meeting the submission deadline. Often the root cause of missing the deadline is a change of staff, and it is noted that adequate forward planning should ensure that accounts can still be submitted on time.
2. The Trustees' report does not always represent the trust's current circumstances. It is important that the report is updated from the previous year's text to reflect all necessary changes.
3. Elements of the Governance Statement covering internal scrutiny are not always consistent with the actual scrutiny arrangements at the trust. Trustees need to ensure they are satisfied that the Governance Statement is accurate and consistent before approving the final text.
4. Internal scrutiny arrangements are in some cases weak. For example, the areas for review are set by the external scrutineer, rather than by the board. The planning of the programme of work must be informed by the trust's risk register and agreed between the trust board, the audit/finance committee and the internal scrutineer.
5. High risk recommendations from the audit findings letter are not always actioned in a timely manner, with outstanding recommendations carried forward from one year to the next. The audit/finance committee should be reviewing the findings report and monitoring to ensure that timely action is taken by trust management.
6. Sometimes accounts omit statements that must be used. Trusts should review the "what has changed" sections of the Direction and model accounts and then ensure that their own financial statements reflect the necessary changes.

The model annual accounts now include an expanded review of effectiveness of the system of internal control section.

Further examples of sources of information to inform the Accounting Officer's statement of regularity (para 2.57)

Para 2.57 now contains a list of 13 different internal control processes which the Accounting Officer may use to help them form their conclusion that the trust is working within the boundaries of regularity and propriety.

UHY commentary: Just one new bullet point has been added this year, being the final one suggesting a review of other external sources of assurance available to the academy trust over the year, for example specialist reviews or inspections.

- review of management reporting documents
- review of trustees'/governors' minutes
- ensuring use of funds is compliant with the funding agreement or relevant grant terms and conditions
- review of correspondence from ESFA for example FNtI/NtI/ 'minded to' letters
- review of the school resource management self-assessment checklist (SRMSAC)
- confirming compliance with the academy trust's scheme of delegation
- compliance with delegated authorities
- evaluation of compliance with the "musts" in the Handbook
- ensuring related party transactions have been completed in accordance with the not-for-profit principles and the relevant statements of assurance have been obtained and reviewed
- consideration of whether any personal benefit has been derived from the academy trust's transactions by staff or connected individuals
- adherence to tendering policies
- review of the tests the reporting accountant carries out in the Auditor Framework and Guide to provide evidence to support their conclusion on regularity
- review of other external sources of assurance available to the academy trust over the year, for example specialist reviews or inspections.

16-19 funding (para 2.98)

The Direction confirms how 16-19 core education funding should be disclosed in the financial statements.

UHY commentary: Para 2.98 makes it clear that trusts should separately disclose material non-GAG DfE/ESFA grants in the note detailing funding for the academy trust's educational operations. It goes on to list grants this may include, and 16-19 core education funding is now on the list, alongside other common grants such as Pupil Premium and Universal Infants Free Schools Meals.

16-19 core education funding ought to have been disclosed separately in this way for 2022/23, as covered in our insight of 10 July 2023, since it did not form part of GAG, but we have seen that many trusts, and their auditors, did not opt to split out 16-19 core funding in this way, and continued to include the funding within GAG. With the clarification in the Direction we would expect to see all trusts with secondary academies receiving 16-19 funding to report in this way.

Staff costs note should separately identify 'other employee benefits' (paragraph 2.134)

Other employee benefits are defined, in a footnote to this paragraph, and quoting FRS 102, as - "All forms of consideration given by an entity in exchange for services rendered by employees". Examples, other than standard wages, salaries, social security and pension costs, include non-monetary benefits such as medical care, housing, and cars.

UHY commentary: As with many of the updates the revised Direction does not really change anything, but merely provides a clarification or examples of what may be included. It is not uncommon for trusts to provide some non-monetary benefits to senior management, particularly with the high levels of competition over attracting and then retaining key staff.

Clarified how an academy trust might determine an appropriate value, for the initial recognition of premises occupied under a long leasehold (para 3.27)

This paragraph has been expanded to provide some further clarity over the methods trusts might use to determine the value of their long leasehold premises.

