A GUIDE TO THE

AUDIT AND ACCOUNTING ISSUES FACING

NEW ACADEMY SCHOOLS

Prepared by

www.accountants4academies.co.uk
INTRODUCTION

As specialist education accountants, Streets Chartered Accountants is working closely with schools that are in the process of converting, or considering converting, to Academy status. Streets also act for a number of schools that have gone through the conversion process.

Further information on Streets’ services and support for schools, please visit www.accountants4academies.co.uk or call 0845 8800320.

Academy Schools face a number of issues as they become independent of local authority control, recognising this and based on our role in supporting schools through the transition we have prepared these notes to help schools to understand the audit and accountancy issues that need to be addressed in the conversion process to charitable limited companies.

The “Academies Financial Handbook” is published by the Department for Education and Skills (DfES) as a financial guide for governing bodies and managers of Academies. The handbook was last updated in November 2006 and is currently being updated in stages by the DfES.

These notes are not intended to cover the requirements of grant funding or specific requirements of the DfES which are set out in the Financial Handbook.

The facts stated in these notes are believed to be correct as at 23rd February 2012 but there may be errors or omissions for which the Streets organisation cannot be responsible.

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1. LEGAL FORMAT

Points to consider include:

a) Create company limited by guarantee
b) Set accounting reference date at Companies House to 31 August
c) Set governance/management structure

Notes:

Accounting reference date

A company’s accounting reference date will automatically default to one year after the date of incorporation. For example, a company incorporated on 17 March 2012 will have an accounting reference date of 31 March 2013.

All Academy schools are required to have a reporting date of 31 August by the Department for Education. The accounting period will need to be extended or shortened to fulfil this requirement.

Charitable Status

Academy schools are Exempt Charities. As such, Academies will have charitable status, but they will not be registered with the Charity Commission. This means that Academies will need to comply with Charity Law for management and reporting purposes, but will not be required to submit accounts to the Charity Commission.

Academy Trust and Governing Body

The Governing body (also known as the Board of Directors) comprises the Headteacher and at least two parents, together with Local Authority or co-opted governors, as set out in the Articles of Association. The governing body manages the Academy on behalf of the Academy Trust.

The Academy Trust is the Members of the company limited by guarantee, those who would be shareholders in a normal trading company. The Academy Trust is responsible for the appointment of the Governing Body.

Multi-Academy Trusts

In a Single Academy Trust the terms governor, director and trustee are interchangeable. The board of governors will be responsible for the management of the Academy.

In a Multi-Academy Trust the overall organisation will be managed by the Board of Directors (also known as the Board of Trustees). The trustees are likely to include representatives from the member schools, but certain decisions for local schools may be managed by the School’s Senior Management Team and local governing body.
2. ACCOUNTING ISSUES

Points to consider include:

a) Select accounting software and check licence requirements
b) Check management and GAG reporting
c) Agree opening balances transferred from the Local Authority School
d) Confirm funding agreement from Central Government
e) Apply for £25,000 start-up grant
f) Open new bank account for the Academy
g) Arrange insurance
h) Agree transfer of land, usually under 125 year lease (if applicable)
i) Setup fixed asset register with opening balances
j) Obtain report for Local Government Pension Scheme liability at the date of conversion and annually to accounting reference date of 31 August
k) Review and update finance policy
l) Review the management and administration of School Funds
m) Appoint a Responsible Officer

Notes:

Academies are responsible for their own accounting systems. There is no requirement to employ a qualified accountant, as many school finance managers will be able to maintain the necessary records. Finance Managers may need to undertake specialist training for their new role and support and advice may be obtained from the Academy’s external auditors.

Accounts Software

Specialist software packages have been developed for Academy schools, but it is also possible to adapt standard accounting packages such as Sage for use by Academies. The reporting facilities need to be reviewed to ensure that they provide accurate and meaningful reports for the day-to-day management of the school, and to meet the reporting requirements of the Department for Education.

Licences for some software used in schools e.g. SIMS FMS are operated through the local education authority. This means that an Academy can only continue to use the software if it is re-licensed to the Academy.

The conversion to Academy status will require a school to close one accounting period and open a new reporting period, even if the conversion takes place in the middle of an academic year. If an Academy wishes to change its accounting software in the long term, the conversion date creates the best opportunity to change. The costs of buying and installing new software can be met from the Academy’s conversion grant (rather than from subsequent annual budgets) and the complete financial history for the Academy will be on one accounting system.
Opening Balances

The Academy will need to agree the value of reserves acquired from the local education authority, to be entered in the accounting records for the Academy. Reserves transferred may include bank and cash balances, fixed assets, debtors and accrued expenses relating to the local authority school.

