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Academies Accounts Direction 2022 to 2023

Our own summary of the Academies Accounts Direction changes for 2022 to 2023

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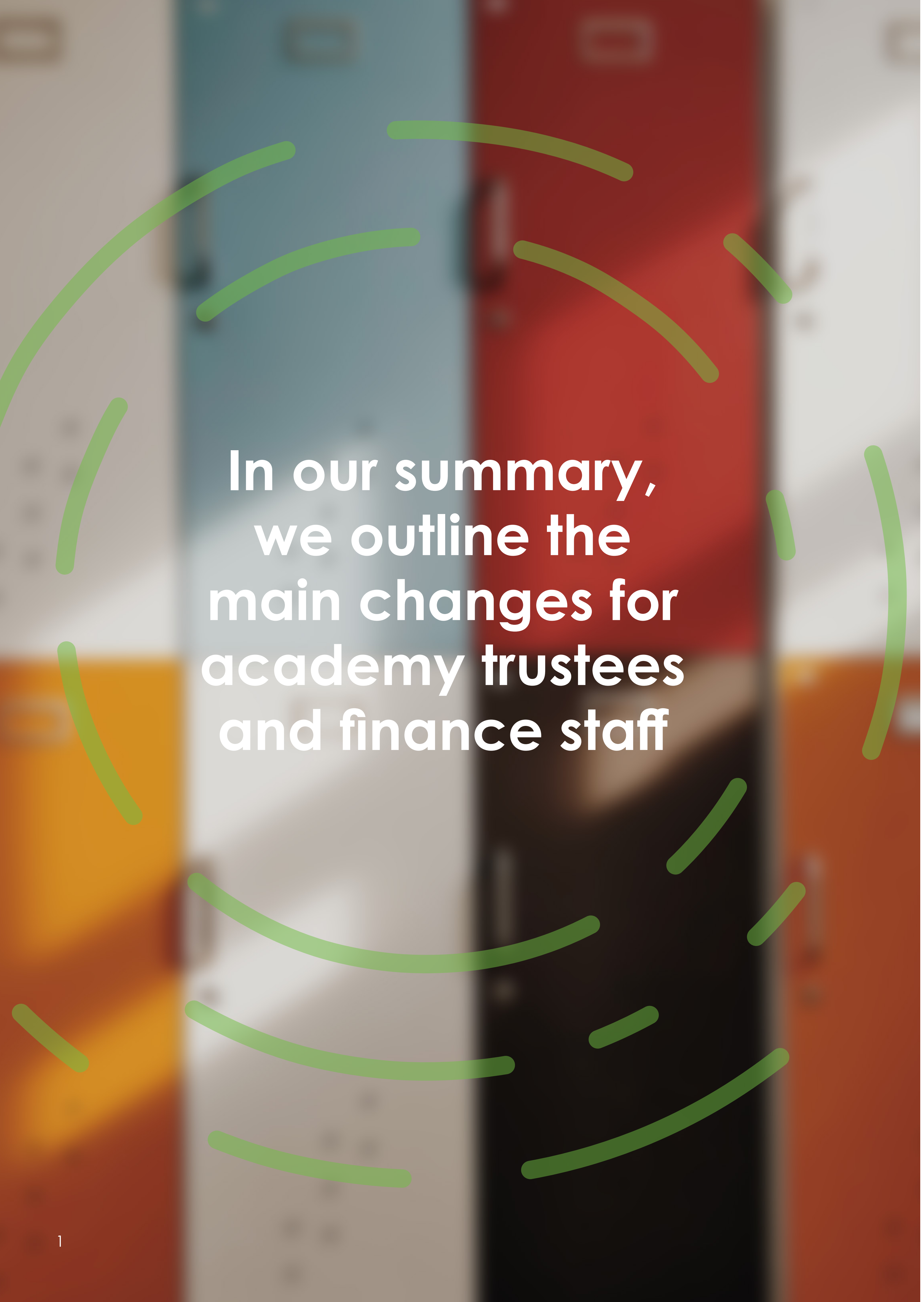


The Education and Skills Funding Agency (ESFA) have published the Academies Accounts Direction (the Direction) 2022 to 2023, which is the guidance pack for academy trusts and their auditors to use when preparing their annual reports and financial statements for accounting periods ending on 31 August 2023.

