Education & Skills Funding Agency

Academies accounts direction 2017 to 2018

For accounting periods ending 31 August 2018

May 2018

Contents

Introduction to the current edition

This Academies Accounts Direction 2017 to 2018 (hereafter referred to as Accounts Direction) is a guidance pack for academy trusts and their auditors to use when preparing their annual reports and financial statements for accounting periods between 1 September 2017 to 31 August 2018.

This Accounts Direction is based on Charities SORP (Statement of Recommended Practice) SORP 2015 as amended by Charities SORP (FRS102) Update Bulletin 1 (together defined as SORP 2015), and Financial Reporting Standard [FRS] 102.

The Accounts Direction is published by the Education & Skills Funding Agency (ESFA) as the agent of the Secretary of State for Education. The Department for Education (DfE) has ultimate responsibility and accountability for the financial framework for academy trusts, which it describes in the Academies Financial Handbook (hereafter referred to as the Handbook). The Accounts Direction supplements the Handbook and has the same status in that it derives from requirements set out in academy trusts' funding agreements with the Secretary of State for Education.

Academy trusts are not permitted to claim small company exemptions and must report as a "larger" charity in the context of SORP 2015. The requirements for academy trusts are to:

- prepare an annual report and financial statements (collectively referred to in this document as 'accounts') at its year end, usually to 31 August 2018
- have those accounts audited by an independent registered auditor
- submit the audited accounts to ESFA within 4 months of its year end, usually by 31 December 2018
- file the accounts with Companies House as required under the Companies Act 2006
- arrange an independent review of regularity at the academy trust and include an independent reporting accountant's report on regularity as part of the accounts

Charities SORP (FRS102) Update Bulletin 2 is being consulted on at the time this AAD is being prepared. The changes are due to the amendments and clarifications set out in "Amendments to FRS102 – Triennial review 2017 – Incremental Improvements and clarifications" issued in December 2017. The amendments will apply for reporting periods on or after 1 January 2019 with early application permitted provided all amendments are applied at the same time. These changes will be incorporated in the 2019 to 2020 Accounts Direction although academy trusts who incorporate after 1 January 2019 will need to be aware that they will be required to comply with this.

Action for external auditors

Academy trusts' external auditors should ensure they are familiar with all the reporting, disclosure and audit requirements set out in the Accounts Direction. The following sections are particularly relevant to auditors:

- Part 5: Auditor's reports
- Part 9: Regularity reporting

Academy trust auditors should notify National Audit Office (NAO), as group auditor, as soon as possible, where there is:

- a qualified audit report on the academy trust's financial statements; or
- a modified regularity report.

Before notifying NAO, auditors should discuss fully the issues leading to the qualification or modification with the academy trustees and should also inform ESFA. Further information on NAO's role as group auditor is in their publication Communication with Academy Auditors.

Coverage and queries

The Accounts Direction deals with circumstances applicable to the majority of academy trusts and does not seek to cover all eventualities. Academy trusts should therefore ensure they have access to adequate professional advice so all relevant requirements are met. They should share the Accounts Direction, and discuss any queries regarding its content, with their external auditor in the first instance.

What has changed in this edition?

The main changes in this Accounts Direction are as follows:

- being clear that accounts are required to be submitted 4 months after the accounting period end date. For academy trusts where all academies have been transferred or trust closed this may be before deadline of 31 December [S1.6]
- including requirement to include information on trade union facility time in trustees report to comply with the Trade Union (Facility Time Publication Requirements) Regulations 2017
- including requirement to include information on fundraising practices in trustees report to comply with the Charities (Protection and Social Investment) Act 2016
- including areas to be covered in the auditors report to comply with revised ISA700
- analysing expenditure on raising funds between direct costs and support costs to reflect SoRP Information Bulletin 1 [note 7]
- expanding funds note to include comparative information in respect of the preceeding period and, where the current and prior periods have been 12 months

long, an analysis showing the combined position to reflect SoRP Information Bulletin 1 [notes 19 and 20, S7.7]
- including treatment of capital grants where a site is not recognised as land and buildings in the accounts [note 8, S8.4]
- including treatment of the apprenticeship levy payment and funded training received [note 10a, S7.5, S8.13]
- revising fixed asset note to include classifications to align with the accounts return, introducing an assets under construction category, and specifying acquisitions and additions [note 14, S6.2]
- enhancing the related party transaction note to distinguish between income and expenditure related party transactions and include confirmation that any element above £2,500 is provided at no more than cost and supported by a statement of assurance from the related party confirming this [note 31, S7.6]
- including disclosure of activities relating to teaching schools [note 36, S8.14]
- updating the irregularity within academy trusts section to reflect findings from our investigations, including specifying alcohol and excessive gifts as irregular expenditure not for the purpose intended (S9.1.20)

Members and trustees

All academy trusts have both members and trustees, whose roles are described in DfE's Governance Handbook. The members have a similar role to the shareholders of a company limited by shares. The trustees are the academy trust's company directors but the Accounts Direction refers to them as trustees in recognition of the charitable status of academy trusts. However, in some academy trusts those on the board of the academy trust are known instead as 'directors': notably in church academies where the term 'trustee' is reserved for those on the board of the separate trust that owns the land.

Part 1: Basic requirements and timetable

1.1 Who the Accounts Direction is for

1.1.1 This Accounts Direction must be used by academy trusts and their auditors to produce audited financial statements for any period from 1 September 2017 to 31 August 2018.

1.1.2 The Accounts Direction applies to all types of academy trust with a funding agreement with the Secretary of State for Education and an open academy at any point during the accounting period. In all other circumstances the expectation is that the Accounts Direction is followed.

1.1.3 The Accounts Direction, and associated guidance, is mandatory for all academy trusts that have a signed funding agreement (so an open academy) at any point in their accounting period. For the majority of academy trusts there is no delay between incorporation of the company and opening of their first academy. Conversion of maintained schools usually triggers incorporation (if required) in the month before. For such academy trusts there is no accounting period for which the Accounts Direction is not applicable.

1.1.4 However, academy trusts whose academies did not have predecessor maintained schools often incorporate much earlier as part of the initial application process. Such academy trusts may exist for a number of years prior to their first academy opening. Academy trusts which do not yet have an open academy are not required to follow the requirements of the Accounts Direction and associated guidance. Therefore, pre-opening academy trusts are not required to change their accounting reference date to 31 August or submit their accounts to the ESFA. Their accountability requirements are under company law.

1.1.5 Once an academy trust become operational, through opening an academy, it is required to change its year end to 31 August adopting the requirements of this Accounts Direction and submit its audited accounts to the ESFA. However, the ESFA recommends that new academy trusts should change their year end to 31 August at the earliest opportunity.

1.1.6 The Accounts Direction is for use by:

- academy trusts' chief financial officers (eg finance directors)
- academy trusts' external auditors/reporting accountants
- academy trusts' accounting officers (principals and chief executives), in particular part 9
- academy trustees, in particular the trustees report

1.2 Basis for preparing accounts

1.2.1 Academy trusts are both exempt charities and companies limited by guarantee. This means that:

- as **exempt charities** they are exempt from registration at the Charity Commission and are instead regulated by the Secretary of State for Education, with ESFA as their agent
- as **charitable companies** they must comply with company law (set out in the Companies Act 2006) and charity law (set out in the Charities Act 2011)

1.2.2 One of the key requirements of the Companies Act 2006 is for companies to produce a set of annual report and accounts that are 'true and fair' and to have these independently audited. There is a hierarchy of rules and documents that supports the preparation of the accounts:

- **Companies Act 2006** –sets out the statutory form, content and audit arrangements for accounts in broad terms
- **Accounting standards** – the Financial Reporting Council (FRC) converts the Companies Act's requirements into detailed accounting rules in the form of accounting standards
- **Charities SORP (2015)** – the Charity Commission takes the accounting standards and translates them into a form relevant to the charities sector, called Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) usually referred to as the Charities SORP (2015) or 'SORP 2015
- **Academies Accounts Direction –** ESFA takes SORP 2015 and translates it into a form relevant to academy trusts, as an Accounts Direction
- Some academy trusts may qualify as small companies under the Companies Act 2006 and wish to take advantage of certain filing options. Academy trusts with a funding agreement and an open academy cannot take advantage of these options and accounts that are compliant with the Accounts Direction must be submitted to the ESFA and filed at Companies House.

1.3 Summary of Accounts Direction contents

1.3.1 All of the above documents apply to academy trusts but the Accounts Direction aims to bring them together and act as the primary reference source for academy trusts when they produce their annual report and accounts. It does this by:

- defining the **reporting timetable** to which academy trusts must work [part 1]
- clarifying the **elements** making up the accounts [part 2]

- providing **model accounts** (Coketown), so academy trusts can see what the accounts need to look like [part 3]. The accounts must be prepared in accordance with SORP 2015 and the Accounts Direction, unless dormant accounts are produced. The figures included in Coketown are for illustrative purposes only
- giving guidance on **each component** of the accounts [parts 4 to 7]
- explaining the **audit requirements** [parts 5 and 9]. The accounts must be audited in all cases by an auditor appointed under the Companies Act 2006, unless dormant accounts are produced. Aside from the requirements in the Companies Act, an annual audit is a requirement of academy trusts' funding agreements
- discussing **accounting issues** that academy trusts will commonly encounter [part 8]
- providing guidance on the review of **regularity** [part 9]
- giving links to other sources of information [annex A]

1.3.2 In prescribing the format of accounts the Accounts Direction aims to provide consistency in accounting practice within the sector, so results can be compared more readily.

1.4 Period of account

1.4.1 When preparing accounts, academy trusts must be clear about:

- the duration of their accounting period
- the end-date of their accounting period

1.4.2 The position for established academy trusts (those that have previously published at least one set of accounts) and new academy trusts is the same.

1.4.3 Accounts must be produced and audited for the accounting period ending on 31 August as a condition of their funding agreement unless DfE has specified, exceptionally and in writing, that another date can be adopted. Academy trusts that become inactive must prepare accounts for the period where a funding agreement and open academies are in place, and after this date continue to follow company law requirements. Section 8.9.18 considers the accounting and reporting requirements where an existing academy trust becomes inactive. Where an academy trust has become inactive due to its academies being rebrokered to another academy trust we would expect both academy trusts to work together to produce the financial statements and accounts return of the inactive academy trust.

1.4.4 Accounting reference dates

1.4.5 Companies House refers to the date up to which accounts are prepared as the ‘accounting reference date’ and is held as part of the company’s public record.

1.4.6 New academy trusts must ensure that their accounting reference date is set at Companies House to 31 August. When the academy trust is first formed the accounting reference date will be set by Companies House to the last day of the month in which the academy trust’s first anniversary falls. For example an academy trust incorporated on 6 April 2018 has its first accounting reference date as 30 April 2019, and 30 April for every year thereafter. The academy trust must change the date to 31 August as soon as possible after incorporation as explained in GP2 - Life of a Company.1.5

1.5 Dormant accounts

1.5.1 If an academy trust has been inactive for the full period between its incorporation date and 31 August 2018 it is termed ‘dormant’; and it can apply section 480 of the Companies Act 2006 and prepare dormant accounts. In this context ‘dormant’ means the academy trust has made no transactions in the period. In a similar manner, an academy trust that transferred its last academy to another academy trust before the previous year end, may also produce dormant accounts if it had no transactions for the year.

1.5.2 Dormant accounts are simpler than full accounts. They must contain a balance sheet and a signed statement by a trustee (director) to the effect that the company was dormant during the period, but they do not need to include a statement of income and expenditure or a trustees’ (directors’) report. Dormant accounts do not usually need to be audited and a pro-forma is included in GP2.

1.5.3 If an academy trust prepares dormant accounts they must report to a period end date of 31 August 2018. Academy trusts that are dormant for only a portion of the period up to 31 August 2018 will instead need to produce full audited accounts.

1.5.4 Submission and publication of dormant accounts is subject to the same deadlines as full accounts, including submission to ESFA for assurance purposes within 4 months, usually by 31 December.

1.6 Timetable for submission and publication of accounts

1.6.1 Action required by four months after the accounting period end – reporting to ESFA. For most academy trusts this deadline will be 31 December 2018.

1.6.2 The following documents must be **submitted to ESFA four months after the accounting period end, by 31 December 2018 for most academy trusts:**

- **a copy of the audited accounts, including the reporting accountant's report on regularity**
- **a copy of the audit findings report presented to those charged with governance** – this should usually contain:
  - the auditor's **approach** to the audit
  - the **areas** covered by the audit
  - the auditor's **findings**, including any significant concerns, if arising, including ratings of the importance/risk, e.g. high/medium/low
  - audit **recommendations for the period**
  - the academy trust's **response** to the auditor's recommendations including timescale for action
  - the status of any audit **recommendations from the previous year**
- **an accounts submission cover** (on-line form)

1.6.3 Academy trusts that become inactive, eg through rebrokerage, in the current accounting period should prepare these documents as soon as practicable after its last academy has transferred out. These should be submitted to ESFA by no later than four months after the date to which the accounts are prepared. Academy trusts that become inactive early in the current accounting period may wish to shorten their accounting reference period as appropriate. In any event the accounting period end date must not be later than the following 31 August. Section 8.9.18 considers the accounting and reporting requirements for an academy trust that become inactive.

1.6.4 The accounts and audit findings report must be submitted to ESFA electronically. ESFA will produce guidance on this submission guidance. This information will be shared internally within the Department for decision making purposes.

1.6.5 **Timely submission of accounts** is essential for giving assurance to Parliament that academy trusts have used public money for the purposes intended. ESFA takes compliance with the deadline seriously and may consider action against academy trusts that do not comply including issuing a Financial Notice to Improve and publicising defaulters.

1.6.6 The board of trustees should agree with their auditor an accounts preparation and audit timetable that enables achievement of the deadline.

1.6.7 The timetable should incorporate the date of the trustees' meeting at which the accounts will be approved and signed.

1.6.8 The board should consider arrangements in the event of the departure or long term absence of key signatories. If the academy trust's accounting officer leaves before the accounts are signed there should be sufficient briefing and/or information available to enable the new accounting officer to understand the key issues in the previous year, and to ensure the relevant reports comprising the accounts are signed on time. If a replacement accounting officer (principal/chief executive) has not yet been appointed the academy trust will need to appoint an interim accounting officer (e.g. the senior leader acting as principal/chief executive).

1.6.9 Action required by 31 January 2019 – publication of accounts on academy trust's website

1.6.10 Academy trusts must publish their accounts, in full, on their website. To maximise transparency and openness this should be done as soon as possible after the accounts are signed, but must be done by no later than 31 January 2019. The inclusion of a link to the Companies House website does not remove the requirement for full accounts to be published on the academy trust's website. Constituent academies within a multi academy trust should include a prominent link on their website to the financial statements published on the multi academy trust website. Academy trusts should consider filing their accounts at Companies House at the same time as they publish these on their relevant websites rather than waiting until 31 May statutory deadline.

1.6.11 Academy trusts should retain accounts in respect of at least the previous two years on its website. For example the accounts for the period ending 31 August 2016 should remain on the website when the accounts for 31 August 2018 are uploaded.

1.6.12 Action required by 31 May 2019 – reporting to Companies House

1.6.13 Academy trusts should consider filing their accounts with Companies House immediately after publishing on their website. Under section 442 (2a) of the Companies Act 2006 accounts must be filed with Companies House **within nine months of the end of the accounting period**. For most academy trusts this will be no later than 31 May 2019.

1.6.14 Companies House levy a penalty of at least £150 if accounts are filed late.

Part 2: Elements of the annual report and financial statements

2.1 The annual report and accounts tell us about the academy trust's financial performance during the year and its financial position at the end of the year and must include the following elements:

- **Annual report elements**
  - **a trustees' report** – signed by a trustee (usually the chair)
  - **a governance statement** – signed by both a trustee (usually the chair) and the accounting officer, including a review of value for money
  - **a statement on regularity, propriety and compliance** – signed by the accounting officer
  - **a statement of trustees' responsibilities** – signed by a trustee (usually the chair)
  - **an independent auditor's report on the financial statements** – signed by the auditor
  - **an independent reporting accountant's assurance report on regularity** – signed by a reporting accountant, who must be the same person as the external auditor of the financial statements
- **Financial statements**
  - **a statement of financial activities** (SOFA)
  - **a balance sheet** – signed by a trustee (usually the chair)
  - **a statement of cash flows**
  - **notes** which expand on the financial statements

2.2 Part 3 sets out a model format for the accounts. Each element is discussed individually in the subsequent parts of the Accounts Direction.

Part 3: Model annual report and financial statements

3.1 In this model document:

- text in black provides examples
- [text in red (and square brackets) indicates the source of reference material]

text in a blue box provides a description of information required, or to be omitted, as relevant

3.2 The examples provided include income and expenditure lines with nil balances in the current period. These lines are included to illustrate where such items should be disclosed but, if there is nothing to report, you should omit.

3.3 Notes to the financial statements that are not relevant to the academy trust may be omitted, unless specifically stated otherwise.

Coketown Academy Trust

(A Company Limited by Guarantee)

Annual Report and Financial Statements

Year ended 31 August 2018

**Company Registration Number:
01234567 (England and Wales)**

Period of account
For new academy trusts applying this Accounts Direction and so preparing their first set of accounts the period of account will begin on their date of incorporation at Companies House and end on 31 August 2018. It will not therefore cover a period of exactly one year. In this situation the actual period of account should be stated.

Charity registration numbers

As academy trusts are exempt charities they must not describe themselves as being registered and may not use a registered charity number, even if they had one previously.

Coketown Academy Trust

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Coketown Academy Trust
Reference and Administrative Details

See the Charity Commission's document 'Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015)' (SORP 2015) paragraphs 1.27 to 1.31 and 1.52 and 1.53. The information on this page must be included if relevant.

Members Include members in office on the date the financial statements are approved and any others who served during the year. This is an additional disclosure requirement in the Accounts Direction to promote transparency.	D Black A Cook S Martin (until 30 April 2018) T South (from 30 April 2018) C Turner J Hart
Trustees Include trustees in office on the date the financial statements are approved and any others who served during the year.	P S Small (chairman) C J Goodyear K Harris (appointed 2 March 2018) A McGuire L Miller J Murray (staff trustee) O Reville (resigned 1 February 2018) T Sheraton A Smith (staff trustee) G Smith (principal and accounting officer) C Wilkins
Company Secretary [if applicable]	P H Daniels
Senior Management Team:	
• Principal	G Smith
• Deputy principal	T Harvey
• Deputy principal	L Jones
• Deputy principal	M Patel
• Director of finance and administration	M Connor
Company Name	Coketown Academy Trust
Principal and Registered Office	10 Kings Street Coketown CK3 8QZ
Company Registration Number	01234567 (England and Wales)
Independent Auditor	Dolittle Mawper LLP 186 Crown Street London, EC1
Bankers	Natland PLC 2 Lloyd Mews Coketown, CK1 4TY
Solicitors	Clifford Smith 13 Chancery Street Coketown, CK2 4XX

Coketown Academy Trust

Trustees' Report

[discussion at part 4.1]

> This trustees' report includes the additional content required of larger charities [SORP 2015 paragraph 1.34].

The trustees present their annual report together with the financial statements and auditor's report of the charitable company for the year/period **[Insert the start date of the period for which the financial statements have been prepared. For a new academy trust preparing its first accounts this will be the date of incorporation.]** to 31 August 2018. The annual report serves the purposes of both a trustees' report, and a directors' report under company law.

> Whilst not a SORP 2015 requirement, academy trusts may find it helpful to insert a brief scene-setter here. Precise text and positioning would be at the discretion of the academy trust, but could be as follows:

The academy trust operates an academy for pupils aged 11 to 16 serving a catchment area in north Coketown. It has a pupil capacity of **x** and had a roll of **y** in the school census on **[date]** 2018.

> Or:

The academy trust operates **x** primary/secondary/special academies in Coketown / the south east / across England. Its academies have a combined pupil capacity of **x** and had a roll of **y** in the school census on **[date]** 2018

Structure, Governance and Management [see SORP 2015 paragraphs 1.25, 1.26 and 1.51]

Constitution

The academy trust is a company limited by guarantee and an exempt charity. The charitable company's memorandum and articles of association are the primary governing documents of the academy trust. The trustees of Coketown Academy Trust are also the directors of the charitable company for the purposes of company law. The charitable company operates as Coketown Academy.

> Also include details of any other names by which the academy trust makes itself known; which for MATs with multiple trading names for the same company could be extensive.

Details of the trustees who served during the year, and to the date these accounts are approved are included in the Reference and Administrative Details on page **[1]**.

Members' Liability

Each member of the charitable company undertakes to contribute to the assets of the charitable company in the event of it being wound up while they are a member, or within one year after they cease to be a member, such amount as may be required, not exceeding £[X]*, for the debts and liabilities contracted before they ceased to be a member.

> *As required in the academy trust's funding agreement/memorandum and articles of association.

Trustees' Indemnities [see Companies Act 2006 s236]

> The Companies Act 2006 s236 requires disclosure concerning qualifying third party indemnity provisions.

Method of Recruitment and Appointment or Election of Trustees

> Describe these arrangements, as set out in the articles and funding agreement, including the name of anybody or person entitled to nominate or appoint one or more trustees. This section must include the approach that is taken to recruiting new trustees including details of any constitutional provisions for appointment, for example election to post.

Coketown Academy Trust

Trustees' Report (continued)

Policies and Procedures Adopted for the Induction and Training of Trustees

Include details as determined and agreed by the trustees.

Organisational Structure

Include details of the organisational structure and how decisions are made. For example explain what decisions are reserved for the board of trustees, and those that are delegated to management, and the role of the chief executive and/or principal and senior management team and other relevant individuals. The expectation is that the principal will be the accounting officer in a single-academy trust and the chief executive will be the accounting officer in a multi-academy trust.

Arrangements for setting pay and remuneration of key management personnel

Include details of the arrangements for setting the pay and remuneration of the academy trust's key management personnel and any benchmarks, parameters or criteria used in setting their pay. 'Key management personnel' is a term used by FRS 102 for those persons having authority and responsibility for planning, directing and controlling the activities of a reporting entity, directly or indirectly, including any director (whether executive or otherwise). This definition includes academy trustees and those staff who are the senior management personnel to whom the trustees have delegated significant authority or responsibility in the day-to-day running of the academy trust. In practice this is likely to equate to trustees and an academy trust's senior leadership team. For multi-academy trusts it may also include principals and senior leadership teams of individual academies. However, this will depend on the specific circumstances in place.

Trade union facility time [see The Trade Union (Facility Time Publication Requirements) Regulations 2017]

Under the provisions of the Trade Union (Facilty Time Publication Requirements) Regulations 2017, where an academy trust has more than 49 full time equivalent employees throughout any 7 months within the reporting period, it must include information included in Schedule 2 of the Regulations. The information to be published consists of four tables covering:

Relevant union officials

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	
1%-50%	
51%-99%	
100%	

Percentage of pay bill spent on facility time

Provide the total cost of facility time	
Provide the total pay bill	
Provide the percentage of the total pay bill spent on facilty time, calculated as: (total cost of facility time ÷ total pay bill) × 100	

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) × 100	

Trustees should refer to Statutory Instrument 2017 No. 328, The Trade Union (Facility Time Publication Requirements Regulations 2017 for calculation details.

Related Parties and other Connected Charities and Organisations

Provide details where the academy trust is part of a wider network such as a soft federation, explaining the relationship involved where this impacts on the operating policies. Details are also required of relationships with related parties and any other charities/companies/organisations with which it cooperates in the pursuit of charitable activities.

Disclosure should include, but is not limited to, connected charities as discussed in [part 8.3].

For sponsored academies the role and contribution of the sponsor should be explained, other than where the MAT is the sponsor.

Objectives and Activities [see SORP 2015 paragraphs 1.17 to 1.19 and 1.35 to 1.41]

This section should help the reader understand the purpose of the academy trust.

Objects and Aims

Include a summary of the objects of the academy trust as set out in the governing document and an explanation of the academy trust's aims.

Objectives, Strategies and Activities

This section should give an explanation of the main objectives for the year and the strategies for achieving them. Also include details of significant activities linking to the charitable activities and achievement of its stated aims and objects as well as the criteria or measures used to assess success in the reporting period.

Public Benefit

This section should address the activities undertaken to further the academy trust's purposes for the public benefit. A statement is required confirming that the academy trust's trustees have complied with their duty to have due regard to the guidance on public benefit published by the Charity Commission [on their website at Charities and Public Benefit] in exercising their powers or duties. A definition of public benefit entities is included in the [SORP 2015 Appendix 1: Glossary of terms].

Coketown Academy Trust

Trustees' Report (continued)

Strategic Report

Achievements and Performance [see SORP 2015 paragraphs 1.12, 1.20, 1.36, 1.40-1.45]

Include information that enables the reader to understand and assess the achievements of the academy trust in the year, measured by reference to the aims and objectives that have been set, including a summary of the indicators, milestones and benchmarks used to assess achievements.

Key Performance Indicators

Under the Companies Act 2006 requirements for a strategic report this must include an analysis against key financial performance indicators and, where appropriate, an analysis using other key performance indicators including information relating to environmental and employee matters.

For example this could include, but may not be limited to, Ofsted inspection outcomes, examination / key stage results, pupil attendance data and pupil recruitment data, in addition to financial and investment performance. It could be presented as both achievements against objectives for the current accounting period, and as trends over time.

Going Concern

A statement by the trustees on the academy trust's ability to continue to operate as a going concern is required as best practice and should include disclosure of any financial uncertainties facing the academy trust.
Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks issued by the Financial Reporting Council (FRC) in April 2016 should be considered by directors as it replaced the guidance for directors on going concern. An illustrative statement is below:

After making appropriate enquiries, the board of trustees has a reasonable expectation that the academy trust has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in the Statement of Accounting Policies.

Financial Review [see SORP 2015 paragraphs 1.21 to 1.24, 1.46 and 1.48]

This section must include a review of the financial performance and position during the period of the academy trust and any factors likely to affect these going forward, and a statement of the principal financial management policies adopted in the period. It must:

- clearly state the in-year surplus or deficit figure which should agree to the change in balance of restricted general funds (excluding pension reserve) plus unrestricted funds
- clearly state the actual position of reserves (restricted general funds, excluding pension reserves, plus unrestricted funds) as at 31 August 2018
- include an explanation of the academy trust's reserves and investment policies.

The review should also include:

- the financial effect of significant events
- the principal sources of funding and how expenditure has supported the key objectives of the academy trust
- an explanation of the impact (if any) of a material pension liability arising from obligations to a defined benefit pension scheme or asset on the financial position of the academy trust.

Coketown Academy Trust

Trustees' Report (continued)

Reserves Policy

This should state the academy trust's policy for reserves. It should identify the value of free reserves held (being the income funds that are freely available for general purposes which, under SORP 2015, would generally be unrestricted funds) and should also disclose information on the policy and level of other reserves (eg restricted general funds).

Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure.

Identify the amount of any fund that can only be realised by disposing of tangible fixed assets.

Where any funds (or subsidiary) are materially in deficit, the academy trust should provide details of the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit. [see the Charity Commission document [Charity Reserves and Defined Benefit Pension Schemes]].

Disclosure of funds in deficit is also included in the Funds Note in the financial statements [note 19].

Compare the amount of reserves held with the academy's reserves policy and explain, where relevant, the steps being taken to bring the level of reserves into line with the level identified by the trustees as being appropriate.

In reviewing reserves the academy must state the amount of total funds at 31 August 2018 and identify the amount of any restricted funds not available for general purposes of the academy trust at 31 August 2018.

The academy trust must also review the balance on restricted general funds (excluding pension reserve) plus the balance on unrestricted funds at 31 August 2018. In the statements that follow this would be a net surplus of £464k + £278k = £742k.

Investment Policy

Include a paragraph explaining the powers that the academy trust has with regards to investments as the organisation will be holding cash balances and thereby technically making investment decisions. It must include a description of the investment policy and objectives and where material the extent (if any) to which social, environmental or ethical considerations are taken into account. Where investments are held then this information and details of investment performance against objectives should be included in the performance and achievements part of the report.

Principal Risks and Uncertainties [see SORP 2015 paragraph 1.46 and also Companies Act 2006 section 417]

Include a description of the principal risks and uncertainties facing the charity as identified by the charity trustees together with a summary of their plans and strategies for managing those risks.

Under the Companies Act 2006 requirements for a strategic report, the academy trust should include a description of the principal risks and uncertainties it faces, focussing on those that could seriously affect the performance, future prospects or reputation of the academy trust, including its viability. This will link to the risk management process that the academy trust has in place.

Coketown Academy Trust

Trustees' Report (continued)

In relation specifically to 'financial instruments' the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (SI 2008/410) Schedule 7 section 6(1) requires disclosure of the academy trust's financial risk management objectives and its exposure to financial risks including credit, cash flow and liquidity risks, unless not material for an assessment of its position and performance. However given the nature of academy trusts, and that the financial instruments that they deal with are largely bank balances, cash and trade creditors, with limited trade (and other) debtors, it is likely that only minimal disclosure will be required. It is likely that such information will not be material to the assessment of the academy trust's assets, liabilities, financial position and its results and therefore detailed disclosure may not be required.

Reference may be required to its defined benefit pension schemes, particularly where there is a deficit as this may be material.

Fundraising [see Charities (Protection and Social Investments) Act 2016]

Under the provisions of the Charities (Protection and Social Investment) Act 2016 this section must include information on fundraising practices. The areas to cover are included in section 13 of the Act and include:

- approach to fundraising
- work with, and oversight of, any commercial participators / 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.

Trustees may also find it helpful to refer to the Charity Commission publication "Charity fundraising : a guide to trustee duties (CC20)" which has been updated to reflect new requirements.

Plans for Future Periods [see SORP 2015 paragraphs 1.49 to 1.50]

This must explain the plans for the future including the aims and key objectives set for future periods, together with details of any activities planned to achieve them. It should explain the trustees' perspective of the future direction of the academy, how past experience has influenced future plans and decisions about allocating resources.

Funds Held as Custodian Trustee on Behalf of Others [see SORP 2015 paragraph 19.13]

Details of assets and arrangements for safe custody and segregation should be given where the academy trust or its trustees are acting as custodian trustee. It should include the name and objects of the charity on whose behalf they are being held and how this activity falls within their own objective.

Auditor

Required under Companies Act 2006 s418 (2)

Insofar as the trustees are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware
- the trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

A statement may also be included in respect of the reappointment of the auditor.

Trustees' report, incorporating a strategic report, was approved by order of the board of trustees, as the company directors, on **[date]** and signed on the board's behalf by:

[Signed]

[Name to be typed]
Trustee

[Date]

Coketown Academy Trust

Governance Statement

[discussion at part 4.2]

> As central government public sector bodies, academy trusts are required to provide assurance that they are appropriately managed and are controlling the resources for which they are responsible. This assurance must be communicated in a governance statement. The text of this statement will need to be amended to reflect the circumstances of the individual academy trust, particularly where it is a new academy trust.

