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Academies Accounts Direction 2023 to 2024 – Staff Briefing

ESFA have published the latest addition of the Academies Accounts Direction, model academy accounts and guidance to external auditors. These documents set the framework for academy financial statements for the year to 31 August 2024, which boards are due to approve by 31 December 2024.

The welcome news is that the changes are limited. This is consistent with the recent years. The Direction is now a mature document, and together with the model accounts, is a fairly easy-to-use resource.

The Main Changes

- Expanded review of effectiveness of internal control system: the trustees' report must include a new conclusion on whether the academy trust has an adequate and effective framework for governance, risk management and control. (paragraphs 1.17, 2.48)

  The additional text will be standard wording in most cases. (Trustees might exceptionally conclude that the framework isn't adequate and effective). However, unlike last year's additional disclosure on management of estates risks, which was prompted by RAAC, there doesn't appear to be a specific issue encouraging this new requirement.

- "Clarifying" how an academy trust might determine an appropriate value for initial recognition of premises under long leasehold (paragraph 3.27)

  The requirement remains for a 'reasonable and reliable estimate' of premises under long leasehold. Unhelpfully, ESFA state that DfE valuation certificates "are not options in their own right, but they can be used for comparative purposes".

  Added to the list of potential options for valuing is "assessing the value of any assets from a transferring academy trust", which also isn't particularly helpful.

  For a new converter, ESFA are being clearer than ever that they expect to see a valuation from a chartered surveyor, from the LA or from a construction company. If the Trust uses another valuation source, "reasonable and reliable" will need to be demonstrated.

- Feedback on assurance work and compliance with the Direction in prior years (Appendix A).

  This has been laid out in a different way this year, with an 'Issue, Consequence, Improvement' approach. The main themes are:
  - Highlighting the late submissions of financial statements, with an improvement recommendation of ensuring someone is available to sign the accounts,
  - Added emphasis on trustees ensuring satisfaction with and approval of final text in both the trustees' report and governance statement, to avoid misrepresentation of current circumstances, and inconsistency with actual scrutiny arrangements.
  - Weak internal scrutiny arrangements, and therefore boards do not have assurance that academy trusts internal controls are effective.
  - High risk recommendations from the audit findings letter are not always actioned in a timely manner, and therefore significant weaknesses in the academy's procedures and controls are not rectified.
  - Mandatory accounts disclosures are sometimes omitted. It refers to the estate management paragraphs from 2022/23, so worth bearing this in mind regarding the first main change above on internal control systems.

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

  The Direction adds "review of other external sources of assurance available to the academy trust other the year, for example specialist reviews or inspections". In practice, we don't expect much to change – we don't believe that AOs have ben disregarding this information..

Other Changes

- Clarity on the relationship between financial statements and other financial returns. (paragraphs 1.4-1.5). The guidance suggests that trusts may wish to check their accounts against the AAR guidance before the annual accounts are finalised, to minimise AAR validation errors, and reminds readers of the using the DfE Chart of Accounts. This is something we consider when we are compiling our audit requisites lists and conducting our accounts preparation.
- Confirmed accounts note disclosure of the 16-19 core education funding (paragraph 2.98). The funding has been added under the heading Non-GAG DfE/ESFA grants. However, this is still only required if the funding is material.

- Clarified the staff costs note must separately identify ‘Other employee benefits’. (paragraph 2.134). This header would be an addition to the disclosures below wages and salaries and may require new calculations.
- Updated accounts note disclosure for 16-19 bursary fund agency arrangements, to include cumulative unspent fund balances (paragraph 3.132).

Model Accounts

Where relevant, the model accounts (Coketown) have also been updated to reflect the changes made by the Direction. The changes are helpfully highlighted yellow, making it very clear what has changed.

Two changes highlighted in Coketown not included above are within the ‘critical areas of judgement’ note, and the pension note introductory comments. The latter relates to whether any LGPS surplus should be recognised as a pension asset or restricted, requiring an explanation of any restrictions.

Framework and guide for external auditors and reporting accountants of academy trusts

This document has also been updated. Whilst aimed at auditors, some updates may be of interest to clients also and include:

- An update to the type of tests that can be used to provide evidence on the regularity report, in accordance with the requirements of the 2023 handbook:
    - Delegated authorities (4.50) – where the framework highlights consideration of whether evidence is available of prior approval from the Secretary of State for taking up finance leases, the framework has an added comment: ‘…where a lease has been re-evaluated under FRS 102 and subsequently defined as a finance lease this will not lead to a regularity issue…’. This is in anticipation of early adoption of FRS 102 amendments and confirms that any new leases classified as a finance lease will cause regularity issues.
    - Transactions with related parties (4.56) – a test has been added for transactions where ‘at cost’ applies, and we may need to consider whether this results in further testing requirements. Two other tests have been removed, on governors’ services and employees providing external consultancy services.
    - Governance (4.57) – the test of ‘where the Board has met less than 6 times a year…’ has been removed for consistency with the ATH.
- Updated irregularity themes arising from ESFA’s assurance reviews (4.61) – the review was based on several common themes in the 2021/22 financial statements. A more detailed consideration of this update will be drafted for distribution.