While the Direction and the model financial statements published alongside the Direction (for the first time this year) both include 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?

Once again, the number of changes is not significant and most of the amendments that have been made are subtle. Some do, however, require additional narrative disclosures to be made in 2023 financial statements, so it is important that anyone involved in writing the trustees' report is au fait with the new requirements.

Here in our Summary we detail the changes, but also take the opportunity to provide clarification in the areas affected:

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

The introduction section clarifies that it is not expected that trustees have a detailed understanding of the Direction's technical accounting requirements and that, where required, they should seek support from their chief financial officer.

UHY commentary: The Direction is principally aimed at those involved in the preparation of the annual report and financial statements, chiefly Chief Financial Officers, Accounting Officers and audit firms. Nevertheless, trustees will find the Direction helpful in ensuring they fulfil their financial reporting responsibilities. Whilst many trusts will choose to outsource the preparation of their statutory financial statements to the auditors, and naturally they will then rely on the auditors to get this right, trustees must remember that they have ultimate responsibility for approving the financial statements.

The expectations for interim arrangements, in the absence of key signatories

Paragraph 1.18 makes it clear that the board should ensure there is adequate coverage in the event of the departure or long-term absence of key signatories, including the Accounting Officer. The board should decide what interim arrangements are required, as at all times the trust is required to have an Accounting Officer. If the academy trust's Accounting Officer leaves before the accounts are signed there should be sufficient briefing and/or information available to enable the new Accounting Officer to understand the key issues in the previous year, and to ensure the relevant sections comprising the accounts are signed on time.

UHY commentary: This area has been a source of confusion, and we are often asked about this when there is a change in Accounting Officer. The ESFA expect Accounting Officers to build up information throughout the year to support their Statement on Regularity and Propriety, for example review of management accounting documents, internal audit reports, minutes of trustees' meetings etc. Paragraph 2.57 contains a lengthy list covering the type of work an Accounting Officer would be expected to routinely perform throughout the year, as part of their oversight of internal processes.

It would be good practice for there to be a proper handover whenever there is a change in Accounting Officer, but of course this is not practical in all circumstances. Where there has not been a proper handover, the new Accounting Officer has a responsibility to review all necessary documents and conduct whatever work he or she deems necessary to gain the assurance required to sign their report.

As part of the year end audit process UHY provide a checklist, which can be used by Accounting Officers as a check that their trust has complied with all the 'must' requirements of the Academy Trust Handbook. If there is a change in Accounting Officer it can be useful to ask the outgoing person to complete such a checklist before leaving. This is particularly important ifthe change has occurred with effect from the start of the new academic year, where the new AO signing the accounts has not actually been in office for any of the year covered by the accounts.

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

Each year the Direction includes a list of areas where the ESFA feels compliance could be improved. The list this year includes:

- The annual report not appearing to fairly reflect the circumstances and performance of the trust
- Poor descriptions of organisational structures where the trust has subsidiaries or joint ventures
- Weaknesses in governance statements, for example not adequately explaining:
  - the governance framework for the audit & risk committee
  - the processes in place to manage conflicts of interest. The Direction makes it clear that these processes should extend beyond requiring declarations of business interests. There is also a need to include the processes in place to manage conflicts of interest for any subsidiaries, joint ventures, or associates
- The need to make relevant disclosures for related party transactions and trustees' remuneration.

Feedback from the ESFA's assurance work is a financial year behind, but highlights that for 2020/21 just 0.5% of academy trust financial statements were qualified, with the main reasons being LGPS valuations and the accounting treatment of land and buildings.

The percentage of modified regularity opinions was higher, at 7.9%, but this was less than in 2019/20. The most common themes of modifications were internal financial reporting and related party transactions.

UHY commentary: The updates here are only small. In our view, the key point is the need for trusts to revisit and update the disclosures they included explaining how they manage conflicts of interest. The need to disclose this information was introduced in the 2021 to 2022 Direction, and it appears the ESFA do not feel many trusts included sufficient detail in this area. Most trusts opted to include a simple paragraph referring to the register of interests, a conflicts policy if they have one, and how declarations of interests are a standing item on the agenda of each Board and Committee meeting.