Scope of Responsibility

As trustees we acknowledge we have overall responsibility for ensuring that Coketown Academy Trust has an effective and appropriate system of control, financial and otherwise. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The board of trustees has delegated the day-to-day responsibility to the **[principal/chief executive],** as accounting officer, for ensuring financial controls conform with the requirements of both propriety and good financial management and in accordance with the requirements and responsibilities assigned to it in the funding agreement between Coketown Academy Trust and the Secretary of State for Education. They are also responsible for reporting to the board of trustees any material weaknesses or breakdowns in internal control.

Governance

The information on governance included here supplements that described in the Trustees' Report and in the Statement of Trustees' Responsibilities. The **board of trustees** has formally met **[x]** times during the year. Attendance during the year at meetings of the board of trustees was as follows:

Trustee	**Meetings attended**	**Out of a possible**
P S Small (chairman)	3	3
C J Goodyear	3	3
K Harris (appointed 2 March 2018)	1	1
A McGuire (responsible officer)	3	3
L Miller	2	3
J Murray (staff trustee)	1	3
A Smith (staff trustee)	1	3
O Reville (resigned 1 February 2018)	2	2
T Sheraton	1	3
C Wilkins	3	3
G Smith (principal and accounting officer)	3	3

> Include here:
>
> - key changes in the composition of the board of trustees
> - the coverage of its work
> - 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 the data used by the board, and why the board finds it acceptable

Coketown Academy Trust

Governance reviews:

All new academy trusts must carry out a review of governance in their first year. Established academy trusts should do this on an annual basis. The outcome should be presented here.

- describe the evaluation or review that has been undertaken during the year on the impact and effectiveness of the board of trustees, including any external review of governance as defined by the National College for Teaching and Leadership
- describe the findings, any actions taken and the impact they had
- indicate when the academy trust intends to conduct its next self-evaluation or external review of governance. If the academy trust has not carried out a review it should still indicate when it intends to do so.

Section 2.1.3 of the Academies Financial Handbook 2017 sets out that board meetings **must** take place at least three times a year, although academy trusts may well consider it appropriate to meet more frequently, particularly medium-sized and larger academy trusts with more complex structures, and any undergoing a period of change.

The **finance and general purposes committee [if appointed]** is a sub-committee of the main board of trustees. Its purpose is to:

Add purpose and particular issues dealt with in the year/period.

During the year K Harris, who is a qualified accountant, joined the committee. Attendance at meetings in the year was as follows:

Trustee	Meetings attended	Out of a possible
K Harris (appointed 2 March 2018)	1	1
L Miller	3	3
T Sheraton	3	3

The **audit committee [if appointed]** is also a sub-committee of the main board of trustees. Its purpose is to:

Add purpose and particular issues dealt with in the year/period.

Attendance at meetings in the year was as follows:

Trustee	Meetings attended	Out of a possible
C J Goodyear	3	3
J Murray (staff trustee)	3	3
C Wilkins	3	3

Review of Value for Money

As accounting officer the **[principal / chief executive]** has responsibility for ensuring that the academy trust delivers good value in the use of public resources. The accounting officer understands that value for money refers to the educational and wider societal outcomes achieved in return for the taxpayer resources received.

The accounting officer considers how the academy trust's use of its resources has provided good value for money during each academic year, and reports to the board of trustees where value for money can be improved, including the use of benchmarking data where appropriate. The accounting officer for the academy trust has delivered improved value for money during the year by:

- **[add text]**

Accounting officers must use this section to describe briefly to parents and the community how they have improved their use of resources to deliver better value for money in their academy trust during the year.

Around three focused examples should be sufficient as discussed in [parts 4.2.5 to 4.2.8]

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of academy trust policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Coketown Academy Trust for the period **[insert the start date of the period for which the financial statements have been prepared]** to 31 August 2018 and up to the date of approval of the annual report and financial statements.

May require editing to reflect the circumstances of the individual academy trust.

Capacity to Handle Risk

The board of trustees has reviewed the key risks to which the academy trust is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The board of trustees is of the view that there is a formal on-going process for identifying, evaluating and managing the academy trust's significant risks that has been in place for the period **[insert the start date of the period for which the financial statements have been prepared]** to 31 August 2018 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the board of trustees.

May require editing to reflect the circumstances of the individual academy trust.

The Risk and Control Framework

The academy trust's system of internal financial control is based on a framework of regular management information and administrative procedures including the segregation of duties and a system of delegation and accountability. In particular it includes:

- comprehensive budgeting and monitoring systems with an annual budget and periodic financial reports which are reviewed and agreed by the board of trustees
- regular reviews by the finance and general purposes committee of reports which indicate financial performance against the forecasts and of major purchase plans, capital works and expenditure programmes
- setting targets to measure financial and other performance
- clearly defined purchasing (asset purchase or capital investment) guidelines
- delegation of authority and segregation of duties
- identification and management of risks

The board of trustees has considered the need for a specific internal audit function and has decided:

Insert description of person(s) appointed to carry out internal checks and the nature of the work that they have been engaged to perform, for example:

- to appoint **[name]** as internal auditor
- not to appoint an internal auditor. However the trustees have appointed **[name]**, a trustee, to carry out a programme of internal checks
- not to appoint an internal auditor. However the trustees have appointed **[name]**, the external auditor, to perform additional checks
- not to appoint an internal auditor. However the trustees have appointed **[name]**, the FD of **[other academy name]** to perform a peer review

The **[internal auditor's/reviewer's]** role includes giving advice on financial matters and performing a range of checks on the academy trust's financial systems. In particular the checks carried out in the current period included:

Insert details of the checks carried out. The following bullets are illustrative examples only as academy trusts should determine the scope of their checks based on a consideration of the relative risks.

- testing of payroll systems
- testing of purchase systems
- testing of control account/ bank reconciliations

On a quarterly basis, **[*]** the **[auditor/reviewer]** reports to the board of trustees, through the **[audit committee/finance and general purposes committee]** on the operation of the systems of control and on the discharge of the board of trustees' financial responsibilities.

May require editing to reflect the circumstances of the individual academy trust.

*should reflect the actual reporting that occurred

Academy trusts should confirm whether the internal auditor/reviewer has delivered their schedule of work as planned, provide details of any material control issues arising as a result of the internal auditor's/reviewer's work and, if relevant, describe what remedial action is being taken to rectify the issues.

Review of Effectiveness

As accounting officer the **[principal/chief executive]** has responsibility for reviewing the effectiveness of the system of internal control. During the year in question the review has been informed by:

- the work of the **[internal auditor/reviewer]**
- the work of the external auditor
- the financial management and governance self-assessment process **[if relevant]**
- the work of the executive managers within the academy trust who have responsibility for the development and maintenance of the internal control framework

The accounting officer has been advised of the implications of the result of their review of the system of internal control by the **[audit committee/finance and general purposes committee]** and a plan to address weaknesses **[if relevant]** and ensure continuous improvement of the system is in place.

Approved by order of the members of the board of trustees on **[date]** and signed on its behalf by:

[Signed]	**[Signed]**
[Name to be typed] Trustee	**[Name to be typed]** Accounting Officer

Coketown Academy Trust

Statement of Regularity, Propriety and Compliance

[discussion at part 4.3]

The accounting officer's statement on regularity, propriety and compliance must include the following text:

As accounting officer of Coketown Academy Trust I have considered my responsibility to notify the academy trust board of trustees and the Education & Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of all funding received by the academy trust, under the funding agreement in place between the academy trust and the Secretary of State for Education. As part of my consideration I have had due regard to the requirements of the Academies Financial Handbook 2017.

I confirm that I and the academy trust board of trustees are able to identify any material irregular or improper use of all funds by the academy trust, or material non-compliance with the terms and conditions of funding under the academy trust's funding agreement and the Academies Financial Handbook 2017.

Either:

I confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the board of trustees and ESFA.

Or:

I confirm that the following instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the board of trustees and ESFA. If any instances are identified after the date of this statement, these will be notified to the board of trustees and ESFA:

- **Financial issues**
  [X]
- **Non-financial issues**
  [X]

[Signed]

[Name to be typed]

Accounting Officer

[Date]

Coketown Academy Trust

Statement of Trustees’ Responsibilities

[discussion at part 4.4]

The trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for preparing the Trustees’ Report and the financial statements in accordance with the Academies Accounts Direction published by the Education & Skills Funding Agency, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and applicable law and regulations.

Company law requires the trustees to prepare financial statements for each financial year. Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and of its incoming resources and application of resources, including its income and expenditure, for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently
- observe the methods and principles in the Charities SORP 2015 and the Academies Accounts Direction 2017 to 2018
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company’s transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for ensuring that in its conduct and operation the charitable company applies financial and other controls, which conform with the requirements both of propriety and of good financial management. They are also responsible for ensuring grants received from ESFA/DfE have been applied for the purposes intended.

The trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by order of the members of the board of trustees on [date] and signed on its behalf by:

[Signed]

[Name to be typed]

Trustee

Coketown Academy Trust

Independent Auditor’s Report on the Financial Statements to the Members of Coketown Academy Trust

[discussion at part 5.1]

The form and content of the audit report on the financial statements, which must appear here, is governed by International Standards on Auditing (UK) (ISA’s), relevant legislation and the academy trust funding agreement. Requirements and guidance may be found in relevant ISAs, supporting auditor reporting guidance published by the FRC and ‘Practice Note 11: The Audit of Charities in the United Kingdom (revised)’.

The auditor’s opinion must address whether the financial statements:

- give a true and fair view of the state of the academy trust’s affairs at 31 August 2018 and of its incoming resources and application of resources, including its income and expenditure, for the period then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- have been prepared in accordance with the requirements of the Companies Act 2006
- have been prepared in accordance with the Charities SORP 2015 and Academies Accounts Direction 2017 to 2018

The auditor report must comply with ISA700 and include the following headings :

- opinion
- basis for opinion
- conclusions / material uncertainty relating to going concern
- other information
- opinion on matters prescribed by the Companies Act 2006
- matters on which we are required to report by exception
- responsibilities for the financial statements
- the auditor’s responsibilities for the audit of the financial statements
- name of the senior statutory auditor
- signature, address and date

Note that an additional report expressing a conclusion on regularity must also be produced by the academy trust’s reporting accountant (external auditor). The format of this additional report is on the next page.

Coketown Academy Trust

Independent Reporting Accountant's Assurance Report on Regularity to Coketown Academy Trust and the Education & Skills Funding Agency

[discussion at part 5.2]

The reporting accountant's report on regularity must include the following text:

In accordance with the terms of our engagement letter dated **[x]** and further to the requirements of the Education & Skills Funding Agency (ESFA) as included in the Academies Accounts Direction 2017 to 2018, we have carried out an engagement to obtain limited assurance about whether the expenditure disbursed and income received by Coketown Academy Trust during the period **[insert the start date of the period for which the financial statements have been prepared]** to 31 August 2018 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to Coketown Academy Trust and ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to Coketown Academy Trust and ESFA those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Coketown Academy Trust and ESFA, for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Coketown Academy Trust's accounting officer and the reporting accountant

The accounting officer is responsible, under the requirements of Coketown Academy Trust's funding agreement with the Secretary of State for Education dated **[x]** and the Academies Financial Handbook, extant from 1 September 2017, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Academies Accounts Direction 2017 to 2018. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period **[insert the start date of the period for which the financial statements have been prepared]** to 31 August 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Academies Accounts Direction 2017 to 2018 issued by ESFA. We performed a limited assurance engagement as defined in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity.

Coketown Academy Trust

Independent Reporting Accountant's Assurance Report on Regularity to Coketown Academy Trust and the Education & Skills Funding Agency (continued)

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the regularity and propriety of the academy trust's income and expenditure.

The work undertaken to draw to our conclusion includes:

- [X]
- [X]

Conclusion

In the course of our work, **[except for the matters listed below]** nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period **[insert the start date of the period for which the financial statements have been prepared]** to 31 August 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

[Matter 1:

Matter 2:]

[Signed]

Reporting Accountant

[Accountancy Firm Name]

[Date]

Coketown Academy Trust

Statement of Financial Activities
for the year ended 31 August 2018

(including Income and Expenditure Account)

[discussion at part 6.1]

	Note	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	**2017/18** Total £000	2016/17 Total £000
Income and endowments from:						
Donations and capital grants	3	123	297	544	**964**	1,725
Transfer from local authority on conversion		-	-	-	**-**	8,976
Charitable activities:						
Funding for the academy trust's educational operations	4	-	4,585	-	**4,585**	4,349
Provision of boarding activities **[if reqd]**	33	-	-	-	**-**	-
Teaching schools **[if required]**		-	-	-	**-**	-
Other trading activities	5	10	-	-	**10**	9
Investments	6	6	-	-	**6**	5
Total		139	4,882	544	**5,565**	15,064
Expenditure on:						
Raising funds	7	13	-	-	**13**	14
Charitable activities:						
Grants	8		-		**-**	-
Academy trust educational operations	9	3	4,546	949	**5,498**	5,198
Provision of boarding activities **[if reqd]**	33	-	-	-	**-**	-
Teaching schools **[if required]**	36	-	-	-	**-**	-
Other		-	-	-	**-**	-
Total		16	4,546	949	**5,511**	5,212
Net income / (expenditure)		123	336	(405)	**54**	9,852
Transfers between funds	19	-	(10)	10	**-**	-
Other recognised gains / (losses):						
Actuarial (losses) / gains on defined benefit pension schemes	30	-	(319)	-	**(319)**	(133)
Net movement in funds		123	7	(395)	**(265)**	9,719
Reconciliation of funds						
Total funds brought forward		155	(956)	10,520	**9,719**	-
Total funds carried forward		278	(949)	10,125	**9,454**	9,719

Section 4.2 SORP 2015 requires disclosure of comparative information for all amounts presented in the SoFA, including the split between unrestricted and restricted income funds. See Section 8.12 for further information on how this may be presented.

Coketown Academy Trust
Balance Sheet
as at 31 August 2018

Company Number 01234567

[discussion at part 6.2]

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Intangible assets	13		**6**		-
Tangible assets	14		**9,963**		10,518
Current assets					
Stock	15	**4**		5	
Debtors	16	**78**		82	
Cash at bank and in hand		**896**		255	
		978		342	
Liabilities					
Creditors: Amounts falling due within one year	17	**(80)**		(87)	
Net current assets			**898**		255
Total assets less current liabilities			**10,867**		10,773
Creditors: Amounts falling due after more than one year	18		**-**		-
Net assets excluding pension liability			**10,867**		10,773
Defined benefit pension scheme liability	30		**(1,413)**		(1,054)
Total net assets			**9,454**		9,719
Funds of the academy trust:					
Restricted funds					
Fixed asset fund	19	**10,125**		10,520	
Restricted income fund	19	**464**		98	
Pension reserve	19	**(1,413)**		(1,054)	
Total restricted funds			**9,176**		9,564
Unrestricted income funds	19		**278**		155
Total funds			**9,454**		9,719

The financial statements on pages **[insert values]** were approved by the trustees and authorised for issue on **[date]** 2018 and are signed on their behalf by

[Signed]

[Name to be typed]
Trustee

Coketown Academy Trust

Statement of Cash Flows
for the year ended 31 August 2018

[discussion at part 6.3]

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Net cash provided by (used in) operating activities	23	**491**	260
Cash flows from investing activities	25	**150**	(5)
Cash flows from financing activities	24	**-**	-
Change in cash and cash equivalents in the reporting period		**641**	255
Cash and cash equivalents at 1 September 2017		255	-
Cash and cash equivalents at 31 August 2018	26	**896**	255

Coketown Academy Trust

Notes to the Financial Statements

[discussion at parts 7.3 and 7.1]

1 Accounting policies

A summary of the principal accounting policies adopted (which have been applied consistently, except where noted), judgements and key sources of estimation uncertainty, is set out below.

Academy trusts should only disclose those accounting policies which are material and relevant to their specific situation. Materiality relates to the financial information provided in the accounts and an item is material when its omission or misstatement could influence the economic decisions that users make on the basis of those accounts. The suggested accounting policies set out below should therefore be modified accordingly and consideration given as to whether any additional policies need including. [see SORP 2015 module 3: Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors and FRS 102 sections 2, 3 and 10.]

Basis of Preparation

The financial statements of the academy trust, which is a public benefit entity under FRS 102, have been prepared under the historical cost convention in accordance with the Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (Charities SORP (FRS 102)), the Academies Accounts Direction 2017 to 2018 issued by ESFA, the Charities Act 2011 and the Companies Act 2006.

Under section 3.40 of SORP 2015 and section 3.3A of FRS 102, an academy trust must state that it is a public benefit entity; any judgements made in applying the academy trust's accounting policies that have the most significant effect on the amounts recognised in the accounts; the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date and details of the nature and carrying amount of assets where there is a significant risk of material adjustment within the next reporting period.

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:

The trustees assess whether the use of going concern is appropriate i.e. whether there are any material uncertainties related to events or conditions that may cast significant doubt on the ability of the company to continue as a going concern. The trustees make this assessment in respect of a period of at least one year from the date of authorisation for issue of the financial statements and have concluded that the academy trust has adequate resources to continue in operational existence for the foreseeable future and there are no material uncertainties about the academy trust's ability to continue as a going concern, thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Income

All incoming resources are recognised when the academy trust has entitlement to the funds, the receipt is probable and the amount can be measured reliably.

- **Grants**
  Grants are included in the Statement of Financial Activities on a receivable basis. The balance of income received for specific purposes but not expended during the period is shown in the relevant funds on the balance sheet. Where income is received in advance of meeting any performance-related conditions there is not unconditional entitlement to the income and its recognition is deferred and included in creditors as deferred income until the performance-related conditions are met. Where entitlement occurs before income is received, the income is accrued.

  Specific reference should be made to the treatment of GAG, capital grants and grants with specific performance conditions. For example:

  General Annual Grant is recognised in full in the Statement of Financial Activities in the year for which it is receivable and any abatement in respect of the period is deducted from income and recognised as a liability.

  Capital grants are recognised in full when there is an unconditional entitlement to the grant. Unspent amounts of capital grants are reflected in the balance sheet in the restricted fixed asset fund. Capital grants are recognised when there is entitlement and are not deferred over the life of the asset on which they are expended.

Where an asset is being constructed under the ESFA Free School or Priority Schools Building Programme, and the academy trust is recognising an asset on balance sheet for the development from ESFA funding, then the policy for this should be disclosed.

Where an academy trust is recognising an asset under these programmes, it should not be accrued on the basis of the funding letter, which does not give rise to an unconditional entitlement.

The academy trust is benefiting from the ESFA's [Free School / Priority Schools Building Programme – tailor as applicable]. The funding for the programme is not recognised as a capital grant until there is unconditional entitlement from costs being incurred, and the development occurring on a site where the academy trust controls (through ownership, lease or licence) [tailor to circumstances] the site where the development is occurring. The expenditure is capitalised in assets under construction until the project is complete.

- **Sponsorship Income**
  Sponsorship income provided to the academy trust which amounts to a donation is recognised in the Statement of Financial Activities in the period in which it is receivable (where there are no performance-related conditions), where the receipt is probable and it can be measured reliably.
- **Donations**
  Donations are recognised on a receivable basis (where there are no performance-related conditions) where the receipt is probable and the amount can be reliably measured.
- **Other Income**
  Other income, including the hire of facilities, is recognised in the period it is receivable and to the extent the academy trust has provided the goods or services.
- **Donated goods, facilities and services**
  Goods donated for resale are included at fair value, being the expected proceeds from sale less the expected costs of sale. If it is practical to assess the fair value at receipt, it is recognised in stock and 'Income from other trading activities'. Upon sale, the value of the stock is charged against 'Income from other trading activities' and the proceeds are recognised as 'Income from other trading activities'. Where it is impractical to fair value the items due to the volume of low value items they are not recognised in the financial statements until they are sold. This income is recognised within 'Income from other trading activities'.
- **Transfer on conversion [Include if relevant to the academy trust]**
  Where assets and liabilites are received by the academy trust on conversion to an academy, the transferred assets are measured at fair value and recognised in the balance sheet at the point when the risks and rewards of ownership pass to the academy trust. An equal amount of income is recognised as transfer on conversion within Donations and capital grant income to the net assets received.
- **Transfer of existing academies into the academy trust [Include if relevant to the academy trust]**
  Where assets and liabilities are received on the transfer of an existing academy into the academy trust, the transferred net assets are measured at fair value and recognised in the balance sheet at the point when the risks and rewards of ownership pass to the academy trust. An equal amount of income is recognised for the transfer of an existing academy into the academy trust within Donations and capital grant income to the net assets acquired.
- **Donated fixed assets (excluding Transfers on conversion/into the academy trust)**
  Where the donated good is a fixed asset it is measured at fair value, unless it is impractical to measure this reliably, in which case the cost of the item to the donor should be used. The gain is recognised as income from donations and a corresponding amount is included in the appropriate

fixed asset category and depreciated over the useful economic life in accordance with the academy trust's accounting policies.

> Where the Charitable Company has, upon becoming an academy trust, received a transfer of property or been party to a lease of property for little or no consideration it should include an additional policy, which will need details of the transaction and the basis of measurement as the policy above is not sufficient.

Expenditure

Expenditure is recognised once there is a legal or constructive obligation to transfer economic benefit to a third party, it is probable that a transfer of economic benefits will be required in settlement and the amount of the obligation can be measured reliably. Expenditure is classified by activity. The costs of each activity are made up of the total of direct costs and shared costs, including support costs involved in undertaking each activity. Direct costs attributable to a single activity are allocated directly to that activity. Shared costs which contribute to more than one activity and support costs which are not attributable to a single activity are apportioned between those activities on a basis consistent with the use of resources. Central staff costs are allocated on the basis of time spent, and depreciation charges allocated on the portion of the asset's use.

- **Expenditure on Raising Funds**
  This includes all expenditure incurred by the academy trust to raise funds for its charitable purposes and includes costs of all fundraising activities events and non-charitable trading.
- **Charitable Activities**
  These are costs incurred on the academy trust's educational operations, including support costs and costs relating to the governance of the academy trust apportioned to charitable activities.

All resources expended are inclusive of irrecoverable VAT.

Intangible Fixed Assets [if arising]

Intangible assets costing **£[x]** or more are capitalised and recognised when future economic benefits are probable and the cost or value of the asset can be measured reliably. Intangible assets are initially recognised at cost and are subsequently measured at cost net of amortisation and any provision for impairment.

Amortisation is provided on intangible fixed assets at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

- Purchased computer software **[x]**

Tangible Fixed Assets

Assets costing **£[x]** or more are capitalised as tangible fixed assets and are carried at cost, net of depreciation and any provision for impairment.

Where tangible fixed assets have been acquired with the aid of specific grants, either from the government or from the private sector, they are included in the Balance Sheet at cost and depreciated over their expected useful economic life. Where there are specific conditions attached to the funding requiring the continued use of the asset, the related grants are credited to a restricted fixed asset fund in the Statement of Financial Activities and carried forward in the Balance Sheet. Depreciation on the relevant assets is charged directly to the restricted fixed asset fund in the Statement of Financial Activities. Where tangible fixed assets have been acquired with unrestricted funds, depreciation on such assets is charged to the unrestricted fund.

Depreciation is provided on all tangible fixed assets other than freehold land and assets under construction, at rates calculated to write off the cost of each asset on a **[straight-line/reducing balance]** basis over its expected useful life, as follows:

- Freehold buildings [x]
- Long leasehold buildings [x]
- Furniture and fixtures [x]
- Plant and equipment [x]

Assets in the course of construction are included at cost. Depreciation on these assets is not charged until they are brought into use and reclassified to freehold or leasehold land and buildings.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Financial Activities.

Liabilities
Liabilities are recognised when there is an obligation at the balance sheet date as a result of a past event, it is probable that a transfer of economic benefit will be required in settlement, and the amount of the settlement can be estimated reliably. Liabilities are recognised at the amount that the academy trust anticipates it will pay to settle the debt or the amount it has received as advanced payments for the goods or services it must provide.

Provisions
Provisions are recognised when the academy trust has an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and the obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.

Leased Assets
Rentals under operating leases are charged on a straight line basis over the lease term.

Investments

> None are included in this model but if relevant the suggested disclosure could be as follows, with valuation in line with SORP 2015 [paragraphs 10.44 to 10.49]

The academy's shareholding in the wholly owned subsidiary, ABC Limited, is included in the balance sheet at the cost of the share capital owned less any impairment. There is no readily available market value and the cost of valuation exceeds the benefit derived.

Financial Instruments

The academy trust only holds basic financial instruments as defined in FRS 102. The financial assets and financial liabilities of the academy trust and their measurement basis are as follows:

Financial assets – trade and other debtors are basic financial instruments and are debt instruments measured at amortised cost as detailed in note 15. Prepayments are not financial instruments. Amounts due to the charity's wholly owned subsidiary are held at face value less any impairment.

Cash at bank – is classified as a basic financial instrument and is measured at face value.

Financial liabilities – trade creditors, accruals and other creditors are financial instruments, and are measured at amortised cost as detailed in notes 17 and 18. Taxation and social security are not included in the financial instruments disclosure definition. Deferred income is not deemed to be a financial liability, as the cash settlement has already taken place and there is an obligation to deliver services rather than cash or another financial instrument. Amounts due to charity's wholly owned subsidiary are held at face value less any impairment.

Stock

Stock in these model accounts is immaterial but the policy is included for illustrative purposes.

Unsold uniforms and catering stocks are valued at the lower of cost or net realisable value.

Taxation

The academy trust is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes.

Accordingly, the academy trust is potentially exempt from taxation in respect of income or capital gains received within categories covered by part 11, chapter 3 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Pensions Benefits

Retirement benefits to employees of the academy trust are provided by the Teachers' Pension Scheme ('TPS') and the Local Government Pension Scheme ('LGPS'). These are defined benefit schemes.

The TPS is an unfunded scheme and contributions are calculated so as to spread the cost of pensions over employees' working lives with the academy trust in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by the Government Actuary on the basis of quadrennial valuations using a prospective unit credit method. TPS is an unfunded multi-employer scheme with no underlying assets to assign between employers. Consequently,the TPS is treated as a defined contribution scheme for accounting purposes and the contributions recognised in the period to which they relate.

The LGPS is a funded multi-employer scheme and the assets are held separately from those of the academy trust in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Financial Activities and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

Actuarial gains and losses are recognised immediately in other recognised gains and losses.

Fund Accounting

Unrestricted income funds represent those resources which may be used towards meeting any of the charitable objects of the academy trust at the discretion of the trustees.

Restricted fixed asset funds are resources which are to be applied to specific capital purposes imposed by funders where the asset acquired or created is held for a specific purpose.

Restricted general funds comprise all other restricted funds received with restrictions imposed by the funder/donor and include grants from the **[Department for Education Group].**

Critical accounting estimates and areas of judgement
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions
The academy trust makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Disclose the key assumptions concerning the future, other key sources of estimation uncertainty at the reporting date, and the nature and carrying amount at the end of the reporting period of assets and liabilities.

The main example that would apply to academy trusts is the estimates used in the valuing the local government pension scheme.

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 30, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 August 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Critical areas of judgement

Disclose the judgements (apart from those involving estimation) that have the most significant effect on the amounts recognised in the financial statements. The trustees must establish which areas of judgement are critical to the academy trust's financial statements.

2 General Annual Grant (GAG) [if required]

This note is required if the academy trust's funding agreement at 31 August 2018 contained limits on the amount of GAG that it was permitted to carry forward from one year to the next. If there were no limits, this should be stated in the funds note.

Under the funding agreement with the Secretary of State the academy trust was subject to limits at 31 August 2018 on the amount of GAG that could be carried forward from one year to the next. An amount equal to 12% of GAG could be carried forward, of which up to 2% could be used for general recurrent purposes, with any balance being available for premises/capital purposes.

The academy trust **[has/has not]** exceeded these limits during the year ended 31 August 2018.

3 Donations and capital grants

[discussion at parts 6.1.19 ,7 and 8.4]

	Unrestricted Funds	Restricted Funds	2017/18 Total	2016/17 Total
	£000	£000	£000	£000
Capital grants	-	544	**544**	1,224
Donated fixed assets	-	-	**-**	-
Other donations	123	297	**420**	501
	123	841	**964**	1,725

In accordance with SORP 2015 disclose comparative information for each of the funds [see 8.12].

4 Funding for the Academy Trust's educational operations

[discussion at parts 6.1.19 ,7 and 8.4]

	Unrestricted Funds	Restricted Funds	2017/18 Total	2016/17 Total
	£000	£000	£000	£000
DfE / ESFA grants				
General Annual Grant (GAG)	-	4,500	**4,500**	4,257
Start Up Grants	-	-	**-**	-
Other DfE Group grants	-	85	**85**	92
National College grants	-	-	**-**	-
	-	4,585	**4,585**	4,349
Other Government grants				
Local authority grants	-	-	**-**	-
Special educational projects	-	-	**-**	-
	-	-	**-**	-
Other income from the academy trust's educational operations	-	-	**-**	-
	-	4,585	4,585	4,349

An academy trust mostly has one activity but the note above highlights the government funding received. SORP 2015 [paragraph 5.58] sets out the disclosure requirements for charities in receipt of government grants. In particular any unfulfilled conditions and other contingencies for grants recognised should be disclosed, where relevant.

In accordance with SORP 2015 disclose comparative information for each of the funds [see 8.12].

5 Other trading activities

[discussion at parts 6.1.19 ,7 and 8.4]

	Unrestricted Funds	Restricted Funds	2017/18 Total	2016/17 Total
	£000	£000	£000	£000
Hire of facilities	10	-	**10**	9
Income from other charitable activities	-	-	**-**	-
Income from ancilliary trading activities	-	-	**-**	-
	10	-	**10**	9

The figure included above is not material but is included for illustrative purposes. In accordance with SORP 2015 disclose comparative information for each of the funds [see 8.12].

6 Investment income

[discussion at parts 6.1.19 ,7 and 8.4]

	Unrestricted Funds £000	Restricted Funds £000	2017/18 Total £000	2016/17 Total £000
Short term deposits	6	-	**6**	5
	6	-	**6**	5

An analysis of the material components should be given if not provided on the face of the SOFA. In accordance with SORP 2015 disclose comparative information for each of the funds [see 8.12].

7 Expenditure

		Non Pay Expenditure			
	Staff Costs £000	Premises £000	Other £000	Total 2017/18 £000 £000	Total 2016/17 £000 £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 **(if relevant)**	-	-	-	**-**	-
	3,556	1,137	818	**5,511**	5,212

Net income/(expenditure) for the period includes:

	2017/18 £000	2016/17 £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

Section 3.1.7 of the Academies Financial Handbook 2017 requires additional disclosure in the accounts for certain categories of transactions. Disclosure should include the total value of the transactions during the period plus individual disclosure of items over £5,000, if arising. Disclosure is illustrated below. An entry is not required if no transactions arose.

In the case of ex-gratia payments SORP 2015 [paragraph 9.25] requires all payments to be disclosed, regardless of value, including an explanation of the nature of the payment and the legal authority, although payments may be aggregated where they are of a similar nature and where this does not impact on the understanding of the arrangement.