The Local Authority School will be responsible for all payments up to the point of conversion, and the Academy Trust will be responsible for all payments after conversion. A School may be required to apportion costs which span the conversion period, e.g. payroll costs and statutory redundancy payments.

Once the final reserves figures have been agreed, the balance will need to be transferred to the bank account for the new Academy. This will need to be done in negotiation with the Local Authority and may simply be a transfer between the old and new school accounts. However, some Local Authorities may request all funds to be repaid to them and then pay the agreed balance to the new Academy.

In the event that a school has a deficiency of reserves on its conversion to an Academy, arrangements will need to be made regarding the repayment of the deficit to the Local Authority.

Funding Agreement

An Academy’s funding is provided directly by central government and is split between the General Annual Grant (GAG) and Capital and Earmarked Annual Grants. The Academy is required to spend the funding it receives in accordance with the Funding Agreement. It may retain unspent funding, subject to the restrictions set out in the Funding Agreement.

Start-up Grant

Academies are eligible to apply for a start-up grant of £25,000 as a contribution towards the cost of conversion. Conversion costs may include legal and professional services for the formation of the new company and the transfer of staff and changes to computer software licences.

The start-up grant is paid to the School before the conversion to an Academy takes place. The School must keep a record of the start-up costs incurred which is submitted to the Department for Education. Any unspent funds can be carried forward to the bank account for the new Academy.

New Bank Account

The School must open a new bank account, in the name of the new Academy, to receive its funding. Funds from the old School will be transferred to the Academy bank account once the final reserves have been confirmed (see above).
Arrange insurance

The Academy becomes responsible for its own insurance on the day of conversion. Insurance cover is needed for land and property, business interruption and governing body and employer’s liability. Appropriate motor insurance may also be needed. At present a separate grant is received to cover the cost of insurance, however, a competitive quote should be obtained as there is no guarantee that this grant will continue in the future. You may wish to approach a number of insurers directly to obtain quotes, alternatively you could go through a broker who will obtain several quotes on your behalf.

Transfer of Land

The transfer of ownership or leasing of land will be dealt with by the solicitors who are acting in respect of the conversion to Academy status.

For the majority of Academies, the Local Authority will retain ownership of the School’s land and it will be leased to the Academy on a 125-year lease. However, for a number of schools the Freeholds will be transferred subject to negotiations with the Local Authority.

Fixed Assets

A Fixed Asset Register will need to be created, to record the value of assets transferred from the local authority school and subsequent additions. Assets transferred will be included at their estimated market value on the date of conversion and all additions will at cost.

Fixed assets which have been capitalised in the accounts will need to be depreciated, to spread the cost over their remaining useful lines. Typical depreciation rates may be:

- Land – not depreciated
- Buildings – 2% per annum straight line (useful life 50 years)
- Computer and other equipment – 33% per annum straight line basis (useful life 3 years)
- Furniture and fittings – 10% per annum reducing balance (value estimated to reduce by 10% each year)
- Motor Vehicles – 25% per annum reducing balance (value estimated to reduce by 25% each year)

For control purposes, the school should have a full inventory of all assets (furniture, equipment etc). For accounting purposes, the asset register may only include assets over a minimum value, say £1,000.

Local Government Pension Scheme (LGPS)

Teaching staff are members of the national Teachers’ Pension Scheme and non-teaching staff are members of the Local Government Pension Scheme (LGPS). Both Schemes are defined benefit pension schemes, otherwise known as final salary schemes, and Academies
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are obliged to continue membership of both schemes. The accounting procedures and disclosures for pension schemes are covered by the accounting Financial Reporting Standard number 17 (FRS 17).

Contributions paid to the Teachers’ Pension Scheme are included in the accounts as if they were payments to a defined contribution scheme. This is because the Teachers’ Pension Scheme is a national unfunded scheme, which is paid out of general taxation. An actuarial valuation is carried out every four years, but it is not possible to identify the proportion of assets or liabilities in the Teachers Pension Scheme that relate to an individual Academy.

In contrast Local Government Pension Schemes are funded schemes, which are administered locally. They use the services of an actuary to value the assets and liabilities of the scheme as a whole, and to split the balance between the various member organisations. Each Academy will need to commission an actuarial valuation to assess the net assets or net liability attributable to the Academy at the point of conversion and each subsequent year end. The information presented in the actuarial valuation will be included in the statutory accounts.

