Academy Accounts Direction 2020 to 2021
Auditor Framework and Guide
- changes

Staff Note
July 2021

The Academy Accounts Direction (AAD2021) – is issued by ESFA annually. It sets out requirements and guidance for accounting periods ending on 31 August 2021.

The model accounts ("Coketown") have been split off into a separate document. A separate framework and guide for auditors and reporting accountants has also been produced.

AAD2021 and Coketown

Sector feedback

ESFA gives feedback to the sector on compliance with the Direction. They note that in some cases, academy accounts inappropriately use example text from Coketown without amendment – i.e. as "boilerplate". Trusts are encouraged to modify Coketown text where appropriate to reflect circumstances.

ESFA highlights the Governance Statement as an area where AAD requirements are not always reflected, listing the following elements as missing from academy accounts:

- Key changes in 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 have met less than 6 times in the year, details of how effective oversight has been maintained
- Details of how the internal scrutiny function has been delivered, 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.

Trustees' report – financial review

The structure of the financial review will need to be reassessed this year in the light of new requirements. The financial performance of the trust should be explained: "likely" to be based primarily on the SOFA. This "is likely to include, but not be limited to", an explanation of the causes of the trust's net income/expenditure [2.14]. The explanation of financial position is "likely" to be balance sheet based

Coketown [p14] amplifies the guidance.

Some previous trustees' report requirements no longer appear, including:

- Stating position of reserves, being unrestricted less restricted general excluding pension reserve (however Coketown funds note retains a requirement to review this balance, making a disclosure if the result is a deficit – although it doesn't suggest what should be disclosed if the balance is positive).
- Stating the surplus or deficit being the in-year change in balance on reserves as defined above.

Ie there's a shift, from performance and position narrative based on general reserves, to SOFA and balance sheet analysis. The financial review will need careful consideration to keep it meaningful.

The reserves policy will also need review against slightly extended requirements.

There is a new requirement for trusts that had a Notice to Improve in place at some point in the year to disclose this and key actions in the Financial review.

Staff costs disclosure

For an "off-payroll" arrangement with someone who is not an employee, e.g. an Accounting Officer (AO) or Chief Financial Officer (CFO), the payment must also be included in this note as if they were an employee. The prior year figure should also be reported and restated if necessary. This applies to the higher paid employee £10k bandings and the key management personnel remuneration disclosures.

Note on funding received

There's useful clarification of which funding sources should fit under each heading. This should result in closer alignment to the Annual Accounts Return.

Prior period restatement may be needed.

Leases

Trusts should, as before, pay close attention to lease classification. They should be particularly aware of the possibility of embedded leases being present as part of larger contracts, such as catering contracts.

Trusts should therefore be consulting their auditors before entering any arrangement they suspect contains an embedded lease.

Long term commitments

Commitments such as those from PFI contracts may require disclosure as long-term financial commitments. A trust may have contracted with the local authority (the main PFI contract holder) through contributions such as facilities maintenance. The costs will be accounted for when incurred, but the long-term commitment should be disclosed.

Covid disclosures
ESFA intends to publish a supplementary bulletin to the Direction and the Auditor Framework and Guide which separately covers matters relating to the reporting and auditing of COVID-19-related matters.

Auditor Framework and Guide – matters for auditors and academies

The Framework makes no major new rules. Perhaps the most interesting parts for both auditors and academy trusts are the descriptions of themes coming from ESFA's sector reviews.

Themes from assurance reviews

The percentage of qualified financial statements for the 2018 to 2019 year was 0.7% (2017 to 2018: 1.2%). The main reasons for the qualified opinions were the accounting treatment of land and buildings, land and buildings valuations and LGPS actuarial valuations.

Common themes from ESFA's analysis were:
- management accounts not shared with the board with sufficient frequency, and/or being of poor quality
- board approvals not obtained where necessary and concerns over maintenance of risk registers
- ESFA deadlines not met
- concern about the issues discovered by internal scrutiny
- concerns over the robustness of internal scrutiny processes
- weak internal controls, including no independent checks.

ESFA investigation reports highlighted irregularity and impropriety including:
- use of public funds for personal benefit
- lack of appropriate authorisation for expenditure, including failure to obtain ESFA approval where appropriate
- inappropriate authorisation, Chair of Governors and / or the Accounting Officer acting beyond powers to authorise contracts / payments
- irregular expenditure which includes:
    - any excessive gifts including those purchased from unrestricted funds
    - alcohol purchased from trust funds bought for consumption outside of religious services

Common issues from ESFA's RPT approval and review process

Particular issues noted by ESFA regarding transactions submitted for approval were failure to:
- follow the trust's own procurement policy in relation to related party transactions
- report related party transactions to ESFA before the contract start date
- maintain sufficient records to demonstrate accountability and transparency in agreeing related party transactions

Auditor Framework and Guide - technical matters for auditors and reporting accountants

Must vs should:
- "Must" - states requirements from ESFA and this term is used only for reporting accountants
- "Should" – describes good practice expectations from ESFA for external auditors and reporting accountants

Regularity engagement letter rewordings – but no change in substance.

Useful documents for Reporting accountants:
- 1st accounts: the Financial Management and Governance Self-assessment (FMGS)
- Existing trusts: School Resource Management Self-Assessment Tool (SRMSAT), which is completed annually

Auditor reports of Matters of Material Significance
- Confirms these are to ESFA, not Charity Commission
- Matters include those identified through external audit and regularity review

Suggested tests – procurement
- Consider whether tendering procedures have been administered through Find a Tender where appropriate, in accordance with PPN 08/20 https://www.gov.uk/guidance/public-sector-procurement (previously referenced OJEU)