Whilst not generally expected to arise, the following terms used in the disclosure have the meaning given in annex 4.13 of HM Treasury's Managing Public Money:

- compensation means 'payments to provide redress for personal injuries, traffic accidents, damage to property etc.' that go beyond statutory or contractual entitlement
- ex-gratia means other 'payments' that go beyond statutory cover, legal liability or administrative rules

Note that 'compensation payments' does not mean staff severance payments. Disclosure of staff severance payments is included in the staff costs note.

In accordance with SORP 2015 disclose comparative information for each of the funds [see 8.12].

Included within expenditure are the following transactions.

	Total £	**Individual items above £5,000**	
		Amount £	**Reason**
Compensation payments	x	x	x
Gifts made by the academy trust	x	x	x
Fixed asset losses	x	x	x
Stock losses	x	x	x
Unrecoverable debts	x	x	x
Cash losses	x	x	x

	Total £	**Individual items**	
		Amount £	**Reason/ nature**
Ex-gratia payments	x	x	x

The legal authority sought to make ex-gratia payments was in compliance with the Academies Financial Handbook 2017, being delegated authority or approval from the Education and Skills Funding Agency.

Lines can be omitted if no transactions arose.

8 Analysis of grants

[discussion at part 8.4]

	Unrestricted Funds £000	Restricted Funds £000	Total £000	Total £000
Improvements to diocesan property occupied by the academy trust	-	x	x	-
	-	x	**x**	-

9 Charitable activities

[discussion at parts 6.1.20 and 7]

	2017/18 £000	2016/17 £000
Direct costs – educational operations	**4,160**	3,866
Direct costs – boarding [if relevant]	**-**	-
Support costs – educational operations	**1,338**	1,332
Support costs – boarding [if relevant]	**-**	-
	5,498	5,198

Analysis of support costs	Boarding £000	Educational operations £000	2017/18 Total £000	2016/17 Total £000
Support staff costs	**-**	415	**415**	409
Depreciation	**-**	312	**312**	304
Technology costs	**-**	-	**-**	-
Premises costs	**-**	407	**407**	401
Other support costs	**-**	109	**109**	118
Governance costs	**-**	95	**95**	100
Total support costs	**-**	1,338	**1,338**	1,332

Included within governance costs are any costs associated with the strategic as opposed to day-to-day management of the charity's activities. These costs will include any employee benefits for trusteeship, the cost of charity employees involved in meetings with trustees, the cost of any administrative support provided to the trustees, and costs relating to constitutional and statutory requirements including audit and preparation of statutory accounts.

If there are any ancilliary or other charitable activities acvtivities include these in this table. It would be appropriate to use headings consistent with those in note 5.

10 Staff

[discussion at part 7.5 and 7]

a. Staff costs

Staff costs during the period were:

	2017/18	2016/17
	£000	**£000**
Wages and salaries	**2,696**	2,608
Social security costs	**270**	267
Pension costs	**550**	519
	3,516	3,394
Agency staff costs	**-**	-
Staff restructuring costs	**40**	40
	3,556	3,434

Staff restructuring costs comprise:		
Redundancy payments	**20**	20
Severance payments	**20**	20
Other restructuring costs	**-**	-
	40	40

If severance payments include any non-statutory/non-contractual elements, these must be disclosed in part b below.

The figure for operating costs of defined benefit pension schemes will include employer contributions to the LGPS and the TPS but should exclude finance costs.

b. Non statutory/non-contractual staff severance payments

Disclose the date and individual value of all non-statutory/non-contractual severance payments made by the academy trust during the period, regardless of value, in accordance with the Academies Financial Handbook [section 3.1.9]. 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 non-statutory/non-contractual severance payments totalling £15,000 (2017: £nil). Individually, the payments were: £1,000 made on (enter date), £4,000 made on (enter date), £4,000 and £6,000 made on (enter date).

c. Staff numbers

The figures disclosed here should be the average headcount, as detailed in section 411 of Companies Act 2006, although the number average expressed as a full time equivalent may be provided in addition.

The average number of persons employed by the academy trust during the year/period was as follows:

	2017/18	**2016/17**
	No.	**No.**
Teachers	**66**	65
Administration and support	**21**	23
Management	**8**	8
	95	96

d. Higher paid staff

SORP 2015 [section 9.30] requires disclosure, in £10,000 bandings of benefits to employees who received more than £60,000 in the period.

Employee benefits are defined in SORP 2015 [appendix 1] as all forms of consideration paid by an academy trust for the service rendered by employees and include all remuneration, salary, benefits, employer's pension contributions and any termination payments made. But for the purposes of the banded disclosure employer pension costs should be excluded. Employers national insurance contributions are excluded from this calculation.

The number of employees whose employee benefits (excluding employer pension costs) exceeded £60,000 was:

	2017/18 No.	2016/17 No.
£60,001 - £70,000	**3**	3
£70,001 - £80,000	**1**	1

e. Key management personnel

SORP 2015 [section 9.32] requires disclosure of the total amount of employee benefits received by key management personnel, defined as the trustees and the senior management of the academy trust. SORP 2015 also states that trustees should give consideration to the information needs of their funders and other stakeholders in making their accounting disclosures and so more detailed disclosures may be helpful.

The key management personnel of the academy trust comprise the trustees and the senior management team as listed on page 1. The total amount of employee benefits (including employer pension contributions and employer national insurance contributions) received by key management personnel for their services to the academy trust was £390,000 (2017: £390,000).

11 Related Party Transactions – Trustees' remuneration and expenses

[discussion at part 7.6]

One or more trustees has been paid remuneration or has received other benefits from employment with the academy trust. The principal and other staff trustees only receive remuneration in respect of services they provide undertaking the roles of principal and staff members under their contracts of employment.

[If this is not the case payments must be disclosed separately.]

The value of trustees' remuneration and other benefits was as follows:

G Small (principal and trustee):
Remuneration £75,000 - £80,000 (2017: £75,000 - £80,000)
Employer's pension contributions paid £10,000 - £15,000 (2017: £10,000 - £15,000)

J Murray (staff trustee):
Remuneration £35,000 - £40,000 (2017: £35,000 - £40,000)
Employer's pension contributions paid £5,000 - £10,000 (2017: £5,000 - £10,000)

A Smith (staff trustee):
Remuneration £35,000 - £40,000 (2017: £35,000 - £40,000)
Employer's pension contributions paid £5,000 - £10,000 (2017: £5,000 - £10,000)

During the period ended 31 August 2018, travel and subsistence expenses totalling £1,400 were reimbursed or paid directly to 4 trustees (2017: £1,800 to 5 trustees).

Other related party transactions involving the trustees are set out in note 31.

12 Trustees and officers insurance

[discussion at part 8.11.3]

In accordance with normal commercial practice the academy has purchased insurance to protect trustees and officers from claims arising from negligent acts, errors or omissions occurring whilst on academy business. The insurance provides cover up to £1,000,000 on any one claim and the cost for the period ended 31 August 2018 was £1,600 (2017: £1,540). The cost of this insurance is included in the total insurance cost.

13 Intangible fixed assets [if arising]

[discussion at parts 6.2.4 and 7]

This can be omitted where an academy trust has no intangible fixed assets. The most common form of intangible assets held by academy trusts is likely to be computer software. This should exclude any software required for the computers to operate such as a Windows operating system, as these items are not 'separable' and should be capitalised with the relevant hardware. All other software such as word processing or finance packages, where material, would be treated as an intangible fixed asset.

	Computer Software £000	**Total £000**
Cost		
At 1 September 2017	4	**4**
Additions	9	**9**
At 31 August 2018	13	**13**
Amortisation		
At 1 September 2017	4	**4**
Charged in year	3	**3**
At 31 August 2018	7	**7**
Carrying amount		
At 31 August 2017	**-**	**-**
At 31 August 2018	**6**	**6**

14 Tangible fixed assets

[discussion at parts 6.2.4 and 7]

	Freehold Land and Buildings £000	Leasehold Land and Buildings £000	Furniture and Fixtures £000	Plant and Equipment £000	Assets Under Construction £000	**Total £000**
Cost						
At 1 September 2017	6,039	1,510	2,739	1,100	-	**11,388**
Aquisitions	-	-	231	160	-	**391**
Additions	-	-	-	-		
Disposals	-	-	-	-	-	**-**
At 31 August 2018	6,039	1,510	2,970	1,260	-	**11,779**
Depreciation						
At 1 September 2017	128	32	459	251	-	**870**
Charged in year	128	32	506	273	7	**946**

Disposals	-	-	-	-	-	**-**
At 31 August 2018	256	64	965	524	7	**1,816**
Net book values						
At 31 August 2017	5,911	1,478	2,280	834	15	10,518
At 31 August 2018	**5,783**	**1,446**	**2,005**	**711**	**18**	**9,963**

Disclose individually the following transactions by the academy trust:

- acquisitions of freehold land and buildings, if the value of the acquisition exceeds £5,000
- disposals of freehold land and buildings, if the value exceeds £5,000
- taking up a leasehold on land or buildings (academy trust as tenant) if lease payments exceed £5,000
- granting a leasehold on land or buildings (academy trust as landlord) if lease payments exceed £5,000
- disposals of heritage assets

in accordance with the Academies Financial Handbook [section 3.1.8] disclose as below. This narrative need not refer to the acquisition of land and buildings at the time of academy conversion, nor to building work on existing buildings.

Narrative is not required if no transactions arose.

The academy trust's transactions relating to land and buildings included:

- the acquisition of the freehold on **[describe property acquired]** which was **[purchased by/donated to]** the academy trust at a value of **£x**
- the disposal of the freehold on **[describe property disposed of]** by the academy trust at a value of **£x**
- the taking up of a leasehold on **[describe property leased]** for **£x** over a term of **x years**
- the granting of a leasehold on **[describe property leased]** for **£x** over a term of **x years**
- the academy trust disposed of a heritage asset during the year comprising **[describe item]** at a value of **£x**

15 Stock [if arising]

[discussion at parts 6.2.4 and 7]

In these model accounts stock is immaterial, but the note is included for illustrative purposes. The note can be omitted if nil.

	2018 £000	2017 £000
Clothing	**2**	2
Catering	**2**	3
	4	5

16 Debtors

[discussion at parts 6.2.4 and 7]

	2018	2017
	£000	£000
Trade debtors	**13**	12
VAT recoverable	**10**	10
Other debtors	**6**	7
Prepayments and accrued income	**49**	53
	78	82

17 Creditors: amounts falling due within one year

[discussion at parts 6.2.5 and 7]	2018	2017
Trade creditors	**15**	18
Other taxation and social security	**33**	31
ESFA creditor: abatement of GAG **[if applicable]**	**-**	-
Loans	**-**	-
Other creditors	**10**	12
Accruals and deferred income	**22**	26
	80	87

	2018	2017
	£000	£000
Deferred income at 1 September 2017	**22**	-
Released from previous years	**(22)**	-
Resources deferred in the year	**15**	22
Deferred Income at 31 August 2018	**15**	22

Include explanation of deferred income held at 31 August 2018, as follows:

At the balance sheet date the academy trust was holding funds (£[.]) received in advance for lettings booked for the autumn term 2018.

Loans of **[insert value]** from **[insert relevant lender]** which is provided on the following terms **[insert details]**.

18 Creditors: amounts falling due in greater than one year [if arising]

[discussion at parts 6.2.5 and 7]

This note is included for illustration. It can be omitted if nil.

	2018	2017
	£000	£000
Loans	**-**	-
Other creditors	**-**	-

Loans of **[insert value]** from **[insert relevant lender]** which is provided on the following terms **[insert details such as interest rate, maturity, repayment schedule]**.

- Loans may include, but are not limited to:
  loans from ESFA under the Condition Improvement Fund
- loans inherited from a local authority predecessor school on conversion
- loans from Salix

19 Funds
[discussion at parts 7.7, 8.1.3]

	Balance at 1 September 2017 £000	Income £000	Expenditure £000	Gains, losses and transfers £000	Balance at 31 August 2018 £000
Restricted general funds					
General Annual Grant (GAG)	98	4,500	(4,175)	(10)	**413**
Start Up Grant	-	-	-	-	**-**
Pupil Premium	-	85	(85)	-	**-**
Provision for boarding	-	-	-	-	**-**
Other grants	-	297	(246)	-	**51**
Pension reserve	(1,054)	-	(40)	(319)	**(1,413)**
	(956)	4,882	(4,546)	(329)	**(949)**
Restricted fixed asset funds					
Transfer on conversion	9,218	-	(673)	-	**8,545**
DfE Group capital grants	1,124	200	(100)	-	**1,224**
Capital expenditure from GAG	7	-	(3)	10	**14**
Private sector capital sponsorship	171	344	(173)	-	**342**
	10,520	544	(949)	10	**10,125**
Total restricted funds	**9,564**	**5,426**	**(5,495)**	**(319)**	**9,176**
Total unrestricted funds	155	139	(16)	-	**278**
Total funds	**9,719**	**5,565**	**(5,511)**	**(319)**	**9,454**

The specific purposes for which the funds are to be applied are as follows:

For each fund held during the year provide a description of how the fund has arisen and the nature of any restrictions imposed as well as any material transfers between different classes of funds.

The academy trust must also review the balance on restricted general funds (excluding pension reserve) plus the balance on unrestricted funds at 31 August 2018. In the above example this would be a net surplus of £464k + £278k = £742k. If the result is a deficit the following disclosure must be made:

The academy trust is carrying a net deficit of £xxxk on restricted general funds (excluding pension reserve) plus unrestricted funds because **[give brief details].** The academy trust is taking the following action to return these funds to surplus: **[give brief details]**.

For MATs an analysis of total funds by academy must be shown where applicable.

Comparative information in respect of the preceeding period is as follows :

	Balance at 1 September 2016 £000	Income £000	Expenditure £000	Gains, losses and transfers £000	Balance at 31 August 2017 £000
Restricted general funds					
General Annual Grant (GAG)	100	4,300	(4,302)		**98**
Start Up Grant	-	-	-	-	**-**
Pupil Premium	-	85	(85)	-	**-**

Provision for boarding	-	-	-	-	**-**
Other grants	-	300			
Pension reserve	(694)	-	(40)	(320)	**(1,054)**
	(594)	4,685	(4,727)	(320)	**(956)**
Restricted fixed asset funds					
Transfer on conversion	9,218	-	-	-	**9,218**
DfE Group capital grants	1,024	200	(100)	-	**1,124**
Capital expenditure from GAG	0	-	(3)	10	**7**
Private sector capital sponsorship	71	250	(150)	-	**171**
	10,313	450	(253)	10	**10,520**
Total restricted funds	**9,719**	**5,135**	**(4,980)**	**(310)**	**9,564**
Total unrestricted funds	30	140	(15)	-	**155**
Total funds	**9,749**	**5,275**	**(4,995)**	**(310)**	**9,719**

A current year 12 months and prior year 12 months combined position is as follows :

	Balance at 1 September 2016 £000	**Income £000**	**Expenditure £000**	**Gains, losses and transfers £000**	**Balance at 31 August 2018 £000**
Restricted general funds					
General Annual Grant (GAG)	100	8,800	(8,477)	(10)	**413**
Start Up Grant	-	-	-	-	**-**
Pupil Premium	-	170	(170)	-	**-**
Provision for boarding	-	-	-	-	**-**
Other grants	-	597	(546)	-	**51**
Pension reserve	(694)	-	(80)	(639)	**(1,413)**
	(594)	9,567	(9,273)	(649)	**(949)**
Restricted fixed asset funds					
Transfer on conversion	9,218	-	(673)	-	**8,545**
DfE Group capital grants	1.024	400	(200)	-	**1,224**
Capital expenditure from GAG	0	-	(6)	20	**14**
Private sector capital sponsorship	71	594	(323)	-	**342**
	10,313	994	(1,202)	20	**10,125**
Total restricted funds	**9,719**	**10,561**	**(10,475)**	**(629)**	**9,176**
Total unrestricted funds	30	279	(31)	-	**278**
Total funds	**9,749**	**10,840**	**(10,506)**	**(629)**	**9,454**

20 Analysis of net assets between funds

[discussion at part 7.7]

Fund balances at 31 August 2018 are represented by:

	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	Total Funds £000
Intangible fixed assets	-	-	6	**6**
Tangible fixed assets	8	-	9,955	**9,963**
Current assets	270	544	164	**978**
Current liabilities	-	(80)	-	**(80)**
Non-current liabilities	-	-	-	**-**
Pension scheme liability	-	(1,413)	-	**(1,413)**
Total net assets	278	(949)	10,125	**9,454**

Comparative information in respect of the preceeding period is as follows :

	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	Total Funds £000
Intangible fixed assets	-	-	-	**-**
Tangible fixed assets	20	-	10,498	**10,518**
Current assets	135	185	22	**342**
Current liabilities	-	(87)	-	**(87)**
Non-current liabilities	-	-	-	**-**
Pension scheme liability	=	(1,054)	-	**(1,054)**
Total net assets	155	(956)	10,520	**9,719**

21 Capital commitments

	2018 £000	2017 £000
Contracted for, but not provided in the financial statements	**15**	43

22 Commitments under operating leases

Operating leases

At 31 August 2018 the total of the Academy Trust's future minimum lease payments under non-cancellable operating leases was:

	2018 £000	2017 £000
Amounts due within one year	**18**	18
Amounts due between one and five years	**18**	36
Amounts due after five years	**-**	-
	36	54

23 Reconciliation of net income/(expenditure) to net cash flow from operating activities

[discussion at parts 6.3 and 7]

	2017/18 £000	2016/17 £000
Net income/(expenditure) for the reporting period (as per the statement of financial activities)	**54**	9,852
Adjusted for:		
Amortisation [note 13]	**3**	-
Depreciation [note 14]	**946**	870
Capital grants from DfE and other capital income	**(544)**	(11,378)
Interest receivable [note 6]	**(6)**	(5)
Defined benefit pension scheme obligation inherited	**-**	834
Defined benefit pension scheme cost less contributions payable [note 30]	**18**	65
Defined benefit pension scheme finance cost [note 30]	**22**	22
(Increase)/decrease in stocks	**1**	(5)
(Increase)/decrease in debtors	**4**	(82)
Increase/(decrease) in creditors	**(7)**	87
Net cash provided by / (used in) Operating Activities	**491**	260

24 Cash flows from financing activities

	2017/18 £000	2016/17 £000
Repayments of borrowing	**-**	**-**
Cash inflows from new borrowing	**-**	**-**
Net cash provided by / (used in) financing activities	**-**	**-**

25 Cash flows from investing activities

	2017/18 £000	2016/17 £000
Dividends, interest and rents from investments	**6**	5
Proceeds from sale of tangible fixed assets	**-**	-
Purchase of intangible fixed assets	**(9)**	-
Purchase of tangible fixed assets	**(391)**	(1,578)
Capital grants from DfE Group	**200**	1,224
Capital funding received from sponsors and others	**344**	344
Net cash provided by / (used in) investing activities	**150**	(5)

26 Analysis of cash and cash equivalents

	2018 £000	2017 £000
Cash in hand and at bank	**896**	255
Notice deposits (less than 3 months)	**-**	-
Total cash and cash equivalents	**896**	255

27 Guarantees, letters of comfort and indemnities

Disclose the total value of any guarantees, letters of comfort and indemnities provided by the academy trust during the year, plus individual disclosure of any instances above £5,000, if arising, in accordance with the Academies Financial Handbook [section 3.6].

A note is not required if no transactions arose.

28 Contingent liabilities

[discussion at parts 7.3.22 to 23 and 7]

> If a contingent liability arises, disclosures must include:
>
> - a brief description of the nature of the contingent liability (and where practical):
> - an estimate of its financial effect
> - an indication of the uncertainties that exist
> - the possibility of any reimbursement
>
> Where it is not practicable to disclose the above points, a statement to that effect must be made.

29 Members liability

Each member of the charitable company undertakes to contribute to the assets of the company in the event of it being wound up while he/she is a member, or within one year after he/she ceases to be a member, such amount as may be required, not exceeding **£[insert amount as stated in memorandum and articles of association]** for the debts and liabilities contracted before he/she ceases to be a member.

30 Pension and similar obligations

[discussion at parts 6.2.5, 7.3.19 to 7.3.20 and 7]

The academy trust's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by [name]. Both are multi-employer defined benefit schemes.

> Academy trusts will need to obtain valuations of defined benefit obligations in respect of the LGPS from the relevant scheme actuary. Such valuations should be carried out in accordance with section 28 of FRS 102.

The latest actuarial valuation of the TPS related to the period ended 31 March 2012 and of the LGPS 31 March 2016.

> Either state:

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

> Or:

Contributions amounting to £20,000 were payable to the schemes at 31 August 2018 (2017: £20,000) and are included within creditors.

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. Membership is automatic for full-time teachers in academies and, from 1 January 2007, automatic for teachers in part-time employment following appointment or a change of contract, although they are able to opt out.

The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions along with those made by employers are credited to the Exchequer. Retirement and other pension benefits are paid by public funds provided by Parliament.

Valuation of the Teachers' Pension Scheme

The Government Actuary, using normal actuarial principles, conducts a formal actuarial review of the TPS in accordance with the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 published by HM Treasury. The aim of the review is to specify the level of future contributions. Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. The latest actuarial valuation of the TPS was carried out as at 31 March 2012 and in accordance with the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The valuation report was published by the Department for Education on 9 June 2014. The key elements of the valuation and subsequent consultation are:

- employer contribution rates set at 16.48% of pensionable pay (including a 0.08% employer administration charge
- total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £191,500 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176,600 million giving a notional past service deficit of £14,900 million
- an employer cost cap of 10.9% of pensionable pay will be applied to future valuations
- the assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%.

The TPS valuation for 2012 determined an employer rate of 16.4%, which was payable from September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

> Academy trusts should disclose the total pension contributions payable to the Teachers' Pension Scheme during the period.

The employer's pension costs paid to TPS in the period amounted to £XXX (2017: £XXX).

A copy of the valuation report and supporting documentation is on the Teachers' Pensions website.

Under the definitions set out in FRS 102, the TPS is an unfundedmulti-employer pension scheme. The academy trust has accounted for its contributions to the scheme as if it were a defined contribution scheme. The academy trust has set out above the information available on the scheme.

Local Government Pension Scheme

> The figures included in this section are illustrative only.

The LGPS is a funded defined benefit pension scheme, with the assets held in separate trustee-administered funds. The total contribution made for the year ended 31 August 2018 was £301,000 (2017: £250,000), of which employer's contributions totalled £250,000 (2017: £201,000) and employees' contributions totalled £51,000 (2017: £49,000). The agreed contribution rates for future years are XX per cent for employers and X per cent for employees.

Parliament has agreed, at the request of the Secretary of State for Education, to a guarantee that, in the event of academy closure, outstanding Local Government Pension Scheme liabilities would be met by the Department for Education. The guarantee came into force on 18 July 2013.

> Additional disclosure should be made where the scheme is in deficit and the entity has entered into an agreement with the trustees to make additional contributions in addition to normal funding levels, including the number of years over which it is anticipated that the additional contributions will be paid.

Principal actuarial assumptions	**2018**	2017
Rate of increase in salaries	**4.00%**	4.40%
Rate of increase for pensions in payment/inflation	**2.80%**	2.90%
Discount rate for scheme liabilities	**5.90%**	5.80%
Inflation assumption (CPI)	**2.70%**	2.90%
Commutation of pensions to lump sums	**50.00%**	50.00%

The FRC Reporting Statement 'Retirement Benefits' recommends that disclosure should include a sensitivity analysis for the principal assumptions used to measure scheme liabilities, showing how the measurement of scheme liabilities would have been affected by changes in the relevant assumption that were reasonably possible at the balance sheet date.

Academies are requested to make sensitivity disclosures in £000s rather than as a percentage of the pension liability, to support the consolidation of these disclosures. The academy trust's actuaries should be able to supply disclosures in this format.

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	2018	**2017**
Retiring today		
Males	**21.3**	21.2
Females	**24.2**	24.0
Retiring in 20 years		
Males	**22.6**	22.4
Females	**25.3**	25.1

Sensitivity analysis	**2018** £000	**2017** £000
Discount rate +0.1%	**x**	x
Discount rate -0.1%	**x**	x
Mortality assumption – 1 year increase	**x**	x
Mortality assumption – 1 year decrease	**x**	x
CPI rate +0.1%	**x**	x
CPI rate -0.1%	**x**	x

The academy trust's share of the assets in the scheme were:

	2018 **£000**	**2017** **£000**
Equities	**1,356**	1,166
Gilts		
Corporate bonds	**1,218**	954
Property	**165**	159
Cash and other liquid assets	**-**	-
Derivatives	**-**	-
Investment funds	**-**	-
Asset backed securities	**-**	-
Other	**-**	-

Total market value of assets	**2,739**	2,279

The actual return on scheme assets was £100,000 (2017: £100,000)

Amount recognised in the Statement of Financial Activities

	2017/18 £000	**2016/17 £000**
Current service cost	**(260)**	(254)
Past service cost	**-**	-
Interest income	**10**	10
Interest cost	**(18)**	(22)
Benefit changes, gain/(loss) on curtailment and gain/(loss) on settlement	**-**	-
Admin expenses	**-**	-
Total amount recognised in the SOFA	**(268)**	(266)

The amount recognised for benefit changes, the gain/(loss) on curtailment and the gain/(loss) on settlement, need only be disclosed in aggregate, but could be disclosed separately if material.

Changes in the present value of defined benefit obligations were as follows:

	2017/18 £000	**2016/17 £000**
At 1 September	**3,333**	-
Conversion of academy trusts	**-**	2,554
Transferred in on existing academies joining the academy trust	**-**	-
Transferred out on existing academies leaving the academy trust	**-**	-
Current service cost	**260**	254
Interest cost	**100**	150
Employee contributions	**51**	49
Actuarial (gain)/loss	**400**	314
Benefits paid	**-**	-
Losses or gains on curtailments		
Past service cost		
Unfunded pension payments		
Effect of non-routine settlements	**8**	12
At 31 August	**4,152**	3,333

Changes in the fair value of academy trust's share of scheme assets:

	2017/18 £000	**2016/17 £000**
At 1 September	**2,279**	-
Conversion of academy trusts	**-**	1,720
Transferred in on existing academies joining the academy trust	**-**	-
Transferred out on existing academies leaving the academy trust	**-**	-
Interest income	**78**	128
Actuarial gain/(loss)	**81**	181
Employer contributions	**250**	201
Employee contributions	**51**	49
Benefits paid	**-**	-
Effect of non-routine settlements		

At 31 August	**2,739**	2,279

31 Related party transactions
[discussion at part 7.6)

As described in SORP 2015 [module 9] disclosure of certain transactions is important for stewardship purposes to provide assurance that the academy trust is operating for the public benefit and that its trustees are acting in the interest of the academy trust and not for private benefit. SORP 2015 regards all related party transactions as material.

Related party transactions are generally those that may involve some degree of direct or indirect control or influence. Academy trusts must therefore ensure that their accounts contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by transactions with them (this would include transactions with any group companies).

Transactions with related parties, and those identified as connected per the Academies Financial Handbook must be disclosed fully and openly so that the users of the accounts can gain a proper understanding of them, and any issues that might have influenced them. Some transactions may attract public interest and so disclosure provides accountability and transparency to the public, and demonstrates that potential conflicts of interest are being identified and managed.

In accordance with SORP 2015, disclosure of related party transactions must include:

- the names of the related parties
- a description of the relationship between the parties
- a description of the transactions
- the amounts involved
- the amounts due to or from the related parties at the balance sheet date, and any provision for doubtful debts or amounts written off
- details of any guarantees given/received
- terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
- other elements of the transactions which are necessary for the understanding of the accounts

Academy trusts must also indicate how they have managed the transaction, for example by describing the procurement process they have followed, and demonstrating that it has been dealt with even-handedly. Where goods or services exceed £2,500 academy trusts must ensure that the element above £2,500 is provided at no more than cost and is supported by a statement of assurance from the related party confirming this.

The note should include any transaction with connected charities that meets the definition of section 28 of schedule 3 of the Charities Act 2011.

Disclosure is illustrated below and if no related party transactions took place during the year, this must be stated.

SORP 2015 [paragraph 9.21] states that academy trusts must not make statements that related party transactions were made at open market value or at arm's length unless this can be substantiated.

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. All transactions involving such organisations are conducted in accordance with the requirements of the AFH and with the academy trust's financial regulations and normal procurement procedures relating to connected and related party transactions. The following related party transactions took place in the financial period.

Expenditure Related Party Transaction

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 (2017: £nil) during the period. There were no amounts outstanding at 31 August 2018 (2017: £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 Academies Financial Handbook 2017
- 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 P 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.

Income Related Party Transaction

- During the year Mr J Hart a member of the academy trust donated £100,000 to the academy trust

Alternatively, if no related party transactions arose during the period, this must be stated:

No related party transactions took place in the period of account, other than certain trustees' remuneration and expenses already disclosed in note 11.

32 Agency arrangements
[discussion at part 8.10]

Provide details in accordance with SORP 2015 [module 19] if arising. Illustrative disclosure is included in part 8.10. If the academy trust has no agency arrangements this note can be omitted.

33 Academy boarding trading account

Figures are included to illustrate the layout only. Where boarding activity arises, it should also be reflected in the SOFA, balance sheet, statement of cash flows and other relevant notes.

				2017/18			2016/17
		£000	£000	£000	£000	£000	£000
Income							
	Fee income		890			900	
	Grants		15			30	
	Other income		49			50	
				954			980
Expenditure							
	Direct costs						
	Goods and services	281			275		
	Other direct costs	201			205		
	Bad debt write offs	-			-		
	Total direct costs		482			480	
	Staff costs	170			163		
	Utilities	111			110		
	Rent and rates	58			60		
	Insurance	25			25		
	Security	9			9		
	Buildings maintenance	38			40		
	Depreciation	17			21		
	Other indirect costs	6			6		
	Total indirect costs		434			434	
	Stock costs						
	Opening stock	12			12		
	Less closing stock	(12)			(12)		
	Stock adjustment		-			-	
Total operating costs				916			914
Surplus/(Deficit) on Boarding				38			66
Surplus/(Deficit) brought forward at 1 September 2017				66			-
Surplus/(Deficit) carried forward at 31 August 2018				104			66

34 Transfer of existing academies into the academy trust

Academy trusts are expected to agree the details of assets transferring between them, and to be able to reconcile the movements between cost as disclosed in the transferring academy trust to amounts recognised by the receiving academy trust. Figures reported should agree to the relevant notes of the financial statements.

Details on these adjustments are required for the consolidation of the academy sector. Explanations should be provided for the principal adjustments. Typically, separate disclosures should be made for each academy transfererring in. [See 8.9.10 for example proforma]

35 Transfer out on academies leaving the academy trust

Academy trusts are expected to agree the details of assets transferring between them, and to be able to reconcile the movements between cost as disclosed in the transferring academy trust to amounts recognised by the receiving academy trust. Figures reported should agree to the relevant notes of the financial statements.