The Direction references Charity Commission guidance, and we recommend that CFOs, Accounting Officers and trustees involved in writing the governance statement review this guidance. It 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.

Having reviewed different approaches across the sector, we feel it is important that in this section trusts cover how:

- conflicts of interest are identified
- the trust prevents a conflict of interest from affecting the decision
- conflicts of interest are recorded.

Identify – trustees have a personal legal responsibility to avoid conflicts and to act only in the best interests of the trust. In order to identify conflicts, trustees need to have an understanding of the rules, and where or how conflicts can arise. To help them with this, it is good practice to have a written conflicts of interest policy and register of interests as these can help individual trustees and the trustee body to identify conflicts of interest promptly. The Charity Commission guidance contains suggested content for inclusion in a conflicts of interest policy.

Prevent – how trustees prevent an identified conflict from affecting decision making will depend on the circumstances, although the most common approach is to ensure that affected trustees do not participate in any decisions where they stand to gain, whether directly, or indirectly. However, for serious conflicts of interest, it may be necessary to completely remove the conflict of interest if this is practically the only effective way of demonstrating trustees have acted in the best interests of the trust.

Record – in addition to maintaining a register of business interests, it is important that trusts formally record any conflicts of interest which arise, and how they were handled. A proper record should be maintained of all discussions and the decision, usually in the minutes of trustee meetings. Records should be suitably detailed so as to disclose: the nature of the conflict; which trustee was affected; whether any conflicts were declared in advance; an outline of the discussion; whether anyone withdrew from the discussion; and how the trustees took the final decision.

We make the following suggestions for 2022-23 annual reports to ensure disclosures around conflicts of interest are adequate:

- explain how the register of interests is maintained and kept up to date, citing how the trust identifies potential interests
- describe how the trust prevents identified conflicts from affecting the decision
- refer to declarations of interests being a standing item on the agenda for meetings
- explain other procedures undertaken, for example testing new suppliers for related party connections, and flagging suppliers who are related parties on the finance system for easy reference.

Enhanced content in respect of school buildings' safety risk

The Direction now:

- clarifies that the trustees' report section on principal risks and uncertainties should consider those risks impacting on trustees' responsibilities to ensure the trust's estate is safe, well maintained and complies with relevant regulations (paragraph 2.14)
- explains that the review of value for money statement encompasses estates safety and management (paragraph 2.40)
- suggests that Accounting Officers should consider demonstrating how they have effectively used relevant funding to ensure the trust's estate is safe, well-maintained, and complies with relevant regulations, as one of their value for money examples (paragraph 2.42)
- clarifies that the statement on regularity, propriety and compliance encompasses estates safety and management (paragraph 2.60).

UHY commentary: This increased focus on risks associated with school buildings is interesting and follows recent press about the risk of reinforced autoclaved aerated concrete (RAAC) in schools, particularly those constructed between 1945 and 1970. The DfE published advice in December 2022 presenting a 5-stage approach to the identification and management of RAAC in educational buildings. Then, in February, the issue was discussed in the House of Lords, and the DfE asked all schools to complete a questionnaire to further highlight the potential problem, collect information and identify schools at risk.

In light of this, and other risks to estates that can arise, the requirement to comment on estates safety and management within the trustees' report and governance statement is interesting, and we wait to see how trusts respond to this later in the year.

Updated guidance on the treatment of loans (paragraph 2.113)

The Direction now includes a separate paragraph within this section asking trusts to consider whether any loans are concessionary loans under the Charity SORP. It explains that these are loans received to further a charity's purposes where interest is charged at below market rates. Where a trust has such a concessionary loan, it will be necessary to include an appropriate accounting policy and certain additional disclosures, both as explained in the Charity SORP.

UHY commentary: The wording here has not changed greatly, and last year's Direction spoke about Salix loans being a type of concessionary loan. The ESFA have chosen to clarify that other types of loans also need to be considered here and might need to be disclosed as concessionary. However, we do not expect that this change will impact on many trusts, with borrowing prohibited unless approval is obtained from the Secretary of State. Aside from Salix loans, borrowing is usually limited to loans from the ESFA under the Conditions Improvement Fund and loans inherited from the former LA-maintained school on conversion.

