



Permanent Secretary

Sanctuary Buildings 20 Great Smith Street Westminster London SW1P 3BT
tel: 0207 340 7414 permanent.secretary@education.gov.uk

Helen Hayes MP
House of Commons
London
SW1A 0AA

20 January 2026

Dear Helen,

Review of approach to consolidated academy financial reporting and audit

Due to implications of changes to auditing standards on consolidated academy financial reporting, I am writing to you to seek your committee's endorsement to a change to the existing approach for assurance over the financial performance and position of the academies sector that will ensure effective Parliamentary accountability and transparency and represents value for money.

The Education Select Committee endorsed the 2015 reporting framework reforms that led to the current arrangements in place for the sector following the issues that resulted from attempts to adhere to Clear Line of Sight (CLoS) principles for academies between 2012-13 and 2014-15. These issues led to the Comptroller and Auditor General providing an adverse opinion on DfE's Group Accounts with Parliament unable to effectively scrutinise financial performance.

When CLoS was introduced it was recognised that it is not always possible to achieve full alignment in all areas and that a different treatment may, in certain cases, be legitimate. This has been recognised in respect of academies. As part of a sustainable solution that met the requirements of strong management of the public finances and of robust accountability to Parliament, in addition to supporting strong financial management in the academy sector, the following arrangements have been in place since the 2015-16 year:

1. HM Treasury's control framework remains in place and applies to academy net spending. As Accounting Officer, I am accountable through this framework for the net spending of academies. To ensure I can set a strong forecast for academies expenditure, I collect forecast and outturn data from all academy trusts aligned to the government's financial year through our Budget Forecast Return collection. As well as being used to manage spending, this data is used to assist government's wider financial decision making;
2. DfE publishes a separate, additional audited "sector report and accounts" (SARA) which reports academies' financial performance on an academic year basis. This consolidation reflects the outcome of each of the c2,300

individual academy trust audited financial statements that are published on academy trusts' websites and filed with Companies House. The SARA is then consolidated into the Whole of Government Accounts to assist its usability and comprehensiveness.

This approach has successfully addressed the issues that resulted from trying to adhere to CLoS for academies between 2012-13 and 2014-15 - inefficiency, a lack of coherent and reliable financial information and very limited transparency over the sector's spending. By allowing for the provision of a separate report focused on the academy sector – which would not be provided under CLoS - I believe these arrangements have offered additional benefits for Parliamentary accountability, allowing MPs and the wider public to more clearly track the trends in academy performance, including spending, over time.

The proposal to change this approach is required due to changes to auditing standards applicable for all auditors carrying out audit engagements under International Standards of Auditing (ISAs), and therefore applicable to audit engagements carried out by the National Audit Office (NAO). Significant changes have been made to the auditing standard applicable to Group Financial Statements¹ (ISA 600). As the SARA consolidates over 2,300 individual academy trusts, the changes to the auditing standard have significant implications for the feasibility for the audit engagement currently agreed between the NAO and DfE.

The auditing standard changes only impact the SARA and therefore the proposal outlined here does not seek to change any other elements of the arrangements agreed with Parliament in 2015. HM Treasury's spending control framework, my accountability for the net spending of academies and arrangements in place to collect high quality financial information from academy trusts that is aligned to both the government financial year and the academic year remain. There will also be no changes to the requirements for academy trusts to prepare annual accounts in accordance with external financial accounting and reporting requirements and appoint an external auditor to audit those accounts in line with ISAs and undertake a regularity assurance review.

My officials have discussed the implications of changes to auditing standards with the NAO and the Comptroller & Auditor General of the NAO has provided me with a detailed assessment, which I have attached alongside this letter. His assessment indicates the changes to auditing standards would mean incurring significant additional cost for no discernible public benefit and a deterioration in the timeliness of assured academies data for use by stakeholders. The key issues are:

- **Permanent qualification in respect of academy Local Government Pension Scheme (LGPS) balances** – despite strong evidence and processes in place that provide assurance the estimate of the overall LGPS balances attributable to the sector as at 31 August is reasonable and robust, the C&AG qualified his audit opinion on these balances for the 22/23 SARA and expects to do so going forward. To address this qualification the C&AG would need to either direct individual Academy Trust auditors to perform group audit procedures on each Academy Trust's LGPS actuarial valuation or directly carry out additional work at each LGPS fund. The additional audit cost for this work could be as high as £30m. My view is that spending any additional funding and time auditing LGPS balances that have already been

¹ ISA (UK) 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

subject to audit at each individual academy trust would represent extremely poor value for money. There is a very low likelihood that any additional audit work would result in an adjustment to the LGPS estimate. This additional effort would largely be borne by academy trusts and their auditors, and LGPS funds and their auditors, which would be a waste of scarce public resources.

