

## Academies Accounts Direction 2011/12

### Frequently asked questions

#### **Q: Why is there an Accounts Direction?**

A: Academy trusts are companies and are legally required to produce financial statements (accounts). Preparing annual audited accounts is also a requirement of an academy's funding agreement. The Accounts Direction helps academies meet these requirements by providing a template and guidance for completion.

#### **Q: Is it a requirement to follow the Accounts Direction?**

A: Yes. The Accounts Direction is an adjunct to the *Academies Financial Handbook* and therefore derived from the funding agreement. It describes the required content and format of the accounts and identifies the aspects on which the auditors must give an opinion. It also assists academies by describing the main accounting treatments required.

However, the Accounts Direction is not exhaustive and academies should also have regard to wider accounting principles, the requirements of UK accounting standards and the Charity Commission's publication *Accounting and Reporting by Charities: Statement of Recommended Practice* (the SORP) when preparing their accounts. If you are uncertain about any aspect of financial reporting you should discuss this initially with your auditors.

#### **Q: I have only recently opened as an academy. Do I have to prepare accounts for 2011/12?**

A: This depends on the date that the academy trust was incorporated (registered) as a company at Companies House. A new academy trust incorporated on or before 29 February 2012 should prepare its first accounts to 31 August 2012. New academy trusts, incorporated on or after 1 March 2012 may, if they wish, defer preparation of their first accounts until 31 August 2013.

**Q: When do I need to submit the accounts to the EFA?**

A: By 31 December 2012.

**Q: Do I need to send the accounts to Companies House?**

A: Yes, because all academy trusts are companies.

**Q: Do I need to send the financial statements to the Charity Commission?**

A: No. Academy trusts are now exempt charities (exempt from registering with the Charity Commission) and therefore are no longer required to submit their accounts to the Charity Commission.

**Q: Why do I have to disclose the remuneration of staff governors?**

A: Unlike in the case of the directors of commercial companies, it is not normal practice for charity trustees to receive remuneration or other benefits from the charities for which they are responsible. Where such remuneration or benefits do arise, the SORP requires detailed disclosure in the charity's accounts. This includes disclosure in relation to academy governors who are also trustees.

**Q: Why has the statement on internal control been replaced with a new governance statement?**

A: The new statement is an expansion of the statement on internal control and now provides information about the governance structure of the academy trust. This includes a description of the governing body and sub-committee structures, the coverage of their work, an assessment of their effectiveness and any particular challenges that have arisen. In other respect the statement is unchanged.

**Q: Why is there a new accounting officer statement on regularity, propriety and compliance?**

A: Accounting officers are personally responsible for ensuring that the resources under their control are spent for the purposes intended (regularity) and that appropriate standards of conduct, behaviour and corporate governance are maintained when applying those funds (propriety).

The new statement on regularity, propriety and compliance must be signed by the academy trust's accounting officer to confirm that they have met these responsibilities. The statement then provides the basis for the auditor's work.

**Q: Will the accounting officer's statement involve additional work for the academy trust?**

A: The statement shouldn't involve additional work as it simply formalises the long-standing responsibilities of accounting officers and draws on the same sources of information previously used for the statement of internal control and now for the governance statement.

**Q: Will the auditor do additional work to confirm the accuracy of the accounting officer's statement?**

A: The statement on regularity, propriety and compliance will form the basis of an enhanced regularity audit by the external auditors that will provide assurance to both the governing body and the EFA on the use of funds.

This will involve some additional work for external auditors, dependent upon the amount of work on regularity they have undertaken in previous years. However the additional assurance gained will reduce the amount of direct assurance work carried out by the EFA.

**Q: In relation to the regularity audit, will I need a new letter of engagement with my auditors?**

A: An additional paragraph will need to be inserted into the letter of engagement between the academy trust and its auditors, confirming that the auditor will report to the EFA (in relation to regularity). This is in addition to the auditor's existing duty to report to the governing body in relation to the audit of the financial statements.

**Q: Will the EFA need to sign the letter of engagement?**

A: No. The EFA will instead publish a standard set of terms and conditions on its website that it will adopt as a party to the regularity audit.

**Q: Will the EFA issue further guidance for auditors and or academies on what work the auditors should undertake?**

A: The EFA is not proposing to issue guidance because of the diversity of the academies sector. However, we will run a series of briefing events in the autumn of 2012 for academy trusts and their auditors to help in the implementation of the regularity audit.

**Q: Will I have to produce an FMGE return as well as audited accounts for 2011/12?**

A: No. If the academy trust produces timely audited accounts that comply with the Accounts Direction **will not** be required to complete a financial management and governance self-assessment return (FMGE). New academy trusts that do not produce accounts for the period ended 31 August 2012 (because they were incorporated after on or after 1 March 2012) **will** be required to complete a revised, and shorter, FMGE return. Once a new academy trust begins to produce accounts in subsequent years, it will no longer be required to complete an FMGE.

**Q: What is a regularity audit?**

A: There is a parliamentary expectation that – as public bodies – academy trusts will use public funds with regularity and propriety. Regularity means that the funds are used in accordance with the academy trust's statutory and other duties. Propriety means that public funds are used in a way that is expected of public servants, avoiding personal gain, extravagance or unreasonable expenditure. Regularity auditors form an opinion over the regularity and propriety of academy trust's use of public funds.

**Q: Why is the regularity audit being introduced?**

A: Previous arrangements for external audit of academy trusts did not provide sufficient assurance to accounting officers of the trusts, the EFA and DfE. The EFA could undertake direct work to gain this assurance but it is more efficient for the academy trust's auditor to undertake the work.