



# Accounts direction to further education institutions 2008/09

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## Guidance

Welsh Assembly Government Circular No: 023/2009

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Replaces Circular No: 025/2008

# Accounts direction to further education institutions for 2008/09

<b>Audience</b>	Senior Management of Further Education Institutions in Wales.
<b>Overview</b>	This Accounts Direction advises institutions of the Welsh Assembly Government's requirements of their audited financial statements in accordance with paragraph 54 of the Financial Memorandum.
<b>Action required</b>	No response required.
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<b>Additional copies</b>	Published on web only.

As a result of severe pressure on translation services, we are having to prioritise our use of the resources available to us. Unfortunately, on that basis, we are unable to provide a Welsh version of the Analysis of the 'Accounts direction to further education institutions 2008/09'. This is because other items have been given a higher priority rating and have thus taken precedence in the allocation of resources. The approach for setting priorities is set out in the Welsh Language Scheme for the Welsh Assembly Government prepared under the Welsh Language Act 1993.

Mae'n rhaid i ni flaenoriaethu'r ffordd yr ydym yn defnyddio'r adnoddau cyfieithu sydd ar gael i ni oherwydd y pwysau mawr sydd ar yr adnoddau hynny. Felly, yn anffodus ni allwn ddarparu fersiwn Cymraeg o'r 'Accounts direction to further education institutions 2008/09', gan fod eitemau eraill yn cael mwy o flaenoriaeth o ran dyrannu'r adnoddau. Mae'r dull a ddefnyddir i bennu blaenoriaeth wedi'i amlinellu yng Nghynllun Iaith Gymraeg Llywodraeth Cynulliad Cymru a baratowyd o dan Ddeddf yr Iaith Gymraeg 1993.

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## n **INTRODUCTION**

- 1 This Accounts Direction advises institutions of the Welsh Assembly Government's requirements of their audited financial statements in accordance with paragraph 54 of the Financial Memorandum.

## n **BACKGROUND**

- 2 Paragraph 54 of the Financial Memorandum between the Welsh Assembly Government and institutions requires institutions to comply with the Accounts Direction issued from time to time by the Welsh Assembly Government. The direction will cover information to be contained in the financial statements, the manner in which they are to be presented and the methods and principles according to which they are prepared and will be in accordance with Generally Accepted Accounting Principles.
- 3 In issuing this direction the Welsh Assembly Government wishes to ensure the form, content and disclosures within institution's financial statements follow good practice, are consistent across the sector and meet any specific requirements of the Welsh Assembly Government.

## n **ACCOUNTS DIRECTION FOR 2008/09**

- 4 The Welsh Assembly Government requires all institutions to comply with the Statement of Recommended Practice: Accounting for Further and Higher Education ("the SORP") in preparing their financial statements for the year ended 31 July 2009.
- 5 In July 2007 the FE/HE SORP Board issued a new Statement of Recommended Practice, effective from 1<sup>st</sup> August 2007. The new SORP is applicable for the 2008/09 financial year. Copies of the SORP can be downloaded from Universities UK's website at <http://bookshop.universitiesuk.ac.uk>.
- 6 The main change from the new SORP is the requirement for an Operating and Financial Review. More details are included in Annex I.
- 7 Institutions should note that paragraph 15 of the SORP requires that the four primary accounting statements (income and expenditure account, balance sheet, cash flow statement and statement of total recognised gains and losses) must be presented in the formats set out in appendix 2 to the SORP.
- 8 Whilst the remainder of the 'Casterbridge College' example, published by the LSC is illustrative, institutions are encouraged to disclose as much of this information as possible.
- 9 In addition to the requirements of the SORP, the Welsh Assembly Government requires that institutions' audited financial statements be prepared in accordance with current Accounting Standards, FRS's and Urgent Issues Task Force (UITF) Abstracts issued or adopted by the Accounting Standards Board.