- **Increasing cost resulting from revisions to ISA 600** – even where we accept a permanent qualification in respect of LGPS balances disclosed in the SARA, the C&AG has determined ISA 600 will significantly increase the audit work associated with the SARA, estimating an increase in audit costs of over 600% to £3.5m. We already spend over £4m per year to prepare and audit the SARA - the implications of ISA 600 will nearly double the total cost. The feasibility of an audit approach that complies with revisions to ISA 600 on a group as complex and large as the academy sector has not yet been tested. By continuing the current engagement, there is a risk government spends significant amounts of public money attempting this only to find ourselves in the position where the C&AG eventually qualifies his audit opinion.
- **Delay in availability of information for Parliament** - even where the SARA, excepting LGPS balances, remains unqualified, the length of time it will now take to produce and audit the SARA means it will no longer satisfy the function of providing Parliament with timely accountability and transparency over the performance and position of academy schools.
- **Potential disruption to wider audit market** – I am aware of the delays to local government audit opinions and its impact on the wider public audit system. Currently, the academy audit market functions well – 97.5% of trusts submit audited financial statements to the DfE within five months of the academic year end. I am concerned that continuing an audit engagement that will significantly increase the workload of academy trust auditors could disrupt this key accountability mechanism, lead to academy trust auditors leaving the market and/or increasing audit fees, and potentially impacts on other public audit arrangements given the limited capacity of audit firms.

In an environment where government is seeking to deliver a productive and agile state and an effective regulatory landscape, my view is that a decision to continue the SARA engagement in its current form does not meet the Accounting Officer standards in respect of value for money and feasibility. Excluding adjustments DfE makes in respect of academy land and building valuations to align academy trust reporting frameworks with the Government Financial Reporting Manual (FReM), it is important to recognise that the SARA is an aggregation of underlying data reported in trusts' financial statements that has already been subject to audit conducted in accordance with ISAs. The cost and effort NAO indicates is now associated with providing assurance through an audit of that aggregation conducted in accordance with ISAs is disproportionate when considering the risk this audited information will be consolidated incorrectly.

My proposal to avoid these issues is to continue preparing a sector account that consolidates all individual academy trust financial statements and meets our statutory reporting requirements set out in Section 11 of the Academies Act 2010, but with two points of difference from the current SARA:

- The nature of the engagement the NAO carries out on the SARA is an Agreed Upon Procedures engagement carried out in line with the International Standard on Related Services (ISRS) 4400 (Revised) – as opposed to a financial audit conducted in accordance with ISAs.
- To allow the NAO to conduct an Agreed Upon Procedures engagement, the SARA will reflect the requirements of the academy trust accounting framework (FRS 102, designed to apply to the financial reporting of entities that are not profit-oriented) as opposed to the FReM.

I strongly believe that an alternative approach that would see the NAO report to Parliament on a consolidated academy sector report and accounts through an agreed-upon procedures report allows government to meet the objective of providing timely accountability for academy sector performance. Based on the NAO's assessment, the key benefits would be:

- **Reduced cost** – NAO indicates it could carry out the engagement for less than £0.2m – less than 6% of the lowest anticipated audit costs under the current SARA engagement from the 2024/25 academic year
- **Quicker publication** – We would aim to publish the consolidated account within 11 months of the academic year end (ahead of Parliamentary summer recess in July), an improvement of 8 months compared to the timetable for the 2022/23 and 2023/24 SARA. The C&AG would continue to report to Parliament on the work he has performed that would provide confidence that the SARA is an accurate summation of individual audited academy trust financial statements.
- **Minimal additional burden and disruption** to academy trusts and their auditors, ensuring the key accountability mechanism for academy trusts continues to function
- **A consolidated reporting product that is aligned to other information about the academy sector** available to Parliament, the education sector and the public, such as the Cabinet Office 'State of the Estate' report and my Department's Financial Benchmarking and Insight Tool².
- **Potential opportunities to narrow the scope or remove Whole of Government Account qualifications arising from the consolidation of academies over the longer term** - if we continue to produce a SARA that is audited under ISA 600, the audited academy outturn and financial position to 31 August will be consolidated as opposed to the WGA reporting date of 31 March. The qualification in respect of academies will remain and is likely to worsen as the lengthy SARA audit process will not be completed in line with desired timescales for WGA publication. The alternative approach does offer opportunities to narrow the scope of the qualification or remove the qualification in the future as referenced by the C&AG in his letter.

I am keenly aware what I am suggesting will be different from the standard financial reporting arrangements in place for bodies classified as central government – but the changes in auditing standards means those financial reporting arrangements are no longer practicable or proportionate for the academy sector. After detailed

² <https://financial-benchmarking-and-insights-tool.education.gov.uk/>

consideration with the NAO, this is the only approach that will provide robust accountability to Parliament.

As Chair of the committee that endorsed the current arrangements in 2015, I am seeking your committee's endorsement of the proposed change to these arrangements. Additionally, I am copying this letter to the Chair of the Public Accounts Committee given it draws on the work of the National Audit Office, which includes both the current and proposed engagement on the SARA. If you do endorse the approach, it could be implemented swiftly as the SARA audit engagement is not underpinned by legislation but through the Accounts Direction issued by HM Treasury.

My officials and the NAO stand ready to discuss the details of the proposals should you wish to explore them further before reaching a decision.

A handwritten signature in black ink, appearing to read 'S Acland-Hood', with a stylized, cursive script.

**SUSAN ACLAND-HOOD
PERMANENT SECRETARY**