

Financial Reporting made easy – schools and academies

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The logo for the Association of Accounting Technicians (AAT), consisting of the lowercase letters 'aat' in a bold, green, sans-serif font. The letter 't' has a horizontal bar that extends to the right and ends in a small vertical tick mark.



Financial reporting

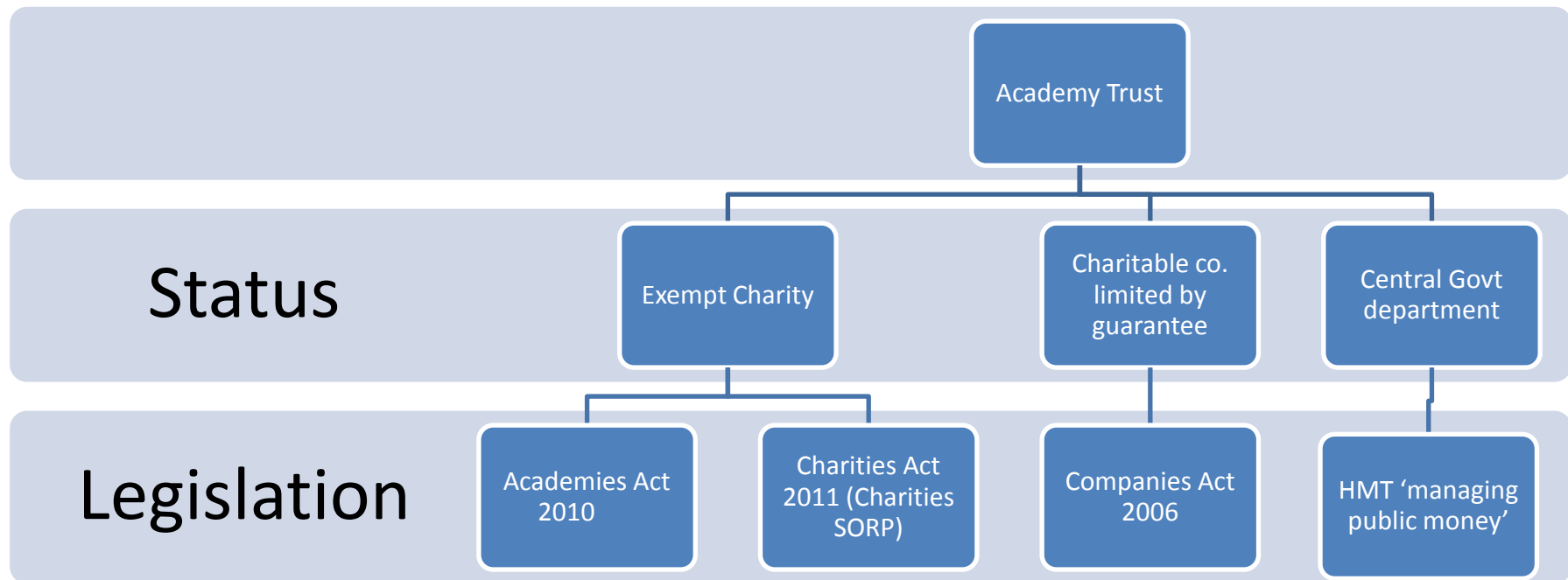
- Introduction – Academy status
- Which financial returns ?
- Financial reporting requirements
 - Fund accounting
 - The Accounts Return and the Budget Forecast
- Governance and assurance

Quick poll

- Who is currently working in an academy (directly employed or as a consultant)

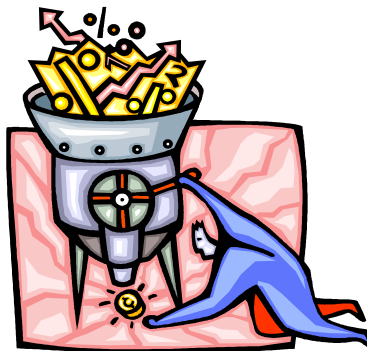


Academy status



What are an Academies financial reporting requirements ?

Which returns are needed?