Some Academies have experienced a significant increase in the contribution rates for the Local Government Pension Scheme. The Government are currently looking at ways in which the contribution rates can be pooled, thus ensuring a more consistent rate for Academies.

Financial Policies

In a Single Academy Trust there will be one financial policy setting out the accounting procedures to be used throughout the school. The policy will include procedures for the management and allocation of incoming resources and for the approval of expenditure.

In a Multi-Academy Trust the Board of Trustees will need to decide whether one financial policy can be applied to all member schools. It will be easier to manage the Multi-Academy Trust if consistent policies and procedures can be applied to all schools, wherever possible. However, the financial policies need to provide effective operational controls for individual schools and, therefore, it may be appropriate to tailor certain policies to each school.

School Funds

Many schools have separate funds to manage the financial aspects of school trips.

Some school funds are registered as individual charities with the Charity Commission and will, therefore, be under the control of the fund’s trustees and not under the control of the Academy. School funds which continue to be run as separate charities will not be included in the statutory accounts.

School funds which are under the control of the Academy may be included in the statutory accounts, as a separate restricted fund, but the administration and accounting system may be kept entirely separate from the main accounting function.
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Responsible Officer

Academies are required to appoint a Responsible Officer who is responsible for providing an independent oversight of the Academies financial affairs. This will require at least quarterly reviews and reporting back to the governors.

The Financial Handbook sets out the procedures which are expected to be performed as well as who can perform the role. The Responsible Officer can be a governor, or an appropriately qualified and experienced individual; however, it can’t be the Chairman or an employee of the Academy.

The Responsible Officer can be your external auditor provided appropriate safeguards are put in place.
3. ANNUAL STATUTORY ACCOUNTS

Points to consider include:

a) Set timetable for preparation of year end accounts and audit work
b) Agree dates for interim audit work (if applicable)
c) Agree dates of meetings with trustees to discuss audit issues and approve accounts

Notes:

Audit requirements

Academies are currently required to prepare audited, statutory accounts for the period ended 31 August for submission to the Department of Education by 31 December each year. This is in addition to the Abbreviated Accounts Return and the Financial Management and Governance Evaluation return.

It should be noted that the accounts need to be prepared on an accruals basis, so that the income and expenditure is recognised in the period to which it relates, irrespective of the physical cash receipt or payment.

The accounts need to be filed at Companies House within nine months of the year end, i.e. by 31 May. Please note that different rules apply for the first accounting period, which in some cases could result in a shorter filing deadline.

A suggested timetable for the preparation of accounts is enclosed in Appendix I.

As the timescale for year-end reporting is limited, it needs to be managed carefully. Wherever possible, we will seek to carry out some interim audit work during the financial year.

Multi-Academy Trusts

In a Single Academy Trust there will be a single set of statutory accounts which reflect the activities of the School in a format suitable for filing with Companies House.

In a Multi-Academy Trust there will be also be a single set of statutory accounts, but these will incorporate the activities of all member schools. Items of income and expenditure for each school will be aggregated in one Statement of Financial Activities, for presentation in the statutory accounts. Similarly, assets and liabilities of the various schools will be shown together in the Balance Sheet, but balances carried forward to the new financial year will be kept in separate, restricted funds for each School.

In a Multi-Academy Trust member schools will be audited individually, but the results will be reported to the Board of Trustees.
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4. TAXATION

Points to consider include:

a) VAT  
b) PAYE and National Insurance  
c) Corporation tax  
d) Trading activities

Notes:

Value Added Tax (VAT)

Academies no longer receive a VAT grant, but instead are able to reclaim VAT incurred on expenditure relating to the running the School through special provisions announced in May 2011. Guidance notes on the VAT Refund Scheme for Academies were issued in June 2011 as VAT Information Sheet 09/11. The information sheet can be found on the HM Revenue and Customs website at www.hmrc.gov.uk.

Academies have two options for reclaiming VAT on costs incurred in running the School.

(i) The Academy may apply to be VAT registered, submitting monthly or quarterly VAT returns to HM Revenue and Customs. As a VAT registered organisation, the Academy must charge and account for output VAT on goods and services it supplies as well as reclaiming VAT incurred.

