Academies Accounts Direction 2017-18

The Education and Skills Funding Agency (ESFA) has published its Academies Accounts Direction (AAD) 2017-18, which is applicable to academy trusts preparing statutory financial statements for the period ending 31 August 2018. Although the changes are not as significant as those seen in previous updates, there are a number of things still to consider.

Timely filing

Whilst not a change in itself, the ESFA has stressed the importance of filing the statutory accounts within four months of the period end. The ESFA take compliance with the deadline seriously and may consider action against academy trusts that don't comply, including issuing a Financial Notice to Improve (FNtI) and publicising defaulters. If your trust becomes inactive, for example if all academies are transferred out of the trust, you should prepare the accounts as soon as is practicable after the last academy has transferred out. These accounts should then be submitted to the ESFA by no later than four months after the date to which the accounts are prepared.

New disclosure requirements

The AAD has introduced two new disclosure requirements for the trustees' annual report. You must now:

1. Disclose information on any trade union facility time, to comply with the Trade Union (Facility Time Publication Requirements) Regulations 2017.
2. Disclose information on fundraising practices, to comply with the Charities (Protection and Social Investment) Act 2016.

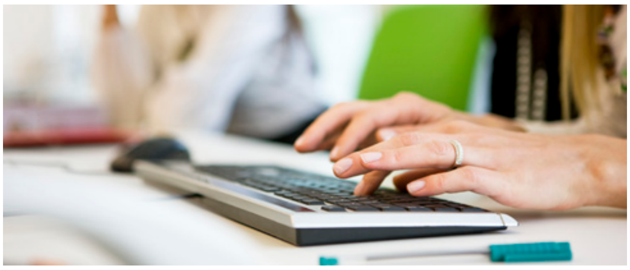
1. Trade union facility time

Trade union facility time and facilities include the time and resources that union representatives negotiate from employers so that they are able to represent members both individually and collectively in negotiations with managers. Union representatives have a statutory right to reasonable paid time off to carry out trade union duties.

Under the provisions of the Trade Union (Facility Time Publication Requirements) Regulations 2017, where an academy trust has more than 49 full time equivalent employees throughout any seven months within the reporting period, it must include information included in Schedule 2 of the Regulations. The information to be published within the trustees' report consists of:

- a list of relevant union officials;
- the percentage of time spent on facility time;
- the percentage of pay bill spent on facility time;
- paid trade union activities.

This can prove to be a difficult and time consuming task that will require some preparation. You need to calculate the number of full time equivalent employees on a monthly basis and determine if it falls under the scope of the Act.



2. Fundraising practices

Under the provisions of the Charities (Protection and Social Investment) Act 2016, the trustees' report must now include information on fundraising practices. This disclosure requires you to report on:

- approach to fundraising;
- work with, and oversight of, any commercial participators or professional fundraisers;
- fundraising conforming to recognised standards;
- monitoring of fundraising carried out on its behalf;
- fundraising complaints;
- protection of the public, including vulnerable people, from unreasonably intrusive or persistent fundraising approaches, and undue pressure to donate.

Historically, very few academy trusts carried out large fundraising activities, so this would not have been much of a concern. However, as government funding is being squeezed year on year, many academy trusts are looking into ways to raise additional funds, therefore, this requirement may become more demanding as fundraising activity increases. The costs incurred will need to be split between direct and support costs.

Changes to the financial statements and accompanying notes

The financial statements for periods ending 31 August 2018 are now expected to show an analysis of expenditure on raising funds between direct costs and support costs (as noted above). There is also a revised fixed asset note to include classifications which are more aligned with the academies annual accounts return (AAR) – saving extra work when preparing the AAR!

Capital grants

The AAD includes updated guidance regarding the treatment of capital grants in the financial statements where a site is not recognised as land and buildings. This is particularly relevant to church academies, as the school land and buildings are often owned by the Diocese and may not be recognised within the financial statements. The AAD offers two options of treatment:

- recognise a site improvement asset even though the site itself is not recognised as land and buildings. This would be similar to leasehold improvements for a lessee; or
- include the expenditure in the Statement of Financial Activities (SoFA) as a grant with a note explaining a grant applied on improvements to diocesan property occupied by the academy trust.

The AAD also makes it clear that any capital grants received by church academies should still be recognised when received. In cases where the expenditure is incurred by the church body, the grant received should be matched to the corresponding grant expenditure to the church body.

The two alternative treatments will lead to inconsistencies throughout the sector. Capitalising property costs incurred by the academy trust as site improvements could be seen to be the preferable option, as it will usually carry a long term benefit and avoid the dramatic effect of the capital expenditure in the SoFA. Whichever option you choose, ensure you clearly disclose which treatment you adopted.