Where a trust has a concessionary loan, it is necessary to include an accounting policy (see 21.26 of SORP) to either recognise such loans at 'fair value' or, more simply, to recognise them at the amount received less any repayments. Further additional required disclosures are:

- the carrying amount of concessionary loans made or received (multiple loans made or received may be disclosed in aggregate, provided that such aggregation does not obscure significant information)
- the terms and conditions of concessionary loan arrangements, for example the interest rate, any security provided and the terms of repayment
- the value of any concessionary loans which have been committed but not taken up at the reporting date; and
- separately amounts payable or receivable within one year and amounts payable or receivable after more than one year.

Reminder of the need to separately disclose material income sources (paragraph 2.130)

Most of the funding for the academy sector comes from the DfE and the ESFA, with the largest amount being GAG. GAG must be disclosed separately in this note. Academy trusts are reminded that any other material funding must also be separately listed in the note. Any remaining non-material sources of funding, from these funding bodies, can be grouped together.

UHY commentary: The Direction refers to disclosing this information in note 4, since this is the numbering in the model accounts for the note detailing funding for the academy trust's charitable activities.

Each trust will need to review their own income sources and decide on what is material. However, we would usually expect to see Pupil Premium to be listed, and for primary schools UIFSM and PE/sports grants.

Teaching assistants are categorised as support staff in the staff costs note (paragraph 2.137)

The Direction clarifies that the administrative and support heading will include teaching assistants, amongst other staff who do not have day-to-day teaching duties.

UHY commentary: This is in respect of the disclosures over average number of employees, which must be analysed between teaching, administration and support, and management headings.

We do often see inconsistent approaches to determining which category a member of staff belongs to, so the clarification is welcome.

A reminder that the management category should include senior leadership team members who do not have day-to-day teaching duties, and that the head of academy should always be considered as management, irrespective of any teaching duties.

Model accounts

Once again, the ESFA have issued model accounts. This document mirrors the necessary changes outlined in the Direction itself. This year, the ESFA have chosen to highlight in yellow all content changes, which does make it particularly easy to identify areas where the necessary disclosures have been updated.

UHY commentary: There are two interesting points highlighted in the model accounts, which are not included in the Direction itself:

1. in respect of the Reporting Accountant's Assurance Report on Regularity, arising from the Framework for external auditors and reporting accountants of academy trusts, which was published alongside the Direction. The framework now clarifies distinct treatment for matters of irregularity
   - for matters of material irregularity (by virtue of value or nature) of a financial transaction, this will lead to a modified regularity conclusion, with full disclosure of those matters within the regularity assurance report, including the monetary amounts if known
   - for matters of irregularity, but which are either:
     - not material (by virtue of value or nature); or
     - not in respect of a financial transaction

   these should be reported in the audit findings report (i.e. their management letter).
2. The model disclosure in respect of Local Government Pension Scheme arrangements now refers to the DfE reaffirming, on 21 July 2022, their commitment to the guarantee made on 18 July 2013 to meet any outstanding LGPS liabilities in the event of an academy trust closure. The published parliamentary minute can be found here.

Each trust will need to review their own income sources and decide on what is material. However, we would usually expect to see Pupil Premium to be listed, and for primary schools UIFSM and PE/ sports grants.

Reminder: reportable matters of material significance

The Framework for external auditors includes a non-exhaustive list of reportable matters of material significance. Since this publication is aimed at auditors it is unlikely to be read by trustees, so we thought we'd include a helpful reminder of the nine issues that are always considered to be reportable to the ESFA:

