

# Annual Academies Update 2018

**Tuesday 3rd July 2018**  
The Barns, Bedford



@streetsacc



streets-chartered-accountants

# Agenda

- **Academies Financial Update**

Robert Anderson, Partner, Streets Chartered Accountants

- **Practical Issues for Academies**

Alan Endersby & Elizabeth Cracknell, Streets Chartered Accountants

- **Myths and Musts of Managing Absence**

Jenny Arrowsmith, Irwin Mitchell & Andrew Hall HR Consultant Beststart HR

# Academies Financial Update

**Robert Anderson**  
**Partner**

Email: [randerson@streetsweb.co.uk](mailto:randerson@streetsweb.co.uk)

Telephone: 01522 551200



@streetsacc



streets-chartered-accountants

# Agenda

- Sector Overview
- The Academies Accounts Direction 2018
- Other Key Guidance



@streetsacc



streets-chartered-accountants

# Sector Overview

	<u>2016</u>		<u>2017</u>		<u>May 2018</u>	
Primary	3,046	19%	3,961	24%	4,721	29%
Secondary	2,023	66%	2,146	70%	2,210	73%
Special	178		226		266	
Alternative Provision	<u>55</u>		<u>65</u>		<u>80</u>	
	<b>5,302</b>		<b>6,398</b>		<b>7,317</b>	
Free Schools	304		347			
Studio Schools	40		36			
UTCs	<u>39</u>		<u>51</u>			
	<b>5,685</b>		<b>6,832</b>			



@streetsacc



streets-chartered-accountants

# Sector Overview

Number of entities	01.08.2015	01.06.2017	01.05.2018
SATs	1,995	1,812	1,614
MATs	<u>861</u>	<u>932</u>	<u>1067</u>
	2,856	2,744	2,681



@streetsacc



streets-chartered-accountants

## Academies Financial Handbook –issued May 2018

- Timetable
- Trustees Report
- Auditors Report
- Accounts Presentation



@streetsacc



streets-chartered-accountants

# Timetable

- Submission of accounts – 4 months after period end date
- Normally 31 December
- Earlier for trusts that cease



@streetsacc



streets-chartered-accountants



# Trustees Report

- Include information on trade union facility time
- Information on fundraising practices

Please start work on the trustees report as soon as possible.



@streetsacc



streets-chartered-accountants

# Auditors Report

- Report on the financial statements
- Regularity



@streetsacc



streets-chartered-accountants

# Accounts Presentation

- Analysis of expenditure
- Presentation of apprenticeship levy
- Fixed Asset classifications to align with accounts return
- Presentation of fund comparatives



@streetsacc



streets-chartered-accountants

## Accounts Presentation - continued

- Treatment of capital grants
- Enhancing related party disclosure
- Updating irregularity section



@streetsacc



streets-chartered-accountants

# Treatment of capital grants

“Capital grants such as Devolved Formula Capital Grant and Conditions Improvement Fund would be recognised in full when receivable.”

Expenditure is expensed or recognised as an asset depending on the nature of the expenditure



## Treatment of capital grants - continued

- What if the site is not recognised in the accounts?
- Mainly affects church schools



@streetsacc



streets-chartered-accountants

## Treatment of capital grants - continued

- Expenditure incurred by church body – matched with donation to church body
- Expenditure incurred by academy – may be appropriate to recognise a site improvement or treat as expenditure.
- Note to accounts should include sufficient narrative



## Enhanced related party disclosure

“Academy trusts must also include a statement that, were contracts for goods or services exceeding £2,500 cumulatively in the year, the element above £2,500 has been provided at no more than cost. This must be supported by a statement of assurance from the related party to the academy trust confirming this.”



@streetsacc



streets-chartered-accountants



## Enhanced related party disclosure - continued

- What is cost for services? – should be less than market value
- How are costs monitored in a group



@streetsacc



streets-chartered-accountants

## Enhanced related party disclosure - continued

Going forwards

- Following a Public Accounts Committee report, all related party transactions will require prior approval.
- To be fully implemented by August 2019.



