

technical factsheet 182

School academies – advice for auditors

INTRODUCTION

The number of academies in England has increased drastically over the past few years -from 203 in 2010 to 1,957 by August 2012. An academy is a publicly funded independent school that receives its funding from central government and sponsors, rather than from the local authority. Academies have freedom from local authority control, and this includes the freedom to set pay and conditions, and to alter term and day lengths, as well as a certain amount of freedom around how the curriculum is delivered.

Academies Accounts Direction 2013 applies to all types of academy trust including:

- single and multi-academy trusts
- traditional sponsored academies
- converter academies
- free schools
- studio schools
- university technical colleges
- special school academies.

Academies have to be set up as companies limited by guarantee with a year end of 31 August, and they have exempt charity status, which means that they are regulated by the Secretary of State rather than the Charity Commission. As a company and a charity, an academy has to heed Companies Act and Charities SORP requirements.

GUIDANCE FOR PREPARING ANNUAL REPORTS

The Education Funding Agency (EFA) has recently issued guidance for trusts and auditors preparing annual reports for accounting periods ending 31 August 2013, in the form of the Academies Accounts Direction 2013. The guide, which includes guidance about engagement letters content, can be found here:

<http://media.education.gov.uk/assets/files/pdf/a/academies%20accounts%20direction%202013.pdf>

The EFA guide sets out what accounting obligations an academy has, which are to:

- prepare an annual report and financial statements to 31 August 2013
- have these 'accounts' audited by an independent auditor
- submit the audited accounts to the EFA by 31 December 2013
- file the accounts with the Companies Registrar as required under the Companies Act 2006
- arrange an independent audit of regularity and include the auditor's report on regularity as part of the trust's accounts.

The accounts that are required to be submitted to the EFA by 31 December must comprise the usual set of financial statements with supporting notes, together with a trustees' report, a governance statement, a statement of trustees' responsibilities and an audit report signed by an independent auditor. In addition it is a requirement to file a copy of the auditor's management letter, a statement on regularity propriety and compliance signed by the accounting officer, and an independent auditor's report on regularity signed by the auditor.

The audited accounts are also required to be filed at Companies House in the usual way, and the academy must publish the accounts on its website. The EFA guidance includes a template for the accounts and other required documents.

The statement on regularity, propriety and compliance is a formal declaration 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. It includes a responsibility to ensure that public money is spent for the purposes intended by Parliament (regularity) and a responsibility to ensure that appropriate standards of conduct, behaviour and corporate governance are maintained when applying the funds under their control (propriety). Any irregularity or impropriety should be reported by the accounting officer to the board of trustees and the EFA.

The independent auditor must also produce a report providing a conclusion on 'regularity'. The auditor's opinion of regularity must be addressed jointly to the academy trust and to the EFA, and should provide assurance to both on the use of the academy trust's funds. The requirement is for the independent auditor to provide a 'limited assurance' report on regularity and was introduced in 2012.

To allow the EFA to draw assurance from the auditor's regularity report the EFA must be bound into the contract between the academy trust and the independent auditors. An example engagement letter is attached as an appendix to this factsheet.

The independent auditor/reporting accountant is expected to set out a summary of the work performed to support the regularity conclusion. Any issues identified during the review should be raised with the academy accounting officer, and only where there is a significant disagreement should the matter be brought to the attention of the EFA. If the auditor/reporting accountant concludes that there is material irregularity, his report will be qualified and will disclose details of the irregularity. Any regularity issues should also be included on the management letter.

The auditor/reporting accountant will determine the extent of procedures which will need to be undertaken to obtain sufficient, appropriate evidence to provide the regularity engagement conclusion. The EFA Accounts Direction sets out useful guidance in relation to the audit/assurance work required in connection with the regularity report.

Guidance on providing a reasonable assurance audit report on regularity exists in the *Practice Note 10: Audit of Financial Statement of Public Sector Bodies in the United Kingdom*, published by the Financial Reporting Council. This provides a useful starting point for a limited assurance report.