UHY commentary: Trusts must determine a reasonable and reliable estimate of the value of the initial recognition value whenever a converting school joins a trust or where an academy transfers from another trust. The approach to this varies enormously across the sector, with some trusts procuring a formal valuation report, and others using other information available to them to determine the value.

The Direction now includes a new suggestion to assess the value of any assets from a transferring academy trust. By this it means it should be possible to obtain evidence from the transferor to support the carrying value of the leasehold asset in the transferor's accounts. Whilst a trust should not automatically rely on such evidence, it is likely to be a good indication of an appropriate value.

The final two information sources are not options in their own right, but can be used for comparative purposes:

1. Between September and December each year the DfE procures valuation certificates for all new academies that opened between 1 September of the previous year and 31 August of the current year, as well as revaluations of land and buildings that were last revalued 5 years ago.

   However these valuation certificates are prepared under International Financial Reporting Standards, rather than UK accounting standards, with values provided at depreciated replacement cost (DRC). The primary purpose of the valuations is to help the DfE value the overall national school estate, not to help at local level. These certificates are therefore not likely to be appropriate as the main source of information for an initial recognition. They are best used as a comparison tool; if the DfE valuation is less than the carrying value already included in the accounts this may suggest that the leasehold premises is overstated and an impairment review is required.

   DRC is the current cost of replacing an asset with its modern equivalent asset, minus deductions for physical deterioration and all relevant forms of obsolescence and optimisation. DRC is sometimes referred to as the 'cost approach.' It is commonly used to value properties such as educational premises when it is difficult to assess the market value because the property has a specific purpose and similar properties rarely come on to the market.

   It is interesting that the Academies land and buildings valuation guide states that "If you do opt to use our valuation, you should note that it is carried out for DfE purposes to meet government accounting requirements and the valuers owe no duty of care to you in conducting the valuation." It also states "If you choose to use the DfE's DRC valuation in your accounts, you must make it clear that DfE carried out the valuation at DRC."

2. Insurance valuations are unlikely to be appropriate without adjustment, since they represent the rebuilding cost of the leasehold premises, rather than its fair value. In theory trusts may be able to use an insurance value as the starting point, but they would need to be able to demonstrate the basis for any discount applied.

Updated information to be disclosed for agency arrangements, to now include cumulative unspent fund balances (paragraph 3.132)

The Direction continues to include an illustrative accounting policy and agency note disclosure for 16-19 bursary funds. The illustrative note wording is now as set out below, with the changes shown in blue:

"The academy trust distributes 16-19 bursary funds to students as an agent for ESFA. In the accounting period ending 31 August 2024 the academy trust received £x and disbursed £x from the fund. As at 31 August 2024, the cumulative unspent 16-19 bursary fund is £x, of which £x relates to undistributed funding that is repayable to ESFA. Comparatives for the accounting period ending 31 August 2023 are £x received, £x disbursed, total cumulative unspent fund of £x of which £x was repayable to ESFA."

UHY commentary: The new disclosure requirements increase the transparency over unspent 16-19 bursary funding. In recent years we have seen many trusts struggle to fully disperse their 16-19 funding, resulting in an increase in repayments to the ESFA. Unspent bursary funds can be carried over to the next academy year only, and must then be used before using the new academic year allocation.

Trusts have an obligation to inform the ESFA of the total of any unspent bursary funds. This should be done via the online enquiry form. Trusts should do this as soon as they become aware of the unspent funds, but no later than 31 March each year.

We would encourage academy finance staff and Accounting Officers to read the 16-19 Bursary fund guidance for 2023-24 which sets out the rules and common audit errors.

LGPS fund surpluses (update in model accounts)

There are a couple of changes in respect of the expectation over disclosures relating to LGPS fund surpluses which are only flagged in the model 2023 to 2024 accounts, and not in the Direction itself:

- it is explained that, where relevant, the academy trust should consider the critical judgements made on the extent to which any LGPS fund surplus has been recognised as an asset
- guidance is provided on the disclosures academy trusts should consider in the pension obligations note, on the extent to which any LGPS fund surplus has been recognised as an asset.

UHY commentary: the treatment of LGPS fund surpluses was a hot topic for the 2022/23 reporting season, with an inconsistent approach across the sector in the absence of any concrete guidance from the ESFA. FRS 102 allows an entity to recognise a pension asset "only to the extent it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan."

