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Academies Accounts Direction 2021 to 2022

Our own summary of the Academies Accounts Direction changes for 2021 to 2022

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In our summary, we outline the main changes for academy trustees and finance staff

The Education and Skills Funding Agency (ESFA) have published the Academies Accounts Direction (the Direction) 2021 to 2022, 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 2022.

Although the Direction 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 once again not a significant number of changes this year, although within the Direction the ESFA have confirmed that there will be no separate supplementary bulletin for 2021/22.

The ESFA are encouraging trusts to complete a short survey as they continue to seek feedback on the Direction, including the model accounts document. This helps them to ensure that the Direction continues to meet Trusts' needs. The 2020/21 Direction includes a couple of changes directly as a result of feedback they received last year.

In our summary, we outline the main changes for academy trustees and finance staff

Updated feedback on non-compliance with the Direction (paragraph 1.21) and updated the themes arising from ESFA's assurance work (paragraph 1.22)

UHY commentary: This is where the ESFA communicate areas where compliance with the Direction could be improved, and so trustees should review this section to ensure they are not falling foul of the common weaknesses.

The ESFA continue to see too many 'boiler plate' trustees' report, sometimes with too much text copied directly from the Direction. It is important that reports reflect the performance and circumstances of the Trust for the particular year. The ESFA have chosen an interesting phrase to emphasise this:

> **The ESFA are encouraging trusts to complete a short survey as they continue to seek feedback on the Direction**

"It is therefore unlikely that much of the text will remain unchanged year-on-year."

Whilst there are sections of the trustees' report that may be suitable to be left year on year, these are mainly the statutory and regulatory parts that focus on how the trust has been set up. When writing the report, Trustees need to carefully consider all sections, and thus in our experience the earlier this process starts the better; many of the sections can be written well before the autumn fieldwork.

Specific weaknesses highlighted by the ESFA include:

- The annual report not reflecting significant governance, control or financial management issues that may be raised in the external audit report
- The governance statement stating work conducted during the year that is inconsistent with the list of areas reviewed set out in the internal scrutiny annual summary submitted with the accounts
- Inconsistent stating of the total of board meetings compared to the attendance records for individual members
- Omission of details of actions to review the effectiveness of the board through a governance review
- Where an academy trust has not completed a governance review, no indication is given as to when it intends to do so
- Where the board have met less than six times in the year, no explanation of how effective oversight has been maintained by other means
- No details of the frequency of internal scrutiny activity being conducted
- Absence of disclosure of both the salary and name of a staff member who is also a trustee.

Clarified that an academy trust should, in line with the SORP, describe the organisational structure of any subsidiaries within their trustees' report ESFA also requires them to describe the organisational structure of any joint ventures or associates (paragraph 2.8)

UHY commentary: We would have hoped that Trusts acting as a parent company to trading subsidiaries would already be clearly explaining the wider group structure, and how the subsidiaries fit into the trust's aims and objectives. A significant amount of detail would not be necessary here, but it is helpful to explain information such as:

- The names of the subsidiaries and an explanation of their activities
- Confirmation of whether individual subsidiaries are consolidated into the group accounts
- The general approach to gift aiding profits up to the academy trust.

Some of this detail would also be expected to be included elsewhere within the annual report but it is helpful to set the scene in the structure, governance and management of the academy trust section of the Trustees' Report.

Added a new section to the governance statement which requires academy trusts to explain how conflicts of interest are managed (paragraph 2.36)

UHY commentary: Trusts must now describe the processes they have in place to manage conflicts of interest in the academy trust. A description of how this is done in relation to any subsidiaries, joint ventures or associates must also be included.

The ESFA have included a reference to the Charity Commission guidance on management of conflicts of interest and we recommend that trustees read this prior to drafting the new section. This guidance explains how conflicts can lead to decisions that are not in the best interests of the charity and which are invalid or open to challenge and sets out the type of procedures charities would be expected to have in place to manage potential conflicts. The guidance also has a checklist to help charities address a conflict of interest.

It should not be too difficult for trustees to write a suitable section covering this new requirement and, in our experience most trusts are generally very good at managing conflicts of interest, from identifying them through to trustees or other senior employees stepping back so that they are not involved in any decisions where a conflict may exist.

Introduced a new disclosure requirement on severance payments to reflect changes in guidance published by HM Treasury (paragraph 2.135). This does not change the existing disclosure on special staff severance payments

UHY commentary: The values of any severance payments made by the academy trust must be disclosed in set bandings in line with guidance issued by HM Treasury for public sector bodies, which requires employers to disclose details about the number of exit payments in bands from £0-£25,000, £25,001-£50,000, £50,001-£100,000, £100,001-£150,000 and £150,000+.

