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EFA Accounts - Implications for Academies

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NAO Qualifies EFA Accounts

The Comptroller General of the National Audit Office has qualified the EFA accounts as not showing a true and fair view of the sector, with levels of error both material and pervasive. What does this mean for Academies and how can we make sure that costs of compliance are kept as low as possible?

The full report and accounts for the EFA's financial year ended 31st March 2014 was published on 20 January 2015, and a copy of the 150 page document can be found here

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/396681/EFA_Annual_Report_and_Accounts_FINAL_-_16_Jan_2015.pdf

The accounts consolidate the financial results of the EFA and 2,585 Academy companies which run a total of 3,905 Academy schools. It is one of the largest consolidation exercises in the world.

Regularity

The good news is that this year, unlike last, the Comptroller General did not qualify the audit on regularity grounds. The EFA Accounting Officer is definitive in his reliance upon the accuracy and compliance of Academies' Accounting Officers and their external auditors, rigorously checked through close scrutiny of all Academies' management letters. Getting it right first time is vital as the time and cost of both completing the regularity audit and the pile of associated paperwork has been bigger this year and will continue to increase going forward.

A cautionary tale – online banking

In the notes at the back of the accounts is a story to make the blood run cold. An Academy fell victim to an online bank fraud, and misdirected funds to a spurious account from which they have not been recovered. The total loss so far including legal and professional fees is £1.205m and no restitution is in sight.

Online banking can save considerable admin time and costs whilst offering some very useful controls. Adherence to the controls can minimize this sort of horror story. Simple steps are to keep your firewall and anti-virus software up to date, and always download the bank's online protection package.

Related Parties Report

In November the EFA reported on its review of related party disclosure and its adequacy in Academy financial statements. The report can be found here

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/390210/EFA_review_of_related_party_transactions.pdf

It includes case studies explaining what is and not appropriate, in particular when it comes to the necessary disclosure of all business interests by Trustees and senior leadership team members. There is also a useful appendix which sets out a number of examples of what are described as beneficial related party transactions and it is refreshing to see such an open acknowledgment of that.

The Department is clearly proud of the progress it has made on this point and will continue to demand the detail of how Academies show good value for money.

Next up is salaries over £60,000. Watch this space….

Consolidation: Value for Money?

In 2013-14 the EFA spent £5m on the consolidation of Academy accounts. But this could increase by a further £30m if they insist on an extra set of audited figures in March *(August or March - see over)* to cover differing year ends.

Extra funds will also be necessary to prorate and extrapolate those Academies which opened through the year, or whose accounts cover a longer period than the twelve months ended 31.3.14. This cannot be good value for the tax payer.

A further consolidation issue is in sorting out the debate over whether the EFA actually owns Land and Buildings. Estimates suggest that a robust opinion would cost at least £20m with further costs each year to keep the information up to date.

But perhaps of most concern is a £270m difference between what the EFA pays out in grants and that recognised in Academy accounts. That, together with £283m of estimates does raise some questions!

March Annual Returns - Newsbytes

The EFA has assumed in its own figures that the 2,766 returns completed for 2013/14 by Academies cost in the region of £7m. This extrapolates out to some £2,500 per return which seems on the high side to us. Certainly in some of the larger firms who specialise in Academies, £2,500 for an annual accounts return would not be unusual. But, it is good to see that here at Williams Giles, as a boutique specialist in the sector with a smaller cost base; our fees are much lower than that. Charging £1,000-£1,250 for a single Academy Trust for preparation and audit assurance and £1,500-£2,000 for a Multi-Academy Trust, it would appear that our fees are considerably below the average.

The March accounts return does not yet require any audit assurance, but does require considerable preparation work to create the dummy accounts for the Academy so that the return form can be populated in the correct way. Thus our fees for March returns are at the same sort of level as for annual return.

It looks as though the March accounts return for new opening Academies who did not prepare accounts to 31.8.14 must be submitted by the end of May 2015, a month sooner than last year.

The EFA suggests that to prepare an audit of the March return across the sector would probably cost in the region of £3m and again asserts that this does not seem to be good value for the tax payer, a sentiment with which we heartily agree.

What is most important is getting those returns correct and submitted on time. Last year, fifteen returns were excluded because they were submitted too late (0.54% of the total) and seven (0.25% of the total) because they were so full of errors!

Alyson Howard
alyson.howard@williamsgiles.co.uk

Alex Ffrench
alex.ffrench@williamsgiles.co.uk

Kirstin Barker
kirstin.barker@williamsgiles.co.uk

Gemma Chan
gemma.chan@williamsgiles.co.uk

Academy hotline: 01795 478044

Year-end August or March? The Comparison Study Continues!

It is still mentioned, almost in passing, that it might be easier for Academies if they had a 31st March year end like the rest of government. The EFA asserts that it is fighting our corner on this and seeks to retain 31st August because of the sense in tying it into the academic year. But to do so requires extra effort.

In 2013/14 the EFA looked at 110 Academies in the sample study, but in choosing some Multi-Academy Trusts that had grown by adding schools during the period, made it much more difficult for themselves to find any sort of sensible assumptions on extrapolated figures. And whilst the EFA says that the resulting figures are reasonable, the Comptroller and Auditor General disagrees, hence his audit findings! He suggests that income figures could be erroneous by between £43m and a whopping £315m, and expenditure between £55m and a scary £270m.

The 2013/14 comparison study was larger than that commissioned and executed in 2012/13 and given that the 2013/14 accounts are still qualified we might expect that an even larger study will be commissioned for 2014/15. If last year .5% of trusts were chosen maybe this year we will see a sample of 1% or some 400?

Cash Balance and Reserves. How much to hold?

One of the things we are regularly asked is 'how much should an Academy retain in liquid reserves now the roll over cap has disappeared?'

In absolute terms, cash balances over £1m always attract EFA scrutiny. These are not the same as reserves and an Academy might be holding unspent capital grant, for example part way through a project, or have invoices due for payment sitting in their creditors. So cash at bank does not mean you can spend it!

Our usual advice is to hold at least a month's expenditure if possible. That gives something of a buffer is there are problems in funding for any reason - if there is there is a sudden hole in the roof or the boiler explodes.

The EFA accounts include a table showing cash balances as a number of expenditure days - not the same as actual liquid reserves as set out above - and we think that to focus on cash rather than liquid reserves is an error but that is what has been researched!

27% of Trusts hold more than 100 days of expenditure in cash balances, 34% between 60 and 100, and 27% between 30 and 60 days. Just 12% of Trusts hold cash balances comprising less than a month's expenses and I am sure they would like to hold more!

The EFA's conclusion is that Trusts with high cash balances tend to require less intervention than those with low balances where little cash often signifies poor governance.

There will be a report in February to advise whether the EFA should set tolerance thresholds so watch this space. But in the meantime it is important to set out a few lines in your Trustees report each year to explain your reserves policy and justify the sums you are holding onto and why.