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Academy accounts workshop – part one

Wednesday 12 July 2023

14:30 – 15:30

## Agenda

- Introductions and virtual housekeeping
- Reporting framework, the annual report and financial statements
  - Katharine Patel, Partner
- Impact of updates to auditing standards
  - Matthew Hrycaiczuk, Associate Director
- Q&A and close

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## Introduction to the reporting framework

Katharine Patel, Partner

## Reporting framework

- Academy Trusts are:
  - UK companies limited by guarantee
  - Exempt charities
- As a result, the annual report & accounts must comply with:
  - Companies Act 2006
  - UK Accounting Standards - FRS 102
  - Charity Statement of Recommended Practice - FRS 102 SORP
  - ESFA's additional reporting requirements
- All covered by the ESFA's Accounts Direction (and 'Coketown Academy' model accounts)

## Accounts Direction (AAD) 2022 to 2023

- Issued by the ESFA in April 2023
- For accounting periods ending 31 August 2023
- Incorporates FRS 102 and Charity SORP, plus ESFA additional requirements
- Includes model accounts 'Coketown Academy'
- Only minor AAD updates this year
- Reference to ESFA good practice guides

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The annual report

## Key elements of the annual report

- Trustees' report
  - Governance statement
  - Statement on regularity, propriety and compliance
  - Statement of trustees' responsibilities
  - Auditor's reports (financial statements and regularity)
- 
- ESFA feedback - Do not use template text from Coketown Academy (unless statutory statements)

## Trustees' Report

- Reference and administrative details
- Structure, governance and management
  - Remuneration of Key Management Personnel
  - Trade Union Facility time
  - Engagement with employees
  - Engagement with suppliers, customers and others in a business relationship with the trust
  - Organisational structure of any subsidiaries, joint ventures or associates
- Objectives and activities
- Strategic Report
  - Achievements and performance
  - Going concern assessment
  - Statement on how trustees have promoted the success of the company
  - Financial review (reserves policy, risks and uncertainties **including estates**, fundraising practices)
  - Future plans
  - Streamlined energy and carbon reporting

## Trustees' report – Financial review reminders

- Clarity and guidance on the contents of the financial review section - using terminology a non-accountant would understand
- The following must be disclosed:
  - Financial effect of significant events on the financial performance and position of the trust
  - Principal risks and uncertainties to which the trust is exposed and mitigating actions which are performed
  - In 2023, clarified that risks linked to estates management should be considered
  - 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 in to material or significant figures and balances
- In addition, the following should be disclosed:
  - Explanation of the main causes and key factors underlying the trust's operational result for the year
  - Key sources of funding of the trust and how resources support the key objectives of the trust
  - A description of the trust's fundraising practices

## Governance statement

- Governance arrangements and governance reviews, reference to DfE Governance Handbook
- Board members and meeting attendance statistics
- Annual review of governance arrangements
- Explain how conflicts of interest are managed
- Sub-committees and meeting attendance statistics
- Review of Value for Money – **should include estates safety and management**
- Review of effectiveness of internal financial controls for the year
- Internal scrutiny arrangements
  
- Areas of incomplete reporting identified by ESFA
  - Governance reviews
  - Board meetings less than 6 times per year
  - Internal assurance activity

## Statement on regularity, propriety and compliance

- Accounting Officer to provide confirmation re material irregularity
- For instances of irregularity, impropriety or non-compliance noted, the trust should state the monetary amounts if known
- **Encompasses estates safety and management**
- Potential to cross refer to matters disclosed in the governance statement

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Financial statements

## Statement of Financial Activities

- **Three** key types of fund
- Restricted Fixed Assets Fund
  - Capital funding is shown under “donations and capital grants”
  - Fund balance and net book value of tangible fixed assets
  - Use of capital funding for repairs and revenue funds for capital acquisitions
  - Transfers between funds

### Reminders:

- New schools (joiners and converters)
  - Net assets acquired are reported on a single line
  - Budget surpluses are shown as unrestricted funds
  - LGPS liability at the date of transfer is shown as “negative income”
  - Supporting disclosure note provides further analysis
- Reconciling the statutory accounts to the management accounts

### Statement of Financial Activities for the year ended 31 August 2023 (including Income and Expenditure Account)

Discussed at paragraphs 2.81 to 2.105 of the Direction.

