Academies Accounts Direction 2022 to 2023 published

ESFA has **published** the latest edition 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 2023, which boards are due to approve by 31 December 2023. This briefing is intended for anyone involved in the year end accounts process including academy trustees, Accounting Officers, CFOs and auditors.

The welcome news is that the **changes** are limited. This is consistent with the last few years, and we support it. The Direction is now a mature document, and together with the model accounts, is a helpful and easy to use resource.

There are no new requirements of substance. The ESFA refers to the limited changes as 'clarification on existing requirements'. For some trusts the 'clarifications' will result in minor additional disclosures, and appear to have been made to ensure the Direction is interpreted as ESFA had always intended.

The main changes

- Clarification on the arrangements for the absence of key signatories of the accounts, including the Accounting Officer (paragraph 1.18). The enhanced wording makes it clear the trust must have an Accounting Officer, at all times. The term 'interim Accounting Officer' has been removed.

- Providing feedback on accounts non-compliance with the Direction in the prior year (paragraph 1.21). The main themes are:
  - Weaknesses in narrative reporting – caused by insufficient update to prior year wording, model text used without sufficient tailoring, or internal inconsistencies in the narrative.
  - Omission of new requirements in 2021/22 – in areas such as managing conflicts of interest, explaining why a particular option for delivering internal scrutiny is adopted, and ensuring that where appropriate, the report covers a subsidiary, joint venture or associate, as well as the trust.

- Updating the themes coming from ESFA's assurance work (paragraph 1.22), albeit the two most common irregularity issues remain the same:
  - The percentage of modified regularity opinions in the 2020/21 year was 7.9%, which was lower than in the previous year (2019/20: 8.5%).
  - The most common themes of modifications were, again, internal financial reporting and related party transactions.

- In response to school buildings' safety risk, the Trustees' Report content has been enhanced:
  - The principal risks and uncertainties section should consider those risks impacting on trustees' responsibilities to ensure the trust's estate is safe, well maintained and complies with relevant regulations (paragraph 2.14).
  - Clarification that the review of value for money statement encompasses the estate's safety and management (paragraph 2.40) and should include how funding has been effectively used to ensure the trust's estate is safe, well-maintained, and complies with relevant regulations (paragraph 2.42).
  - Addition to the statement on regularity, propriety and compliance made by the Accounting Officer to encompass estate's safety and management (paragraph 2.60) – although it has been confirmed that the Reporting Accountant's Regularity Report will not extend to this.

Other changes

- Clarified how trustees should use the Direction (introduction).

- Updated the guidance on the treatment of loans (paragraph 2.113). Academies may receive loans at below market rates of interest. These are known as concessionary loans. An accounting policy choice is available for concessionary loans. The way the Direction was previously drafted implied that only Salix loans may be concessionary loans. The section has been updated to make it clear it could relate to any loans, for example, CIF loans or loans inherited on conversion with local authorities. However, we expect trusts will already be adopting the appropriate accounting treatment for these, so no change to accounting treatment will be required.

- Reminder to separately disclose material income sources in note 4 (paragraph 2.130).

- Clarified that teaching assistants are categorised as support staff in the staff costs note (paragraph 2.137).

Model accounts

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

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

This **document** has also been updated. Whilst aimed at your auditor, some updates may be of interest and include:

➢ Greater detail on the failings identified in the two common irregularity themes of internal financial reporting and related party transactions:

   1. Internal financial report
      a. Management accounts not shared with the board with sufficient frequency, and/or being of poor quality.
      b. Financial management issues (including where trusts did not document their review of trade debtors/creditors/bank reconciliations.)
      c. Failure to submit one of the mandated financial returns to ESFA on time.

   2. Related party transactions
      a. Prior approval not sought from ESFA for related party transactions greater than £20k.
      b. 'At cost' policy not adhered to.
      c. Issues relating to pecuniary interests (declarations were not in place or not published on the trust's website).

➢ Clarification that immaterial irregularity issues, or those not in respect of a financial transaction, should be reported in the Audit Findings Report (that is submitted to ESFA, although this is not a public document).

➢ Failure to ensure a competitive tendering process and breach of capital funding terms added to the list of irregularity and impropriety themes identified from ESFA investigations.