Typically, separate columns of disclosures should be presented for each academy transferring out. [See 8.9.16 for example proforma]

36 Teaching school trading account

[discussion at part 8.14]

The table and figures are included to illustrate the layout only. Where the academy trust is also a teaching school, figures relating to this activity should also be reflected in the SOFA, and other relevant notes.

If the teaching school is a SCITT it should include its relevant activity within this note.

		2017/18 £000	2017/18 £000	2017/18 £000	2016/17 £000	2016/17 £000	2016/17 £000
Income							
	Direct Income						
	Other income		321			-	
	Other Income						
	Fundraising and other trading activities		12			-	
Total Income				333			-
Expenditure							
	Direct costs						
	Direct staff costs	74			-		
	Staff development	1			-		
	Other direct costs	144			-		
	Total direct costs		219			-	
	Other costs						
	Support staff costs	12			-		
	Depreciation	1			-		
	Technology costs	6			-		
	Recruitment and support	5			-		
	Security and support	3			-		
	Other support costs	10			-		
	Share of governance costs	1			-		
	Total other costs		38			-	
Total Expenditure				(257)			-

Transfers between funds excluding depreciation	1	-
Surplus/(Deficit) from all sources	77	-
Teaching school balances at 1 September 2017	-	-
Teaching school balances at 31 August 2018	**77**	**-**

37 Events after the end of the reporting period

[discussion at part 7.9]

Provide details in accordance with FRS 102 [section 32] if arising.

Part 4: Annual report elements

4.1 Trustees' report

4.1.1 Purpose of the report

4.1.2 The trustees are jointly responsible for the preparation of a trustees’ report in support of the financial statements.

4.1.3 Whilst the annual report and financial statements are legally separate documents, they are presented together in the same publication - the annual report and financial statements. The trustees’ report serves the purpose of a directors’ report under company law as well as a trustees’ report under charity law.

4.1.4 The trustees’ report should describe what the academy trust is trying to do and how it is going about it, demonstrating how the academy trust has achieved its objectives during the year and explaining its plans for the future.

4.1.5 The elements of the trustees’ report are illustrated in Coketown, together with a brief explanation of the matters that are expected to be included under each heading and reference to the appropriate paragraphs in SORP 2015.

4.1.6 Legal obligations

4.1.7 The trustees' report must meet:

- the requirement for a directors' report as described in s415 – 419 of the Companies Act 2006
- the requirements of a trustees’ report as set out in the SORP 2015

4.1.8 Charitable companies that qualify as medium or large companies must provide a ‘strategic report’ that meets the requirements of company law. The strategic report should be included as a clearly delineated section within the trustees’ report and Coketown reflects this. Whilst the strategic report applies to large and medium companies under the Companies Act 2006, all academy trusts should include it in accordance with the best practice encouraged by SORP 2015. The strategic report sets out a fair review of the company’s business, including its performance during the year and its position at the end of the year, plus a description of the principal risks and uncertainties that it faces.

4.1.9 Whilst the Accounts Direction highlights the areas that must be included in the trustees’ report, SORP 2015 encourages charities to provide additional information where this would give a greater insight into their activities and achievements. Areas that are specific requirements of the Companies Act 2006, but may not be addressed by following SORP 2015, are separately identified in Coketown.

4.1.10 Under section 419 of the Companies Act 2006 the report must be approved by the board of directors and signed on their behalf by one of the directors or the company secretary. In an academy trust the directors are the trustees and so one of the trustees should sign (usually the chair). The date of approval must be stated, together with the name of the trustee who has signed it.

4.1.11 Elements of the trustees' report

4.1.12 The trustees' report should cover the following matters in relation to the academy trust:

- reference and administrative details. In addition to disclosure of the names of trustees and senior managers under SORP 2015, ESFA requires the academy trust to disclose the names of the members in office on the date the accounts are approved and any other members who served during the period
- structure, governance and management (including arrangements for setting the pay and remuneration of the academy trust's **key management personnel**, with benchmarks, parameters or criteria used in setting their pay)
- trade union facility time, where there are more than 49 full time equivalent employees throughout any 7 months within the reporting period, in accordance with The Trade Union (Facility Time Publication Requirements) Regulations 2017
- objectives and activities, including:
  - aims and strategies for achieving those aims
  - criteria and/or measures to assess success
  - activities undertaken to further the academy trust's purposes for the public benefit
- strategic report, including:
  - achievements and performance
  - financial review
  - principal risks and uncertainties
- fundraising practices
- plans for future periods
- funds held as custodian trustee on behalf of others, if arising

4.1.13 Additional Companies Act 2006 requirements

4.1.14 In addition to the above items, the Companies Act 2006 requires the report to include a disclosure to the auditor as well as disclosure of the following issues.

4.1.15 **Employees and disabled persons** – where the average number of employees exceeds 250 the academy trust must:

- for disabled employees – disclose its policy in respect of applications for employment from disabled persons, the treatment of employees who become

disabled and the training, career development and promotion of disabled persons
- for employee consultation – include a description of the action taken during the year to introduce, maintain or develop arrangements to provide information and consult employees on matters affecting them

4.1.16 **Trustees' indemnities** – as the trustees are directors, disclosure is required of whether there were any third party indemnity provisions during the year or at the date of approval of the trustees' report.

4.1.17 Reserves policy additional information

4.1.18 The trustees' report must explain the academy trust's policy for holding reserves, in particular stating:

- the amount of reserves held
- the reason for holding reserves

4.1.19 The trustees' report should contain a review of the academy trust's reserves which:

- states the amount of total funds held at the balance sheet date
- identifies the amount of any restricted funds that are not available for the general purposes of the academy trust
- identifies any amounts that have been designated, where material
- identifies the amount of any fund that can only be realised by disposing of tangible fixed assets
- provides details of funds that are materially in deficit
- states the amount of reserves held at the balance sheet date after making allowance for any restricted and designated funds
- compares the amount of reserves held at the balance sheet with the academy trust's reserves policy and explains any steps being taken to bring the level of reserves held into line with the level set out in the policy

4.1.20 Where plans for the future use of reserves are made, both the purpose and the likely timing of the expenditure should be explained.

4.1.21 The trustees may determine, as good practice, to disclose their policy in relation to other reserves (eg restricted general funds, including GAG).

4.1.22 Within the reserves policy the academy trust should make additional disclosure where, because of accounting for the Local Government Pension Scheme (LGPS), it is recognising a significant pension fund deficit. This deficit should be included within restricted funds. This could potentially result in a deficit on the restricted funds and, where this is the case, this disclosure should explain that it does not mean that an immediate liability for this amount crystallises. Similarly, if there is a pension surplus included in the restricted fund this does not create an immediately realisable asset that can be released straight away and expended for the specific purposes of that fund.

4.1.23 SORP 2015 requires disclosure of the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit. The reserves policy should explain that a surplus or deficit position of the pension scheme would generally result in a cash flow effect for the academy trust in the form of an increase or decrease in employers' pension contributions over a period of years. The academy trust should revisit its current business plans and budgets and ascertain how their pension costs might affect their budgets in the future. On the basis that increased pension contributions should generally be met from the academy trust's budgeted annual income, whilst the deficit might not be eliminated, there should be no actual cash flow deficit on the fund, or direct impact on the free reserves of the academy trust because of recognising the deficit.

For further information see the Charity Commission's publication CC19: Charities and Reserves.

4.1.24 Public benefit reporting additional information

4.1.25 The Charities Act 2011 highlights the requirement for charities to have charitable purposes or 'aims' that are for the public benefit, and to report specifically on the ways in which they have met this requirement.

4.1.26 Academy trusts are required to include in their annual trustees' report an explicit statement that the trustees have had regard to the Charity Commission guidance on public benefit. For example:

'In setting our objectives and planning our activities the trustees have given careful consideration to the Charity Commission's general guidance on public benefit'.

4.1.27 The trustees' report should include 'a review of the significant activities undertaken by the academy trust during the relevant financial year to further its charitable purposes for the public benefit'. The benefit provided by an academy trust may be equated to its achievements in a particular year.

4.1.28 For an academy trust it should be quite clear to the reader that its aims and activities performed are for the public benefit. However, a description of the activities is still required. It should include a brief reference to the catchment area for the academy trust and the basis on which the pupils are admitted, i.e. explaining who the direct beneficiaries are and how they access the benefits provided by the academy trust.

4.2 Governance statement

4.2.1 A governance statement must be included in the annual report as the academy trust is in receipt of public funds under its funding agreement with DfE. HM Treasury requires all public bodies to prepare a governance statement. It includes information on the governance framework of the academy trust and confirmation that the trustees have carried out their responsibility for ensuring that effective management systems, including financial monitoring and control systems, have been put in place. The governance statement must be signed on behalf of the board of trustees (usually by the chair) and by the academy trust's accounting officer. The date of approval should be stated, together with the names of the individuals who have signed it.

4.2.2 The 'scope of responsibility' section within the governance statement is generic in nature and therefore applicable to all academy trusts. So it can simply be incorporated as written in Coketown, with just minor editing if the principal is not the accounting officer. Other sections need to reflect the specific circumstances for each individual academy trust, and may also require a statement by the board of trustees describing the extent of the management and control systems in the period where they have not been in place for the whole of the reporting period.

4.2.3 **Governance** – A brief description of the governance framework of the academy trust is required, including information about the committee structure, attendance records and coverage of its work if not covered in other sections of the annual report.

4.2.4 A further object of this section is to describe what the academy trust has done to review the effectiveness of the board, and an indication of when the next self-evaluation or external review of governance in planned. The description should include the outcomes, actions and impact of the review. For the avoidance of doubt:

- such a review must be carried out by academy trusts preparing audited accounts for the first time
- as a matter of best practice, academy trusts should be carrying out this review annually in subsequent years

If the academy trust has not carried out a review it should indicate when it intends to do so. Any particular challenges that have arisen during the year in the work of the board of trustees and any sub-committees can also be included.

4.2.5 **Review of value for money** – The purpose of the section is to provide accounting officers with an opportunity to demonstrate to parents and the public that the academy trust's use of public assets has supported value for money during the year and, if relevant, to identify opportunities for potential improvement. A key objective is to achieve value for money not only for the organisation but for the taxpayer more generally. So whilst it involves an academy trust living within its budget and using its resources properly and with probity, it is primarily about how it continuously improves both the educational and wider societal outcomes for its pupils with the resources available.

4.2.6 The value for money section comprises two elements:

- a standard declaration acknowledging the accounting officer's responsibility for value for money, as shown in Coketown, followed by
- examples illustrating how the academy trust has demonstrated value for money during the year

4.2.7 Academy trusts are free to decide how to set out these examples, which do not need to be lengthy. Instead they should be concise and focussed on the information that is most relevant and appropriate to the academy trust, emphasising those issues that had the greatest impact on the academy trust's use of resources. Up to three brief examples should be sufficient, covering:

- the areas where the academy trust's activities have contributed to achieving value for money
- the areas of future focus

4.2.8 Academy trusts may describe how educational outcomes have been improved with the same resource (for example through targeted intervention or through collaboration), how the curriculum has been delivered in a different way to reduce costs, how financial oversight and governance has been strengthened (for example through robust challenge of spending and other decisions), how purchasing has been improved (for example looking at benchmarking tools, where appropriate, or by delivering economies of scale), how income generation has been maximised, or other activities specific to the academy trust.

4.2.9 **Purpose of the system of internal control** – This section requires a description of the purpose of the system of internal control for which there is example wording included in Coketown. It also requires a statement by the trustees confirming that the system of internal control has been in place for the year and up to the date of approval of the accounts.

4.2.10 **Capacity to handle risk** – This requires the academy trust to describe the way in which leadership is given to the risk management process and that the board of trustees have considered and reviewed the risks to which the academy trust is exposed, together with the financial and compliance controls that have been implemented to mitigate those risks. The academy trust should also make a statement confirming the extent to which it believes that there is a formal ongoing process for identifying, evaluating and managing the academy trust's significant risks in place during the reporting period and up to the date of the approval of the trustees' report and financial statements.

4.2.11 **Risk and control framework** – This section includes a description of the key elements of the risk and control framework. Some example narrative is included in Coketown, but this should be tailored to the specific circumstances of the individual academy trust. This section should also include a description of the delivery of an internal audit/internal checking/oversight function.

4.2.12 **Review of effectiveness** – This section should include details of the extent of the review of effectiveness of the system of internal control, and identify the areas that have informed the review. Illustrative text is included in Coketown. This section should also include an outline of actions taken or proposed to deal with any significant control issues, if applicable.

4.2.13 **New academies in the period** – Where a new academy trust has been formed, by either conversion of an existing school or creation of a new school, it may be in the position where it has not had a full system of internal control including risk management in the period. Even if it did, it may not be in place for all of the reporting period including up to the date that the annual report and financial statements were approved. In addition it may not have been fully embedded.

4.2.14 The board of trustees will therefore need to give careful consideration to the systems that were in place and how these evolved over the reporting period, and include an appropriate description of the circumstances of the creation of the academy trust and the steps that have been taken to develop and implement a system of internal controls. Such description should include the approach to developing and implementing the risk management strategy.

4.3 Statement on regularity, propriety and compliance

4.3.1 A statement on regularity, propriety and compliance must be included with the accounts. This is a formal declaration signed by the academy trust's accounting officer that they have met their personal responsibilities to Parliament for the resources under their control during the year.

4.3.2 The format of the statement is included within Coketown. The accounting officer should ensure that any references in their final signed statement to instances of material irregularity, impropriety or funding non-compliance are consistent with any findings from the work of the reporting accountant. Regularity reporting is discussed in more detail in part 9.

4.4 Statement of trustees' responsibilities

4.4.1 A separate statement of trustees' responsibilities must be included with the accounts, following the trustees' report, the governance statement and the statement on regularity, propriety and compliance. This sets out the trustees' responsibilities under companies' legislation for preparing the trustees' report and financial statements, maintaining adequate accounting records, safeguarding the assets of the charitable company and the requirement for the financial statements to show a true and fair view.

4.4.2 It must also explain the financial reporting framework that has been applied, comprising FRS 102, Charities SORP 2015 and the Academies Accounts Direction 2017 to 2018.

4.4.3 Due to the nature of the academy trust's funding relationship with ESFA, and its receipt of public funds, this confers additional responsibilities on the trustees which are also incorporated in this statement.

4.4.4 The statement of trustees' responsibilities should be signed on behalf of the board by a trustee (usually by the chair). The date of approval should be stated, together with the name of the trustee who has signed it.

Part 5: Auditor’s reports

5.1 Independent external auditor’s report on the financial statements

5.1.1 The annual report and financial statements must be accompanied by an independent auditor’s report (the exceptions being dormant accounts that do not require an audit) in which they express an opinion on the financial statements. The auditors will be appointed by the members in accordance with section 485(4) of the Companies Act 2006, or for an academy trust’s first period may be appointed by the trustees in accordance with section 485(3). Aside from the requirements in the Companies Act 2006, academy trusts’ funding agreements require the annual financial statements to be audited by an independent auditor.

5.1.2 The form of the auditor’s report follows the requirements of International Standard on Auditing (UK) (ISA) 700: Forming an opinion and reporting on financial statements alongside requirements of other relevant ISAs and law. It will identify the financial reporting framework under which the accounts have been prepared. For academy trusts, this is:

- FRS 102
- Charities SORP 2015
- the Academies Accounts Direction 2017 to 2018
- applicable law

5.1.3 The report includes a cross reference to the statement of trustees’ responsibilities. There will also be a description of the basis of the auditor’s opinion which states that the auditor will undertake the audit in accordance with the applicable law and International Standards on Auditing (UK), and comply with the FRC’s Ethical Standards.

5.1.4 The report will either include a standard worded paragraph that describes the auditor’s responsibilities for the audit of the financial statements or a link to the FRC’s website where the text can be reviewed.

5.1.5 There are separate paragraphs that deal with specifics of the opinion, as summarised in part 3.

5.2 Independent reporting accountant’s report on regularity

5.2.1 In addition to an auditor’s report expressing an opinion on the financial statements, a report providing a conclusion on regularity must be produced by a reporting accountant. The reporting accountant must be the same person as the external auditor. Guidance on the engagement is provided in part 9. The format of the regularity assurance report is included within Coketown.

Part 6: Financial statements

6.1 Statement of financial activities

6.1.1 The accounts comprise a number of financial (or 'primary') statements that describe the financial position and performance of the academy trust. The first of these is the Statement of Financial Activities (the SOFA) which is essentially a record of income and expenditure (including any endowment income received). The SOFA does not follow the format of a conventional income and expenditure account, the form and content of which is set out in Company Law. However under SORP 2015 the SOFA can be adapted with appropriate headings and sub-totals to comply with Companies Act 2006 such that a separate summary income and expenditure account is not normally required. The SOFA is therefore covered here in some detail for the benefit of new academy trusts.

6.1.2 The SOFA includes:

- income receivable, and expenditure during the period
- other gains and losses recognised during the period
- amounts brought forward from the previous year
- amounts carried forward to the next year

6.1.3 Whilst this is straightforward, the SOFA has some important additional features:

- in relation to its format:
  - it divides the academy trust's financial activities into various classes of '**funds**', dependent upon the level of restriction placed upon the income and therefore the purposes for which it can be spent, and these appear as separate vertical **columns**
  - it further divides the financial activities into various activity headings (and the income and expenditure is reported on an activity basis) to show how the resources have been used, and these appear as separate horizontal **rows**
- and in relation to its content:
  - it records income and expenditure in the normally understood sense, such as the receipt of grants and the payment of wages and invoices. But it also records other types of transaction that do not necessarily involve an exchange of money i.e. donated services and facilities
  - unlike an income and expenditure account the SOFA will also include capital income from endowments and donated assets. The most relevant examples for an academy trust are the receipt of donated assets, such as buildings transferred from the local authority
  - as a single performance statement, the SOFA will also include other recognised gains and losses on assets and on defined benefit pension

schemes (i.e. changes in the academy trust's local government pension fund)

6.1.4 The preparation of a SOFA is a requirement of SORP 2015 [module 4].

6.1.5 Each element of the SOFA is now considered.

6.1.6 Funds analysis (the columns)

6.1.7 The SOFA will generally include three columns for the current period representing the following funds.

6.1.8 **Unrestricted fund** – this contains resources which can be spent on any purpose at the discretion of the trustees, within the objects of the academy trust as set out in its governing documents. It would generally include the following sources of income and related expenditure:

- fees for hiring out facilities such as rooms and sports pitches
- fees from parents for private music tuition
- fees from parents for private nursery provision
- fees for school meals
- proceeds from other trading activities including those of consolidated subsidiaries
- donations with no restrictions attached
- staff absence cover insurance income

6.1.9 **Restricted general fund** – this contains revenue (running costs) resources which can only be spent for particular purposes. It would include the following sources of income and related expenditure:

- ESFA General Annual Grant (GAG), including:
  - school budget share
  - minimum funding guarantee
  - education services grant
  - allocation protection
  - pre-16 high need funding
  - post-16 high needs funding
- other DfE Group revenue grants such as pupil premium
- other government revenue grants, including local authority funding for high needs pupils
- donations with restrictions attached (i.e. received for specific revenue purposes)
- boarding activities if these are undertaken

6.1.10 **Restricted fixed asset fund** – this contains resources to be spent for particular capital purposes where the conditions of the funding state that the asset must be retained and used on an ongoing basis. This would include the following sources of income and related expenditure (e.g. depreciation):

- DfE Group capital grants
- other government capital grants
- sponsorship monies received for capital projects
- donated fixed assets such as academy buildings transferred from the local authority

6.1.11 Where unrestricted resources are spent for capital purposes this would not require a transfer of the resources from the unrestricted fund to the restricted fixed asset fund.

6.1.12 The SOFA may include an endowment fund which should be shown as an additional column. This will relate to the small number of academy trusts that signed a ‘deed of gift’ with their sponsor between 2007 and 2012. Under this arrangement the sponsor pledged money to the academy trust to be invested on a permanent basis so as to generate a return which could be spent by the academy trust. Disclosure is not illustrated in Coketown but, where required, an endowment fund column would be inserted to the right of the restricted fixed asset fund column.

6.1.13 The SOFA may also include any funds held by connected charities that meet the definition of paragraph 28 of Schedule 3 of the Charities Act 2011 and have been consolidated into the financial statements. These funds should be shown as a separate line item where material.

6.1.14 The SOFA will include a further column showing the total of all funds at 31 August 2018 and a comparative column showing the total funds at 31 August 2017 (if the academy trust produced accounts for that prior year).

6.1.15 To facilitate the preparation of the accounts, academy trusts should ensure that their accounting records adequately identify the nature of income and the associated expenditure (i.e. unrestricted, restricted, capital, endowment) arising during the year.

6.1.16 Income and expenditure headings (the rows)

6.1.17 The rows in the SOFA should further categorise income according to the activity that produces the resource. Expenditure is further analysed by the nature of the activities undertaken.

6.1.18 It is common for accounts and budgets to contain lines for staff costs, premises costs, office supplies etc. Under SORP 2015, however, academies are required to analyse their income according to the activity that generated the income. The activity categories in the SOFA are:

- **non-charitable activities**, comprising:
  - donations and capital grants
  - trading activities
  - investments
- **charitable activities**

These are considered below. Categories can be omitted where there is nothing to report in the current and preceding period.

6.1.19 Non-charitable activities

In the income section of the SOFA, the non-charitable activities are divided into:

- **Donations and capital grants** – this includes gifts/donations/sponsorship whether in cash or in kind such as donated goods and services made on a voluntary basis, that do not provide any significant benefit to the donor in return (they can however be restricted or unrestricted). Capital grants should also be recognised as income from donations rather than as funding for charitable activities. A note to the accounts should provide an analysis of the material components of donations and legacies [note 3].
  - **Donated services or use of assets -** Where services or use of premises are donated (provided free of charge), the donated service is measured at fair value, unless it is impractical to measure this reliably, in which case the cost of the item to the donor should be used. The gain is recognised as income from donations and a corresponding amount is included in the appropriate expenditure category. Where no value can be ascertained, the nature of the donated service should be disclosed along with the fact that a value cannot be determined.
  - **Capital grants -** Capital grants should also be recognised as income from donations rather than as funding for charitable activities. Capital grants are recognised in full when there is unconditional entitlement. Unspent amounts of capital grants are reflected in the balance sheet in the restricted fixed asset fund. For the avoidance of doubt, capital grants are not deferred over the life of the asset on which they are expended. The charitable activity of the academy trust is the operation of its academy(s). Whilst the operation of an academy does require a building to operate from, the acquisition or construction of the building does not form part of the supply of services for the benefit of the beneficiaries. Additionally capital grant income does not provide the donor with a benefit in return for their payment other than the knowledge that it must be used to incur capital expenditure in accordance with the donor's requirements.

- **Transfers on conversion -** Donations may include assets transferred from the local authority. Where this arises on conversion to an academy the transfer should be identified as a separate line on the face of the SOFA as described in part 8.8.14. Transfers on conversion are recognised in the balance sheet at the point when the risks and rewards of ownership pass to the academy trust, usually on the new academy's opening date. Income equal to the net assets received is recognised as Transfer on conversion within Donation and capital grant income.
- **Transfers of existing academies -** Transfers of existing academies are recognised in the balance sheet at the point when the risks and rewards of ownership pass to the academy trust. Income equal to the net assets received is recognised as transfer of existing academies into the academy trust within Donation and capital grant income
- **Other trading activities** – these are the non-charitable trading and other activities carried out by the academy trust primarily to generate income for its charitable activities. It will include income received in exchange for goods and services, for example from fundraising events, letting of property (where not relating to charitable activities), catering income (other than from the provision of school meals to pupils) and shop income [note 5].
- **Income from investments** – this includes interest and dividends on investments and rent from investment properties [note 6].

In the expenditure section non-charitable activities are called '**Expenditure on raising funds'** which includes the following costs:

- **Costs of fundraising**, other than through charitable trading, such as advertising and marketing
- **Costs incurred by trading for a fundraising purpose**, such as costs of goods sold or services provided. In consolidated accounts this will include the costs incurred by a trading subsidiary
- **Costs of investment management** (if applicable)

The SOFA may also include:

- **'Other' income and expenditure** – this represents activity that cannot be reported under the other analysis headings provided within the SOFA
- **Net gains and losses on investment assets** – this is likely to apply largely to the small number of academy trusts holding investments in an endowment fund, although it can apply to other academy trusts with capital investments. It is not illustrated in Coketown, but would be shown below 'other expenditure' and above the net income/(expenditure) line

6.1.20 Charitable activities

The main category to appear on the income side of the SOFA is called **'Charitable activities'** which is divided into:

- **Funding for the academy trust's educational operations** [note 4] which includes grants such as ESFA General Annual Grant, other DfE Group grants and other government revenue grants, including local authority funding. This may also include catering income received in respect of school meals provided to students
- **Provision of boarding activities** – this contains income received in respect of pupil boarding, where relevant

In the expenditure section the corresponding category is also called '**Charitable activities**' and is divided, in a comparable way, into:

- **Academy trust's educational operations** – this comprises all expenditure directly relating to the provision of education, and hence the large majority of expenditure from DfE Group grants. A note to the accounts [note 9] provides a conventional breakdown of this line. The main components are as follows:

  Direct costs
  These are likely to include:

  - teaching staff who are directly employed by the academy trust
  - educational support staff who are directly employed by the academy trust, for example teaching assistants, education welfare officers, cover supervisors, librarians, lab/workshop/technical assistants and exam invigilators
  - depreciation of assets used for the curriculum
  - technology costs – excluding capitalised items
  - educational supplies
  - examination fees
  - staff development
  - educational consultancy
  - other direct costs not included elsewhere

  Support costs – these are costs that, whilst necessary to deliver an activity, do not themselves produce or constitute the output. They include governance costs and the costs of central functions such as general administration, premises, finance and HR. Separate disclosure of support costs is required under SORP 2015 [paragraph 4.58]. Academy trusts should apply the following headings:

- **Support staff costs** who are directly employed by the academy trust, including finance directors, business managers and bursars, other finance and admin staff, premises managers and caretakers, maintenance and grounds staff, security staff, catering staff, cleaners, other staff not covered elsewhere
- **Depreciation**
- **Technology costs** – excluding capitalised items
- **Premises costs –** all costs of premises including cleaning, rent and rates, energy costs, insurance, risk protection, excluding costs of directly employed staff
- **Other support costs** not covered elsewhere such as utilities costs, catering costs, bought-in professional services not related to the curriculum
- **Governance costs -** SORP 2015 [appendix 1] defines these as 'the costs associated with the governance arrangements of the charity''. It will include:
  - **legal advice** for trustees
  - **external audit fees** for the audit of the accounts
  - **other audit fees**
  - costs associated with the strategic as opposed to day-to-day management of the academy trust's activities; and
  - costs associated with constitutional and statutory requirements, eg the cost of trustee meetings such as support staff costs and trustees expenses

- **Provision of boarding activities** – this contains the costs associated with pupil boarding, where relevant. Here, direct costs include costs of goods and services and any other costs incremental in providing the boarding facility. Support costs include the costs of directly supporting that activity, e.g. staff costs, utilities, rent and rates and building maintenance etc.

Some academy trusts have a second charitable object in their company articles in addition to the advancement of education, typically referring to the provision of recreation and social welfare. In such instances it would be appropriate to disclose a second area of charitable activity within both income and expenditure.

6.1.21 Transfers between funds (including purchase of fixed assets from recurrent grant)

6.1.22 After setting out the sources of income and expenditure for the period, the next row to appear on the SOFA is called '**transfers between funds'**.

6.1.23 There may be many reasons to make a transfer between funds but, for an academy trust, it will often be to reflect the purchase of fixed assets from GAG.

6.1.24 GAG is provided to cover the academy trust's normal running costs. However, it can be used for the acquisition of fixed ('capital') assets, for example computer equipment, other equipment and building work subject to the terms of the funding agreement.

6.1.25 The method of accounting for fixed assets **purchased from GAG** is to show the purchase as a fixed asset on the balance sheet and transfer an amount equal to the purchase price of the fixed assets **from the restricted general fund to the restricted fixed asset fund**. An annual depreciation charge for the asset will then be allocated against the restricted fixed asset fund column. This would result in the fixed assets being reflected in the restricted fixed asset fund.

6.1.26 It is important to recognise a transfer to the restricted fixed asset fund does not represent the depreciation charge on a fixed asset. That charge is instead shown as an expense against the value of the asset already in the fixed asset fund.

6.1.27 Transfers to the restricted fixed asset fund from GAG should only take place once the individual assets represented by the transfer have been purchased by the academy trust.

6.1.28 Transfers between funds may arise for other reasons. For example transfers could be made from unrestricted funds to restricted funds to support a deficit on restricted funds. However transfers from restricted funds to unrestricted funds would not generally arise unless the restriction has been released by the donor.

6.1.29 SORP 2015 [paragraphs 2.26 and 4.61] describes a range of situations where a transfer between funds might arise.

6.1.30 Other recognised gains and losses

6.1.31 The next row to appear on the SOFA is 'other recognised gains and losses'. This is one of the more technical areas of the SOFA and academy trusts should ensure they have access to adequate professional support to address it.

6.1.32 Where relevant this item should be broken down under the following headings:

- **actuarial gains or losses on defined benefit pension schemes** - this will apply to all academy trusts' local government pension scheme funds
- **gains and losses on revaluation of fixed assets -** this is unlikely to arise for the majority of academy trusts and hence is not illustrated in Coketown. But where relevant it represents those revaluation gains and losses on assets held for the academy trust's own use (not investment assets). It should not include impairment losses, or losses on disposal of assets held for the academy trust's own use, as these should be regarded as additional depreciation and included in the expenditure section of the SOFA. Equally gains on disposal on assets

held for the academy trust's own use, should not be included here, but should be included under the other incoming resources section of the SOFA.

6.1.33 Apportionment of costs

6.1.34 Costs must be analysed by activity on a full cost basis, where full cost is made up of the total of direct costs and shared costs (including support costs) involved in undertaking each reported activity.

6.1.35 Some items of expenditure may relate to more than one activity. For example some staff may divide their time between day to day academy business (charitable activities) and other activities.

6.1.36 Where this is the case the cost must be apportioned on a reasonable and consistent basis – for example per capita (number of people involved), time basis, floor area occupied (potentially for some types of cost) or some other suitable basis. The degree to which items need to be apportioned will depend on the materiality of the amounts involved.

6.2 Balance sheet

6.2.1 The balance sheet provides a snapshot of the academy trust's financial position at 31 August. It does this by reporting its **assets and liabilities** and reconciling (balancing) these to the value of the **funds** reported in the SOFA.

6.2.2 Under section 414 of the Companies Act 2006 the balance sheet must be signed on behalf of the board by a director. In an academy trust this will be one of the trustees (usually the chair).

6.2.3 The balance sheet format for academy trusts is illustrated in Coketown. Definitions of the balance sheet elements are given below.