(ii) The Academy can apply for a refund of VAT on costs incurred for the running of the School. This is referred to as a Section 33 claim and limits the Academy to the recovery of VAT on purchases made wholly and exclusively for the provision of education. Section 33 claims can be submitted for a period covering one or more calendar months.

If Academies choose to make a Section 33 claim, they will need to monitor potential VAT liabilities arising from their activities, as they must register for VAT if their taxable supplies exceed the VAT registration threshold. The various income streams should be listed, together with the estimated annual income, in order to assess the VAT implications for each source and for the Academy as a whole. They will also need to monitor VAT incurred and only claim a proportion of VAT where the costs relate to both school and other activities such as lettings as only VAT relating to the school can be reclaimed.

If an Academy is VAT registered, Output VAT charged and input VAT incurred by Academies will need to be recorded under the following headings:

ii) Non-business supplies – purchases made wholly and exclusively for the provision of education. This VAT is recoverable under the new concessions for Academies.

iii) Taxable supplies – sales and purchases relating to taxable supplies e.g. the provision of catering services to other schools
iv) Exempt supplies – sales and purchases relating to supplies which are exempt for VAT e.g. letting of school premises
v) Mixed supplies – purchases made for the Academy covering a combination of taxable and non-taxable supplies e.g. accountancy services

The School will need to carry out a partial exemption calculation in order to calculate the amount of VAT that can be recovered.

**Pay As You Earn (PAYE)**

Individual Academies will need to register separate PAYE schemes in order to record and pay HM Revenue and Customs for the tax and national insurance deducted from staff pay.

Payroll processing may be carried out in-house or contracted to a payroll bureau.

**Corporation Tax**

As an exempt charity, Academies are not liable to corporation tax on the income received from central government. However, there may be a liability to corporation tax if the school undertakes a significant level of trading activities in order to generate additional income.

**Trading Activities**

Activities used to generate income for the Academy, such as the provision of catering services to other schools or the letting of school buildings, may be classed as trading activities by HM Revenue and Customs.

Charities can only receive trading income up to a maximum of £50,000 per annum. If income from trading activities will exceed this threshold, the Academy will need to set up a subsidiary company to manage the trading activities. The trading subsidiary would donate any profits generated to the charitable company, and would be able to claim corporation tax relief on these donations.

**Multi-Academy Trusts**

In a Single Academy Trust the considerations for VAT, PAYE and Corporation Tax will all apply to the individual school.

In a Multi-Academy Trust the income streams need to be aggregated for all schools in order to assess the potential VAT liabilities and the level of trading activities. It is, therefore, much more likely, that a Multi-Academy Trust will exceed the threshold for VAT registration and trading activities.

Similarly, a Multi-Academy Trust will need to manage payroll services centrally in order to maintain appropriate records for HM Revenue and Customs. Payroll costs will need to be apportioned to individual Academies for the management of accurate records.
It is important to remember that it will be the Multi-Academy Trusts that is registered with HM Revenue and Customs for VAT, PAYE and Corporation Tax and not the member schools.

5. ACCOUNTING AND TAX SERVICES FOR ACADEMIES

Streets believe in a local, Partner led approach, supported by the technical and professional resources that a specialist firm can offer.

We provide the full range of services which includes:

- Guidance on establishing the financial management and reporting procedures for Academies
- Specialists audits, including pensions and grants
- Budgeting and financial forecasting
- Annual accounts preparation
- Statutory audit
- Advice and guidance on the interpretation of the accounts to Governors
- Accounting Software – including SAGE and specialist software (Sims, Corero, PS Financials)
- Payroll and PAYE advice
- Advice on corporation tax
- Advice on VAT compliance
- Fee protection – HMRC Investigations
- Investment and pension advice
- Internal audit and risk management
- Responsible Officer Role and support
6. CONTACT DETAILS

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  Tel 01438 870100

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  Tel 01476 590838

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• 30 Great Portland Street
  London
  W1W 8QU
  Tel 020 3551 6800
### APPENDIX I - SUGGESTED AUDIT TIMETABLE