- 10 In the case of an institution that is also a company limited by guarantee, this direction is subject to the additional requirements of the Companies Act.
- 11 Where an institution has subsidiaries that are limited companies they will be subject to the requirements of the Companies Act.
- 12 Where an institution is a registered charity they will be subject to the additional requirements of the 'Accounting and reporting by Charities' Statement of Recommended Practice (revised 2005) and the Charities Act 2006. For those that are currently exempt charities see Annex H for the impact of the Charities Act 2006 on requirements.
- 13 Institutions are also required to include in their financial statements the following:
  - i a statement covering the responsibilities of their governing body in relation to corporate governance. This statement, that incorporates a statement on internal control, is required to indicate how the institution has complied with current best practice in this area. Guidance on how institutions can comply with this requirement is available in Annex A and a model statement is shown in Annex B.
  - ii the total emoluments of the Principal and higher paid employees. A higher paid employee is defined as an employee whose total emoluments exceed £60,000 during the financial year. Full guidance on the required disclosures is set out in Annex D.
  - iii the compensation for loss of office paid or payable to the Principal or any higher paid employee (as defined in Annex D). Full guidance on the required disclosures is set out in Annex E.
  - iv details of the net cost to an institution in respect of expenditure on overseas activities in accordance with Annex F.
  - v within the members' report to the financial statements, a statement on the payment performance of the institution during the period. For further guidance see Annex G.

#### n **FURTHER SPECIFIC GUIDANCE**

- 14 Additional guidance is included in Annexes G,H or I on the following matters:
  - the disclosures for 2008/09 relating to FRS 17 Retirement Benefits;
  - enhanced pension provisions (FRS 12) provisions;
  - accounting for grants, where specific guidance is provided on DDA and backlog maintenance funding;

- agency costs;
- prompt payments disclosures;
- consortium income;
- auditor fees;
- changes to financial statement disclosures;
- Operating and Financial Review.

## n **EXTERNAL AUDIT**

- 15 Institutions are required to ensure that their contracts for external audit make provision for an opinion on whether the institution has applied income, where appropriate, in accordance with the Financial Memorandum, and whether Welsh Assembly Government grants have been used for the purposes for which they were received.
- 16 Institutions should be aware that their external auditors will be reviewing the corporate governance and internal controls statement as part of their audit work and will be including a reference to this work in their audit opinion. An exemplar certificate is available in Annex C.
- 17 This Accounts Direction and the Financial Memorandum should be copied to the external auditors.
- 18 External auditors are reminded that where they are unable to express an unqualified opinion on the institution's financial statements, they should immediately communicate this to the Principal, the Chair of the Corporation and the Chair of the Audit Committee. They should also inform the Welsh Assembly Government, Department for Children, Education, Lifelong Learning and Skills, Head of Division, Corporate Governance.
- 19 Audit firms cannot be appointed as internal and external auditors at the same time or for the same financial year under any circumstances.
- 20 It is a requirement of the Financial Memorandum that the Statutory accounts are published on the College's website. This may require an extra statement from external auditors. The auditors may also require an extra statement in the governing body's responsibilities in regard to the website if the audit opinion is to be published.
- 21 If accounts are published in Welsh this may also require a review of the Welsh version by the external auditors.

## n **ACCOUNTING DEVELOPMENTS**

- 22 There have been no new accounting standards since the 2007/08 Accounts Direction. However there have been a number of small developments. Annex H provides a summary of these and comments on those that are of most relevance to the sector.

## n **ACCOUNTS TIMETABLE**

- 23 Paragraph 54 of the Financial Memorandum requires institutions to provide the Welsh Assembly Government with copies of its financial statements by 31 December. The Welsh Assembly Government also requires the external auditor's management letter, including the institution's response, to be submitted at the same time.

## n **CHANGES FOR 2009/10**

- 24 We are not aware of any significant changes in accounting standards for 2009/10, other than those listed in Annex H at present.
- 25 The Financial Reporting Council are currently doing a review of the Combined Code.