					2022/23	2021/22
	Note	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	Total £000	Total £000
<b>Income and endowments from:</b>						
Donations and capital grants	3	123	297	544	<b>964</b>	1,725
Transfer from local authority on conversion		-	-	-	-	8,976
Other trading activities	5	10	-	-	<b>10</b>	9
Investments	6	6	-	-	<b>6</b>	5
Charitable activities:						
Funding for the academy trust's educational operations	4	-	4,585	-	<b>4,585</b>	4,349
Boarding activities [if required]	35	-	-	-	-	-
Teaching school hub [if required]	4	-	-	-	-	-
<b>Total</b>		<b>139</b>	<b>4,882</b>	<b>544</b>	<b>5,565</b>	<b>15,064</b>
<b>Expenditure on:</b>						
Raising funds	7	13	-	-	<b>13</b>	14
Charitable activities:						
Grants	8	-	-	-	-	-
Academy trust educational operations	9	3	4,546	949	<b>5,498</b>	5,198
Provision of boarding activities [if required]	35	-	-	-	-	-
Teaching School hub [if required]	9	-	-	-	-	-
Other		-	-	-	-	-
<b>Total</b>		<b>16</b>	<b>4,546</b>	<b>949</b>	<b>5,511</b>	<b>5,212</b>
<b>Net income / (expenditure)</b>		<b>123</b>	<b>336</b>	<b>(405)</b>	<b>54</b>	<b>9,852</b>
Transfers between funds	20	-	(10)	10	-	-
<b>Other recognised gains / (losses):</b>						
Actuarial (losses) / gains on defined benefit pension schemes	32	-	(319)	-	<b>(319)</b>	(133)
<b>Net movement in funds</b>		<b>123</b>	<b>7</b>	<b>(395)</b>	<b>(265)</b>	<b>9,719</b>
<b>Reconciliation of funds</b>						
Total funds brought forward		155	(956)	10,520	<b>9,719</b>	-
<b>Total funds carried forward</b>		<b>278</b>	<b>(949)</b>	<b>10,125</b>	<b>9,454</b>	<b>9,719</b>

## Balance sheet

### Reminders:

- **Operational reserves**
  - Restricted income fund and unrestricted income fund
- **Fixed assets**
  - Tangible and intangible assets
- **Pension valuation**
  - LGPS actuarial valuation – desktop and triennial valuation

### Coketown Academy Trust

#### Balance Sheet as at 31 August 2023

Company Number 01234567

Discussed at paragraphs 2.106 to 2.119 of the Direction.

	Note	2023 £000	2023 £000	2022 £000	2022 £000
<b>Fixed assets</b>					
Intangible assets	14		6		-
Tangible assets	15		9,963		10,518
<b>Current assets</b>					
Stock	16	4		5	
Debtors	17	78		82	
Cash at bank and in hand		896		255	
		978		342	
<b>Liabilities</b>					
Creditors: Amounts falling due within one year	18	(80)		(87)	
<b>Net current assets</b>			898		255
<b>Total assets less current liabilities</b>			10,867		10,773
Creditors: Amounts falling due after more than one year	19		-		-
<b>Net assets excluding pension asset/ liability</b>			10,867		10,773
Defined benefit pension scheme asset/ (liability)	32		(1,413)		(1,054)
<b>Total net assets</b>			9,454		9,719
<b>Funds of the academy trust:</b>					
<b>Restricted funds</b>					
Fixed asset fund	20	10,125		10,520	
Restricted income fund	20	464		98	
Pension reserve	20	(1,413)		(1,054)	
<b>Total restricted funds</b>			9,176		9,564
<b>Unrestricted income funds</b>	20		278		155
<b>Total funds</b>			9,454		9,719

The financial statements on pages [insert values] were approved by the trustees and authorised for issue on [date] 2023 and are signed on their behalf by:

[Signed]

[Name to be typed]  
Trustee

## Accounting policies

### Reminders:

- Use the Coketown model accounts
- There must be a policy for all material items
- Critical accounting estimates and areas of judgement
- Going concern

#### Going Concern

This should include a brief explanation as to the factors that support the conclusion that the academy trust is a going concern. It should include a balanced, proportionate and clear disclosure of any uncertainties that make the going concern assumption doubtful, or if the accounts are not prepared on a going concern basis, this fact must be disclosed, together with the basis on which the trustees have prepared the accounts and the reason the academy trust is not a going concern.