6.2.4 Assets

- **Intangible fixed assets** are those assets that, where material, do not have physical substance but are identifiable and are controlled by an academy trust through custody or legal rights and which provide ongoing economic benefit. An example of this is computer software licences [note 13] (excluding software required for the computers to operate such as a Windows operating system, as these items are not 'separable' and should be capitalised with the relevant hardware). Where material, other software such as word processing or finance packages should be treated as an intangible fixed asset in line with the academy trust's accounting policy. SORP 2015 provides more details [paragraphs 10.18 to 10.24].
- **Tangible fixed assets** are those assets that have physical substance and are used to provide an economic benefit to the academy trust on a continuing

basis (i.e. for more than one reporting period). It may include fixed assets acquired since the academy trust was established and fixed assets inherited from a predecessor school at the time of academy conversion. On the face of the balance sheet the only figure that should be disclosed is the total net book value of tangible fixed assets after deductions for depreciation and impairment. The notes to the accounts [note 14] should analyse the cost (or valuation), depreciation, impairment (if any) and net book value of assets in the following categories:

- land and buildings, analysed between freehold and leasehold (identifying whether the lease is long or short)
- furniture and fixtures
- plant and equipment
- assets under construction (if applicable)

The notes must also analyse any transfers and revaluations of fixed assets during the year. The maintenance of a fixed asset register, as required by the Handbook, should facilitate the correct accounting and disclosure of fixed assets in the accounts. SORP 2015 provides more details [paragraphs 10.12 and 10.14].

Where academy trusts have entered into lease arrangements for land and buildings part 8.7 provides more detail of the accounting treatment required.

- **Investments** – will be shown as either fixed or current assets. Generally only investments which the trustees intend to realise without re-investment, will be current assets. All investment assets other than certain social investments should be included at fair value unless this cannot be measured reliably.
- **Stock** – this must be recognised at the lower of cost or net realisable value [note 15].
- **Debtors** - all amounts owing to the academy trust or prepaid by the academy trust should be included under this balance sheet heading at their recoverable amounts (being the amount the academy trust expects to receive from the debt). If any debts are due after more than one year they must be separately disclosed in a note to the accounts and where material in the context of total net current assets they should also be shown separately on the face of the balance sheet [note 16]. The academy trust should ensure that adequate schedules of debtors, prepayments and accrued income are available to support the entries on the balance sheet.
- **Cash at bank and in hand** - include the balances held in all academy trust bank accounts plus any miscellaneous cash holdings, eg petty cash balances. This will also include cash equivalents, being short-term highly liquid investments with a short maturity of, say, three months or less from the date of acquisition, eg short term money market deposits.

6.2.5 Liabilities

- **Creditors** – all amounts owed, accrued or deferred by the academy trust should be included under this balance sheet heading at their settlement amount (being the amount the academy trust expects to pay to settle the debt). The amount owed must be split between amounts falling due within one year [note 17] and amounts falling due after more than one year [note 18]. Amounts falling due after more than one year may include:
  - loans from ESFA under the Conditions Improvement Fund (CIF). This replaced the Academies Capital Maintenance Fund from 1 April 2015. As part of an academy trust's CIF bid it may elect to take some of their award as a loan
  - loans inherited from the former local authority maintained school on conversion
  - Salix loans – these are concessionary loans under FRS 102 and SORP 2015 [paragraph 21.19], being loans received to further a charity's purposes where interest is charged at below market rates. There is an accounting policy choice set out in SORP 2015 [paragraph 21.26] of either recognise such loans at 'fair value' or, more simply, to recognise them at the amount received less any repayments. Details of the additional disclosures required in respect of concessionary loans are set out in SORP 2015 [paragraph 21.43].
- If loans are deemed to meet the definition of 'basic financial instruments' under FRS 102 [sections 11.8 and 11.9] they should be measured at the amount of the principal advanced.
- The academy trust should ensure that adequate schedules of creditors, accruals and deferred income are available to support the entries in the balance sheet. This should include a liability for any outstanding paid annual leave, if material. This is likely to occur when the academy trust's holiday year for employees does not coincide with the accounting year.
- **Defined benefit pension scheme asset/liability** – any asset or liability derived from a defined benefit pension scheme (calculated in accordance with FRS 102, section 28) must be included within this category and disclosed on the face of the balance sheet [note 30].

6.2.6 Funds

- **Restricted fixed asset fund –** this represents the cumulative amount carried forward in respect of restricted funding received for fixed assets required to be used on an on-going basis. It will predominately be government funds received but may include other funds from a sponsor or other donations. This fund can represent unexpended cash received for capital purposes or the carrying value of a funded fixed asset

- **Restricted general fund** – the amount included in this fund represents the cumulative amount carried forward in respect of funding received for the specific purpose of the academy trust's running costs excluding fixed assets. It would predominantly be government funds but may include other funds from sponsors/other donors
- **Pension reserve** – this reserve will relate to restricted funds, on the basis that the income funding the activity is restricted. When there is a surplus or a deficit on a defined benefit pension scheme that results in an asset or a liability being recognised, the recognition of the pension asset or liability will result in the creation of a pension reserve. This reserve will be negative in the case of a liability
- **Unrestricted fund** – include in this fund any amounts not included in the above funds and which are available for general use at the discretion of the trustees to further the charity's purpose

6.3 Statement of cash flows

6.3.1 'FRS 102, section 7' requires a statement of cash flows to be presented in the financial statements. Cash flows for the period should be classified under the following standard headings, if arising:

- operating activities
- investing activities
- financing activities

the net effect of which should equal the increase/decrease in cash and cash equivalents in the year.

6.3.2 Notes should analyse each of the cash flow headings. Not all of the standard headings will be applicable to an academy trust. The model illustrates the following notes:

- **Note 23: operating activities** – this reconciles the 'net income/expenditure' shown on the SOFA to the 'net cash provided by/used in operating activities', showing how the operating activities have generated or consumed cash
- **Note 24: financing activities** – this shows cash flows relating to borrowing and gifts of permanent or expendable endowment funds and so would not be applicable to most academy trusts
- **Note 25: investing activities** – this includes acquisitions or disposals of investments and the cash generated from holding investments. It also includes the acquisition or disposal of tangible fixed assets including property, plant and equipment

6.3.3 Where there are investing and financing transactions that do not involve the use of cash or cash equivalents, these should be excluded from the statement of cash flows and disclosed in the notes. Additionally, where the academy trust holds significant cash and cash equivalents which are not available for use (for example if held in endowment funds) the amount must be disclosed along with an explanation of why it is unavailable for use.

6.3.4 Where the components of cash and cash equivalents shown in the statement of cash flows are different to the equivalent items in the academy trust's balance sheet, a reconciliation must be provided.

Part 7: Notes to the financial statements

7.1 Introduction

7.1.1 Notes to the financial statements must be prepared to provide the disclosures required to comply with UK Generally Accepted Accounting Practice and SORP 2015. The notes provide information on financially significant issues to aid the reader's understanding of the accounts.

7.1.2 Coketown illustrates the format of the notes required. Further information is provided below to assist academy trusts when preparing their own notes.

7.2 List of notes required

7.2.1 Academy trusts' accounts should include the following notes if applicable. Additional notes may be required depending on the academy trust's own circumstances.

7.2.2 References relate to the note numbers used in Coketown. Click on the note number to go to it in the model.

General notes:

- note 1: accounting policies

Income:

- note 2: General Annual Grant (GAG) [if arising]
- note 3: donations and capital grants
- note 4: funding for the academy trust's educational operations
- note 5: other trading activities
- note 6: investment income

Expenditure:

- note 7: expenditure
- note 8: analysis of grants
- note 9: charitable activities
- note 10: staff costs
- note 11: trustees' remuneration and expenses
- note 12: trustees' and officers' insurance

Assets:

- note 13: intangible fixed assets [if arising]

- note 14: tangible fixed assets
- note 15: stock [if arising]
- note 16: debtors

Liabilities and funds:

- note 17: creditors: amounts falling due within one year
- note 18: creditors: amounts falling due in greater than one year [if arising]
- note 19: funds
- note 20: analysis of net assets between funds

Other notes:

- note 21: capital commitments [if arising]
- note 22: financial commitments [if arising]
- notes 23 to 26: reconciliation of cash flow
- note 27: guarantees, letters of comfort and indemnities [if arising]
- note 28: contingent liabilities [if arising]
- note 29: members' liability
- note 30: pension and similar obligations
- note 31: related party transactions
- note 32: agency arrangements [if arising]
- note 33: boarding trading account [if arising]
- note 34: transfer of existing academies into the academy trust [if arising]
- note 35: transfer out of academies leaving the academy trust [if arising]
- note 36: teaching schools trading account [if arising]
- note 37: events after the end of the reporting period [if arising]

7.3 Note on accounting policies

7.3.1 Accounting policies [note 1] are the principles, bases, conventions and rules by which transactions and items are recognised, measured and presented in the accounts. They are supplemented by estimation techniques where judgement is required in recording the value of income and expenditure and of assets and liabilities. These should be the most appropriate in the particular circumstances for each academy trust for the purpose of giving a true and fair view. Where FRS 102 or SORP 2015 permit a choice this should be made against the objectives of relevance, reliability, comparability and understandability.

7.3.2 Accounting policies should be reviewed regularly and adopted by the trustees, and new policies only implemented if required by FRS 102 or where it is judged to provide reliable and more appropriate and relevant information about the effect of transactions, other events or conditions that affect the financial position, performance or cash flows of the academy trust. Where a material change in accounting policy occurs it is applied retrospectively and the comparative figures in the primary statements (the SOFA, balance sheet, statement of cash flows) and notes are restated and the opening balance of reserves is restated for the cumulative effect of the change. This is done by applying the new accounting policy to comparative information for all prior periods to the earliest date that is practicable as if the new policy had always applied (except where an accounting standard requires or permits an alternative treatment on its first adoption). Additional disclosure would be required in this instance.

7.3.3 SORP 2015 (within each relevant module) provides details of policies expected. The accounting policies note for the academy trust should cover the following areas, where applicable. Those listed are not intended to be exhaustive and may need to be amended to reflect the individual circumstances of each academy trust.

7.3.4 As accounting policies apply at the reporting entity level, multi-academy trusts should ensure their accounting policies are being applied consistently across their constituent academies.

7.3.5 **Basis of preparation** – This is a statement regarding the cost convention adopted, which for academy trusts will be the historical cost convention. Where an academy trust has investment assets it would be required to adopt an historical cost convention as modified by the inclusion of investments at market value. It will also include a statement by the trustees that the accounts have been prepared in accordance with applicable charity and company law, FRS 102 and SORP 2015 and that they have been prepared in accordance with the requirements of the Academies Accounts Direction.

7.3.6 **Going concern** –Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks issued by the FRC in April 2016 should be considered by directors of academy trusts as good practice. For more information, academies should familiarise themselves with this guidance. Furthermore, SORP 2015 requires that academy trusts must explain if there are material uncertainties that cast doubt on the academy trust’s ability to continue as a going concern. Where there are no material uncertainties about the charity’s ability to continue, it should disclose this fact.

7.3.7 Recognition of income – This should include the policy for including each type of material source of income, normally on a receivable basis. In particular for an academy trust it would be expected to include policies for the following:

- The basis of recognition of GAG and other grants including those for fixed assets and how the grants are analysed between the different types of incoming resources.
- If the ESFA is constructing an asset under the Free Schools or Priority School Building Programme for the academy trust, then the accounting policies should

cover how the asset and associated income are being accounted for. Where an academy trust is recognising an asset under these programmes, it should not be accrued on the basis of the funding letter, which does not give rise to an unconditional entitlement.

- Donated assets/services/facilities:
  - Fixed assets donated by third parties are recognised as income at their fair value in the period in which the academy trust has entitlement to the incoming resources, where the benefit to the academy trust can be reliably measured and where any performance related conditions have been fully met. An equivalent amount should be recognised in the appropriate fixed asset category and the asset depreciated over its expected useful economic life on a basis consistent with the depreciation policy for that category.
  - This category may include services in kind such as time provided by a sponsor. These should only be included in the SOFA where the benefit to the academy trust is reasonably quantifiable and measurable. The value of these services should be the estimated value to the academy trust of the service; this will be the price the academy trust estimates it would pay in the open market for the service. An equivalent amount would be included in expenditure under the appropriate heading in the SOFA. The notes to the accounts should give an analysis of donated services. The accounting policies should indicate the basis of valuation used.
  - SORP 2015 [paragraphs 5.10 to 5.12] provides guidance on general principles for accounting for donations, with more detailed guidance in module 6.

7.3.8 **Expenditure** – The policy will need to cover the following areas:

- **the policy for recognition of liabilities including constructive obligations**
- **categorisation of expenditure** – this should include the policy for including items within the relevant activity categories, in particular differentiating between charitable activities (the direct provision of education), and costs of raising funds. This must be analysed on a full cost basis, where full cost is made up of the total of direct and shared costs (including support costs).
- **allocation and apportionment of costs** – the methods adopted to allocate or apportion costs between reported activities. It should reflect the principles applied for allocation of costs between direct, shared and support costs. The method of apportionment, where costs contribute directly to more than one activity or are not attributable to a single activity, should also be included. The bases for apportionment may include; based on staff time, salaries or space occupied or other reasonable basis.

7.3.9 **Accounting for intangible fixed assets** – The policy should include:

- the basis for inclusion of intangible fixed assets
- the value, if any, below which items are not capitalised
- the rates of amortisation (in accordance FRS 102 [section 18])
- policy with respect to impairment reviews

7.3.10 **Accounting for tangible fixed assets** – The policy should include:

- the basis for inclusion of tangible fixed assets, which is expected to be cost
- the value, if any, below which items are not capitalised as fixed assets. In applying this 'capitalisation limit' academy trusts should have regard to the potential for misstating the accounts if individually low value assets, that are collectively of a material value, are not capitalised. As best practice, therefore, assets bought together as a set (eg a batch of network computers) should be capitalised as a group
- the policy for buildings under construction
- accounting for assets funded by grants
- the rates of depreciation
- policy with respect to impairment reviews

7.3.11 Where a fixed asset has been gifted or donated, at nil value or an undervalue, the initial carrying amount should be the fair (open market) value at the date of receipt – ie the price that the academy trust estimates it would pay in the open market for the item.

7.3.12 At each reporting date, the academy trust must assess whether there is any indication that an asset may be impaired. Where circumstances indicate that the carrying value of an asset may not be recoverable then FRS102 [section 27] requires that the entity shall estimate the recoverable amount of the asset. The recoverable amount is the higher of the asset's value in use and fair value less costs to sell. Where the recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. Where there is an indication of impairment and the entity is required to determine the recoverable amount, FRS 102 should be referred to but any assessment of value in use in charities can take account of service potential as well as cash flow generation (see SORP 2015 paragraph 12.12).

7.3.13 Depreciation should be provided for in accordance with FRS 102 [Section 17] and the basis used should be disclosed in the financial statements. Individual academy trusts should determine appropriate depreciation rates, based on the assessment of the useful economic life and expected residual value since the most recent annual reporting date. Freehold land generally has an unlimited useful life and therefore is not usually depreciated.

7.3.14 It is unlikely that an academy trust will follow a policy of revaluation of tangible fixed assets. However, if an individual fixed asset is revalued, all other fixed assets in that class (e.g. all buildings) will need to be revalued at the same time. If a policy of revaluation is adopted then revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

7.3.15 Where grants (capital grants) are received for the specific purpose of acquiring and retaining a fixed asset for the academy trust's charitable purposes, they should be credited to the restricted fixed asset fund in the SOFA. The asset should be depreciated over its expected useful economic life on a basis consistent with the depreciation policy.

7.3.16 **Leasing** – Rentals under an operating lease should be charged on a straight-line basis over the lease term unless another more systematic basis is more appropriate. Finance leases (which represent borrowing) must not be taken out by academy trusts without the consent of the Secretary of State for Education. Some academies will occupy land or premises, which are owned by other bodies for which no annual or only a nominal rental payment is made (see part 8.7 for the accounting treatment of such matters).

7.3.17 **Investment assets (excluding certain social investments)** – In accordance with SORP 2015 [paragraphs 10.41 to 10.56], fixed asset investments (excluding certain social investments) should be carried at fair value, at the balance sheet date unless this cannot be measured reliably. Where fair value cannot be measured reliably fixed asset investments should be carried at cost less impairment.

For guidance on:

- investment properties, refer to paragraphs 10.45 to 10.48 of SORP 2015
- unlisted investments, refer to paragraph 10.49 of SORP 2015

All changes in value in the period, whether or not realised, should be reported in the 'gains/losses on investments' section of the SOFA. Fixed asset investments should be classified as a separate category within fixed assets. Current asset investments should also be carried at fair value. They include cash on deposit and cash equivalents with a maturity of less than one year held for investment purposes rather than to meet short-term cash commitments as they fall due.

7.3.18 **Stock** – If material, stock should be brought into account at the lower of cost or net realisable value.

7.3.19 **Pension benefits** – Academy trusts will have defined benefit obligations in respect of two schemes:

- the Teachers' Pension Scheme England & Wales (TPS)
- the Local Government Pension Scheme (LGPS)

7.3.20 Both are multi-employer schemes. The academy trust has sufficient information available to identify its share of assets and liabilities within the LGPS and therefore should recognise a surplus or deficit on the scheme within the financial statements. The TPS should be accounted for as a defined contribution scheme with contributions being recognised on a payable basis [note 30].

7.3.21 **Provisions** – These are liabilities of uncertain timing and/or amount that will be settled by the transfer of economic benefits (e.g. payment). They should be recognised in the balance sheet, but only when:

- the academy trust has an **obligation** (legal or constructive) as a result of a past event
- it is **probable** (more likely than not) that a transfer of economic benefit will be required to settle the obligation
- a **reliable estimate** can be made of the amount of the obligation

7.3.22 **Contingent liabilities** – Unlike provisions, contingent liabilities are not recognised in the balance sheet but instead are disclosed in a note to the accounts. Contingent liabilities are one of the following:

- a **possible** but uncertain obligation that arises from past events
- a **present obligation** that arises from past events but is not recognised because:
  - it is **not probable** that a transfer of economic benefits will be required to settle the obligation
  - the amount of the obligation **cannot be estimated** with sufficient reliability

7.3.23 As a rule of thumb, **'probable' means more than 50% likely**. It is important to remember that:

- contingent liabilities (including obligations that **are not probable**) do not result in the recognition of an amount on the balance sheet and instead are disclosed as a narrative note to the accounts [note 28]
- on the other hand obligations that **are probable** would result in a provision being made for the amount on the balance sheet

An example of a matter that may result in a contingent liability is where a staff member has made a claim for wrongful dismissal against the academy trust and this may result in an employment tribunal case.

7.3.24 **Contingent asset** – This is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the academy trust's control. An example of a matter that may result in a contingent asset is where the academy trust has made an insurance claim, where the outcome is still to be determined.

7.3.25 **Funds** – These represent the incoming resources received/receivable, that have not been expended in the period. A brief description should be given of the different types of funds held by the academy trust, including the policy for any transfers between funds and allocations to or from designated funds.

7.4 Note on GAG carried forward

7.4.1 Historically academy trusts' funding agreements contained limits on the amount of GAG that could be carried forward from one year to the next. The Academies Financial Handbook 2012 announced the removal of the limits, so academy trusts can keep money aside for when it is needed most.

7.4.2 New academy trusts are therefore free of GAG carry forward limits but older academy trusts remain subject to limits until such time as the relevant clauses are changed in their funding agreements, by agreement with DfE.

7.4.3 Academy trusts subject to GAG carry forward limits

7.4.4 For academy trusts still subject to GAG carry forward limits in their funding agreement a note is required [note 2] confirming whether the limits have been exceeded. A detailed calculation is not required within the note. Instead a simple narrative disclosure should be made.

7.4.5 The maximum amount that can be carried forward is an amount equal to 12% of the GAG awarded for the year just ended unless agreement has been given by DfE to vary this limit. This amount can be used as follows:

- an amount equivalent to 2% of the total GAG received in the preceding year may be used for any purposes for which GAG is paid including any expenditure set out in the next bullet point
- an amount equivalent to a further 10% of the total GAG received in that year may be used for the upkeep and improvement of premises and capital expenditure

7.4.6 ESFA may require any unspent GAG in excess of the 12% threshold to be surrendered. Academy trusts with an excess of GAG should consider whether this requires a provision or a contingent liability in the accounts. If a provision is made the amount should be included in the notes to the accounts.

7.4.7 The following funding streams are included as GAG for the purposes of calculating the carry forward allowance:

- school budget share
- minimum funding guarantee
- education services grant

- allocation protection
- pre-16 high need funding
- post-16 high needs funding

7.4.8 The following funding streams are not included as GAG for carry over purposes:

- pupil premium
- start-up grants
- PE and Sports grant
- universal infant free school meals

7.4.9 Where academy trust expenditure exceeds the level of GAG the balance should be funded from other resources.

7.4.10 Assessment of GAG carried forward against funding agreement limits

7.4.11 The following illustrative table may assist academy trusts in assessing whether their GAG limits have been exceeded:

Note 2: General Annual Grant (GAG)

Results and carry forward for the year	**£000**
GAG brought forward from previous year	**66**
GAG allocation for current year	**4,257**
Total GAG available to spend	**4,323**
Recurrent expenditure from GAG	**(4,148)**
Fixed assets purchased from GAG	**(10)**
GAG carried forward to next year	**165**

b. Excess GAG

The academy trusts funding agreement allows 12% of GAG to be carried forward from one year to the next. The following calculation shows whether the 12% limit has been exceeded

GAG carried forward to next year	**165**
Less maximum permitted GAG to c/f (12% of current year allocation)	**(511)**
GAG carried forward beyond limit, if positive result	**(346)**
(i.e. 12% limit exceeded if result is positive)	not exceeded

c. Use of GAG brought forward from previous year for recurrent purposes

The academy trust's funding agreement allows 2% of GAG carried forward to be used for recurrent purposes with any balance up to 12% to be used for capital purposes. The following calculation shows whether the 2% limit has been exceeded.

Recurrent expenditure from GAG in current year	**4,148**
GAG allocation for current year	**(4,257)**
GAG allocation for previous year x 2%	**(81)**
GAG b/f from previous year in excess of 2%, used on recurrent expenditure in current year	**(190)**

(2% limit exceeded if result is positive) not exceeded

7.4.12 The format of the note to include in the accounts for single-academy trusts is in part 3. The format for multi-academy trusts is in part 8.

7.4.13 Academy trusts not subject to GAG carry forward limits

7.4.14 Academy trusts that are not subject to GAG carry forward limits are not required to include a separate GAG carry forward note in their accounts. Instead they should make a declaration in the accounts that the limits do not apply. This should be included in the funds note [note 19].

7.5 Note on staff costs

7.5.1 A note is required [note 10] which discloses information relating to staff costs for the year, comprising:

- **total costs** for all employees, analysed as follows:
  - wages and salaries
  - social security costs (which includes the apprenticehip levy charge)
  - operating costs of defined benefit pension schemes (this will include employer contributions to the TPS and but the LGPS will included full service costs but will exclude pension finance costs/income)
  - supply staff costs
  - staff restructuring costs including redundancy payments, severance payments and other costs for departing staff
- the individual values and dates of any **non-statutory/non-contractual severance payments**. Confidentiality cannot be used as a reason for non-disclosure of these amounts, although the names of the recipients do not need to be disclosed
- **the average number of employees** in the financial period (by headcount), analysed between teaching, administration/support and management staff. Management staff should include senior leadership team members who do not have day to day teaching duties. The head of school should always be considered to be management irrespective of any teaching duties. Administrative and support includes all other staff
- the average number of full time equivalent employees in the financial period, analysed as above, may also be provided
- **the number of employees whose employee benefits during the period exceeded £60,000**, presented in £10,000 bandings (employee benefits for the purposes of this banding disclosure include salary and other taxable benefits in cash or in kind and termination payments, but not the academy trust's own pension costs)

- if there are no employees with employee benefits (excluding the academy trust's own pension costs) above £60,000, this fact should be stated
- total employee benefits paid to key management personnel (being the trustees and the senior management team as listed on page 1 of the academy trust's financial statements)

7.5.2 Larger academy trusts are reminded that under the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, if they have 250 or more employees they are required to publish information on their website relating to the gender pay gap in their organisation. The regulations require publishing the difference between the average hourly rate of pay paid to male and female employees; the difference between the average bonus paid to male and female employees; the proportions of male and of female employees who receive bonuses; and the relative proportions of male and female employees in each quartile pay band of the workforce.

7.6 Notes on related party transactions including trustees' remuneration

[See note 11 for trustees' remuneration and note 31 for other related party transactions]

7.6.1 FRS 102 requires all transactions with related parties to be disclosed in accounts so that users of the accounts can gain a full understanding of them, and of 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.

7.6.2 SORP 2015 states that the disclosure of related party transactions is an important element of transparency in financial reporting because:

- related parties may enter into transactions that unrelated parties would not
- transactions between related parties may not be made at the same amounts or on the same terms as those between unrelated parties
- the existence of the relationship may be sufficient to affect the transactions of the charity with other parties

7.6.3 SORP 2015, para 23.4 states that related party transactions between a parent charity and its subsidiaries, associates and joint ventures must be disclosed. Academy trusts must therefore disclose all inter-group transactions and can not take up the exemption afforded in para 33.1a of FRS102.

7.6.4 Types of related party

7.6.5 Under FRS 102 related parties include:

- parties with control over, or controlled by, the entity, e.g. **parent & subsidiary companies**
- parties having **significant influence** over the entity
- **key management personnel** of the entity, including any **director**, whether executive or otherwise
- **close family members** of any of the above
- others subject to control or significant influence by any individual referred to above

Connected party transactions, as identified per the Handbook, also need to be included in this note, together with connected charities that meets the definition of section 28 of schedule 3 of the Charities Act 2011.

7.6.6 Related parties include a company's directors which, in the case of an incorporated charity such as an academy trust, would be its trustees. Related parties also includes trustees' close family and business partners. Further information can be found in SORP 2015 [paragraphs 9.2 to 9.22 and appendix 1].

7.6.7 ESFA is not deemed to be a related party simply by virtue of the funding it provides to the academy trust.

7.6.8 Types of related party transaction

7.6.9 Related party transactions can be categorised as two types; incoming and outgoing. Academy trusts should disclose these separately. Examples of incoming related party transactions include the donation of goods, services, property or money. Examples of outgoing related party transactions include the purchase of goods, services or property.

7.6.10 Information on related parties to be disclosed

7.6.11 All transactions undertaken by an academy trust with related parties must be regarded as material regardless of their size and must therefore be disclosed. Under SORP 2015 disclosure must include:

- the names of the related parties
- a description of the relationship between the parties
- a description of the transactions
- the amounts involved
- the amounts due to or from related parties at the balance sheet date, and any provisions for doubtful debts or amounts written off
- details of any guarantees given/received
- terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement

- any other elements of the transactions which are necessary for the understanding of the accounts

7.6.12 Under the Accounts Direction the academy trust must also make a disclosure confirming whether related party transactions were conducted in accordance with requirements of the AFH and with their financial regulations and procurement procedures [note 31]. In line with SORP 2015 [paragraph 9.21] this statement should not be made unless this can be substantiated. Academy trusts must also include a statement that, where contracts for goods or services exceeding £2,500 cumulatively in the year, the element above £2,500 has been provided at no more than cost. This must be supported by a statement of assurance from the related party to the academy trust confirming this.

7.6.13 If no related party transactions arose in the period, the note must disclose this.

7.6.14 Disclosure of related party transactions with academy staff and trustees

7.6.15 SORP 2015 [paragraphs 9.7 and 9.8] requires remuneration and other benefits received by a trustee for their role as a trustee to be disclosed separately from remuneration and other benefits received for other employment with the academy trust. This is because, unlike directors of commercial companies, it is not normal practice for charity trustees to receive remuneration from the charities for which they are responsible.

7.6.16 In relation to academy trusts this means that related party disclosures must include the following types of payment:

- salary and benefits (for example termination/severance payments) paid to the principal and/or chief executive in their capacity as staff where, as is usual, they are an ex-officio governor and hence a director and trustee
- salary and benefits (for example termination/severance payments) paid to other staff, in their capacity as staff, where they are also trustees and hence directors

7.6.17 In this situation the disclosure must clearly state that the individuals received the remuneration in respect of their employment as staff, not in respect of their work as academy trustees.

7.6.18 The DfE’s model articles of association for academy trusts prevent the payment of academy trustees for their services as a trustee, without the approval of the Charity Commission who may give such approval only in the most exceptional cases. If exceptionally the Charity Commission has agreed that an academy trust can pay a trustee for their services as a trustee, as opposed to their services as staff, this fact must be stated in the accounts [note 11] and the payment must be disclosed as a related party transaction.

7.6.19 Under SORP 2015 disclosure must include the name of each trustee in receipt of remuneration and other benefits, and details of the amounts involved. Under the Accounts Direction ESFA is content for academy trusts to present the amounts in £5,000 bandings.

7.6.20 Confidentiality cannot be used as a reason for non-disclosure of principals' and other trustees' remuneration in related party disclosures.

7.6.21 In addition to disclosure of trustees' remuneration the accounts must also disclose:

- the amount of employer pension contributions paid in respect of trustees
- the total amount of expenses reimbursed to trustees or paid directly to third parties
- any other related party transactions with trustees including payments for services under commercial contracts (for example payments for goods and services to a company owned by a trustee).

7.7 Notes on funds

7.7.1 Two notes must analyse the structure and position of the academy trust's funds:

- Note 19 should:
    - provide the opening balance of each fund, the movement in the period (including any transfers between funds) and the closing balance
    - differentiate between restricted general funds, restricted fixed asset funds, unrestricted funds and any endowment funds as well as identifying any material individual funds contained within
    - include a description of how each fund has arisen, the purpose of each fund and any restrictions imposed. An indication should be given of whether or not sufficient resources are held in an appropriate form for the fund to be applied in accordance with any restrictions. An explanation of the nature and reason for any transfers should also be given
    - ensure any funds in deficit are separately disclosed. The circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit should also be disclosed
- Note 20 should disclose the types of assets and liabilities representing each fund and the amounts of those assets and liabilities at the end of the period

These notes should include comparative information in respect of the preceeding period and, where the current and prior periods have been 12 months long, an analysis showing the combined position.

7.8 Note on financial commitments (operating leases)

7.8.1 A note is required disclosing details of operating leases [note 22]. Under FRS 102 [section 20.16(a)] the note must disclose the total of **future minimum annual lease payments under non-cancellable operating leases**, showing the total value of payments falling in the following periods: within one year, in more than one year and not later than five, and later than five years from the balance sheet date.

7.8.2 FRS 102 [section 20.16(b)] also requires the total of operating lease rentals charged as expenditure in the current year (to 31 August 2018) to be disclosed [note 7].

