

# Academies annual update: education post COVID-19

Part two: Academies financial and reporting update

# Agenda

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- Introduction and virtual housekeeping
  - Stephen Ravenscroft, Stone King
- Academies Accounts Direction
  - Catherine Biscoe, Buzzacott
- Governance statement
  - Hugh Swainson, Buzzacott
- Going concern and reserves
  - Katharine Patel, Buzzacott
- Q&A
  - Chair: Stephen Ravenscroft, Stone King



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# Academies Accounts Direction

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Catherine Biscoe, Partner

# Academies Accounts Direction (AAD) 2020 to 2021

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- Issued by the ESFA on 31 March 2021
- [Academies Accounts Direction 2020 to 2021.pdf \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)
- For accounting periods ending 31 August 2021
- The status of the Accounts Direction
- Incorporates FRS 102 and Charity SORP, plus ESFA additional requirements
- Minor AAD updates this year
- Structure of the Direction and ESFA's good practice guides
- COVID-19 Supplementary Bulletin from the ESFA – yet to be issued

# Structure of the Direction

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The Academies Accounts Direction previously consisted of a single document.

For 2020 to 2021 this has been split in to three composite elements:

- The primary Accounts Direction
- A model set of accounts for academy trusts (the “Coketown model”)
- An auditor framework and guide

The Direction now makes greater use of the ESFA’s good practice guides to provide examples of best practice throughout the documents.

# Trustees' report – financial review:

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Additional **clarity and guidance on the content of the financial review** section of the report.

The following **must** be disclosed:

- The financial effect of significant events on the financial performance and position of the trust;
- The principal risks and uncertainties to which the trust is exposed and mitigating actions which are performed;
- Key factors likely to affect the trust's financial performance or position going forward;
- Explanation of the financial position of the trust at the reporting date with context and insight into material or significant figures and balances;
- Details of any subsidiary undertaking that is materially in deficit, circumstances giving rise to the deficit, and steps being taken to eliminate the deficit.

# Trustees' report – financial review:

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In addition, the following **should** be disclosed:

- Explanation of the main causes and key factors underlying the trust's operational result for the year;
- The key sources of funding of the trust and how resources support the key objectives of the trust;
- The academy trust's investment policy and, if holdings are material, the extent to which it takes social, environmental or ethical considerations in to account within its policy;
- A description of the trust's fundraising practices.

**New requirement** for trusts who have had a **Financial Notice to Improve** in place at some point during the year to declare this and provide more information:

- State that a FNtl has been in place during the year, including which periods it was in place for;
- Provide a link to the FNtl on ESFA's website;
- Explain the key actions the trust is taking to ensure the FNtl is lifted;
- Where still open at the reporting date, to state when the trust expects to satisfy all the FNtl conditions.

# Notes to the financial statements:

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- **Staff costs disclosure:** “off-payroll” arrangements
- **Note on funding received for the academy trust’s educational operations:** clarified classification of funding sources to ensure closer alignment with the Academies Accounts Return
- **Leases:** reminder to ensure correctly differentiate between the classification and treatment of operating and finance leases
- **Long-term commitments:** clarified that service concession commitments (most commonly PFI agreements) should be disclosed as part of the long-term commitments note

# COVID-19 Supplementary Bulletin:

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- Yet to be issued – based on 2019-20 bulletin and expectations
- Same status as Academies Accounts Direction
- Annual report disclosures
  - Trustees' report
  - Governance statement
  - Charities SORP Committee guidance
- Disclosure of exceptional government funding
  - CJRS, catchup premium, FSM, laptops
- Impact on financial statements audit
  - Audit quality
- Impact on regularity audit
  - Procurement and Value for Money



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# Governance statement

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Hugh Swainson, Partner

# Governance statement – scope

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- Governance overview
- VfM
- Risk and internal control
- 2021 version includes details of common requirements that have been omitted by academy trusts

# DfE's governance handbook and competency framework for governance

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- Governance statement to include information on whether trustees have taken account of this DfE guidance - not mandatory
- Governance handbook (October 2020)
  - Sets out DfE's priorities for effective trust governance
  - A number of changes in this edition including emphasis on clerking and members
  - Explores six key features of effective governance: Strategic leadership, accountability, people, structures, compliance and evaluation
- Clerking Competency Framework (April 2017)
- A Competency Framework for Governance (January 2017)
  - Skills, knowledge and behaviours needed for effective governance
  - Competencies set out under the six key features of effective governance set out above