Where there are no material uncertainties about the academy trust's ability to continue, this should be stated.

The assessment should be in respect of the foreseeable future which is at least 12 months from the date the financial statements are authorised for issue. An illustrative statement, which only applies where there are no material uncertainties, is set out below.

ESFA has also published a good practice factsheet on [Going Concern](#).

## Notes to the accounts

### Income notes:

- General Annual Grant disclosure
  - Inclusion is contingent on the trust's funding agreement
- Funding received for the trust's educational operations
- Teaching school hub

#### 4 Funding for the academy trust's charitable activities

Discussed at paragraphs 2.97 - 2.99, 2.129 - 2.131 of the Direction.

Educational operations			2022/23	2021/22
	Unrestricted funds £000	Restricted funds £000	Total £000	Total £000
<b>DfE / ESFA grants</b>				
General Annual Grant (GAG)	-	4,500	<b>4,500</b>	4,257
<u>Other DfE / ESFA grants</u>				
UJFSM	-	45	<b>45</b>	52
Pupil Premium	-	40	<b>40</b>	40
Others	-	-	-	-
Other DfE Group grants	-	-	-	-
	<u>-</u>	<u>4,585</u>	<u><b>4,585</b></u>	<u>4,349</u>
<b>Other Government grants</b>				
Local authority grants	-	-	-	-
Special educational projects	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other income from the academy trust's educational operations</b>				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>4,585</u>	<u><b>4,585</b></u>	<u>4,349</u>
<b>Teaching school hub [if required]</b>				
DfE / ESFA grants	-	-	-	-
Other income	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## Notes to the accounts

### Expenditure notes:

- Teaching school hub
- Teaching assistants are considered support staff
- Disclosure of losses and write-offs
  - Compensation payments
  - Gifts made by the trust
  - Losses on:
    - Fixed assets
    - Stocks
    - Bad debts

### 7 Expenditure

Discussed at paragraph 2.102 of the Direction.

	Non-Pay Expenditure			Total	Total
	Staff costs £000	Premises £000	Other £000	2022/23 £000	2021/22 £000
Expenditure on raising funds:					
Direct costs	8	-	3	11	11
Allocated support costs	1		1	2	3
Academy's educational operations:					
Direct costs	3,024	634	502	4,160	3,866
Allocated support costs	523	503	312	1,338	1,332
Boarding activities [if relevant]	-	-	-	-	-
Direct costs	-	-	-	-	-
Allocated support costs	-	-	-	-	-
Teaching school hub [if relevant]	-	-	-	-	-
Direct costs	-	-	-	-	-
Allocated support costs	-	-	-	-	-
	<b>3,556</b>	<b>1,137</b>	<b>818</b>	<b>5,511</b>	<b>5,212</b>
Net income/(expenditure) for the period includes:					
				2022/23 £000	2021/22 £000
Operating lease rentals				4	5
Depreciation				946	870
(Gain)/loss on disposal of fixed assets				-	-
Amortisation of intangible fixed assets (included within Charitable Activities – Academy trust educational operations)				3	-
Fees payable to auditor for:					
- audit				14	15
- other services				4	5

## Notes to the accounts

### Staff costs note:

- Items shown separately
  - Agency costs
  - Restructuring costs
- Severance payments bandings
- Special payments
- Higher paid staff (earning >£60k, bands of £10k)
- Key Management Personnel
- Trustees’ remuneration for services as staff

#### 10 Staff

Discussed at paragraphs 2.133 to 2.142 of the Direction.