@streetsacc



streets-chartered-accountants

## Updating irregularity section

Common issues identified in accounts

- Lack of prior approval of finance leases
- No statement of assurance for connected party transactions
- Connected party transactions not at cost
- Non-contractual severance payments made without the required approvals
- Weak internal controls



@streetsacc



streets-chartered-accountants

## Updating irregularity section - continued

Common issues identified in investigation reports

- Use of public funds for personal benefit
- Lack of appropriate authorisation for expenditure, including failure to obtain ESFA approval
- Inappropriate procurement processes, including where EU thresholds are involved
- Chair of Governors acting beyond their powers to authorise transactions
- Irregular expenditure not for the purpose intended e.g. excessive gifts and alcohol



@streetsacc



streets-chartered-accountants

## Other Key Guidance

- Academies Financial Handbook 2018
- Letter to Auditors



@streetsacc



streets-chartered-accountants

## Academies Financial Handbook 2018

- Effective 1 September 2018
- Ensure all trustees have reviewed
- Obtain confirmation?



@streetsacc



streets-chartered-accountants

# Academies Financial Handbook 2018 - continued

## Key themes

- Governance
- Cash Management, budgeting and value for money
- Whistleblowing
- Internal scrutiny
- Acting on Audit advice
- Reporting financial information – name and shame
- New requirements for related party transactions



@streetsacc



streets-chartered-accountants

## New requirements for related party transactions

- Must report all transactions made on or after 1 April 2019 using the on-line form
- Prior approval required for novel, contentious and/or repercussive transactions



@streetsacc



streets-chartered-accountants



## New requirements for related party transactions - continued

- Novel transactions are those of which the academy trust has no experience, or are outside its range of normal business.
- Contentious transactions are those that might cause criticism of the trust by Parliament, the public or the media.
- Repercussive transactions are those likely to cause pressure on other trusts to take a similar approach and hence have wider financial implications.



@streetsacc



streets-chartered-accountants

## New requirements for related party transactions - continued

Prior approval required for

- A contract exceeding £20,000
- Contracts which over the year exceed £20,000
- Contracts if there had been contracts which over the year exceed £20,000



@streetsacc



streets-chartered-accountants

## New requirements for related party transactions - continued

### Recommend

- Become familiar with new reporting mechanism
- Identify current contracts that may be caught under the rules
- Consider potential future contracts that could apply



@streetsacc



streets-chartered-accountants

## Other Key Guidance

Letter to auditors dated 15 June 2018

“Key points to help boards govern more effectively and make best use of the freedoms they have”



@streetsacc



streets-chartered-accountants

## Letter to auditors dated 15 June 2018

- Reminder of GAG pooling
- Integrated Curriculum Financial Planning (ICFP)
- Three year forecasting
- Use of ESFA benchmarking tool
- Best of breed templates
- Auditors management letters
- Internal Audit requirements
- Operational challenge
- The role of the chair and non-execs on a trust



@streetsacc



streets-chartered-accountants

# Practical issues for Academies

**Alan Endersby  
and  
Elizabeth Cracknell**

Email: [aendersby@streetsweb.co.uk](mailto:aendersby@streetsweb.co.uk)

[ecracknell@streetsweb.co.uk](mailto:ecracknell@streetsweb.co.uk)

Telephone: 01480 373000



@streetsacc



streets-chartered-accountants

## What have we done?

- **Budget Forecast Return Outturn (BFRO)** for the period ended 31 March 2018 completed and submitted to ESFA by 21 May 2018
- **Unaudited Teachers Pensions End of Year Certificate (TPS EOYC)** for the year ended 31 March 2018 completed and submitted to TPS by 31 May 2018

## What comes next?

- **Budget Forecast Return** Expected outturn for the year ended 31 August 2018 and budget for 3 future years to be submitted by 27 July 2018
- **Audited TPS EOYC** to be submitted to TPS by 30 September 2018



## Where are we now?

- **TPS EOYC** – audits in progress
- **Detailed Budget preparation** for 2018/19
- **Outline Budget Preparation**  
2019 – 2021 (3 year forecast) and  
2019 – 2023 (5 year forecast)
- **Year End Accounts** to 31 August 2018

## Teachers Pension Scheme End of Year Certificate

What common points do we see when carrying out  
TPS audit work?

# Teachers Pensions EOYC

Do your personnel files contain the latest information?

- Up to date personal details (name, address, date of birth, etc.)
- Employment history with organisation (including Contracts of Employment)
- Details of terms and conditions (including pay, hours of work, holiday entitlement, other benefits, pension membership)
- Absence details (lateness, sickness, other absence)

## Teachers Pensions EOYC

Do your personnel files contain the latest information? *(Continued)*

- Accidents connected with work
- Details of training and further education requirements
- Details of any disciplinary action
- Details of termination of employment

# Teachers Pensions EOYC

## Reconciliation of the EOYC Form

- Does the total pensionable pay match the total payroll costs for teachers' pay?
- Does the employee contribution match the pensionable pay multiplied by the contribution tier for each band?
- Does the employer contribution match the pensionable pay multiplied by the contribution rate?