Financial reporting : comparison of Academies with LA schools

	Academy	LA Schools
Year End Financial statements	Externally audited financial statements to DfE (by 31 st Dec) & Companies House (by 31 st May) for academic year (Sept-Aug)	CFR return to DfE on outturn & LA budget/ outturn statements. Financial year April- March
Benchmarking	Within the 'Accounts Return'	Based on CFR LA -S251 returns
Counterparty	Within the 'Accounts Return'	Done by LA in WGA
Forecast & outturn budgets	EFA budget return	LA Scheme for Financing schools will set out the requirements (varying formats & times)
Tax	Consider liability to register for VAT Corporation tax on business? Submit own returns to HMRC	Under LA umbrella- submit returns to LA (if school has own bank account)
VFM Statement	Signed by accounting officer, sent to EFA & published on school website by 31 st Jan	It is for head teachers and Governors to determine at a school level, how to secure better VFM



Work backwards!

- Know the reporting requirements and structure your systems in line with these.
- So let's look at some of the reporting requirements in turn.....

Statutory Annual Accounts

Reports

- A governors / trustees report
- Governance Statement
- Statement of Governors Responsibilities
- Statement of Regularity, Propriety & Compliance
- Independent auditors report (provided by external auditor)

Financial Statements

- A Statement of Financial Activities (SOFA)
- Balance sheet
- Cash flow statement
- A summary income and expenditure account & Statement of Total Recognised Gains & Losses (only in certain circumstances)
- Summary of key accounting policies
- Notes to the accounts



THE SOFA : RESTRICTED AND UNRESTRICTED FUNDS

Differing treatment between schools in 2010/11 – but more consistency now

SOFA principles

- Single accounting statement with the objective of showing all incoming resources and resources expended in the year & how these are in furtherance of its charitable objectives.
- Analyse all income and expenditure in two ways:
 - Which ‘fund’ it relates to and
 - Which activity (subjective category) it relates to



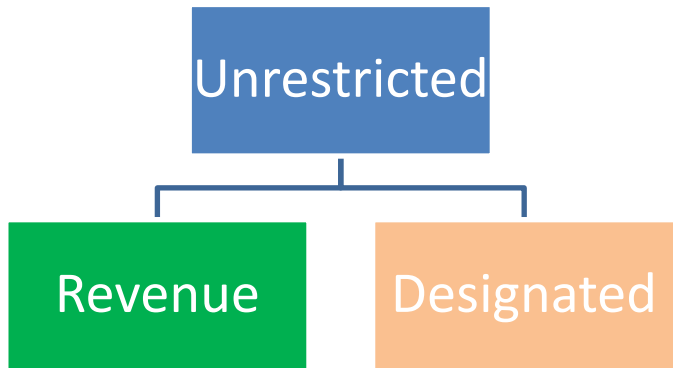
Statement of Financial Activities (SOFA)

- **Column format** showing **Analysis of Funds**
 - Unrestricted general (revenue), restricted general funds, and restricted fixed asset funds.
- **Row format** showing **I&E Analysis**
 - Generation of funds,
 - Charitable Activities and
 - Other (income), Governance (expenditure)
- **Transfers between funds**
- **Other recognised gains and losses**
 - Gains and losses on revalued fixed assets
 - Gains and losses on investment assets
 - Actuarial Gains or Losses on Defined Benefit Pension Schemes.

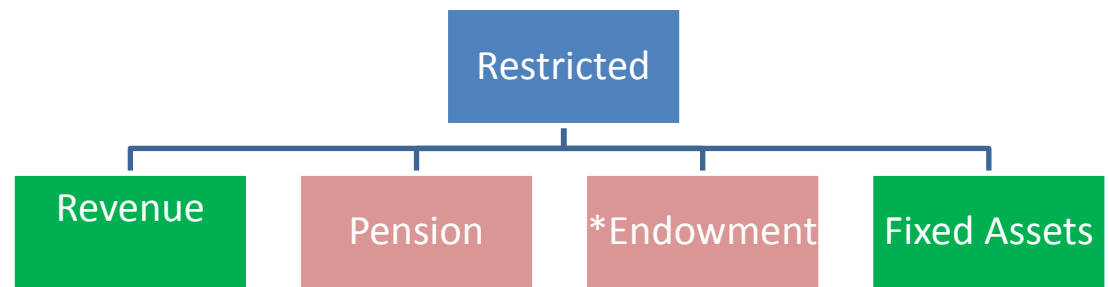
**Statement of Financial Activities for the year ended 31 August 2012
(including Income and Expenditure Account and Statement of Total Recognised
Gains and Losses)**