7.9 Note on events after the end of the reporting period

7.9.1 A note is required disclosing any events arising after the balance sheet date, as set out in section 32 of FRS 102 [note 37]. These are events, favourable or unfavourable, that occur between the balance sheet date and the date the financial statements are authorised for issue. There are two types of events:

- those that provide evidence of conditions that existed at the balance sheet date. These are adjusting events and would require the amounts in the financial statements to be adjusted to reflect them – for example, the settlement of a court case that confirms the entity had a present obligation at the balance sheet date
- those that are indicative of conditions that arose after the balance sheet date. These are non-adjusting events – for example, a decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue. Where non-adjusting events are material and non-disclosure would influence the readers of the financial statements, then disclosure should be given of each material category of non-adjusting event after the balance sheet date.

Part 8: Specific topics and related accounting treatments

8.1 Multi-academy trusts

8.1.1 The term 'multi-academy trust' refers simply to the inclusion of more than one academy within the same charitable trust company. They are sometimes referred to as MATs, federations or chains.

8.1.2 Disclosure of academy-level information by MATs

8.1.3 As a single company MATs must produce a single set of accounts combining the results of all the academies within the academy trust. In the following areas information on the academy trust's constituent academies is also required:

- **Trustees' report** – Whilst this will give a description of the objectives set, the activities undertaken and the performance against objectives for the academy trust as a whole, it is expected that some information will be included about individual academies. The most appropriate content and format is at the trustees' discretion.
- **Note 19: Funds** – ESFA requires additional disclosures to be included by MATs, where applicable, at the foot of the funds note. These disclosures must:
  - identify the share of **funds attributable to each academy** at the end of the current and comparative period (other than pension reserve, fixed assets, and endowment funds if present)
  - provide a narrative describing the action being taken by any academy in respect of which the total of these funds is a **deficit**
  - identify the amounts spent during the period by each academy on:
    - teaching and educational support staff
    - other support staff
    - educational supplies
    - other costs

  The format of the funds note for a MAT, including the additional disclosures, is illustrated on the following pages.

8.1.4 Disclosure of central services by MATs

8.1.5 MATs must include an additional note (after Note 10: Staff Costs) to their accounts detailing any central charges that the academy trust made to its constituent academies during the year. The note must describe:

- the types of central services provided to the academies by the academy trust during the year

- the academy trust's policy for charging for those central services. For example this might be based on a flat percentage of each academy's income, or on pupil numbers, or time-apportionment or some other suitable basis
- the actual charges placed on each academy for the services during the year

8.1.6 An illustrative format for the note is on the following pages. Academy trusts have discretion to modify the format to suit their circumstances but the information in the above bullet points must be given.

8.1.7 If a MAT did not have a central management/services function and/or no central charges arose, these facts must be disclosed.

8.1.8 Disclosure of local government pension schemes by MATs

8.1.9 In relation to **Note 30: Defined benefit pension schemes, MATs** may have academies across more than one local government pension scheme fund. Where this arises the academy trust has some discretion over the amount of aggregation it applies in its pensions note. Under FRS 102 [section 28] an employer with more than one defined benefit pension scheme (and by extension more than one LGPS fund) is allowed to determine the level of separate disclosure which is considered most useful. The disclosures can be made in total, separately for each scheme/fund or grouped as considered appropriate. Within the financial statements of a MAT, narrative should be included to describe each of the different schemes. If the assumptions used vary between the schemes this should be indicated in the notes. The other FRS 102 disclosures required can be grouped together unless it is considered useful by the MAT to include the details of each scheme separately.

Model format for the central services note for a multi-academy trust

11 Central Services

The academy trust has provided the following central services to its academies during the year:

Include list of services, such as:

- human resources
- financial services
- legal services
- educational support services
- others as arising

The academy trust charges for these services on the following basis:

Enter details, such as:

- flat percentage of income (state percentage)
- amount per pupil (state amount)
- time-apportioned (describe basis)
- other bases as arising

The actual amounts charged during the year were as follows:

	2017/18 £000	**2016/17 £000**
Boomtown Academy	**30**	30
Hopetown Academy	**20**	20
Newtown Academy	**61**	61
	111	111

Alternatively if the academy trust did not have a central management/services function and/or no central charges arose this must be disclosed. Suggested text is below:

No central services were provided by the academy trust to its academies during the period and no central charges arose.

Model format for the funds note for a multi-academy trust

19 Funds

[discussion at part 8.1.3]

	Balance at 1 September 2017 £000	Incoming Resources £000	Resources Expended £000	Gains, Losses and Transfers £000	Balance at 31 August 2018 £000
Restricted general funds					
General Annual Grant (GAG)	98	4,500	(4,175)	(10)	**413**
Start Up Grant	-	-	-	-	**-**
Other DfE Group grants	-	85	(85)	-	**-**
Other grants	-	297	(246)	-	**51**
Provision for boarding	-	-	-	-	**-**
Pension reserve	(1,054)	-	(40)	(319)	**(1,413)**
	(956)	4,882	(4,546)	(329)	**(949)**
Restricted fixed asset funds					
Transfer on conversion	9,218	-	(673)	-	**8,545**
DfE Group capital grants	1,124	200	(100)	-	**1,224**
Capital expenditure from GAG	7	-	(3)	10	**14**
Private sector capital sponsorship	171	344	(173)	-	**342**
	10,520	5,426	(949)	10	**10,125**
Total restricted funds	**9,562**	**5,426**	**(5,495)**	**(319)**	**9,176**
Total unrestricted funds	155	139	(16)	-	**278**
Total funds	**9,719**	**5,565**	**(5,511)**	**(319)**	**9,454**

The specific purposes for which the funds are to be applied are as follows:

For each fund held during the year provide a description of how the fund has arisen and the nature of any restrictions imposed.

The academy trust must also review the balance on restricted general funds (excluding pension reserve) plus the balance on unrestricted funds at 31 August 2018. In the above example this would be a net surplus of £464k + £278k = £742k. If the result is a deficit the following disclosure must be made:

The academy trust is carrying a net deficit of £xxxk on restricted general funds (excluding pension reserve) plus unrestricted funds because **[give brief details].** The academy trust is taking the following action to return these funds to surplus: **[give brief details]**.

Note 20 for a multi-academy trust continues on the next page. Multi-academy trusts must complete the next page where relevant.

Model format for the funds note for a multi-academy trust

19 Funds (continued)

Total funds analysis by academy

Fund balances at 31 August 2018 were allocated as follows:

	2018 £000	2017 £000
Boomtown Academy	**492**	300
Hopetown Academy	**400**	155
Newtown Academy	**(155)**	(205)
Central services **[if applicable]**	**5**	5
Total before fixed assets and pension reserve	**742**	255
Restricted fixed asset fund	**10,125**	10,518
Pension reserve	**(1,413)**	(1,054)
Total	**9,454**	9,719

Newtown Academy is carrying a net deficit of £155k on these funds because:

Give brief details.

The academy trust is taking the following action to return the academy to surplus:

Give brief details.

Total cost analysis by academy

Expenditure incurred by each academy during the year was as follows:

	Teaching and Educational Support Staff Costs £000	Other Support Staff Costs £000	Educational Supplies £000	Other Costs (excluding Depreciation £000	2017/18 Total £000	2016/17 Total £000
Boomtown Academy	1,600	400	150	300	**2,450**	2,250
Hopetown Academy	700	52	73	100	**925**	873
Newtown Academy	788	76	100	143	**1,107**	1,107
Central services **[if applicable]**	-	95	-	41	**136**	111
Academy Trust	**3,088**	**623**	**323**	**584**	**4,618**	4,341

8.2 Subsidiary companies and group accounts

8.2.1 Consolidated 'group' accounts are prepared by a parent entity and include all of the resources **controlled** by the parent entity, where 'control' is the power to direct the financial and operating policies of an entity in order to obtain economic benefits from its activities. This may include subsidiary undertakings, special purpose entities and other controlled entities and the following should be considered with all of these types of entities in mind.

8.2.2 The governing documents (articles of association) of academy trusts generally allow the formation of subsidiary companies. Often these will be formed to run trading activities, with their profits distributed to the academy trust for the benefit of the company.

8.2.3 SORP 2015 [paragraph 24.5] explains that a charity must prepare group accounts where it is a requirement of company law (generally by exceeding the 'small companies regime' size criteria in the Companies Act 2006) or where the gross income of the group exceeds the threshold set by regulations under the Charities Act (where the aggregate gross income of the group exceeds £1,000,000 after consolidation adjustments).

8.2.4 A controlled subsidiary may be excluded from consolidation if its inclusion is not material for the purposes of giving a true and fair view in the context of the group. Further guidance can be found in SORP 2015 [module 24].

8.2.5 If an academy trust is unsure whether group accounts are required it should discuss this with its professional advisors.

8.2.6 Where an academy has a subsidiary and prepares consolidated financial statements:

- the academy trust's accounts must include a consolidated SOFA for the group (parent plus subsidiaries)
- the academy trust's accounts must include a consolidated balance sheet for the group (parent plus subsidiaries) in addition to a balance sheet for the parent
- the notes to the accounts should give the position of the group as well as the parent
- the annual report must be expanded to include relevant information about their subsidiary undertakings (for example its trading performance)
- the academy trust's accounts must include in the group accounting policies, a statement that the accounts are consolidated
- the notes to the accounts (in relation to each material subsidiary) must specify in accordance with SORP 2015 [paragraph 24.36]: the name of the subsidiary, company number, particulars of the academy trust's shareholding or other

means of control, the aggregate amount of the subsidiaries' assets, liabilities and funds, a summary of turnover (or gross income) and expenditure and its profit or loss for the year. The notes should also explain how the activities of the subsidiary relate to those of the academy trust

8.2.7 Guidance on consolidation procedures can be found in FRS 102 [section 9], but in particular academy trusts must ensure that:

- the consolidation is undertaken on a line-by-line basis
- balances and transactions between the academy trust and consolidated subsidiaries are eliminated
- the accounts of the academy trust and its subsidiaries have the same reporting date
- uniform accounting policies are adopted across the group by the academy trust and its subsidiaries

8.2.8 SORP 2015 [paragraph 24.11] states that consolidated accounts must also include any special purpose entity that is controlled by a parent charity and created to undertake an activity for the benefit of the parent charity. A special purpose entity (SPE) is a term referring to a corporation, academy trust, partnership or unincorporated entity established by the academy trust or on its behalf to achieve a narrow, well-defined objective. A feature of an SPE is that it is, in substance, controlled by the academy trust. For more information about what constitutes a special purpose entity and the criteria for its consolidation, refer to FRS 102 [section 9].

8.2.9 Where an academy trust has a subsidiary and consolidated accounts are not prepared:

- the notes to the accounts (unless the subsidiary is not material) must specify: the name of the subsidiary, the company number, particulars of the academy trust's shareholding, how the activities of the subsidiary relate to those of the academy trust and the aggregate amount of the subsidiaries' assets, liabilities and funds, a summary of turnover (or gross income) and expenditure, and its profit or loss for the year
- a statement must be included in the notes disclosing the grounds on which the academy trust is not preparing group financial statements

8.2.10 The academy trust will need to consider the nature of the subsidiary's activities to determine which fund they should fall under within the consolidated accounts. Generally however the results of trading activities through an academy trust's subsidiary would be part of unrestricted funds.

8.2.11 In applying these rules, specific consideration must be given to whether the academy trust's connected charities (being charities that meet the definition of section 28 of schedule 3 of the Charities Act 2011) require consolidation.

8.3 Connected charities

8.3.1 An academy trust may be connected to another charity under paragraph 28 (1) of schedule 3 of the Charities Act, where 'connection' means:

- the charity is administered by or on behalf of the academy trust; and
- the charity is established for the general purposes of, or any special purpose of or in connection with, the academy trust

8.3.2 A connected charity can be incorporated or unincorporated, and the Charity Commission has provided case studies on examples of connected charities.

8.3.3 If an academy trust's connected charity is incorporated, and meeting the definition of a subsidiary, it will be consolidated into the academy trust's accounts in accordance with the criteria in SORP 2015 and part 8.2.6, unless exemptions are applied.

8.3.4 If the connected charity is incorporated, but is not consolidated due to available exemptions, disclosures will be required in the academy trust's accounts as set out in part 8.2.9.

8.3.5 If the academy trust's connection is with an unincorporated special trust, defined as 'property which is held and administered by or on behalf of the charity for any special purposes of the charity and is so held and administered on separate trusts relating to only that property' this will not be consolidated but will be reflected in the academy trust's accounts under branch accounting as part of restricted funds. Endowment funds held by some academy trusts under the Department's former sponsorship model are special trusts.

8.3.6 If the connected charity does not fall under any of these categories the academy trust should provide the following details about it in a note to the accounts: the name of the connected charity, how its activities relate to those of the academy trust, the aggregate amount of the entity's assets, liabilities and funds, a summary of turnover (or gross income) and expenditure, and its profit or loss for the year.

8.3.7 In all cases the presence of a connected charity should also be disclosed in the trustees' report.

8.3.8 Connected charities may be a complex area and so we recommend that academy trusts take professional advice.

8.4 Accounting for government grants

8.4.1 SORP 2015 [paragraphs 5.8 and 5.11] explains that income should be recognised in the accounts when all the following criteria are met:

- **entitlement** – control over the rights or other access to the economic benefit has passed to the academy trust
- **probable** – when it is more likely than not that the economic benefit associated with the transaction or gift will flow to the academy trust
- **measurement** – the monetary value or amount of the income can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably

8.4.2 Some grants may contain conditions to be met before entitlement arises. Time-related conditions may also be implied. Such conditions would mean that the grant (or the relevant part thereof) is not recognised until a future period.

8.4.3 In relation to government and other grants receivable by academy trusts:

- **Grants receivable on an academic year basis** - GAG and other grants receivable for the period ending 31 August would be recognised in full in that period, with any unspent amount at 31 August being reflected as a balance in restricted general funds at that date.

- **Grants receivable over differing periods -** Pupil Premium and other grants paid in respect of expenditure for the period ending 31 March would be recognised in full in that period and this may result in apportionment of the grant over two accounting periods. Grants received for capital purposes including Devolved Formula Capital Grant and the Conditions Improvement Fund (CIF) would be recognised in full when receivable. SORP 2015 [paragraph 5.27] states that capital grants should not be deferred over the life of the asset.

- **Capital grants -** Capital grants should also be recognised as income from donations rather than as funding for charitable activities. Capital grants are recognised in full when there is unconditional entitlement. Unspent amounts of capital grants are reflected in the balance sheet in the restricted fixed asset fund. For the avoidance of doubt, capital grants are not deferred over the life of the asset on which they are expended.

- In the case of church academies in which the related land and buildings are not recognised by the academy trust, then capital grants should still be recognised when received. In cases where the expenditure is incurred by the church body then the grant received should be matched to -the corresponding grant expenditure to the church body that holds the land and buildings as a donation and not income from charitable activities. In cases where the expenditure is incurred by the academy then it may be appropriate for the academy trust to recognise a site improvement asset funded by capital grants even if the site is not recognised as land and buildings in their academy trust's own accounts. A suitable asset class may be entitled "site improvements" and would be analogous to leasehold improvements for a lessee. Alternatively the grant would be included as expenditure in the SoFA and a note included explaining grant applied on improvements to diocesan property occupied by the academy trust. In both instances we would expect academy trusts to provide sufficient narrative disclosures to explain the situation to readers of their accounts.

- **Assets constructed under the ESFA Free School programme or Priority Schools Building Programme -** If the ESFA is constructing an asset under the Free Schools or Priority School Building Programme for the academy trust, then the accounting policies should cover how the asset and associated income are being accounted for. Where an academy trust is recognising an asset under these programmes, it should not be accrued on the basis of the funding letter, which does not give rise to an unconditional entitlement.

8.5 Accounting for abatement of GAG

8.5.1 The term 'abatement' is used to describe the repayment of GAG by an academy trust to ESFA by making a deduction from a subsequent GAG instalment. Abatement can arise:

- where an academy trust's funding agreement provides for the payment of GAG based on estimated pupil numbers and for the recovery of an excess in the event that actual pupil numbers are less than the estimate
- where a converter academy inherits a budget deficit from its predecessor school which is to be repaid to ESFA

8.5.2 Academy trusts should consider carefully how and when abatements should be reflected in their accounts:

- Where the amount and timing of the abatement has been agreed at 31 August the academy trust will need to include ESFA as a **creditor** within that year's balance sheet. The value of the grant abated should be reduced by the agreed amount and a creditor recognised. The abatement should also be disclosed as a separate line in the creditors note supporting the accounts
- Where the abatement is not agreed at 31 August the academy trust should consider whether a **provision** for it should be made within the balance sheet in that year in accordance with FRS 102 [section 21]. As described in parts 7.3.21 to 7.3.23 a provision would be appropriate only where the obligation to

transfer economic benefits is probable (more than 50% likely) and a reliable estimate can be made of its amount. If a provision is made it should also be disclosed in a note to the accounts and the grant income balance reduced accordingly.

8.6 Accounting for sponsorship donations

8.6.1 Sponsor contributions were a key part of the academies programme prior to the Academies Act 2010. An initial feature of the programme was the requirement for sponsors to make a capital contribution (10% but capped to £2m) for the school building. This was then replaced by an endowment model whereby the sponsor created an endowment fund, from which the investment return provided additional income for the academy trust. From 2012 the requirement for academies to obtain endowment sponsorship ceased, although contributions may still be received by local arrangement. Academies may also receive general charitable donations.

8.6.2 General donations in cash

8.6.3 Cash donations given by supporters and the public would be treated as income from donations in the SOFA and either recognised in the unrestricted fund (if received for use at the discretion of the academy trust), in the restricted fixed asset fund (if received for capital purposes with a requirement for on-going use of the asset) or otherwise in the restricted general fund. There is a different treatment for cash donations into an endowment fund, which is discussed later in this section.

8.6.4 Donations in kind

8.6.5 From time to time an academy trust may receive donations in kind. In accordance with part 7.3.7 donations of fixed assets should be measured at fair value. Donations of sponsors' services are expected to be reasonably quantifiable and must be included as income with a matching amount of notional expenditure.

8.6.6 Donations into an endowment fund

8.6.7 Between 2007 and 2012 some academy trusts entered into an agreement with their sponsor (called a 'deed of gift') where the sponsor pledged money to be invested on a permanent basis to generate a return which could be spent by the academy. This money was placed into an endowment fund held by a separate unincorporated charity, usually a 'special trust' of which the academy trust was the sole corporate trustee. In view of this relationship an endowment fund is treated as part of the academy trust and must be aggregated rather than consolidated within the academy trust's financial statements.

8.6.8 There are a number of areas [SORP 2015 paragraph 2.16] where disclosure will be required in the financial statements and these are set out below.

8.6.9 **SOFA** – the endowment fund must be shown as a separate column on the face of the SOFA. It is only in the years when new endowment capital is received that there will be income shown within the endowment fund column. However, note that:

- if a part of the endowment fund is held in investments, the gains or losses arising on the value of the investments must be shown in the endowment fund column in the SOFA
- any income generated from the endowment fund (e.g. bank interest, investment returns) should not be shown in the endowment fund but should instead be shown in either the academy trust's restricted or unrestricted funds depending on the terms set out in the deed of trust. The corresponding expenditure should be treated on the same basis. Any income not spent at the year-end should be carried forward in the appropriate restricted or unrestricted fund. Where the endowment fund is held as investments, any investment management costs should be charged to the endowment fund column.

8.6.10 **Balance Sheet** – the endowment fund must be shown as a separate line in the 'funds' section in the bottom half of the balance sheet.

8.6.11 **Cash Flow Statement** – movements in endowment funds should not be included in the 'operating activities' section of the cash flow statement but treated as increases or decreases in the 'financing activities' section. This is achieved as follows:

- cash donations to the endowment funds should be treated as additions to the endowment fund in the 'financing activities' section, by inclusion of a line 'Additions to endowment funds'

Receipts and payments from the acquisition and disposal of endowment assets (being the conversion of an endowment from one form of investment to another) should be shown gross in the 'investing activities' section.

8.6.12 **Notes to the financial statements:**

- **accounting policies note** – within the 'fund accounting' section in the accounting policies note an explanation should be added to set out the nature of the endowment fund, i.e. whether it is a permanent endowment fund (as is generally the case for academies) or an expendable endowment fund, and how the income generated from the fund is treated, i.e. whether the income generated from the fund is restricted or unrestricted. An explanation should be included setting out how the endowment fund has been incorporated into the financial statements – i.e. aggregated rather than consolidated

- **movement on funds note** – a similar note to that required for other funds should also be prepared, showing the movement from the opening funds position to the closing position
- **split of assets note** – should also show the proportion of the net assets at the year-end, which are included with the endowment fund

8.7 Accounting for land and buildings

8.7.1 This section describes the main scenarios under which an academy trust company holds land and buildings and explains how these should be accounted for. It is not exhaustive, and other scenarios may apply. If applicable, academy trusts should discuss with their professional advisors.

8.7.2 Freehold held by the academy trust

8.7.3 Some academy trusts own the freehold of their premises. This generally, but not only, applies to the first academies that opened.

- **New freehold premises constructed with capital grant paid direct to the academy trust** - When the academies programme was first established the majority of academy trusts were directly funded by DfE (or its predecessor department) for the construction and/or refurbishment of their buildings. Such buildings are recognised as freehold tangible fixed assets within academy trust's accounts (provided the academy trust also holds the freehold to the land) and depreciated over their expected useful life. The capital grant received from DfE is recognised as income within the restricted fixed asset fund and the fund is reduced over the life of the asset on a basis consistent with the depreciation policy.

  During the period that buildings are still under construction they are accounted for as tangible fixed assets (assets under construction asset class) at cost within the academy trust's accounts. The assets are not depreciated whilst they are recognised as assets under construction since the assets are not operational. Once operational the assets will be reclassified to freehold land and buildings, at which point depreciation will begin. During this construction phase the fixed asset cost should comprise only those costs that are directly attributable to bringing the asset into working condition for its intended use.

- **Existing freehold premises transferred from a predecessor organisation** Where freehold title of land and buildings being used has been acquired by the academy trust, the premises should be accounted for in accordance with FRS 102 [section 17] or SORP 2015 [module 6] depending on whether any consideration was payable.

The premises would be initially recognised in the academy trust's accounts at their fair value (being the value the trustees would expect to pay in the open market for an equivalent item, though in practice land will normally be valued on an 'existing use' basis with buildings valued at 'depreciated replacement cost') as freehold tangible fixed assets with a corresponding amount of 'income from donations' being recognised in the restricted fixed asset fund. If this arises on conversion to an academy, then this should be presented as "Transfer on conversion" income. If this is on transfer from another academy trust of an existing academy, then this should be presented as "Transfer of existing academy joining the academy trust".

8.7.4 Long term leasehold, or other arrangements for the occupation of land and buildings by the academy trust

8.7.5 Most schools that convert to academy status continue to occupy the premises occupied by the predecessor school on a long-term basis, but do not acquire the freehold. There are two common scenarios:

- **Premises leased from the local authority or other organisation** - Academies that convert from a former local authority maintained school, where the freehold is owned by the local authority, generally occupy the predecessor school's site under a lease from the local authority, normally for 125 years at nil rental. In some cases the academy will occupy a brand new building constructed by, and leased from, the local authority. Some academies may lease their premises from other organisations.

  In accordance with SORP 2015 [module 6] the asset should, in these cases, be recognised in the academy trust's accounts, representing the 'right to use' the property. The fair value of the asset (being the right to use the property rather than the freehold) should be recognised as a leasehold tangible fixed asset with a corresponding amount of 'income from donations' recognised within the restricted fixed asset fund. The amount recognised in fixed assets would then be depreciated over the useful economic life of the asset with depreciation being charged against the amount included in restricted fixed asset funds.

  Where an academy trust occupies its premises under a leasehold it will need to determine an appropriate fair value for the asset for initial recognition. Whilst there is no absolute requirement for a professional valuation, the academy trust must determine a reasonable and reliable estimate of the current value with supporting assumptions, and it may conclude that it can only do this by obtaining an independent valuation. The academy trust could therefore instruct a chartered surveyor or obtain assistance from the relevant local authority. Insurance valuations are unlikely to be appropriate if they represent simply the rebuilding cost of the asset rather than its fair value.

The gain on transfer from another academy trust of an existing academy should be presented as “Transfer of existing academy joining the academy trust”.

- **Premises occupied under a licence by church academies** – Academies that convert from a former voluntary (church) school, and continue to occupy the site of the predecessor school, usually have different occupancy arrangements to other former maintained schools.

Basis of occupancy

The different basis of occupancy for church academy trusts is because the freehold will generally be owned by a diocese or other religious body, or by independent trustees. On conversion such an academy trust will usually have a mere licence to occupy whereby the premises are made available for its use, normally with no rental payable. Less commonly the academy trust may be granted a lease, in which case the guidance on leasing (above) should be followed

A licence in this context means a special permission to do something on, or with, somebody else’s property which, if not for the licence, could be legally prevented or give rise to legal action. In relation to church academy trust premises, such an arrangement is usually evidenced in a supplemental agreement between the academy trust, the church trustees and the Secretary of State. This normally follows the model agreements published by the Department for Education. It sets out the church’s undertaking to the Secretary of State to make the premises available to the academy trust and the notice period which the church needs to give in order to terminate the arrangement (generally two years). Where non-standard supplemental agreements are used consideration will need to be given as to whether this affects the required accounting treatment.

Basis of recognition

The key issue that a church academy trust must consider under a licence to occupy is whether it should recognise a fixed asset on its balance sheet. Recognition would depend on whether the academy trust’s rights over the premises meet the definition of an asset.

FRS 102 defines an asset as ‘a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow’.

For church academy trusts:

Future economic benefits are expected to flow to the academy trust as it will avoid the cost that it would otherwise have incurred in obtaining premises

A **past event** will have arisen in the form of conversion to academy status and the signing of a supplementary agreement permitting continued occupancy of the premises

Control means the ability to determine who is, and who is not, able to use the asset and therefore obtain economic benefits from it. Issues that the academy trust will need to consider include:

Control over access. This relates to whether the church's arrangements with the academy trust for management of the premises have the effect of excluding the church's ultimate right to determine access to the premises. First whilst the church allows the academy trust access in accordance with its undertaking to the Secretary of State, the church may revoke this at any time, subject to the agreed notice period. Second, the church is required under charity law to ensure that the use of the premises is compatible with the terms of any charitable (often historic) trust documents which cover them. Third, the church may set out other parameters governing the use of the land which are compatible with the charitable trusts and the church's undertaking to the Secretary of State. For example, this may restrict use of the premises for certain activities which are incompatible with the charitable trusts or other restrictions laid down by the church. In practical day to day terms the church may often delegate the management of the premises to the academy trust whilst retaining the right to set, and change, the overall parameters for the use of, and access to, the premises. The church may use its role on the acdemy trust's board, or other means, to monitor the use of the premises. These factors should help academy trusts to evidence whether the church has delegated management of the premises to the academy trust or has ceded control of the premises.

Control over works. This is about the extent to which the church has given up rights to consent to works, including capital works, on the premises. Here standard clauses in the model supplementary agreement should be considered which will usually confirm that church consent to capital work will be required where it is to be funded from capital grants. Any other documents setting parameters for the use of the premises should also be considered.

Where the academy trust concludes that it does not have control over the premises either because of the church's ultimate right to determine access, or because of the church's right to consent to works, including capital works, or for other reasons, the premises would not meet the definition of an asset of the academy trust. In this circumstance the academy trust would not recognise the premises as a fixed asset on its balance sheet. Only if the academy trust has control would it recognise the premises as a fixed asset.

If the academy trust concludes that it should not recognise the premises as a fixed asset the church's undertaking to the Secretary of State set out in the supplementary agreement will nonetheless permit it to use the premises on a rolling basis for the (generally) two year notice period set out in that agreement. This could be considered similar to a situation where rent is paid in advance to secure the use of premises for two years. The academy trust's occupation for this period may therefore be recognisable by the trust with income and expenditure being matched in the SoFA as:

- a notional donation (since it pays no actual rent)
- a notional rental expense for its use of the premises for the current year
- a prepayment representing the notional rental expense for the remaining notice period

The value of the donation is the amount that the academy trust would otherwise have had to pay to secure premises sufficient for its operations for the period (in effect, to rent them). Under SORP 2015 a donation is to be recognised if it can be reliably measured.

Disclosures

The academy trust's financial statements must disclose the accounting policy for donated premises and the basis of valuation. In addition, they must disclose amounts included in income and expenditure in respect of the donated premises and a description of the arrangements under which it occupies the premises, including disclosure of the legal owner.

8.7.6 Short term lease held by the academy trust

8.7.7 Where an academy trust is leasing an existing school building site on a short-term basis, again the nature of the leasing arrangement should be reviewed to determine the appropriate treatment in accordance with FRS 102 [section 20] or SORP 2015 [module 6] depending on the value of rental payable. It is likely that the arrangement will be an operating lease, and therefore the asset is not be capitalised. Disclosure should be given in the notes to the financial statements to explain the accounting arrangements for the assets.

8.7.8 If the assets are occupied under an operating lease any rental cost will simply be accounted for as expenditure. In the event that no rent, or below-market rent, is charged the academy trust needs to determine the market value of the rent, which should be recognised as an expense in the SOFA with a corresponding incoming resource.

8.7.9 Premises held under service concession arrangements

8.7.10 Some academy trusts occupy premises which are subject to a private finance initiative (PFI) contract with a third party, private sector contractor. These PFI contracts exist where public sector bodies act as grantors to the PFI arrangement i.e. the private sector body (the operator) is granted the right to construct and operate the infrastructure on behalf of the public sector. The Department expects that in the majority of these cases the main signatory of the PFI contract and the owner of the freehold site will be the local authority making the local authority the grantor of the PFI contract, not the academy trust.

8.7.11 Where academy trusts occupy sites that are managed this way, under a PFI held by the local authority, a useful indicator in whether to recognise the site as an asset on an academy trust's balance sheet is to confirm with the local authority (the grantor) whether the local authority recognises the site as its asset. Where the local authority recognises the PFI site, at least for the duration of the agreement, consideration should be given as to whether it is reasonable for an academy trust to also recognise it as an asset applying the controls tests set out in FRS102. Where a local authority has recognised the site as an asset, and the academy trust has not, on completion of the PFI agreement we would expect the local authority to donate the site to the academy trust under the existing long term lease.

8.7.12 In most situations academy trusts are not party to the service concession contracts themselves but do enter into supporting agreements with their local authorities. Under the terms of such secondary agreements academy trusts may be required to support their main PFI contract holder (their local authority) through making contributions to their costs – such as facilities maintainance. Such costs should be expensed as incurred since there is no lease and/or asset recognised. However, since the secondary agreement signed by the academy trust covers the same twenty-five year period as the PFI agreement, there are long term commitments. Such commitments should be disclosed as part of the academy trusts's financial statements, but not as PFI commitments.