## Teachers Pensions EOYC

- Have any staff opted out of TPS?
- Have any staff paid additional contributions to TPS?
- Have there been any backdated pay rises which affect the contribution rate due?
- Is there an under or overpayment of contributions for the year?
- Is everything on the EOYC?

## Budget Preparation

How can we forecast future activities reliably?

How should we account for 'other' income?

How do we cope with capital projects and one-off activities?

How does budgeting impact on reserves and reserves policies?

# Budget Preparation

Have you considered the following:

- This is not an exercise in reporting a balanced budget.
- How far in advance should we budget?
- Have we considered future changes that would affect our income and expenditure?
- Are we aware of the latest projections relating to staff costs and any potential increases?
- Can you indentify any potential going concern issues?
- Are you tracking the accuracy of your budgets?



## Budget Preparation

Do you know what you are reporting to the ESFA when submitting your BFRO and BFR?

- Who is approving the return and challenging the preparer?
- Have we considered the accuracy of the total income being reported?
- Are the staff costs in line with expectations?
- Do the movements in reserves show the reality of the situation?

## Budget Preparation

What 'other' activities do you have in your school?

- After school clubs
- Nursery / PreSchool provision
- Specialist facilities e.g. Special needs e.g. autism, children's centres
- Sports facilities including swimming pools
- Rent of school hall / classrooms

## Budget Preparation

What costs can be attributed to 'other' activities?  
What costs need to be allocated?

- **Salary costs** – teaching / support staff involved in providing services
- **Salary costs** – support / office staff who administer front line services
- **Purchased of additional resources** – equipment, food etc

# Budget Preparation

What should you look to achieve?

- Seek a FULL cost recovery for every activity
- Easy to see direct staffing costs and resources purchased
- Easy to overlook the administration costs

BUT

## Budget Preparation

- Consider whether any / all shared costs are covered by GAG and other income  
e.g. Cleaning costs, Heating/lighting, IT costs for online payment systems
- Consider whether any costs are duplicated, either in reality or in reporting

# Budget Preparation

Be realistic about

- how detailed budgets **NEED** to be
- how much it costs (in time and pounds) to analyse and prepare information
- How easy is it to present information from different activities, especially to non-financial governors and staff

# Budget Preparation

## Recognition of capital income:

- Income recognised when entitlement to the income is granted.
- Where the full amount of the grant has not been received by the end of any period the outstanding balance should be included as accrued income.

## Budget Preparation

### Receipt of capital grant:

Once the grant income is received in the bank there are two ways that the receipt can be treated:

1. The receipt can be posted to income in the SOFA, and the accrued income held on the balance sheet released in-line with the amount received.
2. The receipt can be posted directly against the accrued income held on the balance sheet.



# Budget Preparation

## Recognition of capital expenditure:

- Expenditure should be recognised in accordance with when the work is carried out.
- It is unlikely at the point the work is carried out, that invoices will be received in the same period. Where this is the case, the expenditure will need to be recognised as accrued expenditure.

## Budget Preparation

### Receipt of purchase invoice:

Once the purchase invoice is received from the supplier there are two ways that the invoice can be treated:

1. The invoice can be posted to capital expenditure in the SOFA, and the accrued expenditure held on the balance sheet released in-line with the invoice.
2. The invoice can be posted directly against the accrued expenditure held on the balance sheet.

## Budget Preparation

### Under spends on Capital Projects:

- Where capital projects are grant funded and the expenditure incurred has not fully utilised all of the income, consideration must be given to whether the academy still has entitlement to the income or not.
- If the academy is not entitled to the income, on completion of the project a liability should be created for the excess income received.

# Budget Preparation

## Budgeting for reserves

- What level of reserves does the school have?
- What level of reserves does the school need?
- How does the academy envisage getting from where it is now, to where it needs to be?

## Budget Preparation

Why should schools budget for reserves?

Planned uses of reserves may include:

- Development of existing buildings,
- Creation of new buildings
- Purchase of new equipment
- Accommodating changes in numbers,
- Accommodating changes in age-ranges

# Budget Preparation

## Risk Assessment

- What are the key risks faced by the school?
- What is the likelihood of each risk happening?
- What impact would each risk have, however likely or unlikely it may appear?
- Can the financial risk be mitigated in any way or is there a need for funds to be kept in reserve?

