

Academies Accounts Direction 2015 to 2016 – briefing note

The Academies Accounts Direction 2015 to 2016 was released in May 2016. There is now only one version of the AAD as all academy trusts will now prepare financial statements under the SORP 2015. The other news is that not much has changed to the AAD from 2015.

The EFA have also released a useful document which summarises the transition to SORP 2015 and explains the main actions academy trusts making the transition need to take. This document can be found by following this link <https://www.gov.uk/government/publications/guide-for-academies-on-the-charities-sorp-2015>

So what is new in the AAD 2015 to 2016?

Transition to SORP 2015

Academy trusts that previously prepared accounts under SORP 2005 will need to include additional notes within their financial statements for the year ended 31 August 2016. A new section (8.13) has been included in the AAD setting out the required disclosures in respect of the transition to SORP 2015.

In the main, academy trusts will this year have the following additional notes in their accounts for one year only:

- Expansion on the ‘basis of preparation’ section of the accounting policies which explains the change in accounting framework and transition to SORP 2015.
- Reconciliation of total funds at the date of transition (1 September 2014 unless the trust was formed at a later date) and the comparative financial year end (31 August 2015).
- Reconciliation of the net income/expenditure for the comparative financial year (31 August 2015).

Financial reporting

- The charitable activity disclosure has been reduced so it is in line with SORP 2015 (section 6.1.20)
- Clarification that the related parties note should include any transaction with connected parties irrespective of whether they meet the definition of a related party (section 7.6.11)

- The AAD includes a section (8.7.12) which clarifies how premises held under service concession arrangements (essentially PFI contracts) should be accounted for under SORP 2015.
- The AAD this year includes some standard wording to be included in the trustees' insurance note where the academy trust has risk protection arrangements. This can be found in section 8.11.3.
- Under the SORP 2015 comparative information **must** be provided for all amounts in the SOFA, including the split between the different classes of funds (e.g. unrestricted, restricted and restricted fixed assets). This will result in notes increasing either via additional columns or additional text. More details can be found in section 8.12 of the AAD.

The AAD does not, however, refresh the other additional disclosures or accounting changes that will be required under SORP 2015 which were introduced in last year's SORP 2015 version of the AAD. These are however, included within the transition guidance document referred to above. In summary these are:

Trustees Report

- Section explaining the arrangements and policies of setting pay and remuneration of the academy trust's key management personnel including an explanation of any benchmark or parameters/criteria used for setting pay.
- The Reserves policy should compare the actual level of reserves held with the level stated in the policy as being a sufficient level to carry forward to continue to run the trust and identify the level of free reserves held.
- Risk management disclosures also require a description of the risks identified and a summary of the trust's plans and strategies for managing them

A reminder that key management personnel is effectively the senior leadership team of the trust. However, for multi-academy trusts it may include principals and senior leadership teams of individual academies. Ultimately, the trust must determine who the key management personnel are.

Statement of Financial Activities (SOFA)

- Income headings will change e.g. 'voluntary income' is renamed 'donations'
- Expenditure headings will change e.g. 'costs of generating voluntary income' and 'fundraising trading' become 'expenditure on raising funds' as one heading.
- Governance costs will be included in support costs
- Any realised or unrealised gains and losses on investments will be reporting as part of net income/expenditure rather than as other recognised gains or losses

Academy trusts should consider whether their accounting systems will capture the information in this new format. Trusts may wish to revisit their chart of accounts.

Balance sheet

- Any material computer software licences should be capitalised as 'intangible fixed assets' whereas previously they may have been included under 'tangible fixed assets'
- Under SORP 2015 there is a requirement to recognise a liability for any outstanding paid annual leave (if material)
- There is the option to take property, plant and equipment at a revalued amount as deemed cost on the date of transition.

Academy trusts should determine if software licences are material or not. Licences such as a Windows operating system would not fall under this heading as they are not 'separable' but a finance package would.

Academy trusts should determine whether their holiday year is different to the financial year (for all staff, but most likely to be non-teaching) and then review the system to capture this data.

Accounting policies

- Income can now be recognised when it becomes 'probable' whereas previously it was when it was 'virtually certain'.
- The accounts will require disclosure where the trust uses critical accounting estimates and areas of judgement (pages 40-41 of the AAD) e.g. the LGPS liability is a critical accounting estimate reliant on assumptions

Academy trusts may therefore recognise income earlier than at present. However it is unlikely to have a significant impact as the majority of income is from the EFA and not subject to performance related terms.

Accounting disclosures

- Key management personnel's total cost of employment (effectively gross plus employer pension contributions) will need to be disclosed.
- Under SORP 2015, pension scheme assets/liabilities are valued differently. Trusts should ensure the appropriate LGPS valuation has been made under SORP 2015. There will be changes to the figures recognised for 'net interest charge' and 'actuarial gains/losses' but it is unlikely to affect the pension asset/liability.
- Operating lease commitments must now show the expected future minimum lease payments over the remaining life of the lease

More detailed information should be obtained directly from the trust statutory auditors.