8.8 New converter accounting recognition and disclosure

8.8.1 Accounting for assets and liabilities transferred on conversion is based on FRS 102 [section 34.77] and treated in substance as a gift received for nil consideration. The accounting treatment is set out in SORP 2015 [paragraph 24.30]. If the fair value of the assets received exceeds the fair value of the liabilities assumed, a gain is recognised. If the fair value of the liabilities assumed exceeds the fair value of the assets acquired then a net loss is recognised.

8.8.2 The net gain or loss must be recognised on the face of the SOFA and should be analysed between restricted funds, restricted fixed assets funds and unrestricted funds. This means that:

- where assets exceed liabilities, the net gain (a donation) must be recognised in the SOFA under a separate heading of 'Donations – transfer from local authority on conversion', as illustrated below
- where liabilities exceed assets, the net loss must be recognised in the SOFA separately under 'charitable expenditure – transfer from local authority on conversion'

8.8.3 The assets and liabilities transferred will include any buildings but may include other assets (such as cash) and liabilities (such as pension deficit). The accounting treatment for the consideration of fair valuing buildings is covered in the preceding paragraphs in part 8.7, further guidance is set out below on other specific assets and liabilities that may arise.

8.8.4 Other fixed assets

8.8.5 Fixtures, fittings, computer equipment and other tangible fixed assets will be transferred to the academy trust on conversion for its continued use. The assets transferred should be initially measured at their fair value. Whilst some of the assets may have negligible value, this is unlikely to be so in all cases. Where the fair value can be reliably measured the assets must be recognised in the balance sheet at that value within the restricted fixed asset fund, with a corresponding gain being recognised as income from donations. The assets are then depreciated in accordance with the academy trust's accounting policies.

8.8.6 The academy trust will need to identify any inherited equipment that is subject to leasing arrangements and determine whether those leasing arrangements are finance or operating leases, as defined in FRS 102 [section 20]. Where they are determined to be operating leases then neither the lease liability nor the relevant asset will be recognised on the balance sheet. The operating lease costs will be accounted for as expenditure on an on-going basis in the SOFA, but there will be amounts recognised at the date of conversion.

8.8.7 Where an outstanding finance lease is transferred/novated to the academy trust, with the relevant assets, it too should be recognised to the extent the academy trust has taken on the obligation with a corresponding loss in the SOFA. The finance lease obligation is included in the balance sheet and accounted for as a finance lease in accordance with FRS 102 [section 20].

8.8.8 Budget surpluses and deficits inherited from LA funds

- **Surpluses** - where a surplus is transferred, as a cash balance, this will form part of the single net gain/loss on conversion presented on the SOFA. The cash balance will be unrestricted if there is no specific purpose attached to it and the trustees are free to use the cash at their discretion in furtherance of the academy trust's charitable objects.

- **Deficits** – where a deficit is transferred, this will be included as part of the single net gain/loss on the SOFA. Depending on which funds will be used to repay the deficit to ESFA, it will either be shown under restricted or unrestricted funds.

8.8.9 Some predecessor schools, including former independent schools, may have other assets and liabilities outside of the local authority accounts including commercial activities, school funds and donations. The academy's trustees need to consider who controls these funds upon conversion and, if it is the academy trust, they should be recognised in the academy trust's accounts and consideration given as to whether they should be treated as restricted funds.

8.8.10 Defined benefit pension schemes

8.8.11 Upon conversion from a maintained school the academy trust will take on the existing defined benefit pension obligations for staff transferring under the LGPS.

8.8.12 Currently many LGPS administrative units have deficits. On creation of the new academy its trust takes on the deficit attributable to the service of transferring employees up to the date of transfer and this should be recognised as a liability of the academy trust, with an equivalent cost element included in the single net gain/loss recognised in the SOFA within restricted funds. This should be measured at the transfer date, in accordance with FRS 102 [section 28]. This should be measured on an "accounting" basis, rather than on a "buy-out" basis, using the valuation provided by the relevant LGPS fund.

8.8.13 Additional disclosures

8.8.14 An additional note must be included in the accounts of an academy trust with a newly converted academy, summarising the value of all classes of assets and liabilities transferred on conversion. A model format is illustrated below.

Model extracts from the SOFA for an academy trust with a newly converted academy

Statement of Financial Activities

for the Year Ended 31 August 2018

Scenario 1: The academy converts with net assets comprising

	£000
Fixed assets	10,000
Cash – representing budget surplus on LA funds	90
Other current assets	10
Defined benefit pension scheme deficit	(300)
Net assets	9,800

These would appear on the SOFA as follows (other items omitted for clarity):

	Note	Unrestricted Funds	Restricted General Funds	Restricted Fixed Asset Funds	**2017/18 Total**
	Note	£000	£000	£000	**£000**
Income and endowments from					
Donations and capital grants	x	-	-	-	**-**
Transfer from local authority on conversion	x	100	(300)	10,000	**9,800**
Total		100	(300)	10,000	**9,800**

Scenario 2: The academy converts with net assets comprising:

	£000
Fixed assets	10,000
udget deficit on LA funds (to be funded from GAG)	(100)
Defined benefit pension scheme surplus	300
Net assets	10,210

These would appear on the SOFA as follows (other items omitted for clarity):

	Notes	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	**2017/18 Total £000**
Income and endowments from:					
Donations and capital grants	x	-	-	-	**-**
Transfer from local authority on conversion	x	10	200	10,000	**10,210**
Total		10	200	10,000	**10,210**

Model format of the additional note for an academy trust with a newly converted academy

This illustrates **scenario 1**.

x Conversion to an Academy Trust

On **[date]** the **[name of predecessor school]** converted to academy status under the Academies Act 2010 and all the operations and assets and liabilities were transferred to Coketown Academy Trust from the **[name]** Local Authority for £nil consideration.

The transfer has been accounted for as a combination that is in substance a gift. The assets and liabilities transferred were valued at their fair value and recognised in the balance sheet under the appropriate headings with a corresponding net amount recognised as a net **[gain/loss]** in the Statement of Financial Activities as **[Donations – transfer from local authority on conversion/ Charitable activities – transfer from local authority on conversion].**

The following table sets out the fair values of the identifiable assets and liabilities transferred and an analysis of their recognition in the SOFA.

	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	**Total £000**
Tangible fixed assets				
Freehold land and buildings	-	-	-	**-**
Leasehold land and buildings	-	-	9,500	**9,500**
Other tangible fixed assets	-	-	500	**500**
Current asets				
Asset type [expand if necessary]				
Cash/loan - representing budget surplus / (deficit) on LA funds	100	-	-	**100**
Cash/loan – representing budget surplus / (deficit) on other school funds	-	-	-	**-**
Current liabilities				
Liability type [expand if necessary]				
Non-current liabilities				
LGPS pension surplus / (deficit)	-	(300)	-	**(300)**
Net [assets / liabilities]	100	(300)	10,000	**9,800**

Include any relevant additional details of the nature and terms of the transfer agreement, e.g. lease terms including the period of the lease.

A separate table should be included for each academy that converted during the period.

8.8.15 The following points summarise additional disclosures to include in the first set of statutory financial statements prepared by an academy trust with a newly converted academy. The contents of the Accounts Direction and the Charities SORP 2015 still apply:

- **Trustees' report**
  Include discussion about the conversion at appropriate points, including relevant timings of incorporation and transfer
- **Statement of financial activities**
  Where transferred assets exceed transferred liabilities, the section headed **'Donations'** should include an additional line for '**Donations – transfer from local authority on conversion'**. Where transferred liabilities exceed transferred assets, the expenditure section '**Charitable activities'** should include an additional line for **'Charitable activities – transfer from local authority on conversion'**.
- **Statement of cash flows**
  Include an additional heading: '**Cash transferred on conversion to an academy trust'**.
- **Note 1: Accounting policies**
  An additional accounting policy is required on conversion to an academy trust:
  Conversion to an Academy Trust
  'The conversion from a state maintained school to an academy trust involved the transfer of identifiable assets and liabilities and the operation of the school for £nil consideration. The substance of the transfer is that of a gift and it has been accounted for on that basis as set out below.
  'The assets and liabilities transferred on conversion from [name of predecessor school] to the academy trust have been valued at their fair value. The fair value has been derived based on that of equivalent items. The amounts have been recognised under the appropriate balance sheet categories, with a corresponding amount recognised in [(for net gain) Donations – transfer from local authority on conversion/ (for net loss) Charitable activities – transfer from local authority on conversion] in the Statement of Financial Activities and analysed under unrestricted funds, restricted general funds and restricted fixed asset funds. [Include specific details of nature and valuation of fixed assets including the allocation between Land & Buildings and Other Fixed Assets, pension and other assets and liabilities transferred as appropriate]. Further details of the transaction are set out in note xx.'
- **Note 14: Tangible fixed assets**
  Include an additional heading: 'Transfer on conversion' within the 'Cost' section.
- **Note 30: Pensions and similar obligations**
  Include the following additional paragraph (as paragraph 2):

'As described in note xx the LGPS obligation relates to the employees of the academy trust, who were the employees transferred as part of the conversion from the maintained school and new employees who were eligible to, and did, join the Scheme in the year/period. The obligation in respect of employees who transferred on conversion represents their cumulative service at both the predecessor school and the academy trust at the balance sheet date.'

- **Note x: Conversion to an academy trust**
  Include an additional note summarising the value of all classes of assets and liabilities transferred on conversion. The format is illustrated at part 8.8.14

8.9 Accounting for transfers, combinations and academy trust inactivity

8.9.1 A **business combination** is the bringing together of separate businesses into one reporting entity. A combination can be either an acquisition or a merger.

- **Acquisitions -** The result of most business combinations is that one entity, the acquirer, obtains control of one or more other businesses. This may involve the purchase of the equity or some or all of the assets, and the assumption of some or all of the liabilities, of the other party by the acquirer.
- **Mergers -** A merger, on the other hand, treats two or more parties as combining on an equal footing, to share mutual risks and benefits, resulting in the creation of a new reporting entity. No party to the combination obtains control over any other.

8.9.2 Some business combinations by public benefit entities, that otherwise exhibit the characteristics of an acquisition by transferring control from one party to the other, may involve no payment for the business acquired. Such combinations are in **substance a gift**. Business combinations of this nature are increasingly prevalent in the academies sector, particularly as multi-academy trusts expand and contract the number of constituent academies that they operate.

8.9.3 Mergers are not expected to occur in the academies sector and are not considered.

8.9.4 Business combinations are covered in FRS 102 [sections 19 and 34] and SORP 2015 [modules 24 and 27].

8.9.5 **Dissolution** describes the winding up of a business resulting in striking off the company from the national register of companies. Dissolution is only available when the company is inactive or dormant.

8.9.6 The accounting and reporting treatment for the main scenarios affecting academy trusts is considered below.

8.9.7 An existing academy trust acquiring an additional academy

8.9.8 There are several ways in which an additional school may be acquired by an existing academy trust, including:

- a maintained school converting to an academy and joining a multi-academy trust
- a constituent academy in a multi-academy trust moving to another multi-academy trust
- an academy in a single academy trust moving to an existing multi-academy trust, resulting in the single academy trust becoming inactive

Where an academy trust has become inactive due to its academies being rebrokered to another academy trust we would expect both academy trusts to work together to produce the financial statements and accounts return of the inactive academy trust. These should be prepared as soon as practicable and submitted to ESFA. Financial statements should be submitted to ESFA no later than four months after the date to which the financial statements are prepared. In any event the accounting period end date must be no later than the following 31 August and audited financial statements must be submitted to ESFA by 31 December.

8.9.9 The accounting and reporting requirements for the academy trust gaining control of the new or existing academy are the same in each scenario. On the basis that the assets, liabilities and operations of the individual academy are transferred at nil consideration it will be accounted for as a gift. From the date of acquisition:

- the assets and liabilities of the incoming academy should be valued at their fair value
- these amounts are recognised by the academy trust that is gaining control of the academy under the appropriate balance sheet headings
- if net assets are transferred a corresponding amount should be recognised as donated income in the SOFA
- if net liabilities are transferred a corresponding amount should be recognised as a loss under 'expenditure on charitable activities' in the SOFA
- amounts should be analysed between unrestricted funds, restricted general funds and restricted fixed asset funds dependent upon the conditions attached, if any.

8.9.10 Academy trusts receiving an existing academy from another academy trust are required to present a table setting out the acquired assets and liabilities, and any fair value adjustments the receiving academy trust may make. The table below presents a template disclosure note (row labelling is an example, to be used as appropriate):

	Value reported by transferring trust £000	Fair value adjustments £000	Transfer in recognised £000
Intangible assets			
[Disclose rows as reported]			
Tangible fixed assets			
Freehold land and buildings			
Leasehold land and buildings			
Leasehold improvements			
Plant and machinery			
Furniture and equipment			
Computer equipment			
Motor vehicles			
Assets under construction			
Non-current financial assets			
[Disclose rows as reported]			
Current assets			
Stock			
Debtors due after one year			
Current financial assets			
[Disclose rows as reported]			
Debtors due in less than one year			
Cash in bank and in hand			
Liabilities			
Creditors due in less than one year			
Creditors due in more than one year			
Provisions			
Pensions			
Pensions – pension scheme assets			
Pensions – pension scheme liabilities			
Net assets / (liabilities)			

8.9.11 Both sides of any transfer of an existing academy are required to present similar disclosures setting out the assets and liabilities transferred. Consequently, it is expected that both academy trusts involved in the academy transfer should formally agree the value of transferred balances. A print out of the academy's final trial balance might suffice to identify and confirm the transferred balances.

8.9.12 The transferring and receiving academy trusts should both account for the transfer in the same accounting period. Academy trusts should formally agree the same transfer date to apply in the financial statements. It is important for parliamentary accountability purposes for transfers not to be reported in differing periods by transferring and receiving academy trusts, as this leads to mis-matches on consolidation.

8.9.13 Academy leaving an existing academy trust

8.9.14 This section describes how an academy trust should account for a constituent academy leaving its control. This therefore relates to the second and third scenarios in paragraph 8.9.8, but from the perspective of the academy trust that is foregoing control.

8.9.15 From the date of transfer:

- a net value for the transfer should be calculated as the difference between the proceeds of disposal (generally a gift, and hence nil) and the carrying value of the assets and liabilities transferred
- the amounts should be removed from the appropriate balance sheet headings
- a corresponding amount for the net loss should be recognised under 'expenditure on charitable activities' in the SOFA, analysed between unrestricted funds, restricted general funds and restricted fixed asset funds
- if there is a net gain this should be shown as a donation and split between the funds accordingly

8.9.16 Academy trusts that transfer out academies should include a summary of the assets and liabilities that have been derecognised, reflecting the assets transfer agreed with the receiving academy trust. The table below presents a template for such disclosures (row labelling is an example, to be used as appropriate):

	Transfer out on academies leaving the academy trust £000
Intangible assets	
[Disclose rows as reported]	
Tangible fixed assets	
Freehold land and buildings	
Leasehold land and buildings	
Leasehold improvements	
Plant and machinery	
Furniture and equipment	
Computer equipment	
Motor vehicles	
Assets under construction	
Non-current financial assets	
[Disclose rows as reported]	
Current assets	
Stock	
Debtors due after one year	
Current financial assets	
[Disclose rows as reported]	
Debtors due in less than on e year	
Cash in bank and in hand	
Liabilities	
Creditors due in less than one year	
Creditors due in more than one year	
Provisions	
Pensions	
Pensions – pension scheme assets	
Pensions – pension scheme liabilities	

Net assets / (liabilities)

8.9.17 Such a transfer would not be accounted for as a discontinued operation as long as the multi-academy trust is not wholly ceasing a separate business activity. If the academy trust is a single academy trust, or a multi-academy trust disposing of its last academy, the disposal will be classified as discontinued operations since the academy trust will become inactive following the transfer.

8.9.18 An existing academy trust becoming inactive

8.9.19 This section considers the accounting and reporting requirements for an academy trust whose entire operations are transferring to another academy trust(s) triggering the termination of the academy trust's last/only active funding agreement.

8.9.20 Academy trusts that have transferred out their final academy are termed inactive. Becoming inactive does not itself trigger any specific accounting and/or reporting issues for academy trusts since the company continues to exist, other than the transfer out requirements described above.

8.9.21 Following inactivity an academy trust may voluntarily opt to wind itself up and formally dissolve as a legal entity. However, becoming inactive does not in itself trigger formal dissolution of the company. Trustees have the responsibility of considering if or when an academy trust should be dissolved or whether there is an ongoing need for the company to exist, subject to the points below.

8.9.22 Academy trusts that expect to become inactive in the year to 31 August must discuss the accounting and reporting requirements with ESFA and their professional advisors at an early stage. They must continue to prepare accounts to the period end date the academy trust has had open academies and a signed funding agreement for any time. Inactive academy trusts are still required to produce and submit their accounts, and accounts return, for the year in which the academy trust became inactive. These should be submitted to ESFA by no later than four months after the accounting reference date. Since the trustees remain company directors after the final accounts required by ESFA, and must comply with Company law, they have the responsibility to continue to follow Company law requirements.

8.9.23 Once an inactive academy trust has submitted its accounts, and accounts return, covering the date it became inactive it has fulfilled its reporting obligations to the ESFA. The absence of an active funding agreement as at the start of an academic year (1 September) removes the company from compliance with the Accounts Direction. Such companies are no longer deemed to be academy trusts and their directors may now seek dissolution if they wish. Companies that continue to exist but are inactive may be able to adopt the reduced reporting requirements available to dormant companies. Companies House and .gov.uk publish guidance for directors on how to dissolve their companies and the dormant company reporting regime.

8.10 Accounting for agency arrangements

8.10.1 Some income may not belong to the academy trust receiving it, for instance where it is acting as an agent with no discretion about the use to which the funds received are put. The academy trust acts only in accordance with the instructions or directions of the funder. Where this is the case the funds received are not recognised as an asset in the accounts because the funds are not within its control and the distribution of the income is not recognised as academy trust's expenditure [SORP 2015 module 19]. However any fee receivable by the academy trust for acting as agent is recognised as income with any costs incurred by the academy trust in the administration of the agency arrangement are recognised as expenditure in the accounts.

8.10.2 Resources for 16-19 bursaries are an example of an agency arrangement applicable to academy trusts, where the academy trust is acting as paying agent for ESFA in passing bursaries onto students. A proportion of the 16-19 bursaries funds may be permitted to be used as a contribution towards the academy trust's administration costs. This element should be recognised as income and expenditure in the SOFA.

8.10.3 Where arising, agency arrangements must be disclosed in a note to the accounts. An accounting policy should also be included in the accounting policies note. The notes should provide sufficient detail for the reader of the accounts to understand the relationship and nature of the transactions. Illustrative text for 16-19 bursary fund notes is as follows:

- **Note 1: Statement of Accounting Policies - Agency Arrangements**
  The academy trust acts as an agent in distributing 16-19 bursary funds from ESFA. Payments received from ESFA and subsequent disbursements to students are excluded from the statement of financial activities as the academy trust does not have control over the charitable application of the funds. The academy trust can use up to X% of the allocation towards its own administration costs and this is recognised in the statement of financial activities. The funds received and paid and any balances held are disclosed in note 32.
- **Note 32: Agency Arrangements**
  The academy trust distributes 16-19 bursary funds to students as an agent for ESFA. In the accounting period ending 31 August 2018 the academy trust received £x and disbursed £y from the fund. An amount of £x is in included in other creditors relating to undistributed funds that is repayable to ESFA.

8.10.4 In cases where an academy trust is acting as an intermediary agent but nonetheless has a beneficial interest in the funds, and controls their use, the income and expenditure would be included in the SOFA. For example this would arise where an academy trust passes the funds to a supplier to pay for student-related items. In this case there is a contract between the academy trust and the supplier, and the income and expenditure would therefore be recognised in the SOFA.

8.10.5 School trip income may also need to be considered in the context of agency arrangements to determine whether or not the academy trust is acting as an agent or a principal. If the academy trust has control over the funds and has a beneficial interest (for example by having a liability with a travel agent) and has the associated risks (for example the risk of incurring a loss if funds are not received from a parent for a confirmed trip) the arrangement would be accounted for through the SOFA.

8.10.6 The above principles in respect of trip income should also be considered in relation to catering income.

8.10.7 Agency arrangements are discussed in SORP 2015 [module 19]. Treatment of teaching schools is explained in sections 8.14.

8.11 Accounting for risk protection arrangement

8.11.1 The risk protection arrangement (RPA) for academy trusts is an alternative to insurance where losses that arise are covered by UK government funds.

8.11.2 Academy trusts that opt to join the RPA will have an amount deducted at source from their GAG funding. To account for this in their financial statements, academy trusts will need to gross up the GAG figure and include a matching expense for the RPA.

8.11.3 RPA also encompasses trustees insurance and as such the trustees insurance note [note 12] will need to state:

The academy trust has opted into the Department for Education's risk protection arrangement (RPA), an alternative to insurance where UK government funds cover losses that arise. This scheme protects trustees and officers from claims arising from negligent acts, errors or omissions occurring whilst on academy trust *business, and provides cover up to £10,000,000. It is not possible to quantify the trustees and officers indemnity element from the overall cost of the RPA scheme membership.*

8.12 Treatment of comparative information

8.12.1 FRS 102 and SORP 2015 [paragraph 4.2] require that comparative information must be provided for all amounts presented in the SoFA, including the split between different classes of funds.

8.12.2 In practice there are a number of options for presenting this comparative information. ESFA does not mandate one particular approach but has set out the main options below:

- additional columns may be added to the face of the SoFA
- the prior year SoFA may be replicated as a separate note to the accounts
- disclosure within each of the relevant notes to the accounts (illustrated below)

The split is to be replicated for relevant notes in the Coketown model.

Example note 3 with narrative disclosure of comparatives

3 Donations and capital grants

	Unrestricted Fund	Restricted Funds	2017/18	2016/17 Total
	£000	£000	£000	£000
Capital grants	-	544	**544**	1,224
Donated fixed assets	-	-	**-**	-
Other donations	123	297	**420**	501
	123	841	**964**	1,725

The income from donations and capital grants was £964,000 (2017: £1,725,000) of which £123,000 was unrestricted (2017: £157,000), £297,000 restricted (2017: £nil) and £544,000 restricted fixed assets (2017: £1,568,000).

Example note 3 with alternative disclosure of comparatives

3 Donations and capital grants

	Unrestricted Funds	Restricted General Funds	Restricted Fixed Asset Funds	2017/18 Total	2016/17 Total
	£000	£000	£000	£000	£000
Capital grants	-	-	544	**544**	1,224
Donated fixed assets	-	-	-	**-**	-
Other donations	123	297	-	**420**	501
	123	297	544	**964**	1,725
2017/18 total	157	-	1,568	**1,725**	

8.13 Apprentice levy

8.13.1 The apprenticeship levy was introduced in April 2017 and applies to all employers.

8.13.2 The levy is 0.5% of paybills over £3 million, subject to a £15,000 allowance. This will be collected via HM Revenue and Customs through employers' PAYE scheme.

8.13.3 The funds are held by the government and the academy trust can draw down funding to use for training and assessment of apprentices. If the funds are not used within 24 months the academy trust will lose access to the funds.

8.13.4 The levy payments are to be accounted for as social security expenditure through the SOFA, staff costs and combined with other social security costs for an aggregated disclosure in note 10.

8.13.5 Levy funded training received in the year will be recognised as notional income and notional expenditure in the SOFA. The 10% top up funding provided by government is also recognised in this way.

8.14 Teaching schools and School-Centred Initial Teacher Training (SCITT)

8.14.1 The status of the teaching school or SCITT needs to be determined in order to consider if it has separate legal identity or is part of the academy trust. Where the former, it will be necessary to consider what control exists in order to determine if or how the entity should be recognised in the academy trust's accounts.

8.14.2 Where an academy trust has teaching school status (list is provided on .gov.uk) and receives a separate annual grant known as core funding it should record this as restricted funds. GAG should not be used to support the work of the teaching school principles.

8.14.3 National College of Teaching and Learning (NCTL) may additionally require assurance over the use of the core funding.

8.14.4 An illustrative note to include in the financial statements can be found in the Notes to the Financial Statements for the year ended 31 August 2018 section (note 36). This note aims to capture financial activity relating to activities as a teaching school.

Part 9: Regularity reporting

[summary for accounting officer at part 4.3 and detail at part 9.2]

[summary for reporting accountant at part 5.2 and detail at part 9.3]

9.1 Introduction

9.1.1 Roles and responsibilities

9.1.2 DfE and ESFA

9.1.3 The roles of DfE and ESFA are set out in section 1.5 of the Handbook. DfE has ultimate responsibility and accountability for the effectiveness of the financial accountability system for academies.

9.1.4 ESFA acts as the agent of the Secretary of State within the scope of the powers and discretions formally delegated to it. The Chief Executive of ESFA is its accounting officer and is responsible and accountable to Parliament for how ESFA uses its funds. ESFA's accounting officer is also personally responsible for the regularity and propriety of all expenditure of its funds and for ensuring value for money.

9.1.5 To discharge these duties, ESFA's accounting officer must be satisfied that:

- an academy trust has appropriate arrangements for sound governance, financial management, securing value for money and accounting
- the way the academy trust uses public funds is consistent with the purposes for which the funds were voted by Parliament

9.1.6 ESFA's accounting officer will place reliance on the statement on regularity, propriety and compliance made by the academy trust's accounting officer and the reporting accountant's assurance report on regularity.

9.1.7 The academy trust's accounting officer

9.1.8 The role of the academy trust's accounting officer is set out in section 1.5 of the Handbook. The Handbook states that the essence of the role is a personal responsibility for regularity, propriety and value for money.

9.1.9 The accounting officer must provide a statement on regularity, propriety and compliance in the academy trust's annual report, in accordance with section 4.2.1 of the Handbook. Further consideration is given to this in part 9.2.

9.1.10 The accounting officer also has a responsibility to advise ESFA of instances of non-compliance, in accordance with section 4.2.3 of the Handbook.

9.1.11 Academy trust's external auditor / reporting accountant

9.1.12 The academy trust's reporting accountant is required to review and report on the statement on regularity, propriety and compliance. The reporting accountant must be the external auditor who is conducting the 'true and fair' audit of the accounts.

9.1.13 The reporting accountant must provide an assurance report on regularity addressed jointly to the academy trust and to the Secretary of State through ESFA, in accordance with section 4.2.4 of the Handbook. Further consideration is given to this in part 9.3.

9.1.14 The National Audit Office

9.1.15 The role of the National Audit Office (NAO) is set out in section 4.1.6 of the Handbook. The accounts of each academy trust are consolidated into the standalone SARA, which is audited by NAO. NAO conduct a group audit in accordance with International Standards on Auditing (UK). As such, the reporting accountant will be required to audit the accounts information and the academy trust must assist NAO with any enquiries they may have by way of providing information and explanations.

9.1.16 The tripartite relationship

9.1.17 To allow ESFA to draw assurance from the reporting accountant's regularity assurance report, ESFA must be bound into the contract between the academy trust and the reporting accountant. Whilst the academy trust and their reporting accountant should continue to be party to a letter of engagement in the normal way, to avoid bureaucracy there is no expectation that the engagement letter would also be signed by ESFA. Instead the terms of reference ESFA has adopted as a party to the regularity engagement are set out in part 9.6.

9.1.18 Additionally, a standard paragraph [part 9.5] must be included within the letter of engagement between the academy trust and the reporting accountant that acknowledges their duty to ESFA.

9.1.19 The cap for liability in respect of the regularity engagement is set within the standard terms at £1 million per academy within each academy trust. Multi-academy trusts, therefore, will have a liability of £1 million multiplied by the number of academies, limited to £5 million in aggregate.

9.1.20 Irregularity within academy trusts' accounts

9.1.21 ESFA's analysis of irregularity within academy trust accounts from previous years identify a number of common themes, which accounting officers and reporting accountants should consider. The themes are:

- lack of prior approval for finance leases (which constitute borrowing)

- no statement of assurance for connected party transactions
- connected party transactions not at cost
- non-contractual severance payments made without the required approvals
- weak internal controls

9.1.22 There have been other occasional incidents of irregularity and impropriety which the accounting officer and reporting accountant should be alert to, and ESFA investigation reports highlighting these have been published. The areas 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, Chair of Governors acting beyond powers to authorise contracts / payments
- irregular expenditure not for the purpose intended eg excessive gifts and alcohol

9.1.23 Transactions with connected parties and not for profit principles

9.1.24 Section 3.2 of the Handbook sets out requirements relating to goods or services provided by individuals or organisations connected to the academy trust.

9.1.25 For transactions with connected parties, section 3.2.14 requires trustees to ensure that agreements to supply goods or services to the academy trust are subject to proper procurement, supported by a statement of assurance and are on the basis of an open book agreement.

9.1.26 These requirements apply to contracts that are agreed or renewed on or after 7 November 2013. Existing arrangements continue to apply to contracts in place prior to this date.

9.1.27 ‘At cost’ must not include an element of profit, however can include:

- directly attributable materials and labour
- a proportionate share of fixed and variable overheads

9.1.28 From 1 September 2014 the Handbook granted an annual deminimis limit of £2,500 in respect of ‘at cost’ transactions. This limit remains in place.

9.1.29 For reporting accountants the focus is confirming trustees have met their obligations in respect of this requirement rather than reviewing whether the objective of the Handbook requirements are achieved. Reporting accountants are not required to audit information provided by the connected party.

9.1.30 If the reporting accountant does not believe the requirements have been met this will lead to a modified conclusion including full disclosure of those matters within the assurance report. If the reporting accountant is uncertain whether the requirements have been met they are to consider whether this is a limitation in scope.

9.1.31 In November 2014 ESFA published a review of related party transactions. In the vast majority of cases, transactions were reasonable with less than 1% being irregular. The primary issue was procurement procedures not being followed. The next most common issue was conflicts of interest not being properly managed.

9.1.32 Institute of School Business Leadership (ISBL) has produced a guide that academy trusts can use to ensure they are complying with the at cost principles.

9.1.33 Subsidiaries

9.1.34 Where a subsidiary is consolidated [part 8.2] into academy trust accounts the regularity assurance report will extend to this. As such the engagement terms in part 9.6 will be for group reporting.

9.1.35 Where a subsidiary is not consolidated the only transactions in scope are distributions received and intra-company transactions.

9.1.36 Where an academy trust has passed money to the trading subsidiary the funds must be from unrestricted income as GAG is not allowed to be used for this purpose.

9.1.37 In instances where the subsidiary has not been consolidated but the reporting accountant deems the entity to be in the scope of the Handbook, due to control and influence from the academy trust trustees’, this is to be reported in the audit findings report.

9.2 Reporting on regularity for the accounting officer

9.2.1 Introduction

9.2.2 This section gives advice to accounting officers to help them in making their statement on regularity, propriety and compliance.

9.2.3 The statement covers all income received and all expenditure disbursed during the period regardless of source. Whilst some of the income may be deemed unrestricted by the academy trust, as soon as it is received into the entity it will fall under the remit of regularity.