## Budget Preparation

Making Tax Digital (MTD) – is this a risk?

“HMRC’s ambition is to become one of the most digitally advanced tax administrations in the world, modernising the tax system to make it more effective, more efficient and easier for customers to comply” (HMRC website June 2018)

# Budget Preparation

Making Tax Digital (MTD) – is this a risk?

- Businesses (including VAT registered academies) with a turnover above the VAT threshold (currently £85,000) will have to keep digital records for VAT purposes from April 2019



## Budget Preparation

Making Tax Digital (MTD) – is this a risk?

- Academies who are VAT registered need to ensure their accounting software is compliant with MTD requirements
- Academies using Section 33B claims (VAT 126 forms) need to be aware of the changes and look out for possible changes to the process for reclaiming VAT.

## Budget Preparation

Making Tax Digital (MTD) – is this a risk?

- Businesses (including academies?) will be asked to keep digital records and update HMRC quarterly for other taxes in the future, but not until at least 2020
- Academies need to be aware of the intention for digital records to be submitted to HMRC and be ready to act if necessary

# Budget Preparation

How does this impact on the accounts?

Trustees' Report disclosures include:

- The desired level of reserves
- The policy for achieving the desired level of reserves
- A statement that the trustees have assessed the risks

## Getting Ready for Year End

As you are aware there is a lot of work to be carried out in a short period of time and therefore preparation and early planning is crucial.

As auditors we want to provide the minimum disruption to you as possible. Therefore, in our experience, requesting information in advance is the most efficient and least disruptive method of getting the information we need.

# Getting Ready for Year End

- What needs to be done, and when?
- How should schools approach the preparation of the year end file?

# Getting Ready for Year End – Year End File

## The Balance Sheet

- Fixed Assets
- Stock
- Trade debtors
- Other debtors e.g. accrued income, prepaid costs
- VAT debtor
- Bank Balances
- Trade creditors
- Other creditors e.g. accrued costs, income received in advance

# Getting Ready for Year End – Year End File

## Income

- SBS funding – potential for clawback if changes in pupil numbers
- Other grant funding – High Needs/EHCP, Pupil Premium, CIF, UIFSM, DFC, EYFS
- Other income – Specific donations, general donations

## Expenditure

- Repairs and maintenance – check any capital items
- Expenditure for specific donations
- Severance payments/redundancies and one-off payments

# Getting Ready for Year End - Other information

- Trustees' Report / Governors' report
- Accounts Direction 2017/18 & Coketown Model Trust
- Staff disclosures
- Insurance disclosures
- Details of transactions with related parties
  - Beneficial Interest
  - Close family members
- Access to minutes of meetings held by Trustees/Directors and Senior Management



# Getting Ready for Year End - Other information

- Reports from Responsible Officer or Independent checks of Financial Controls, Systems, Transactions and Risk
- Details of LGPS Valuation for 31 August – submit request for this as soon as you can
- Details of any unspent fund balances at year end