# Six features of effective governance

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# Governance statement – Board of trustees

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## Attendance at meetings

- Key changes in the composition of the board
- Coverage of its work (if not covered in other sections of the annual report)
- The board's performance, including assessment of its own effectiveness and any particular challenges that have arisen for the board
- Information about the quality of data used by the board, and why the board finds it acceptable

## Governance reviews

- New academy trusts must carry out a review of governance in their first year
- Established academy trusts should do this on an annual basis
  - Describe the review, the key findings, and when the next self-evaluation or external review will be
  - If not carried out – explain when the academy trust intends to do so
- Common omission: Details of action taken to review the effectiveness of the board through a governance review
- The board must meet at least 3 times a year and should explain if it meets less than 6 times a year

# Governance statement – The Risk and Control Framework

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- Internal scrutiny
  - Four options: Employed internal audit, internal audit service, checks by trustee and peer review
- ESFA internal scrutiny guidance (May 2021)
  - Purpose of internal scrutiny: To provide the board assurance that the trust's system of internal control is effective
  - Gives examples of financial and non-financial areas for review
- Disclosure required
  - Details of the areas covered
  - Details of reporting
  - Whether the programme of work has been delivered
  - Details of material control issues and remedial action
- Key omissions
  - 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 action taken or proposed to deal with any significant control issues identified



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## Going concern and reserves

# Going concern

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- Underlying principles
  - Solvency of the Trust
  - At least a 12 month period
  - Liquid assets/cash flow is key
- Increased focus in 2020/21
- Academies Accounts Direction & Academies Financial Handbook
- Revised International Standard on Auditing (ISA)
- ESFA good practice guide 'Operating an academy trust as a going concern' (last updated May 2021)

# Requirements for Trustees

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- Ultimately the Trustees' responsibility to assess going concern
  - Proportionality
  - Magnitude of potential future events/uncertainties
  - Risk assessment to include liquidity and solvency
  - Continuous process
  - Challenge and scrutiny (skills and knowledge base?)
- Management information: Management accounts, cash flow forecasts, assumptions (including pupil numbers, ongoing commitments), financial forecasts (3/5 years) and budgets
- Short term versus longer term financial planning - Annex A of the ESFA good practice guide – useful questions to ask
- Reserves policy (revenue versus capital)
- Must notify ESFA within 14 days if proposing a deficit revenue budget for the current financial year which it cannot address after considering unspent funds from previous years

# Audit implications – ISA 570

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- Revised in response to recent enforcement cases and well-publicised corporate failures
- **Positive audit opinion** in the audit report, flagging material uncertainties if relevant
- Increased audit work to challenge Trustees'/management's assessment of going concern, testing the adequacy of supporting evidence, and evaluating the risk of management bias
- To consider all of the evidence obtained, whether corroborative or contradictory, when drawing a conclusion on going concern.
- *Key documents for the auditor:*
- Budgets and forecasts including cash flow forecasts, which cover the going concern period (e.g. the BFRO and the 3-year budget forecast return submitted to the ESFA)
- Summary paper detailing the Academy Trust's assessment of going concern – reviewed by Finance/Audit Committee to demonstrate that the Trustees have adequately considered the going concern basis; and
- Financial information including the latest readily available management accounts up to the point of signing the audit report to assess the latest position.

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Reserves

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# Reserves

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- Underpins financial stability of the Trust – ensuring balance between today’s pupils and those in the future
- The definition of ‘reserves’
  - Funds available to meet short term financial commitments (‘working capital’)
  - Typically, unrestricted funds plus restricted revenue funds, excluding capital and pension
- Charity Commission requirements – ‘free reserves’
- ESFA guidance and statutory accounts requirements (AAD)
- Responsibility of the Trustees to set a reserves policy/target level of reserves

# Practical considerations

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- Expressing the target level of reserves (e.g. absolute, months' cover, percentage basis)
- Consider the Trust's risk profile: working capital requirements, contingencies, future investment in the Trust, demands of ongoing educational provision
- MAT considerations:
  - School level versus central office
  - Reserves pooling
  - Growth of MATs
- Reporting requirements in the annual accounts
  - Set out the policy and rationale
  - State free reserves and compare to target
  - How will any 'gaps' be resolved?
  - Funds in deficit? (and how will these be recovered)

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Q&A

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Chair: Stephen Ravenscroft, Partner



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Thank you for attending.

See you in part three!

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