<http://frc.org.uk/News-and-Events/FRC-Press/Press/2010/October/The-APB-Issues-Revised-Guidance-on-the-Audit-of-Fi.aspx>

An extract of an example Engagement letter to be used in conjunction with the ACCA suite of Engagement letters and which can be amended as appropriate and in light of guidance issued by EFA can be found in Appendix 1.

The EFA Accounts Direction also has very useful checklists (see Appendix 2), including one that deals with the additional disclosures required on the first set of accounts prepared by a newly converted academy and one that covers items to be submitted to the EFA. There is also a section on specific topics and related accounting treatment that provides guidance on, amongst others, issues such as the general annual grant (GAG) and grants generally, sponsorship donations and multi-academy trusts.

APPENDIX 1: EXAMPLE LETTER OF ENGAGEMENT FOR A REGULARITY LIMITED ASSURANCE ASSIGNMENT FOR AN ACADEMY

This template is designed to form part of the ACCA suite of engagement letters, which includes a comprehensive 'Terms and Conditions' (T&C) letter. Users of this template should refer to the engagement letters guidance notes and T&C letter available on the ACCA CD of engagement letters. The T&C letter and guidance are also available in Technical Factsheet 173.

ISA210 requires that the addressees in the letter are those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate person.

The trustees/directors of Insert name Ltd
(Delete as applicable)

Insert date

Dear Insert name,

1. We are pleased to accept the instruction to act as reporting accountants for your academy trust and are writing to confirm the terms of our appointment.
2. The purpose of this letter, together with the attached terms and conditions, is to set out our terms for carrying out the work and to clarify our respective responsibilities.
3. We are bound by the ethical guidelines of ACCA, and accept instructions to act for you on the basis that we will act in accordance with those ethical guidelines. A copy of these guidelines can be viewed at our offices on request or at www.accaglobal.com

Period of engagement

(Where this is a new client, letter 200 setting out the timetable for taking over the services should be issued)

4. This letter is effective from insert date.
5. We will not be responsible for earlier periods.

Scope of services to be provided

Our engagement will be carried out with the objective of expressing an opinion on the regularity of expenditure disbursed and income received during the period 1 September 2XXX to 31 August 2XXX. This work is separate from audit work on the statutory financial statements of the academy trust.

Our responsibility to you

6. We have set out the agreed scope and objectives of your instructions within this letter of engagement. Any subsequent changes will be discussed with you and where appropriate a new letter of engagement will be agreed. We shall proceed on the basis of the instructions we have received from you and will rely on you to tell us as soon as possible if anything occurs which renders any information previously given to us as incorrect or inaccurate. We shall not be responsible for any failure to advise or comment on any matter that falls outside the specific scope of your instructions. We cannot accept any responsibility for any event, loss or situation unless it is one against which it is the expressed purpose of these instructions to provide protection.

Your responsibility to us

7. The advice that we give can only be as good as the information on which it is based. Insofar as that information is provided by you, or by third parties with your permission, your responsibility arises as soon

as possible if any circumstances or facts alter, as any alteration may have a significant impact on the advice given. If the circumstances change, therefore, or your needs alter, advise us of the alteration as soon as possible in writing.

