Academies Accounts Direction 2019 to 2020

This year the number of changes are modest and the main updates relate to narrative and reporting disclosures for the trustees' report. Some of these will require a great deal of additional work, so early planning is crucial.

The Education and Skills Funding Agency (ESFA) have published the Academies Accounts Direction (AAD) 2019 to 2020, 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 2020, or for trusts preparing short period cessation accounts beginning 1 September 2019.

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?

The main changes academy trustees and finance staff need to be aware of are:

New statutory requirements for streamlined energy and carbon reporting (SECR) in the trustees' report [3.1.25]

This change affects trusts which are classed as large under section 465 and 466 of the Companies Act 2006 and which consume more than 40,000 KWh of energy in their reporting period, although companies which are not required to report due to their size and consumption are 'encouraged' to report voluntarily.

Trusts will need to report their UK energy use and associated greenhouse gas emissions, as a minimum relating to gas, purchased electricity and transport fuel in the period, including:

- its energy use and emissions
- an emissions intensity ratio
- methodologies used in the calculations
- measures taken

UHY commentary

This potentially is a significant amount of work for trusts. The ESFA have released a good practice guide here to support academy trusts with this new requirement and the Accounts Direction 2019/20 contains an illustrative example of how this could be set out.

The SECR Regulations are designed to increase awareness of energy costs within organisations, provide them with data to inform adoption of energy efficiency measures and to help them to reduce their impact on climate change.

The work involved in preparing the information for disclosure means that it is perhaps unlikely few smaller trusts that are not required to report under SECR will do so voluntarily.

If an academy trust is reporting at group level, it must include energy and carbon disclosures of any subsidiaries included in the consolidation, unless the subsidiary would not itself be obliged to include the information if reporting on its own account.

Given the extensive reporting requirement, we recommend that trustees and CFOs give some early thought to how they will collect the necessary data so that this is available in good time for inclusion in the trustees' report for the year ended 31 August 2020. The AAD recognises that this is a new reporting area and some trusts may face some challenges in building up full information to support the disclosures in the first year. There is an expectation that trusts will make a fair attempt to comply with these requirements in full, and that for future years academy trusts should have more established reporting methods in place.

New statutory elements in the trustees' report, covering the success of the company, employee engagement and business relationships [section 3.1.11]

(1) Engagement with employees

This affects companies with more than 250 employees. The trustees' report will need to contain a statement summarising action taken in the period to introduce, maintain or develop arrangements aimed at:

- providing employees with information on matters of concern to them
- consulting employees or their representatives regularly so that the views of employees can be considered in making decisions which are likely to affect their interests
- encouraging the involvement of employees in the company's performance
- achieving a common awareness on the part of all employees of the factors affecting the performance of the company
- its policy in respect of applications for employment from disabled persons, the treatment of employees who become disabled and the training, career development and promotion of disabled persons.

(2) Engagement with suppliers, customers and others in a business relationship with the trust

Large academy trusts (as defined at the end of this document) will need to include a statement in their trustees' report summarising how they have had regard to the need to foster the company's business relationship with suppliers, customers and others.

(3) Promoting the success of the company

Directors (trustees) of a company must act in a way most likely to promote the success of their company, and in doing so must have regard to:

- the likely consequences of any decision in the long term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others
- the impact of the company's operations on the community and the environment
- the desirability of the company maintaining a reputation for high standards of business conduct
- the need to act fairly as between members of the company.

Large companies will need to include a statement in the strategic report describing how they have had regard to the above matters.

UHY commentary

Together the changes introduce a significant amount of additional disclosure. The new reporting affects all companies, not just academy trusts.

The Department for Business, Energy and Industrial Strategy (BEIS) have published general guidance to help companies understand how this affects them. Perhaps more relevant is the Charites Commission guide: Charities SORP Information Sheet 3 which is aimed specifically at charities. This covers all the new statutory elements we explained above.

Academy trusts should take "promoting the success of the company" to mean promoting the success of the trust to achieve its charitable purposes. There may be overlaps between sections of the trustees' report and it is preferable, to avoid repetition and to maintain the cohesion of the information, to cross-reference to or from elsewhere, where appropriate.

When it comes to requirement (2) above, academy trusts should consider relationships with other stakeholders – for example beneficiaries (such as sponsors), funders and the wider community.

Clarifying that instances of irregularity, impropriety or non-compliance noted in the accounting officer's statement on regularity, propriety and compliance, and in the reporting accountant's report on regularity should state the relevant monetary amounts, if known [3.3.2 and 4.2.1]

UHY commentary

A simple change and one, in practice, most trusts were probably complying with in any case under guidance from their auditors.