##### a. Staff costs

Staff costs during the period were:

	2022/23 £000	2021/22 £000
Wages and salaries	2,696	2,608
Social security costs	270	267
Pension costs	550	519
	<b>3,516</b>	<b>3,394</b>
Agency staff costs	-	-
Staff restructuring costs	40	40
	<b>3,556</b>	<b>3,434</b>
Staff restructuring costs comprise:		
Redundancy payments	20	20
Severance payments	20	20
Other restructuring costs	-	-
	<b>40</b>	<b>40</b>

##### b. Severance payments

“Severance payments” include contractual payments, statutory payments and special staff severance payments. Special staff severance payments are amounts paid to employees outside of statutory and contractual requirements.

Disclose all severance payments made by the academy trust during the period, in the bands below. This requirement stems from [HM Treasury’s Guidance on Public Sector Exit Payments](#) (para 4.1).

The Academy Trust Handbook (paragraphs 5.10 - 5.12) explains an academy trust’s requirements to obtain approval from ESFA where it makes special severance payments. More detail on severance payments for academy trusts can be found in the [Guide to academy trust severance payments](#).

The academy trust paid 5 severance payments in the year, disclosed in the following bands:

0 - £25,000	5
£25,001 - £50,000	0
£50,001 - £100,000	0
£100,001 - £150,000	0
£150,000+	0

##### c. Special staff severance payments

Disclose the individual value of all special staff severance payments (which are amounts paid to employees outside of statutory and contractual requirements) made by the academy trust during the period. This is regardless of value (and even when these payments form (part of) the payments included in note b) in accordance with the Academy Trust Handbook 2022 [paragraph 5.7 onwards].

The names of the recipients do not need to be disclosed. Disclose as below, noting that the amounts are not rounded. A note is not required if no transactions arose.

Included in staff restructuring costs are special severance payments totalling £15,000 (2022: £nil). Individually, the payments were: £1,000, £4,000, £4,000 and £6,000.

## Notes to the accounts

### Related party transactions:

- Description of nature of relationship
- Description of goods / services received
- Total value of transactions undertaken in period
- Balance owed to/from related party at balance sheet date
- ATH requirements:
  - If > £2.5k in value, ATH 'at-cost' requirement may apply
  - For transactions > £20k in value, ESFA approval (£40k from 2023/24)
  - The accounts disclosure must explicitly confirm that ATH requirements have been applied

Owing to the nature of the academy trust and the composition of the board of trustees being drawn from local public and private sector organisations, transactions may take place with organisations in which the trustees have an interest. The following related party transactions took place in the financial period.

#### Expenditure related party transactions

DEF Limited – a company in which Mr C J Goodyear (a trustee) has a majority interest:

- The academy trust purchased computer equipment from DEF Limited totalling £35,000 (2022: £nil) during the period. There were no amounts outstanding at 31 August 2023 (2022: £nil)
- The academy trust made the purchase at arms' length following a competitive tendering exercise in accordance with its financial regulations, which Mr Goodyear neither participated in, nor influenced
- In entering into the transaction, the academy trust has complied with the requirements of the Academy Trust Handbook
- The element above £2,500 has been provided 'at no more than cost' and DEF Limited has provided a statement of assurance confirming this

J Sheraton, spouse of T Sheraton, a trustee, is employed by the academy trust as a teacher. J Sheraton's appointment was made in open competition and T Sheraton was not involved in the decision-making process regarding appointment. J Sheraton is paid within the normal pay scale for her role and receives no special treatment as a result of her relationship to a trustee.

Consideration should be made whether to disclose the salary and whether further disclosure is required to fully reflect the circumstances of this related party transaction

Examples of some of the common types of related party in the academy sector are listed in the [Direction in paragraphs 2.154 and 2.155](#).

All transactions involving such organisations are conducted in accordance with the requirements of the Academy Trust Handbook, including notifying ESFA of all transactions made on or after 1 April 2019 and obtaining their approval where required, and with the academy trust's financial regulations and normal procurement procedures relating to connected and related party transactions.

## Notes to the accounts

### Reminders – Other disclosures:

- Multi-Academy Trust disclosures
  - Expenditure by school
  - Revenue reserves by school
    - Deficits on individuals schools **must** be explained
  - Central services
    - Description of services
    - Amounts charged by school
- Reserves disclosures
- PFI and other commitments
- Treatment of concessionary loans

### 23 Long-term commitments, including operating leases

Discussed at paragraphs 3.45 to 3.46 of the Direction.