	Note	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	Total 2012 £000	Total 2011 £000
Incoming resources						
<i>Incoming resources from generated funds:</i>						
. Voluntary income	3	25	-	1,568	1,593	275
. Activities for generating funds	4	8	-	-	8	26
. Investment income	5	5	-	-	5	18
<i>Incoming resources from charitable activities:</i>						
. Funding for the academy's educational operations	6	-	4,349	-	4,349	5,330
. Provision of boarding activities <i>[if reqd.]</i>	29	-	-	-	-	-
Total incoming resources		38	4,349	1,568	5,955	5,649
Resources expended						
<i>Cost of generating funds:</i>						
. Costs of generating voluntary income		14	-	4	18	34
. Fundraising trading		-	-	-	-	-
<i>Charitable activities:</i>						
. Academy's educational operations	8	-	4,228	846	5,074	4,911
. Provision of boarding activities <i>[if reqd.]</i>	29	-	-	-	-	-
<i>Governance costs</i>	9	-	99	20	119	81
Total resources expended	7	14	4,327	870	5,211	5,026
Net incoming / (outgoing) resources before transfers		24	22	698	744	623
Gross transfers between funds	17	-	(10)	10	-	-
Net income/(expenditure) for the year		24	12	708	744	623
Other recognised gains and losses						
Actuarial (losses) gains on defined benefit pension schemes	17,27	-	(133)	-	(133)	71
Net movement in funds		24	(121)	708	611	694
Reconciliation of funds						
Total funds brought forward at 1 September 2011	17	66	(768)	9,810	9,108	8,414
Total funds carried forward at 31 August 2012		90	(889)	10,518	9,719	9,108

Fund accounting for Academies



Unrestricted - have no restrictions as to their use, and can be expended on any purpose of the academy at the governors discretion