> The new Ethical standard, introduced in December 2019, prohibits a firm providing external audit to an entity from also providing internal audit services to it.

Introducing a requirement for academy trusts to explain how their audit arrangements are affected by the newly revised FRC Ethical Standard, where applicable [3.2.11]

The new Ethical Standard, introduced in December 2019, prohibits a firm from providing both external and internal audit services to an entity, subject to transitional arrangements which permit existing audit engagements at 15 March 2020 to conclude.

UHY commentary

This will be a big change for a large number of trusts, with many until now choosing to engage their external auditors to provide a separate internal audit service. We, like all firms, have provided both services to some clients, managing any potential threats to independence by using appropriate safeguards. The new Ethical Standard means this will no longer be possible. The transitional rules mean existing contracts for 2019/20 can be completed, and trusts who were using their external auditor for internal scrutiny services will need to find an alternative supplier from September 2020.

UHY continue to provide an extensive and robust internal scrutiny (audit) service to the sector and we would be pleased to talk to any trusts about our offering ahead of the 2020/21 year. Read more about our internal scrutiny services here.

Where applicable, the 2019/20 Governance statement will need to include an explanation of how the trust is affected by the above changes, which probably means an explicit statement that a new provider will be found for 2020/21.

Referencing ESFA's checklist to help trusts prepare for external audit [4.1.5]

In September 2019, ahead of the 2018/19 audit season, the ESFA produced a good practice checklist to help trusts prepare for external audit. This is now referenced in the new AAD.

UHY commentary

The checklist is perhaps a useful resource but most audit firms will provide a list of their own deliverables which academy trust finance staff will work through, and some trusts may even have their own list. The checklist is aimed more at those trusts that currently do not use their own document.

We would strongly recommend that all trustees review the Governance Handbook and Competency Framework.

Identifying legal costs in the notes to the financial statements [5.1.23]

For the first time, legal costs incurred during the year are now required to be disclosed. This means any costs associated with obtaining an opinion from a legal professional, and will include costs associated with the conversion or incorporation of a new academy, costs incurred during academy transfers and mergers, and those arising through educational operation, including employment law matters.

UHY commentary

It is not entirely clear why this extra disclosure has been introduced, but the transparency over payments of all professional fees cannot be a bad thing. Legal costs should be disclosed within support costs, with any costs associated with conversions distinguished from other legal costs.

Since comparative information is required, trusts will need to ensure costs incurred in 2018/19 are available. Whilst this should not be a problem for most trusts, those who have changed accounting systems will need to ensure the information is easily identified.

Where trustees have reviewed and taken account of the guidance in the Governance Handbook and competency framework for governance, encouraging them to explicitly state this in the governance statement [Coketown Governance Statement template]

The DfE's governance handbook and competency framework are not mandatory guidance for trustees, but trustees are encouraged to review and take account of these documents as part of their roles. Where they have done this, trustees are also encouraged to include a statement to that effect in their governance statement.

UHY commentary

A simple sentence confirming trustees have reviewed and taken account of these documents will be sufficient. As noted, this guidance is not mandatory, however, we would strongly recommend that all trustees should review these documents. They provide useful guidance on the roles and duties of governing boards, and advice on the skills, knowledge and behaviours they need to be effective.

The Governance Handbook has key features of effective governance imbedded throughout and should be seen as the first point of reference on the legal duties of boards, with helpful references to more detailed guidance and information. The competency framework sets out the competencies required for strong and effective governance. Whilst aimed predominantly at boards, members of academy trusts may also find the document useful in their role overseeing the success of the trustees they have appointed.

Qualifying as a large trust

Companies qualify as large under the Companies Act if they meet at least two of the following conditions in two consecutive financial years:

- annual income of more than £36 million
- the balance sheet total of more than £18 million
- the average number of employees is in excess of 250.

Although many academy trusts will have income less than £36 million the other two criteria mean the majority of MATs are classed as large. Note that 'balance sheet total' does not mean net assets, it means the total of fixed assets and current assets, and without deducting any liabilities.

Final thought

It will take some time for trustees, Accounting Officers and CFOs to unravel the new narrative reporting requirements. Our advice is to check whether your trust will be classed as large and will therefore be caught by all of the changes. If you are in any doubt, confirm this with your auditors. Ensure you prepare in good time. The trustees' report is a document that can be started early, soon after 31 August, if not before.

The next step

You can read the full AAD 2019 to 2020 **here**.

If you have any questions or concerns over 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.