#### a) Operating leases

At 31 August 2023 the total of the Academy Trust's future minimum lease payments under non-cancellable operating leases was:

	2023 £000	2022 £000
Amounts due within one year	18	18
Amounts due between one and five years	18	36
Amounts due after five years	-	-
	<u>36</u>	<u>54</u>

#### b) Long-term commitments (other contractual commitments)

Model disclosures for long term commitments, such as those relating to a service concession arrangement, are set out at paragraph 3.46 of the Direction.

At 31 August 2023, the total of the academy trust's future minimum payments under other contractual commitments was:

	2023 £000	2022 £000
Amounts due within one year	100	100
Amounts due between one and five years	400	400
Amounts due after five years	900	1,000
	<u>1,400</u>	<u>1,500</u>

The academy trust occupies premises which are subject to a private finance initiative (PFI) contract. The trust itself is not party to this service concession contract, however the academy trust has entered into a supporting agreement towards the costs of the local authority. The above relates to commitments to operating payments including costs for catering, cleaning, utilities, and other ancillary services.

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## Practical considerations of revised auditing standards

Matthew Hrycaiczuk, Associate Director

## Key changes

### ISA 315 – Identifying the risk of material misstatement

- Policies, procedures, controls for key business processes
- IT environment, how systems are used
- Evidencing Data flows between multiple systems
- Capturing other data which forms part of financial statements

### ISA 240 – Responsibilities with respect to identifying risk of misstatement through fraud

- Procedures and key personnel for reporting fraud - [ESFA Factsheet](#)

## Impact

- Additional information requests e.g. IT questionnaire
- Consideration of audit timetable (interim work)
- Wider than finance team personnel discussions

## ISA 315: What auditors will need to do?

### ISA 315 – planning stage

- IT environment questionnaire
- Work of internal auditors
- Aim: Documenting, walkthroughs and risk assessment of key finance controls related to the IT environment

### Three key areas for consideration:

1. *IT operations*
2. *Access management*
3. *Change management*

## Revised ISA 315: Emphasis on IT controls (examples)

### IT Operations

The focus will be on network controls, data backup/recovery, the age of IT systems, interconnectivity, training and knowledge

### Example

- Risk: Data backup – Financial data cannot be recovered or accessed in a timely manner when there is a loss of data
- Control: Financial data is backed up on a regular basis according to an established schedule and frequency
- Audit test for implementation: Review of log of backups/copies of backup files

## Revised ISA 315: Emphasis on IT controls (examples)

### Access management

- Risk: Users have access privileges beyond those necessary to perform their assigned duties, which may create improper segregation of duties.
- Control: Access for terminated or transferred users is removed or modified in a timely manner.
- Audit test for implementation: Review of active users against the current employee list

## Revised ISA 315: Emphasis on IT controls (examples)

### Change management

- Risk: Inappropriate changes are made to database structure and relationships between data
- Control: Changes to supplier details only by authorised staff and agreed procedures to check changes, authorisation of changes, review of log of changes
- Audit test for implementation: Review of underlying database access and check as to whether manual intervention is possible.

## ISA 315: What auditors will need to do (cont'd)?

### Impact on audit fieldwork

- Consider the overall audit approach
- Additional control checks
- Emphasis on reconciliations, verifications

## Revised ISA 240: What will the auditors need to do?

- Greater enquiries of those who deal with allegations of suspected fraud within the organisation
- Audit work cannot be biased towards corroboration only/maybe greater challenge around assumptions
- May need to consider use of other experts (e.g. forensic accountants) in some cases
- Procedures for identification of related parties may need to be extended e.g. awarding of key contracts, procurement, supplier management
- Actions: Policies are up to date, in year communication with auditors for significant fraud-related matters, consider whether the scheme of delegation is appropriate and designed to prevent school-level fraud

## Benefits of revision to standard

- Robust audit, including consideration of fraud
- Understanding of organisation's environment and systems, information flows and risk assessment
- Identify potential inefficiencies, control weaknesses

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Thank you for attending