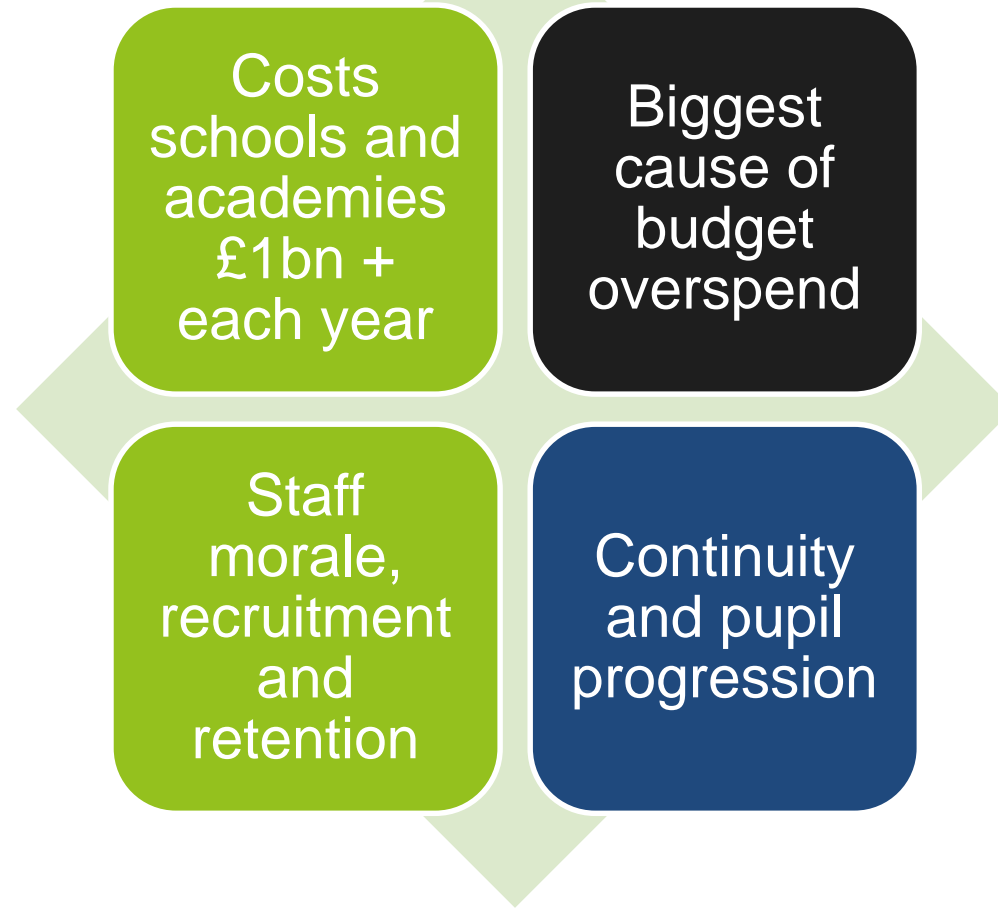


## **Myths and Musts of Managing Absence**

Jenny Arrowsmith, Partner

Andrew Hall – HR Consultant – Beststart HR

## Staff Absence



## The “cost” of ill health

Increased workloads – staff

Increased management/HR time

Risk of unfair dismissal claims

Risk of discrimination claims

## Myth

You cannot do  
anything when it  
is all genuine  
absence

# Absence management

## Process

- Fairness – consultation, medical evidence and prognosis
- Additional steps required if condition is a disability

## Dismissal

- Last resort
- Unfair dismissal requires minimum 2 years service
- Discrimination – no minimum service

## Practical steps – must do!

Clear absence reporting line

Absence tracking and monitoring

Deal with persistent “offenders”

Clear and consistently applied policy

Set realistic targets/ triggers

Return to work discussions

Medical/ OH opinions

Short term/ long terms adjustments

Training/ mentoring/coaching

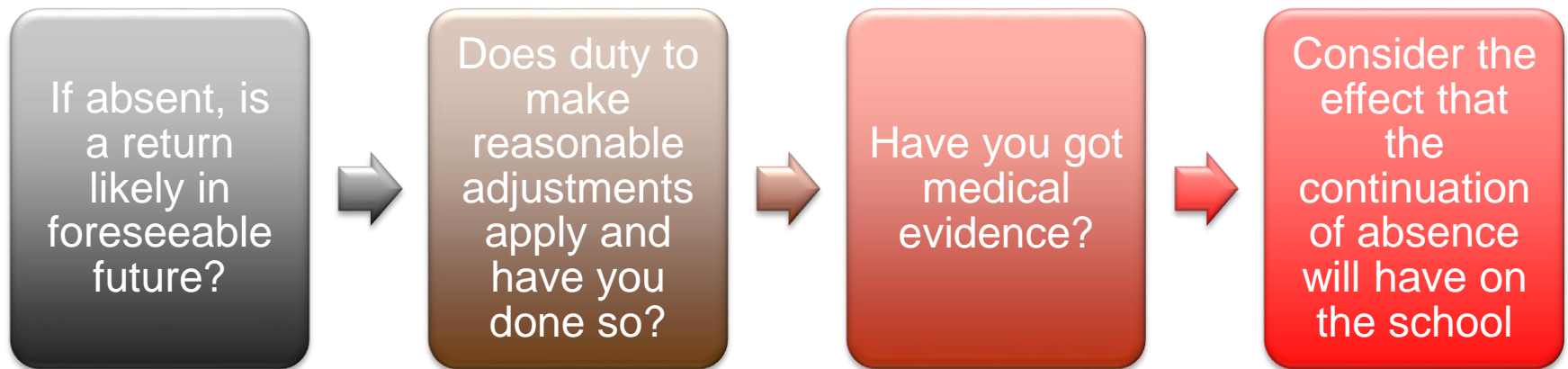
Employee assistance programs/ counselling