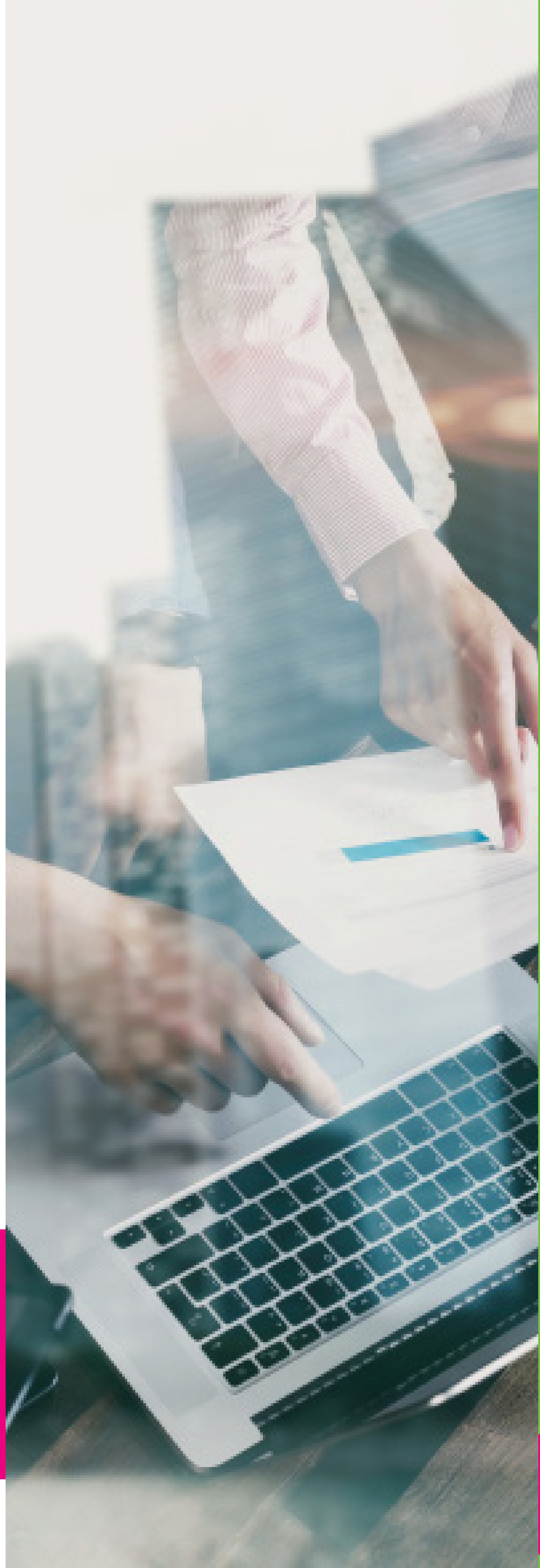
Some trusts with fund surpluses restricted these to £nil and showed a breakeven position on their balance sheets, on the basis that there was insufficient evidence that a surplus being recognised would ever result in a repayment or reduction in contributions, given that such a surplus is probably only temporary. Other trusts adopted the 'asset ceiling approach', showing a reduced pension asset, where the value of the trust's share of net assets is restricted due to the effect of the asset ceiling.

It is reasonable to expect a trust to disclose the basis of their chosen approach as a critical judgement, with the amounts involved likely to be highly material.

The Direction also requests, where relevant, for the pensions obligations note to include a reconciliation or an explanation of the extent to which any LGPS surplus has/has not been recognised in the financial statements as a pension asset, i.e. including where the net asset value has been restricted.

Two further changes for 2023/24 are:

- the removal of references to the COVID-19 supplementary bulletin; now that Covid-19 grants have either stopped or become part of business-as-usual activity, there is no longer a need for these references
- updated Teachers' Pension note disclosures to reflect the latest actuarial results



Final thought

Whilst many trusts engage their external auditors to prepare the financial statements, it is important that Accounting Officers, trustees and CFOs ensure they understand the changes so they can build the necessary amendments into the trustees' report and governance statement narrative.

We recommend that trusts consider writing these narrative sections early, to ensure at least a good draft is available before the audit fieldwork takes place. Most of the report can be written before 31 August so it is not something that needs to be left until September or October.

You can read the full AAD 2023 to 2024, the 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/academy-schools.

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