Statutory responsibilities

8. As directors/trustees of the academy, you must abide by the requirements of and have regard to the guidance in the Academies Financial Handbook, and comply with the requirements of the funding agreement with the Secretary of State for Education.
9. It is your responsibility to appoint an accounting officer who will have personal responsibility to the government for resources under his or her control to ensure that public money is spent for the purposes intended.
10. You are also responsible for ensuring that appropriate standards of conduct, behaviour and corporate governance are maintained in connection with the funds.
11. As trustees/directors of the academy, you have a duty to prepare an annual statement on Regularity, Propriety and Compliance, and to submit it to the EFA. You are required to ensure that the accounting officer's report is made without bias.
12. You will provide information to the EFA as required by the funding agreement.
13. We will seek and your accounting officer shall provide written representations in relation to matters for which independent corroboration is not available and confirmation that significant matters have been brought to the auditor's attention.
14. The Secretary of State for Education acting through the Education Funding Agency (EFA) has adopted the Standardised Terms of Engagement included within the Accounts Direction dated May 2013. We will report to the Secretary of State for Education acting through the Education Funding Agency in accordance with those Standardised Terms of Engagement for Independent Accountants' Reports. The Secretary of State for Education acting through the Education Funding Agency will not be required to sign this engagement letter.
15. We also have a duty to report to the EFA if any significant disagreement between us and the academy trust accounting officer arises during the course of our work.
16. The intended users of the report are the academy trust and the EFA. The report will be addressed to both. The report is solely for the purpose of submission to the EFA in connection with the EFA's requirements with the Academies Accounts Direction (2013) and may not be relied upon by the academy trust or EFA for any other purpose.
17. This is a limited assurance engagement whose objective 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 regarding regularity. The limited scope of the engagement means that we cannot obtain assurance that all significant matters have been identified and thus we do not express a positive opinion.
18. We have a professional duty to report if potential irregularities are identified and to outline any material exceptions identified.
19. As part of our process, we will discuss any potential irregularities found with the accounting officer and the governing body.
20. Should you instruct us to carry out any alternative report then it will be necessary for us to issue a separate letter of engagement.

Our service to you

21. We will conduct our limited assurance engagement in accordance with the Academies Accounts Direction and with reasonable skill and care. We will carry out such tests as we think appropriate, such as enquiry, inspection and review, observation and re-performance. We may request from the EFA any relevant information considered necessary.
22. The nature and extent of our tests will vary according to our assessment of the academy's accounting and internal control systems, and may cover any aspects of the academy's operations that we consider appropriate. We shall not be treated as having notice, for the purposes of our assurance engagement responsibilities, of information provided to members of our firm other than those involved with the engagement (for example, information provided in connection with accounting, payroll and other services)

Fees

Our fees will be agreed and billed to the academy trust. The EFA is not liable to pay our fees.

Limitation of liability

23. You have agreed that our total aggregate liability, whether to the academy trust or to the EFA or both, arising on any basis or in any way connected with this engagement may be limited to £XXXX. We specifically draw your attention to paragraphs 42 to 47 of our standard terms and conditions which set out the basis on which we limit our liability to you and to others. You should read this in conjunction with paragraphs 62 and 63 of our standard terms and conditions which exclude liability to third parties. These are important provisions which you should read and consider carefully.
24. There are no Third Parties that we have agreed should be entitled to rely on the work done pursuant to this engagement letter.

Other services

25. You may request that we provide other services from time to time. If these services will exceed £insert value, we will issue a separate letter of engagement and scope of work to be performed accordingly.
26. Because rules and regulations frequently change, you must ask us to confirm any advice already given if a transaction is delayed or a similar transaction is to be undertaken.

Agreement of terms

27. This letter supersedes any previous engagement letter. Once it has been agreed, this letter will remain effective until it is replaced.
28. You or we may vary or terminate our authority to act on your behalf at any time without penalty. Notice of variation or termination must be given in writing.
29. We would be grateful if you could confirm your agreement to the terms of this letter by signing the enclosed copy and returning it to us immediately.
30. If this letter is not in accordance with your understanding of the scope of our engagement or your circumstances have changed, please let us know.
31. This letter should be read in conjunction with the firm's standard terms and conditions.
(Delete as applicable – where a single engagement letter is sent with terms and conditions included, this sentence will not be necessary.)

Yours sincerely,

For and on behalf of

Insert firm name

Delete as applicable

I/We confirm that I/we have read and understood the contents of this letter and the related terms and conditions and agree that it accurately reflects my/our fair understanding of the services that I/we require you to undertake.

Signed..... Date.....

For and on behalf of

Insert academy trust name

APPENDIX 2: CONTENTS OF ACADEMIES ACCOUNTS DIRECTION 2013

The Academies Accounts Direction 2013 can be found here:

<http://media.education.gov.uk/assets/files/pdf/a/academies%20accounts%20direction%202013.pdf>

Set out below is the list of contents of that document.

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