Apprenticeship Levy and funded training

The Apprenticeship Levy was introduced in April 2017 and applies to all employers. The levy is 0.5% of pay bills over £3 million, subject to a £15,000 allowance. The funds are held by the Government and you can draw down funding to use for training and assessment of apprentices. It's worth noting that funds not used within 24 months will be lost, so we encourage you to consider accessing this funding if you have not already.

Last year's AAD required academy accounts to show the levy as a separate line within the staff costs note. This year, the AAD requires the levy to be included within the social security costs within the same note.

If you access Apprenticeship Levy funded training, this needs to be recognised as notional income and notional expenditure in the SoFA, with the 10% top up funding provided by the government recognised in the same way. You must ensure you have accounted for this correctly before your period-end. Such recognition accounts for the substance of the transaction, although there is no actual exchange of cash.

Teaching schools

A note requirement has been added in order to capture financial activity relating to activities as a teaching school. Where your trust has teaching school status, you are now required to include a teaching school trading account breaking down the teaching school income and expenditure in detail.

The AAD makes clear that the status of the teaching school or school-centred initial teacher training (SCITT) needs to be determined in order to consider if it has a separate legal identity or is part of the academy trust.

Last year, the AAD required teaching school income and expenditure to be shown on the face of the SoFA on separate lines. This year it has enhanced the disclosure requirement, so if you have teaching school or SCITT status, you need to ensure your accounting systems can provide an analysis of income and expenditure to enable you to produce this new note.

Related parties

FRS 102 requires all transactions with related parties to be disclosed in the accounts, so that users of the accounts can gain a full understanding of the transactions and issues that might have influenced them. Disclosure provides accountability and transparency to the public and demonstrates that potential conflicts of interest are being identified and reported. All transactions undertaken with related parties must be regarded as material, regardless of their size, and must therefore be disclosed.

The AAD now requires related parties transactions to be separated between income and expenditure. For transactions in excess of £2,500 you must state:

- it has been provided 'at no more than cost';
- the related party has provided a statement of assurance confirming this.

If you do not comply with the above, you will be in breach of the Academies Financial Handbook (AFH) – this breach should then be disclosed within your regularity reports.

The tightened disclosure is no surprise after the various stories in the press which have led to a greater focus on related party transactions.

Another change brought in by the AAD, but not specifically referred to in the summary of changes, is the requirement to disclose details where any close family of a trustee or member works for the trust. This is required in order to comply with the Charities Statement of Recommended Practice (SORP). The AAD includes an example disclosure on page 63.

Funds

The funds note has been expanded so that you now have to include comparative information in respect of the preceding period. Where the current and prior periods have been 12 months long, you also need to include an analysis showing the combined position to reflect SORP Information Bulletin 1.

The two years combined summary will enable readers of the accounts to benefit from seeing fluctuations that occur between the two periods. Seeing two years of fund movements is especially helpful when you have funds that may have a surplus in one year and a deficit in the next year or vice versa.

Report updates

The auditor's report is to be updated to comply with revised ISA700 and the regularity report is to be updated to reflect the findings from the ESFA's investigations.

Regularity

The AAD has highlighted areas where auditors and the ESFA have found irregularities in the past. The common themes are:

- lack of prior approval for finance leases;
- non-contractual severance payments made without the required approvals;
- non-compliance on related party transactions;
- weak internal controls.

The AAD also talks about other occasional incidents of irregularity and impropriety, which accounting officers and reporting accountants should be alert to. These include:

- use of public funds for personal benefit;
- lack of appropriate authorisation for expenditure, including failure to obtain ESFA approval where appropriate;
- inappropriate procurement processes, including breaches of the relevant thresholds within the European Union;
- inappropriate authorisation, such as chair of governors acting beyond powers to authorise contracts/ payments;
- irregular expenditure not for the purpose intended, e.g. excessive gifts and alcohol.

Expenditure on alcohol has always been a grey area. In the past, trivial expenditure on alcohol for justifiable reasons that is funded through unrestricted income has not been a big problem. However, the new AAD suggests that any expenditure on alcohol is seen to be irregular. We therefore suggest that you do not purchase any alcohol at all, in order to avoid the risk of being reported for irregularity.

What the changes mean for academies

As mentioned at the outset, the changes within the new AAD aren't too significant and, for many academies, will result in very few changes to their financial statements. We've highlighted throughout how each issue may affect your academy, but the key point for you is to understand the implications for your academy specifically and ensure you are updating your financial statements accordingly to comply with the new directions.

For any further information or if you have any questions about the updates within the new Academies Accounts Direction and how they will impact your academy, contact one of our academy specialists below, or your usual Moore Stephens contact.

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