<table>
<thead>
<tr>
<th>PROCESS</th>
<th>RESPONSIBILITY</th>
<th>EXPECTED DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interim audit visit</td>
<td>Academy/Auditors</td>
<td>Spring term</td>
</tr>
<tr>
<td>Pre year-end meeting</td>
<td>Academy/Auditors</td>
<td>July</td>
</tr>
<tr>
<td>Final Trial Balance and accompanying schedules and trustees report to auditors</td>
<td>Academy</td>
<td>30 September</td>
</tr>
<tr>
<td>Audit planning</td>
<td>Auditors</td>
<td>Early October</td>
</tr>
<tr>
<td>Audit on site work</td>
<td>Academy/Auditors</td>
<td>Mid-October</td>
</tr>
<tr>
<td>Draft accounts to Audit Committee/Academy Finance Officer</td>
<td>Auditors</td>
<td>Early November</td>
</tr>
<tr>
<td>Meeting between Audit Committee/Academy Finance Officer and Auditors to review audit points</td>
<td>Academy/Auditors/Trustees</td>
<td>Mid-November</td>
</tr>
<tr>
<td>Final accounts to Governors/Trustees for consideration</td>
<td>Academy/Auditors/Trustees</td>
<td>Late-November</td>
</tr>
<tr>
<td>Full Governors Meeting to approve accounts</td>
<td>Academy/Auditors/Trustees</td>
<td>Early December</td>
</tr>
</tbody>
</table>

**Filing deadlines for Academy accounts IN A NORMAL YEAR are as follows:**

Department for Education  
31 December following the end of the August accounting period

Registrar of Companies  
9 months after the year end, i.e. 31 May following the end of the August accounting period.

Corporation Tax Returns (Forms CT600)  
12 months after the end of the August accounting period, i.e. 31 August of the following year, if required. Corporation tax returns may not be required every year for each Academy.

**Filing deadlines for Academy accounts FOR NEW ACADEMIES may be different as the accounting period can be anything up to a maximum of 18 months from date of incorporation:**

Registrar of Companies  
The first filing date for new Academies is determined by the **date the charitable company was incorporated**. Academy trusts incorporated, say, 14 March 2012 could prepare accounts for an 18 month period to 31 August 2013 and the filing deadline at Companies House will be **14 December 2013**. It is important to note that this is earlier than the deadline for accounts to be submitted to the Department for Education.
## APPENDIX II - CHECKLIST

<table>
<thead>
<tr>
<th>PROCESS</th>
<th>DATE COMPLETED</th>
<th>DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal Setup</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Company limited by guarantee incorporated</td>
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<tr>
<td>b) Accounting reference date changed to 31 August (if necessary)</td>
<td></td>
<td></td>
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<tr>
<td>c) Governance/management structure agreed</td>
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<tr>
<td><strong>Accounting</strong></td>
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<td></td>
</tr>
<tr>
<td>a) Discuss accounting issues and appointment of accountants/auditors</td>
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<tr>
<td>b) Accounting software selected and licence confirmed</td>
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<td></td>
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<tr>
<td>c) Check management and GAG reporting</td>
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<tr>
<td>d) Opening balances transferred from the Local Authority School agreed</td>
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<td></td>
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<tr>
<td>e) Funding Agreement obtained from Central Government</td>
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<tr>
<td>f) Application submitted for £25,000 start-up grant</td>
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<td></td>
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<tr>
<td>g) New bank account opened for new Academy</td>
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<tr>
<td>h) Insurance arranged for new Academy</td>
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<tr>
<td>i) Lease agreed for the use of land owned by Local Authority or other landowner</td>
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<tr>
<td>j) Fixed asset register set up</td>
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<tr>
<td>k) Actuarial valuation obtained for Local Government Pension Scheme at the point of conversion. Annual valuation report requested for new Academy</td>
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<tr>
<td>l) Finance policy agreed</td>
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<tr>
<td>m) Management and administration of School Funds agreed</td>
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<tr>
<td>n) Appoint a Responsible Officer</td>
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<tr>
<td><strong>Statutory Accounts</strong></td>
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<tr>
<td>------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Timetable for preparation of year end accounts and audit work agreed</td>
<td></td>
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<tr>
<td>b) Dates for interim audit work agreed (if applicable)</td>
<td></td>
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<tr>
<td>c) Meetings with trustees agreed</td>
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<table>
<thead>
<tr>
<th><strong>Taxation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) VAT registration considered. Application for VAT registration submitted (if applicable). Process for VAT recovery confirmed.</td>
</tr>
<tr>
<td>b) PAYE Scheme for Academy registered with HM Revenue and Customs</td>
</tr>
<tr>
<td>c) Obtain confirmation from HM Revenue &amp; Customs that the Academy’s activities are exempt from corporation tax.</td>
</tr>
<tr>
<td>d) Level of potential trading activities considered and subsidiary company set up (if applicable).</td>
</tr>
</tbody>
</table>