

# Academies insight

As we step further into Spring, and hopefully back into a more conventional way of working and learning, it seemed like a fitting time to bring you the latest edition of Academies **insight**.

With restrictions easing, and a re-emergence from the toughest challenges of the pandemic, we are starting to readjust to the revised 'normal' - enabling us to focus on being proactive rather than reactive once again.

In this edition of our newsletter, we share articles that will enable you to take a step back and reassess how you manage some of your processes and compliance obligations - including getting the most out of the need to employ two auditors for internal and external audits, and a focus on some of the specific VAT reliefs available. We also take a look at the Academies Chart of Accounts (CoA) and how automation can help reduce the burden of submitting your financial information.



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# Revised Ethical Standard - two auditors, working for you

When the Financial Reporting Council issued a revised Ethical Standard in December 2019, it had a direct impact on academy trusts and the way their audits are conducted - specifically that trusts are now required to have separate providers for their internal and external audit provision.

Prior to this revision, many trusts engaged their external auditor to meet the 'internal scrutiny' requirements that the Academies Financial Handbook (AFH) stipulated.

The revised Ethical Standard put an end to the synergies and associated cost savings afforded by a single provider.

## + Differing roles

Engaging two auditors almost certainly means a cost increase for the same service previously received from a single provider. Therefore, it is helpful to understand how you can best capitalise on the new 'two auditor' arrangement.

Internal scrutineers undertake an agreed programme of work, spread appropriately over the year, to ensure higher risk areas are identified and addressed in good time. Trusts should approach internal scrutiny in the way most suited to their circumstances; this might be employing an in-house auditor, engaging the services of an accountancy firm, or appointing a non-employed trustee with appropriate qualifications in finance, accounting or audit.

External auditors perform a statutory role, carrying out an audit on your accounting records and certifying that they "*present a true and fair view of the trust's financial performance and position.*" (AFH). Trusts are then able to respond to the external auditor's findings and, where necessary, strengthen their systems of financial management and control.

## + Setting a clear direction

Understanding the distinction between the work undertaken by your internal and external auditor, and having a clear set of objectives for each, goes a long way in maximising the cost of two providers.



External auditors focus on providing a comprehensive analysis of your accounts, which are then filed publicly and constitute part of the government's financial reporting. This is the statutory function of an external auditor, making it harder to obtain additional value by tailoring the scope of work. However, it is reasonable to look for a balance of robust auditing, independence and thorough advice.

It is easier to manage the agenda for your internal scrutineer, as the conditions they work within are not as fixed and can more easily adapt to address your concerns. There are opportunities for those that understand the potential risks within a trust, such as governors and finance teams, to communicate their knowledge to the auditor, enabling a more targeted, and therefore effective, approach. However, it should be noted that this past year has seen the introduction of the internal scrutiny summary being submitted along-side the statutory accounts, initiating a new element of rigidity as the summary is reviewed by the Department for Education (DfE).

## + Common ground

There are similarities between the work that external and internal auditors are required to undertake - specifically their obligation to identify and report any weaknesses in financial controls and instances of identified fraud.

## + Positive engagement

Understanding the focus of both your internal and external auditors is the foundation for a positive two-way relationship. By having a clear knowledge of the objectives and emphasis of auditors, particularly of your internal scrutineer, it is possible to constructively utilise their expertise and findings to create improvements in your financial arrangements.



## VAT compliance

**Academy trusts are responsible for their own VAT affairs and in turn are required to understand their VAT obligations and the recovery and reliefs available to them.**

The VAT refund scheme enables academies to reclaim the VAT incurred on costs related to teaching activities or 'non-business activities'. It is often the case that specific areas of VAT treatment can provoke greater uncertainty than others. Here we focus on two matters that often require a greater degree of understanding – lettings (specifically sports and sporting facilities) and the secondment of staff to other schools.

### + VAT treatment of lettings

This can be a complex area, both in terms of the VAT treatment of income received and the VAT incurred on expenditure. Income from lettings can be exempt from VAT or subject to standard rate VAT. Income from taxable supplies will then go towards the VAT registration threshold, making it important to keep an eye on VAT registration thresholds, where appropriate.

It is important to consider all the conditions impacting VAT before starting the activity, determining the category it sits within as far as possible - taxable, exempt or non-business.

When letting a room or space for a specific period, this is often referred to as 'a supply of

land for VAT purposes' and is VAT exempt. An exception to this is if the letting also includes catering and supplementary services, in which case it becomes subject to VAT at the standard rate.

The letting of sports facilities is also generally VAT exempt, if particular conditions are met. These conditions include the duration of the letting, number of sessions booked, the type of facilities and the hirer themselves. This means there is no definitive rule and each letting should be considered individually to establish the correct VAT treatment.

### + Secondment of staff

The secondment of staff is typically a taxable supply for VAT purposes, a status that should be kept in mind for the purposes of charging VAT and as part of the VAT threshold calculation - an exception to this is if a member of teaching staff is being seconded to another school where they will deliver teaching to pupils. When this is the case, the secondment can be treated as a non-business activity. It may also be possible to treat the secondment as falling outside the scope of VAT by introducing joint employment contracts. Equally, if the staff member is seconded entirely to the other academy for a period of time, the original employment contract can be suspended and they can be added to the payroll of the new academy.

# Academies Chart of Accounts

**First introduced in May 2019, the standardised Academies Chart of Accounts (CoA) is intended to assist with the automatic transfer of data for financial returns.**

The CoA feeds into both the Academies Accounts Return and the Budget Forecast Return and is the Department for Education's (DfE's) standard for financial data.

To automate accounts returns through the CoA, you either have the option to adopt it within your own general ledger or to map your existing CoA to the DfE's CoA via your Financial Management Software (FMS) supplier.

The CoA presents a number of long-term benefits for Trusts, as the automation technology it offers enables the electronic submission of trial balance data directly from your FMS. This data is entered into holding tables in the DfE database, giving you three options - to 'Ignore', 'Apply' or 'Reject' the Annual Accounts Return Form. If you select 'Apply', the relevant areas of the Accounts Return are pre-populated with a formatted version of your uploaded data.

Other advantages of using automation through the CoA include:

- + A reduction in repetitive data entry;
- + Reduced submission time;
- + Provision of an audit trail via an automated mapping document; and
- + Increased consistency of data between academies, improving the reliability of benchmarking comparisons.

It should be noted that you maintain control over when your data is sent to the DfE. It is only when an assigned user within your Trust chooses to upload and 'Apply' your FMS data that it is shared with the DfE.

## + Ledger codes

The CoA has been designed to cover the reporting needs of most academy trusts - enabling a standard reporting format across all trusts. The CoA includes a coding structure which the DfE considers to provide for all potential scenarios encountered within an academy trust, although there will be some flexibility to add your own local account codes if needed. Adding additional account codes to the CoA only applies to Trusts that are embedding the CoA into their own general ledger - it does not apply if you are mapping your own CoA via your FMS supplier software.

## + When to make the move

Although adoption of the CoA is currently voluntary, it is strongly encouraged by the DfE and it is possible that it will become mandatory in the future. The most practical time to adopt the CoA would be at the end of your financial year or at another convenient time in which you are also making changes affecting your accounting records, perhaps during a change of software supplier.

**Click here for further detailed information on adopting the CoA**



For enquiries about our services to academy trusts, please do not hesitate to get in touch with **Frank Shippam, Alice Lynch** or one of the team here at M+A Partners.

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