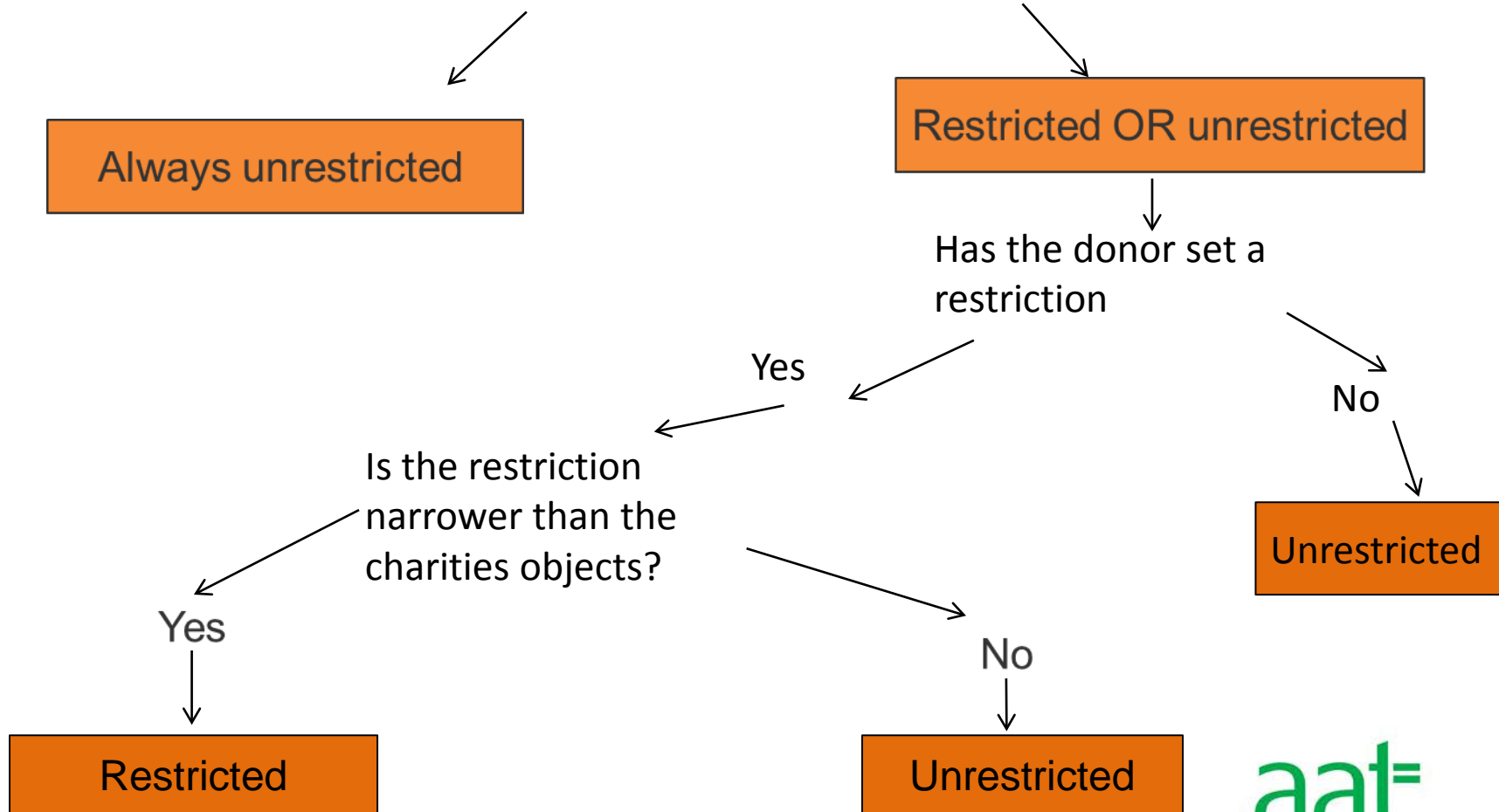


Restricted - Those that have a certain condition attached. Restriction could be set by donor, for specific project, post, fund appeal for specified goal (GAG is restricted)

*NB if relevant

Decisions – restricted or unrestricted ?

- Is the income a contract or a donation?





Contracts – general rules

A contract is a legally binding agreement

- In a contract the academy is obliged to fulfil the terms of the contract but is not obliged to spend all of the contract fee on the specified activity.
- In a contract, if one party does not uphold their side of the contract, then the other party could take legal action
- In a contract - if a surplus is achieved the academy may retain this.
- Under a grant arrangement -generally the case the academy may be expected to repay the funder any unspent element.



Grants and donations

- No legal difference between a grant and a donation
 - Given freely by the donor
 - Grant -Likely to be for a specific purpose i.e. 'restricted'
 - May have other conditions including timing and schedule of payments
 - Donations may /may not have a condition attached
- Donor specification – creates a restriction which is an obligation under Trust Law
- Breach of trust if funds not used as per donor specification – trustees can be personally liable



Service level agreement

- Sets out level of service / performance standard
- Could be associated with either a grant or a contract
- Not a legally recognised form in itself.



Charity SORP rules - a recap

- Restricted funds have to be used for the purpose for which they were given. This purpose will be narrower than the charity's objects.
- Donor sets the restriction
- Governors can designate but not restrict.
- Grants are a form of donations – and funder can specify a restriction / condition
- Contracts are not donations & therefore cannot be treated as restricted funds.
- Contracts are governed by contract law
- Contract income always unrestricted

Recording funds

- Think about your systems!
- Majority of income is GAG (restricted revenue)
- Majority of spend is from GAG (educational operations' and restricted revenue)
- Keep records of 'Other income' i.e. donations, sponsorships, fundraisers, grants.
 - What was it for?
 - Have you spent it on the intended item?
- It will keep your auditor happy!





How would you treat income from?

- Schools meals
- Music tuition (outside curriculum)
- Nursery provision
- School fund raiser

How would you treat income from..

- Schools meals
- If this is a fee based service, based on a contract arrangement -will be unrestricted income.

- Music tuition (outside curriculum)
- This could be fee based and therefore a contract OR parents may be asked for a donation

- Nursery provision
- If an academy is running **nursery provision** itself and charging fees to parents this is a contract arrangement and therefore 'unrestricted'.

- School fund raiser
- If the **fund raiser** has specifically stated that this is to buy a particular asset, or for a particular project then this is 'restricted revenue'



Removing a restriction

- If the academy has received a donated asset, then it needs to be clear about the conditions surrounding the donation.
- E.g. academy receives a donation of ‘art’ to be displayed at the school in perpetuity
 - the academy may not be able to ‘sell’ this without the donor lifting this particular restriction.
- E.g. buildings donated in perpetuity.
 - In such situations the academy must maintain the building, and needs to consider the likely impact of future maintenance costs.

Key areas of concern in 2012 accounts

- **Fund accounting**
 - **Greater attention needed**
- Disclosure of staff governor salaries
 - 2013 guidance states *“Disclosure must include the name....and details of the amounts involved. These can be presented in £5,000 bandings”*
- Disclosure of basis behind asset valuations
 - 25% only mention EFA valuation
- Depreciation rates
 - Explanations - Vary from no depn to 125 years on buildings
- Disclosure of related party transactions
 - Often no note, or ‘bland’ statement

Source : Price Bailey



OTHER FINANCIAL RETURNS



The accounts return

- Financial Return
- Counterparty return
- Benchmarking return

- EFA aim – academies to submit through a portal, straight from your system rather than completing Spreadsheets

- Therefore – think about system set up!