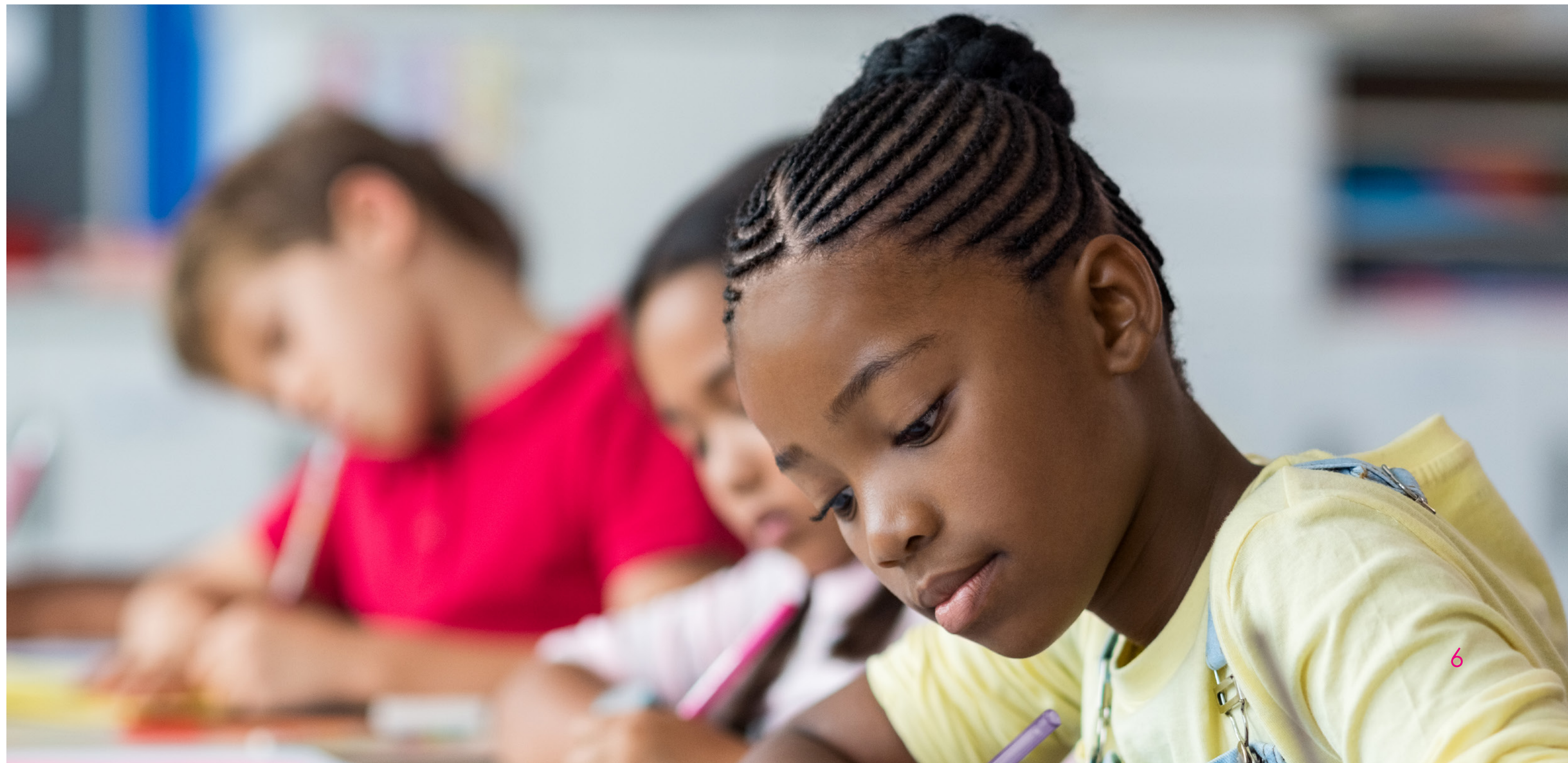
- Dishonesty and fraud – involving a significant loss of, or a material risk to, funds or assets
- Internal controls and governance – failure of internal controls, including failure in charity governance
- Money Laundering and criminal activity – knowledge or suspicion that the funds, including any bank accounts, have been used for money laundering or such funds are the proceeds of crime
- Support of terrorism
- Risk to the charity's beneficiaries - evidence suggesting that the charity's beneficiaries have been or were put at significant risk of abuse or mistreatment
- Breaches of law – single or recurring breach(es) of a legislative requirement or the organisation's own governing document, leading to material funds being misapplied
- Deliberate or significant breach of an order or direction made by a charity regulator
- Modified audit opinion
- Conflicts of interest and related parties - evidence that significant conflicts of interest have not been managed appropriately by the trustees and/ or related party transactions have not been fully disclosed in all the respects required .

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 2022 to 2023, 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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