## Myth

Your sickness  
absence procedure  
should not apply to  
disabled employees



# You must act fairly before dismissal



## Myth

**If we want an occupational health referral – employee refuses. We can't force her, can we?**

## Myth

**GP says not fit, OH  
says fit**

**Unions say we need  
to follow GP advice**

## Myth

Stress or  
depression will  
always be a  
disability

## Disability discrimination



An impairment which has a long term and substantial adverse effect on normal day to day activities

## Is mental health a disability?

- No definition in Equality Act
- EHRC code mental impairment *‘intended to cover a wide range of impairments relating to mental function, including ... learning disabilities’*
- DSM-V (May 2013) – still used by tribunals to determine issue – even though not obliged to follow it

## Real life scenario

Mr Herry is a teacher and raised a huge number of complaints and grievances against his employer over a 4 year period. He also had a lot of time off work due to sickness over several years. His sick notes recorded that he was suffering from 'stress at work', 'work related stress', 'stress' or 'stress and anxiety'.

He did not receive any medication for stress.

He brought a number of claims against his employer because he was unhappy with the way his complaints had been dealt with. He also alleged that he suffered from a disability.

Did he win?


## Myth

Disability related absence must be discounted when looking at an employees' sickness absence record



## Does the duty to make reasonable adjustments apply?

Substantial disadvantage because of a provision, criterion, practice (PCP) or physical feature



As compared with another who is not disabled



PCP must be work related



Need knowledge of the disability



Question of reasonableness – if reasonable, duty to make the adjustment

## Reasonable adjustments



Must make a difference



Must help employee back to work



Cost not determinative factor

## Is this a reasonable adjustment?



Extending sick pay



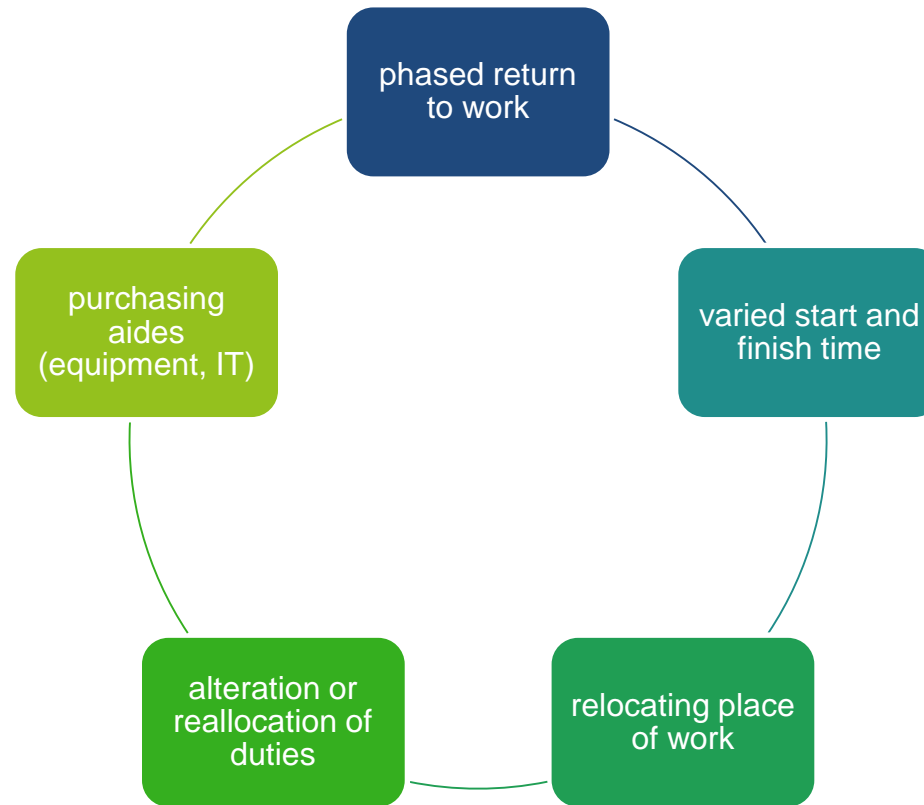
Transferring employee  
to a new role

# Is this a reasonable adjustment?



Provide counselling

# Examples of common adjustments



## Myth

**In a phased return  
– part time – we  
need to honour  
their full time pay**

## Myth

**If an employee is off sick following a capability issue being raised with them, we cannot manage that until they return**

# Questions