- Purpose – to consolidate data into EFA accounts and reports

For example – financial return extract

Direct Costs

Teaching and educational support staff costs
Depreciation
Amortisation
Impairment
Educational supplies
Examination fees
Staff development
Staff related insurance
Technology costs
Educational consultancy
Travel and subsistence
Other direct costs

Support costs

Support staff costs
Supply teacher insurance
Depreciation
Amortisation
Impairment
Recruitment and support
Maintenance of premises
Maintenance of equipment
Cleaning
Operating lease rentals - other
Operating lease rentals - land & buildings
Rates
Water rates
Energy
Insurance
Security
Transport
Catering
Technology costs
Other occupancy costs
PFI Charges
Finance lease interest
Bank interest and charges
Travel and subsistence

Most of the Financial Return data is required in the 'notes' to the SOFA

For example – benchmarking return extract

Revenue Expenditure

Teaching staff

Supply teaching staff - extra note in guidance

Education support staff

Administrative and clerical staff

Premises staff

Catering staff

Other staff

Indirect employee expenses

Staff development and training

Staff-related insurance

Cleaning

Water and sewerage

Energy

Rates

Rent

Other occupation costs

Learning resources (not ICT equipment)

ICT learning resources

Examination fees

Educational Consultancy

Supply teacher insurance

Agency supply teaching staff

Catering supplies

Legal & Professional

Auditor costs - Audit fees

Auditor costs - Other fees

Other insurance premiums

Administrative supplies - non educational

Direct revenue financing (Revenue contributions to capital)

Other

Interest charges for Loan and bank

PFI Charges

Central Recharges - MATs only

Budget forecast extract

- Analyse I&E over Revenue and Capital

Revenue -Income	Revenue -Expenditure
EFA /DfE income	Staff costs
LA income	Premises Costs
Voluntary income	Operating leases
Other govt grants	Insurance
Generating funds	S&S
Investment income	Other support costs
Other	Bank interest & charges
	PFI
	Loan repayment- interest
	Governance costs

Think about setting up your systems in this format?

Purpose – assess financial health , help estimate funding requirements for EFA



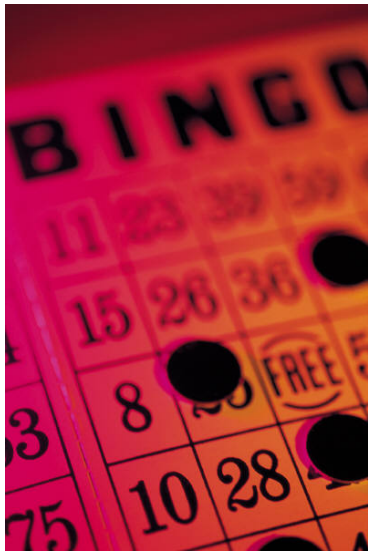
The audit

- The Known Knowns and the Known Unknowns and Unknown Unknowns.
- Allocate responsibility to relevant individuals including governors (proof reader, report writer etc.)
- Ask auditors for a list of requirements and a detailed timetable
- Make sure key documents are available for the auditors i.e. minutes, key policies agreed at GB meetings
- Ensure governors / key staff are aware of the timetable and are available if needed
- Have signatories available



FINANCIAL ASSURANCE & GOVERNANCE

Financial assurance is critical



Don't
gamble
it will all
be OK.



Consider : i.e System of Control
Risk registers- continually updated?
Governors training- data dashboard

Read: PAC reports, NAO reports,
'Unleashing greatness' report –
recommendations for governors

“With great power comes great responsibility”

Demonstrated in statement of regularity, propriety and governance, Governance statement, VFM statement and internal and external audit conclusions



AND FINALLY



10 Top Tips

1. Coding /structure on your software- reflect reporting?
2. Management reporting (clear, concise, variations, accruals) to GB & Head teacher
3. Understand key rules (restrictions on I&E, carry forwards, fund and activity accounting)
4. Ensure governors understand and are involved
5. Forecasting- outturn
6. Cash flow- solvency
7. Investment strategy for surplus cash balances
8. Auditor – aware of academy rules & regulations?
9. Plan ahead – timescales for audit, request for information (i.e. FRS17 pensions)
10. Document your processes & policies (pass to auditor)



Thank You



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