Special severance payments are classed as non-statutory/non-contractual severance payments, and the individual values of any non-statutory/non-contractual severance payments must continue to be disclosed in order to comply with 2.136 of the Direction.

Updated the guidance on service concession arrangements (paragraph 3.46)

UHY commentary: Sections 3.42 to 3.46 of the Direction cover service concession arrangements which include, most commonly, Private Finance Initiatives (PFI) with a third party private sector contractor. Section 3.46 has been updated to explain that where academy trusts are committed to such payments, they are also encouraged to provide narrative to support the numerical disclosures to describe what these payments relate to. A model format illustration has been included to demonstrate how the long-term commitment note may look.

Trusts will still need to account for their business rates within their financial statements

Included new guidance on accounting for buildings whose construction was overseen by Department for Education (DfE) or a local authority and transferred to the academy trust on completion (paragraphs 3.50 and 3.51)

UHY commentary: These sections clarify the accounting treatment that should already be standard practice in such scenarios, but the clarification in writing is welcome.

Under the Priority Schools Building Programme (PSBP) the DfE undertakes a major refurbishment or rebuild of an existing school's site/buildings. During the construction phase the site is managed by the DfE project team and construction costs are funded by the DfE. The Direction makes it clear that at this stage, with the site not in educational use, there should be no recognition in the academy trust's financial statements.

On occasion an academy trust may partly fund construction on the site (for example additional assets which are not part of the DfE's minimum design specification), and these costs should be shown as assets under construction in the academy trust financial statements.

The academy trust needs to recognise an opening value for the freehold or leasehold buildings at the point control of the site is handed over to the academy trust. A corresponding donation is reflected in the Statement of Financial Activities. The assets will also start to be depreciated from this point, in accordance with FRS 102.

A similar treatment should be followed when a local authority constructs a school on behalf of the trust.

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UHY commentary: These sections clarify the accounting treatment that should already be standard practice in such scenarios, but the clarification in writing is welcome.

Included a new section to provide guidance on the accounting treatment for business rates (paragraph 3.66)

UHY commentary: The new system for business rates has caused much confusion, partly because of the inconsistent approach adopted by different local authorities. From 1 April 2022, for those billing authorities who opt in to the new process, ESFA will pay the bills on the academy's behalf direct to the billing authority. Academies will therefore no longer need to pay their business rates bills and then reclaim from the ESFA.

Not making the cash payment does not alter an academy's liability for the business rates, so trusts will still need to account for their business rates within their financial statements. To do this, academy trusts will need to gross up the value of GAG received by the value of their business rates bill(s) and include a matching expense.

Removed the previous requirement to submit dormant accounts to ESFA (paragraph 3.102)

UHY commentary: Little to say here. This was a requirement in previous Academies Accounts Directions. Trusts should remember they will still have submission obligations to Companies House.

Removed the requirement to produce trading accounts for teaching school (hubs) as separate notes to the financial statements. We have also clarified where and how transactions relating to such activities should be shown in the rest of the financial statements. We have also extended the guidance to cover other types of hub which academy trusts may operate (paragraph 3.141)

UHY commentary: The previous teaching schools programme ended in August 2021, replaced by a new teaching school hub programme. There are now 87 centres of excellence for teaching training and development, instead of the network of around 750 individual teaching schools.

Section 3.141 covers various activities delivered outside of a trust's core activities, including 'hub' activities (such as the provision of a teaching school, English or Maths hub) or School Centred Initial Teacher Training (SCITT).

The first question here is to consider if the entity through which the activities are delivered has a separate legal identity or is part of the academy trust. If there is a separate identity then it needs to be determined whether the academy trust has control since this will impact on whether, or how, the entity should be recognised in the academy trust's financial statements.

Where required, teaching school hub total income and total expenditure will need to be disclosed on the face of the SOFA and within the detailed supporting notes.

Clarified why financial reporting requirements may differ between the Direction and the Academies Accounts Return (AAR) (paragraph 1.4)

UHY commentary: Some information and disclosures vary between the statutory financial statements and the AAR, and this can sometimes cause confusion. Trusts are exempt charitable companies and as such need to comply with various rules and documents when preparing their financial statements; the Companies Act 2006, financial reporting standards (FRS 102), the Charities SORP, and the Direction. The AAR is used by the DfE to produce their consolidated Sector Annual Report and Accounts (SARA), and this is based on a different accounting framework, Financial Reporting Manual (FReM), issued by HM Treasury, and which applies International Financial Reporting Standards (IFRS) as adapted for the public sector.

We would encourage those tasked with writing the narrative for the 2021-22 trustees' report to begin this early

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 2021-22 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.

You can read the full AAD 2021 to 2022, 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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