9.2.4 What is regularity and propriety?

9.2.5 Regularity and propriety are discussed at length in the HM Treasury publications 'Managing Public Money' [MPM section 2.4] and 'Regularity, Propriety and Value for Money' and are summarised in the Handbook. Therefore, the following section serves as an overview of these concepts.

9.2.6 Parliament is concerned that any public money raised and subsequently distributed is used only for approved purposes. This is termed as regularity. 'Managing Public Money' defines regularity as the requirement that 'resource consumption should accord with the relevant legislation, the relevant delegated authority and this document'.

9.2.7 Regularity, therefore, requires that a financial transaction is in accordance with the relevant framework of authorities, and should be woven into the academy trust's internal control procedures.

9.2.8 Propriety is a related concept and concerned more with standards of conduct, behaviour and corporate governance. 'Managing Public Money' defines propriety as the requirement that 'patterns of resource consumption should respect Parliament's intentions, conventions and control procedures, including any laid down by the Public Accounts Committee'.

9.2.9 Propriety is less prescriptively defined but includes matters such as:

- fairness
- integrity
- the avoidance of private profit from public business
- even handedness in the appointment of staff
- open competition in the letting of contracts
- avoidance of waste and extravagance

There are no definitive guidelines for propriety and professional judgement is required.

9.2.10 Section 9.3 of 'Regularity, Propriety and Value for Money' details the following tests which may be useful for the accounting officer to consider whether a transaction is regular and proper and of benefit to the academy trust:

- is the expenditure in the best interest of your organisation
- does the expenditure comply with approved procurement rules and policies
- will there be a valid business benefit to the organisation from the expenditure and not just personal benefit to an employee
- is the expenditure necessary
- is the expenditure reasonable, meaning - does it fully meet the identified and agreed needs
- has the expenditure been properly authorised

9.2.11 The accounting officer has a duty of care to inform the reporting accountant when they have received a ‘minded to’ letter or a Financial Notice to Improve (FNtI). They should also inform the reporting accountant when they are being investigated following a whistleblowing or fraud allegation.

9.2.12 Statement on regularity, propriety and compliance

9.2.13 This is a formal declaration by the accounting officer that they have met their personal responsibilities to Parliament for the resources under their control during the year. The format of the statement is included within Coketown.

9.2.14 To form their conclusion the accounting officer must ensure that the academy trust is working within the boundaries of regularity and propriety. This work will be performed throughout the year, as part of their oversight of internal control processes such as:

- review of management reporting documents
- review of trustees’/governors’ minutes
- confirming compliance with the academy trust’s Scheme of Delegation
- compliance with delegated authorities
- ensuring connected party transactions have been completed in accordance with the not for profit principles and the relevant statements of assurance have been obtained and reviewed (for contracts agreed or renewed on or after 7 November 2013)
- consideration of whether any personal benefit has been derived from the academy trust’s transactions by staff or connected individuals
- adherence to tendering policies

9.2.15 The accounting officer can also draw comfort from the work of the audit committee, non-employed trustee (previously referred to as the responsible officer) and internal auditor (or equivalent) which provides a process for independent checking of financial controls, systems, transactions and risks.

9.2.16 ESFA’s accounting officer writes to academy trusts’ accounting officers annually to share some outcomes of ESFA work and these provide a useful aide-memoir.

9.2.17 It is for the academy trust accounting officer to determine if further work is necessary at year end, however ESFA does not anticipate that, if proper internal control processes have operated during the year, there will be a need for significant additional scrutiny.

9.2.18 The accounting officer should report in the statement, all areas of non-compliance split between those which affect underlying financial transactions and those which are other weaknesses.

9.2.19 Reporting on fraud

9.2.20 Fraud, by its inherent nature of deception to result in financial or personal gain, means that the transaction must be irregular and improper. Section 4.8 of the Handbook sets out the circumstances in which fraud should be reported to ESFA.

9.2.21 The accounting officer will need to include any identified fraud in their statement on regularity, propriety and compliance.

9.2.22 The accounting officer should ensure that any references in the final signed statement to instances of material irregularity, impropriety or funding non-compliance are consistent with any findings from the work of the reporting accountant.

9.2.23 Documenting the evidence behind the statement

9.2.24 The accounting officer should be able to support their statement. Although specific documentation is not required, the accounting officer should retain a file which details work undertaken throughout the year to:

- provide support for the accounting officer sign off at year end
- assist with the reporting accountant's questions

9.2.25 The retention of a working papers file would also assist the academy trust if there was a change of accounting officer during the reporting period, or before finalisation of the accounts.

9.2.26 Where there is a change of accounting officer during the year, or up to the date of signing the declaration, including the appointment of an interim accounting officer, it is the responsibility of the new accounting officer to be satisfied they can support their signing of the statement. This will be achieved through evidence of discussions between the new accounting officer and trustees, the responsible officer and/or internal auditors, the senior leadership team and, where possible, the previous accounting officer, along with the availability of all relevant minutes and reports during the period covered by the statement.

9.3 Reporting on regularity for the reporting accountant

9.3.1 Introduction

9.3.2 This section aims to assist the reporting accountant in undertaking the regularity engagement.

9.3.3 NAO published their expectations of reporting accountants in their publication Communication with Academy Auditors. The reporting accountant plays a significant role in providing assurance over the regularity of income and expenditure and the framework below is to assist the reporting accountant in forming and documenting their conclusion.

9.3.4 The regularity report

9.3.5 The mandatory regularity assurance report is included in Coketown. This is in the form of a 'limited' assurance report and covers the regularity of both income and expenditure.

9.3.6 'Limited' assurance is defined by paragraph 12(a)(i) of the International Standard on Assurance Engagements (ISAE) 3000 (Revised) 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'.

9.3.7 The reporting accountant will set out 'an informative summary of the work performed as the basis for the practitioner's conclusion; in accordance with paragraph 69(k)(i) of ISAE 3000 (Revised).

9.3.8 A regularity report is required where an academy trust has a funding agreement with the Secretary of State for Education and an open academy at any point during the accounting period. The expectation [part 1.1.2] is that in all other circumstances the Accounts Direction is followed.

9.3.9 Reporting on potential irregularities and non-compliance

9.3.10 Issues identified by the reporting accountant will, in the first instance, be raised with the academy trust's accounting officer and they should be able to demonstrate to the reporting accountant's satisfaction the regularity of the transaction in question. ESFA would only expect to be consulted where there is significant disagreement between the reporting accountant, trustees and academy trust accounting officer.

9.3.11 The reporting accountant will consider the nature and extent of any potential irregularities or non-compliance and will determine the extent to which additional testing on a particular category of transactions is required.

9.3.12 When the reporting accountant concludes that there are matters of material irregularity, by virtue of value or nature of a transaction underlying the accounts, this will lead to a modified conclusion including full disclosure of those matters within the report.

9.3.13 Where the reporting accountant has modified their report they should notify:

- ESFA, via the enquiry form.
- NAO, via academy.groupaudit@nao.gsi.gov.uk

9.3.14 Issues leading to the modification should be fully discussed with the academy trustees before notifying ESFA and NAO.

9.3.15 The audit findings report will also include reporting of irregularities that are material by nature but are not in respect of transactions underlying the financial statements.

9.3.16 The audit findings report reports significant matters arising from the statutory 'true and fair' audit of the accounts and should also cover findings relating to regularity. This is to allow ESFA to have full information for all regularity issues to draw an overall conclusion on the academy trust.

9.3.17 The audit findings report should document the regularity issue as follows:

- issue (including a rating of the risk/importance and financial impact)
- implication/consequence
- recommendation
- management response (including timescale for change)

9.3.18 The framework of authorities for academy trusts

9.3.19 The conclusion the reporting accountant provides refers to the authorities which govern the academy trust. In planning the 'true and fair' audit the reporting accountant will already understand what the relative authorities are, in accordance with the following International Standards of Auditing (ISA):

- ISA (UK) 250A - Consideration of laws and regulations in an audit of financial statements
- ISA (UK) 315 – Identifying and assessing the risks of material misstatement through understanding the entity and its environment

9.3.20 Under Practice Note 10 "Audit of Financial Statements of Public Sector Bodies in the United Kingdom regularity is an implied assertion, in addition to those identified in ISA (UK) 500 – Audit evidence.

9.3.21 Much of the work relating to regularity will already have been undertaken as part of the statutory audit of the accounts, though regularity will need further consideration. The authorities include:

- the academy trust's articles of association
- the academy trust's funding agreement
- the Handbook
- the Accounts Direction
- charities legislation
- Charity Commission guidance
- specific terms and conditions relating to individual elements of funding or funding from other sources

9.3.22 The funding agreement is the binding contract between the academy trust and the Secretary of State, outlining the terms and conditions of grant funding. The Handbook sets out the financial duties and obligations arising from the funding agreement. ESFA issued a new Handbook with effect from 1 September 2017. It clearly establishes the requirements on academy trusts with regard to the financial obligations of 'Managing Public Money'. The Accounts Direction is an adjunct of the Handbook and sets out the requirements for the preparation of accounts and their audit and regularity report.

9.3.23 Understanding how the academy trust complies with the framework of authorities

9.3.24 The accounting officer must provide a statement on regularity, propriety and compliance. The starting point for the reporting accountant will be the completed statement together with a report of any issues found. The input from the accounting officer to the statement and depth of analysis and supporting evidence will assist the reporting accountant in undertaking their planning.

9.3.25 For academy trusts that are preparing their first set of accounts the Financial Management and Governance Self-assessment (FMGS) will be a useful tool. For existing academy trusts reporting accountants will have knowledge and experience of the academy trust from previous year audits.

9.3.26 Assessing risk

9.3.27 In planning the limited assurance engagement on regularity the reporting accountant will use the understanding obtained under ISA 315 and ISA 250A and make other appropriate inquiries to identify areas where a material irregularity is likely to arise. This will provide the basis for designing and performing the procedures to address the identified areas to obtain limited assurance to support the regularity conclusion, which are likely to be lesser in extent than if reasonable assurance was being given.

9.3.28 The nature, timing and extent of procedures is a matter of professional judgement for the reporting accountant however in part 9.4 an indication of potential tests are set out which reflect an interpretation of the framework of authorities into potential areas where material irregularity is likely to arise.

9.3.29 It is likely that a recently established academy trust will have a heightened risk profile. This may be due to controls and procedures not being in place for the full financial period, the accounting officer still developing an understanding of their role and immature or developing governance structures.

9.3.30 Within an established academy trust the following matters may heighten the risk profile:

- culture (attitude and values) within the academy trust
- a change in accounting officer, chief finance officer or significant changes in the board of trustees
- an expansion of the number of academies within the academy trust
- changes to the scheme of delegation or major accounting systems

9.3.31 In determining the areas where material irregularity is more likely to arise it is imperative to understand how the academy trust itself perceives risk. This can be achieved through review of the audit committee and internal auditor (or equivalent) findings, together with an analysis of their risk management processes.

9.3.32 Materiality

9.3.33 The assessment of materiality, which is the same for a limited assurance engagement as a reasonable assurance engagement, includes both quantitative (value) and qualitative (nature) measures and is a matter of professional judgement for the reporting accountant.

9.3.34 Some issues of irregularity will be related to specific transactions while others may be across the academy trust's activities. For the former an assessment of materiality by value will be possible, however an assessment of materiality by nature will still need to be made and a low value transaction may still be material overall.

9.3.35 The judgement of materiality will also need to have regard to the number of issues identified. A number of issues which might not be material in isolation may, taken together, be material, and these in turn will need to be reported within the audit findings report and assurance report as appropriate.

9.3.36 ESFA considers any breach by value of the transactions for which the academy trust has delegated authority through the Handbook to be material.

9.3.37 Where issues of propriety arise then the assessment of materiality may need to be further considered. Whilst a transaction leading to a personal benefit may be deemed to be material by nature, regardless of value, there may be more scrutiny if the benefit is received by a senior member of staff or trustee.

9.3.38 Reliance on independent checking (internal audit) work

9.3.39 Section 2.4.8 of the Handbook stipulates that an academy trust must have an independent check in place of the financial controls and systems, whether that is in the form of internal audit, independent checks or peer review.

9.3.40 The reporting accountant should consider whether it might be effective and efficient to use the results of testing already undertaken by this function to alter the nature, timing or extent of work they perform in forming the assurance conclusion on regularity and to minimise any duplication of work.

9.3.41 In such cases the reporting accountant should assess the independence, objectivity and competence of the function and the nature, scope and subjectivity of the work performed. Where the work is used, the reporting accountant may evaluate and perform testing on that work to determine its adequacy for regularity reporting. The reporting accountant should also consider making reference to the internal auditors and the extent of the use of their work in the regularity assurance report.

9.3.42 Basis and timing of testing regularity

9.3.43 The reporting accountant will determine the extent of procedures which will need to be undertaken to obtain sufficient, appropriate audit evidence to provide the regularity engagement conclusion.

9.3.44 ISAE 3000 (A3) states that as 'the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures…are less in extent'.

9.3.45 The review of regularity is primarily in relation to internal control procedures and basic tests are suggested in part 9.4. However, the reporting accountant should have regard to the entity and develop the testing as appropriate.

9.3.46 The nature and volume of work to be performed should be determined by the reporting accountant and then communicated to the accounting officer.

9.3.47 For most, if not all academy trusts, it will be more efficient to undertake regularity engagement work in conjunction with and at the same time as the statutory 'true and fair' audit. This should enable both cost and time savings as the reporting accountant may then undertake extended testing of a single sample of transactions to support both the audit opinion and regularity conclusion.

9.3.48 Documenting regularity testing

9.3.49 ESFA does not require reporting accountants to maintain separate audit files in respect of the statutory 'true and fair' audit and the regularity engagement. As mentioned above [part 9.3.47] sampling can be incorporated into the 'true and fair' audit; however the objectives, method and conclusion will need to be clearly documented. Reporting accountants may, of course, choose to maintain separate files.

9.3.50 ESFA access to working papers

9.3.51 ESFA does not require access to the reporting accountant's working papers; instead placing reliance on the professionalism of the reporting accountants. As such there is no reference made to ESFA access within the standard terms of engagement.

9.3.52 It is likely that ESFA, in its capacity as reviewer and fund distributor, may wish to discuss the conduct and outcomes of the regularity audit with both the reporting accountant and accounting officer. This should also inform the development of the regularity audit in future years. In accordance with the Handbook section 4.5, NAO is also likely to enter into discussions with reporting accountants to clarify the approach in conducting their work.

9.3.53 Fraud

9.3.54 As part of the true and fair audit, the reporting accountant must address requirements of ISA (UK) 240, specifically assessing the risk of fraud.

9.3.55 As part of the regularity engagement the reporting accountant will also need to ensure that identified fraudulent transactions over £5,000 have been reported to ESFA. Any unusual or systematic fraud, regardless of value, must also be reported.

9.3.56 Whistleblowing

9.3.57 The requirement as set out in the Charities Act 2011 (sections 156(2), 159 and 160) is that auditors (reporting accountants) should report matters of 'material significance' to the principal regulator, being ESFA on behalf of the Secretary of State for Education (to whom the Charity Commission discharged their duties). To assist, the Charity Commission produced specific whistleblowing guidance.

9.3.58 The principles of reporting to the Charity Commission apply, however the reporting accountant has a duty of care regarding confidentiality.

9.3.59 In the first instance of identifying matters of 'material significance' the reporting accountant is to contact the ESFA via its enquiry form.

9.4 Evidence to support conclusion on regularity

9.4.1 Introduction

9.4.2 This section provides assistance for reporting accountants in determining the types of tests that can be used to provide evidence on the regularity report. As detailed in part 9.3.46 the list below is not exhaustive, especially as the form of the report is 'limited' assurance. ESFA has not defined a minimum scope of testing; however the tests listed are those which can lead to a greater impact in academy trusts.

9.4.3 Delegated authorities

9.4.4 Part 3 of the Handbook details the freedoms academy trusts have. As such, the evidence of prior approval from the Secretary of State is required for:

- write-offs over 1% of total income or £45,000 (whichever is smaller)
- acquisitions or disposals of freehold land and buildings
- disposal of heritage assets
- taking up a finance lease
- taking up a leasehold on land and buildings over seven years
- any novel and contentious payments e.g. honorarium payments

Note that where a lease has been re-evaluated under FRS 102 and subsequently defined as a finance lease this will not lead to a regularity issue, as at the time of take up it was defined as an operating lease.

9.4.5 If an academy trust has made special payments to staff, including compromise agreements has there been regard to the following:

- prior approval has been sought for non-contractual elements of £50,000 or more
- payments are not used as a substitute for taking appropriate action under the academy trust's misconduct or performance management procedures
- payments are in line with the severance guidance published by ESFA

9.4.6 The academy trust has not sought borrowings (in the form of loans, overdraft facilities or finance lease) contravening section 3.4 of the Handbook.

9.4.7 An academy trust may have been issued with a 'minded to' letter, which stipulates requirements to be met. These letters are not published. If these are not met an FNtI is issued.

9.4.8 Where a FNtI has been issued this restricts the freedoms given to an academy trust. In these circumstances the academy trust must seek prior approval for a wider variety of transactions.

9.4.9 Similarly, where an academy trust is funded on an estimate basis the funding agreement requires prior approval for a number of transactions and this should be identified during planning.

9.4.10 Disclosures of the transactions noted above must be in line with the Accounts Direction 2017 to 2018.

9.4.11 Transactions with connected parties

9.4.12 In accordance with the academy trust's internal processes and section 3.2 of the Handbook ensure:

- declarations of business interests have been completed (for those in a position to influence the academy trust, including key staff) and published on the academy trust's website
- contracts with connected parties have been procured following the academy trust's procurement and tendering process
- where contracts are entered into or renewed on or after 7 November 2013 the academy trust has obtained statements of assurance (confirming no profit element was charged) and the academy trust has followed their internal processes in reviewing this
- the academy trust has requested, under the open book arrangement, a clear demonstration that the charges do not exceed the cost of supply
- governors who provide consultancy services to the academy trust are not receiving a profit for their services and the correct procurement and tendering process is being followed
- no connected party gains from their position by receiving payments under terms that are preferential
- if employees are providing external consultancy that the income is being received into the academy trusts accounts if the work was performed within the academy trusts normal working hours

9.4.13 Governance

9.4.14 In relation to governance consider whether:

- minutes of the various committees, and management accounts, have been reviewed for indications of irregular transactions
- the board of trustees and accounting officer have given formal representations of their responsibilities

9.4.15 Internal controls

9.4.16 In relation to controls identify the policies, review their effectiveness and then test operation. Points to consider include:

- whether the general control environment has regard to the regularity of underlying transactions, including reference to fraud management
- whether significant changes within the control environment have led to potential weaknesses that could impact the regularity of underlying transactions
- whether property is under proper control to prevent loss or misuse
- ensure through enquiry and sample testing that gifts and hospitality, such as long service awards and other benefits are given and received in line with the academy trust's policies
- ensure through enquiry and sample testing that the use of expense claims or credit cards adheres to internal control principles (and supported by receipts)

- ensure through enquiry and sample testing expenditure does not contravene the funding agreement
- ensure through enquiry and sample testing that items claimed on expenses or purchased on credit cards are not for personal benefit

9.4.17 Procurement

9.4.18 In relation to procurement identify the policies, review their effectiveness and then test operation. Points to consider include:

- enquiry and sample testing that the lines of delegation and the limits set both internally and by ESFA have been adhered to
- whether tendering procedures have been administered through the Official Journal of the European Union (OJEU) where necessary
- whether formal contracts are in place, where required
- whether tendering policies have been adhered to
- whether procurement activity has been in accordance with Annex 4.6 of Managing Public Money
- ensure that employees have not personally benefitted from any transaction
- whether goods and services have been procured in an open and transparent manner

9.4.19 Income

9.4.20 In relation to income consider:

- the conditions associated with specialist grant income and whether it has been spent as the purposes intended

9.5 Letter of engagement

9.5.1 There is a standard paragraph for inclusion in the 2017 letter of engagement between the academy trust and its reporting accountant.

9.5.2 The reporting accountant's work will be based on a single letter of engagement with the academy trust covering both the accounts and regularity. In relation to the reporting accountants work on regularity the letter of engagement should include the following paragraph:

> 'The Secretary of State for Education acting through the Education and Skills Funding Agency has adopted the Standardised Terms of Engagement included within the Accounts Direction 2017 to 2018. We will report to the Secretary of State for Education acting through the Education and Skills Funding Agency in accordance with those Standardised Terms of Engagement for Independent Reporting

Accountants' Reports. The Secretary of State for Education acting through the Education and Skills Funding Agency will not be required to sign this engagement letter.'

9.6 Terms of reference

9.6.1 Standardised terms of engagement

The following are the pre-agreed terms of engagement on which the Secretary of State for Education working through the ESFA engages the reporting accountant to perform a limited assurance engagement and report on regularity in connection with the academy trust.

In these pre-agreed terms of engagement, references to ESFA shall be read as incorporating references to the Secretary of State for Education.

ESFA accepts that an agreement between the academy trust, its reporting accountant and ESFA on these terms is formed when the reporting accountant signs and submits to ESFA a report as set out in Part 4 herein. ESFA is not required to sign anything. By publishing this document ESFA confirms that these pre-agreed terms form its agreement with the academy trust and the reporting accountant. Once the reporting accountant's report is submitted to ESFA in accordance with these terms, ESFA will accept that an agreement is formed.

The Accounts Direction 2017 to 2018 provides the framework and reporting requirements on the statement of regularity, propriety and compliance. The large number of academy trusts in scope of this engagement makes it impractical to have an engagement letter with each individual reporting accountant. Standardised terms of engagement are therefore in place. Amendment to these standardised terms of engagement may only be considered in very rare circumstances. Amendments may cause delay to the reporting accountant's work leading to late submission of the related report and consequent breaches of funding agreements. ESFA is unable to enter into tailored terms of engagement agreements.

1 Introduction

The academy trust is required to submit to ESFA a regularity report, which provides limited assurance, as part of its audited annual accounts that is signed by a reporting accountant. These terms of engagement set out the basis on which the reporting accountant will sign the report.

2 The academy trust's responsibilities

The academy trust is responsible for:

- complying with the requirements of the funding agreement with the Secretary of State for Education, and the Academies Financial Handbook 2017
- producing in accordance with the requirements of the Academies Accounts Direction 2017 to 2018 an annual report and financial statements (accounts) to its accounting reference date, for most this will be 31 August 2018
- having these ‘accounts’ audited by an independent registered auditor
- submitting the audited accounts to ESFA by 4 months after its accounting reference date, for most this will be 31 December 2018
- ensuring the accounting officer’s report has been made without bias
- maintaining proper records complying with the terms of any legislation or regulatory requirements and ESFA's terms and conditions of funding ('the funding conditions')
- providing information to ESFA as required by the funding agreement

The academy trust’s accounts shall meet the requirement of the Academies Accounts Direction 2017 to 2018 to include the reporting accountant’s report on regularity.

The accounting officer of the academy trust will make available all records, correspondence, information and explanations that the reporting accountant considers necessary to enable the reporting accountant to perform its work. The reporting accountant will seek and the academy trust’s accounting officer shall provide:

- written representations in relation to matters for which independent corroboration is not available
- confirmation that significant matters have been brought to the reporting accountant’s attention

The academy trust and ESFA accept that the ability of the reporting accountant to perform its work effectively depends upon the academy trust providing full and free access to financial and other records and the academy trust shall procure that any such records held by a third party are made available to the reporting accountant.

The reporting accountant accepts that, whether or not the academy trust meets its obligations, there remains an obligation to ESFA to perform its work with reasonable care. The failure by the academy trust to meet its obligations may cause the reporting accountant to qualify its report or be unable to provide a report.

3 Scope of the reporting accountant’s work

The reporting accountant will use professional judgement and take account of the particular circumstances of the academy trust to determine the scope of work to support the conclusion in accordance with Part 9 of the Academies Accounts Direction 2017 to 2018 and as shown in the model report in Coketown.

The reporting accountant may communicate with ESFA as part of the planning and delivery of the regularity engagement where they believe there is an issue with a specific academy trust. Any such requests (to include academy trust name, concern and reporting accountant details) may be notified via the ESFA enquiry form.

4 Form of the reporting accountant's report

The mandatory report which the reporting accountant will provide, on the assumption that the reporting accountant is able to report in that form, is included in the Academies Accounts Direction 2017 to 2018.

The reporting accountant's report is prepared on the following bases:

- that ESFA has no right by virtue of regularity engagement to place reliance on the work of the reporting accountant and the opinion they form in respect of their statutory financial statements audit of the academy trust
- the reporting accountant's report is prepared solely for the use of the academy trust and ESFA and solely for the purpose of submission to ESFA in connection with ESFA's requirements within the Academies Accounts Direction 2017 to 2018. It may not be relied upon by the academy trust or ESFA for any other purpose
- neither the academy trust, ESFA nor others may rely on any oral or draft reports the reporting accountant provides. The reporting accountant accepts responsibility to the academy trust and ESFA for the reporting accountant's final signed reports only
- to the fullest extent permitted by law, except for the academy trust and ESFA, the firm of reporting accountants, its partners and staff neither owe nor accept any duty to any person (including, without limitation, any person who may use or refer to any of ESFA's publications) and shall not be liable for any loss, damage or expense of whatever nature which is caused by any person's reliance on representations in the reporting accountant's reports

5 Liability provisions

The reporting accountant will perform the engagement with reasonable skill and care and accepts responsibility to the academy trust and ESFA for losses, damages, costs or expenses ('losses') caused by its breach of contract, negligence or wilful default, subject to the following provisions:

- the reporting accountant will not be responsible or liable if such losses are due to the provision of false, misleading or incomplete information or documentation or due to the acts or omissions of any person other than the reporting accountant, except where, on the basis of the enquiries normally undertaken by reporting accountants within the scope set out in these terms of engagement, it would have been reasonable for the reporting accountant to discover such defects

- the reporting accountant accepts liability without limit for the consequences of its own fraud and for any other liability which it is not permitted by law to limit or exclude
- subject to the previous paragraph, the total aggregate liability of the reporting accountant whether to the academy trust or to ESFA or both, arising on any basis, whether in contract, tort (including negligence) or otherwise, arising from or in any way connected with this engagement (including any addition or variation to the work), may be limited to £1 million per academy in each academy trust. For a multi-academy trust, liability would amount to £1m multiplied by the number of individual academies within the academy trust, limited to £5 million in aggregate for a multi-academy trust

The academy trust and ESFA agree that they will not bring any claims or proceedings against any individual partners, members, directors or employees of the reporting accountant. This clause is intended to benefit such partners, members, directors and employees who may enforce this clause pursuant to the Contracts (Rights of Third Parties) Act 1999 ('the Act'). Notwithstanding any benefits or rights conferred by this agreement on any third party by virtue of the Act, the parties to this agreement may agree to vary or rescind this agreement without any third party's consent. Other than as expressly provided in these terms, the Act is excluded.

Any claims, whether in contract, negligence or otherwise, must be formally commenced within three years after the party bringing the claim becomes aware (or ought reasonably to have become aware) of the facts which give rise to the action and in any event no later than six years after the relevant report was issued (or, if no report was issued, when the reporting accountant accepted the engagement in writing). This expressly overrides any statutory provision which would otherwise apply.

6 Fees

The reporting accountant’s fees, together with VAT and out-of-pocket expenses, will be agreed with and billed to the academy trust. ESFA is not liable to pay the reporting accountant’s fees.

7 Quality of service

The reporting accountant will investigate all complaints. ESFA or the academy trust has the right to take any complaint to the professional supervisory body governing the reporting accountant.

8 Provision of Services Regulations 2009

The reporting accountant will not be prevented or restricted by virtue of the reporting accountant's relationship with the academy trust and ESFA, including anything in these terms of engagement, from providing services to other clients. The reporting accountant's standard internal procedures are designed to ensure that confidential information communicated to the reporting accountant during the course of an assignment will be maintained confidentially.

9 Freedom of Information Act 2000

If ESFA receives a request under the Freedom of Information Act 2000 for the disclosure of confidential information, it will inform the academy trust promptly of such request and ensure that any representations made by the academy trust or the reporting accountant within a reasonable period of time in relation to such a request are fully taken into account when it responds to the request. However, the decision to release information rests with ESFA.

10 Alteration to terms

Amendment to these standardised terms of engagement may only be considered in very rare circumstances. All additions, amendments and variations to these terms of engagement shall be binding only if in writing and signed by the duly authorised representatives of the parties. These terms do not affect any separate agreement in writing between the academy trust and the reporting accountant.

11 Applicable law and jurisdiction

This agreement shall be governed by and interpreted and construed in accordance with English law.

The academy trust, ESFA and the reporting accountant irrevocably agree that the courts of England shall have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise on any basis in connection with the validity, effect, interpretation or performance of, or the legal relationship established by this agreement or otherwise arising in connection with this agreement.

In these terms of engagement:

- 'ESFA' refers to the Secretary of State for Education working through the Education and Skills Funding Agency
- 'academy trust' refers to the academy trust being the organisation that is required to submit the report to ESFA
- 'the reporting accountant' refers to the reporting accountant appointed by the academy trust, the same individual as the external auditor

Annex A: Further sources of information

Gov.uk

Charity Commission

- CC3: The Essential Trustee: What You Need to Know
- CC26: Charities and Risk Management
- Charities and Public Benefit
- Charity Reserves and Defined Benefit Pension Schemes
- Charity reporting and accounting: the essentials (CC15b)
- Charity fundraising: a guide to trustee duties (CC20)
- Prepare a charity trustees' annual report
- Charity Commission: Detailed Guidance Home Page

Companies House

- GP1: Incorporation and Names
- GP2: Life of a Company - Annual Requirements
- GP5: Late Filing Penalties

Education and Skills Funding Agency

- Academies financial management and governance reviews
- Academies Financial Handbook
- Academies investigation reports
- Academies severance payments
- 'Dear Accounting Officer' Letters
- e-bulletin
- Financial Notice to Improve
- Risk protection arrangements

HM Revenue and Customs

- Apprenticeship levy
- Apprenticeship levy - how it works

HM Treasury

- Audit Committee Handbook
- Management of Risk - Principles and Concepts
- Managing Public Money
- Regularity, Propriety and Value for Money

Other links

Charities SORP 2015

- Accounting and Reporting by Charities: Statement of Recommended Practice (the 'Charities SORP')

Financial Reporting Council

- Accounting Standards (UK)
- Auditing Standards
- Audit of Financial Statements of Public Sector Bodies in the UK: Practice Notes
- Ethical Standards for Auditors
- (ISAE) 3000 (Revised) 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'
- Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks

Institute of Chartered Accountants in England & Wales

- ICAEW Assurance Sourcebook

Legislation

- Academies Act 2010
- Companies Act 2006

National Audit Office

- Communication with Academy Auditors

Institute School Business Leadership

- ESFA good practice library

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Working Group for the Academies Accounts Direction

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David Locke	Oxford Diocesan Schools Trust
Simon Oxenham	Southend High School for Boys / ISBL
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Sean Preston	Hamwic Academies Trust
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Education & Skills
Funding Agency

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download www.gov.uk/government/publications

Reference: