

# Guidance

## Common themes arising from ESFA's assurance work in 2019 to 2020

Updated 15 September 2020

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### 1. Objective

This briefing note provides an overview of the key assurance findings from the ESFA assurance year 2019 to 2020, including the review of academy trust financial statements, academy funding audits and financial management and governance reviews.

### 2. Academy trust financial statements

#### 2.1 Overall findings

We found that:

- The percentage of accounts received by 31 December for the 2018 to 2019 trust financial year was 98% (2017 to 2018: 97%).
- The main reasons for delays was where trusts closed during the year and had not submitted accounts as part of the closure process. In addition, several trusts, which were in intervention, had not submitted their accounts by the deadline. At the date of publication, there were 18 trusts, which had not submitted their audited financial statements. This was higher than last year, although in part due to the Covid-19 pandemic.
- The percentage of qualified financial statements for the 2018 to 2019 year was 0.7% (2017 to 2018: 1.2%). The main reasons for the qualified opinions were accounting treatment for land and buildings, land and buildings valuations and LGPS actuarial valuations.
- There was a 0.1% decrease in 'emphasis of matter' or 'material uncertainty' opinions. However, this percentage may increase, when the 18 outstanding financial statements are received.
- The main reason for the emphasis of matter opinions continues to be 'going concern', as a result of the trust having closed, or proposing to close within the following 12 months. This increased by 0.3% from the previous year.
- The percentage of modified regularity opinions in the 2018 to 2019 year was 7.1%, which was higher than in the previous year, (2017 to 2018: 5.9%). However, just under 1% of trusts reported a modification in relation to the new requirement prohibiting any purchase of alcohol and, excluding these, the percentage of modified regularity opinions would be broadly similar to the previous year.
- For some trusts, the internal scrutiny programme of work submitted alongside the management letter and audited financial statements, contained very little detail of internal scrutiny processes or the findings from this work. ESFA has published a series of [good practice guides](#) in academy trust financial management and assurance arrangements, including one on [internal scrutiny](#), which trusts may wish to refer to.

#### 2.2 Financial statements audit opinions

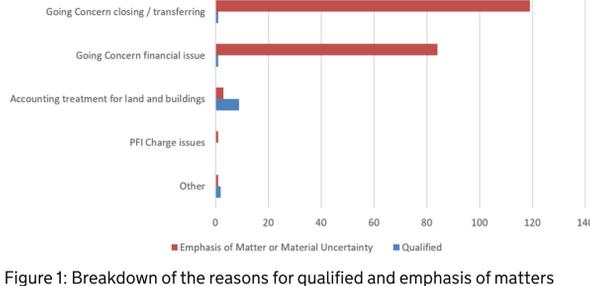


Figure 1: Breakdown of the reasons for qualified and emphasis of matters opinions

#### 2.3 Financial statements regularity opinions

The highest number of modified regularity opinions was in relation to Internal Financial Reporting. This is broken down into the following areas:

- Monthly management accounts (issues included: not sharing with the Board, frequency and adequacy of the information being presented).
- Financial management (issues included: either no or inaccurate bank reconciliations, concerns over cash management and budgeting processes)
- Governance (issues include: Board approvals not obtained where necessary and concerns over the maintaining of risks registers).
- ESFA deadlines not met (issues included: financial statements not being submitted on time).

The second highest number of modified regularity opinions was in relation to no independent check of controls. This is broken down into the following areas:

- Internal audit (main issue was no internal audit having taken place).
- Internal scrutiny findings (main issue was concerns that had been picked up as part of the trusts' internal scrutiny programme of work).
- Internal scrutiny process (main issue was that trusts' internal scrutiny process was not adequate or suitably robust).

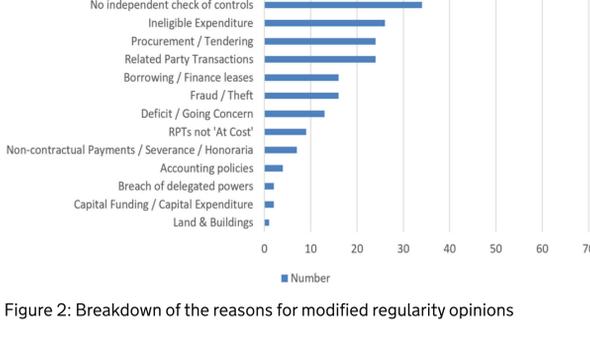


Figure 2: Breakdown of the reasons for modified regularity opinions

### 3. Financial management and governance reviews

Our assurance findings showed that new academy trusts and those joining existing and expanding trusts were making good progress towards compliance with the Academies Financial Handbook (AFH).

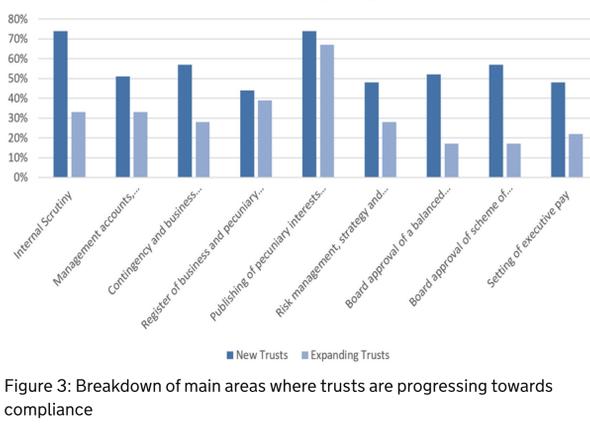


Figure 3: Breakdown of main areas where trusts are progressing towards compliance

The above table compares the findings for new trusts within 4 months of opening. We recognise that as new trusts are usually reviewed within 4 months of opening, it is reasonable that further time is required to embed some of the above arrangements. However, it was noted that some of the established and expanding trusts are also not fully compliant in these areas.

The areas where further development is required include:

- Establishing an appropriate committee of the board, to agree a programme of work to address risks to financial control (internal scrutiny)
- Trusts registering and managing business and pecuniary interests, in accordance with the AFH
- Trusts publishing the pecuniary interest of its' trustees and governing structure on their website.
- The development and formal approval of contingency and business continuity plans.

### 4. Academy funding audits

Error rates relating to both census data and free school meal (FSM) entitlement remain low, which is consistent with previous years.

The two diagrams below illustrate the downward trend in both census data, General Annual Grant (GAG) and Free School Meals (FSM) error rates

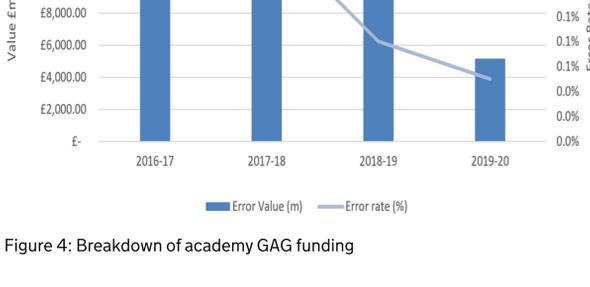


Figure 4: Breakdown of academy GAG funding

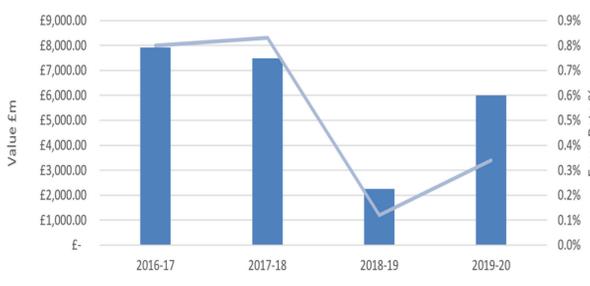


Figure 5: Breakdown of academy FSM funding

However, there were some cases where academies did not retain evidence to demonstrate that learners' entitlement to free school meals had been checked at the census point. In some instances, academies were relying on the records held by the previous school.

In relation to student bursary funding, the following weaknesses were identified:

- Insufficient evidence supporting payments decisions.
- Evidence to support eligibility for discretionary bursaries not retained.