## n **REVIEW OF THIS DIRECTION**

- 26 The Accounts Direction will be reviewed each year. This Accounts Direction will remain in force unless institutions are notified otherwise.

## **GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE**

### **Turnbull Combined Code Compliance**

The Welsh Assembly Government expected full implementation of the Turnbull guidance from the year ended 31 July 2004 and required that a combined statement on corporate governance and internal control be prepared and included in an Institution's financial statements. This statement must be signed by the Principal as Accounting Officer and the Chair of the Governing Body.

The Financial Reporting Council published an updated Combined Code in June 2006 and June 2008 which contains a small number of changes. None of these changes are relevant to the Further Education Sector.

A standard model has been provided (at Annex B) as a consistent starting point. However, as institutions are different in complexity and size, there may be a need to change the model which should be tailored to the institution's own requirements, showing:

- what work has been done to embed risk management in the corporate governance of the institution, and
- what assurance can be gained by the reader of the institution's accounts

### **Maintaining a sound system of internal control**

- 1 The Governing Body is responsible for the institution's system of internal control. It should set appropriate policies on internal control and seek regular assurance that will enable it to satisfy itself that the system is functioning effectively. The Governing Body must further ensure that the system of internal control is effective in managing risks in the manner, which it has approved.
- 2 In determining its policies with regard to internal control, and thereby assessing what constitutes a sound system of internal control in the particular circumstances of the institution, the Governing Body's deliberations should include consideration of the following factors:
  - the nature and extent of the risks facing the institution;
  - the extent and categories of risk which it regards as acceptable for the institution to bear;
  - the likelihood of the risks concerned materialising;
  - the institution's ability to reduce the incidence and impact on the business of risks that do materialise; and
  - the costs of operating particular controls relative to the benefit thereby obtained in managing the related risks.



**GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)**

- 3 It is the role of management to implement the Governing Body's policies on risk and control. In fulfilling its responsibilities, management should identify and evaluate the risks faced by the institution for consideration by the Governing Body and design, operate and monitor a suitable system of internal control which implements the policies adopted by the Governing Body.
- 4 All employees have some responsibility for internal control as part of their accountability for achieving objectives. They, collectively, should have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal control. This will require an understanding of the institution, its objectives, the environment in which it operates, and the risks it faces.
- 5 An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of an institution that, taken together:
  - facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the institution's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed;
  - help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation.
  - help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.
- 6 An institution's system of internal control will reflect its control environment, which encompasses its organisational structure. The system will include:
  - control activities;
  - information and communications processes; and
  - processes for monitoring the continuing effectiveness of the system of internal control.
- 7 The system of internal control should:
  - be embedded in the operations of the institution and form part of its culture;
  - be capable of responding quickly to evolving risks to the business arising from factors within the institution and to changes in the higher education sector; and

**GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)**

- include procedures for reporting immediately to appropriate levels of management any significant control failings or weaknesses that are identified together with details of corrective action being undertaken.
- 8 A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgment in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the occurrence of unforeseeable circumstances.
- 9 A sound system of internal control therefore provides reasonable, but not absolute, assurance that an institution will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an institution failing to meet its objectives or all material errors, losses, fraud, or breaches of laws or regulations.

**Reviewing the effectiveness of internal control**

- 10 Reviewing the effectiveness of internal control is an essential part of the Governing Body's responsibilities. The Governing Body will need to form its own view on effectiveness after due and careful enquiry based on the information and assurances provided to it. Management is accountable to the Governing Body for monitoring the system of internal control and for providing assurance to the Governing Body that it has done so.
- 11 The role of institutional committees in the review process, including that of the audit committee, is for the Governing Body to decide and will depend upon factors such as the nature of the significant risks that the institution faces. To the extent that designated Governing Body committees carry out, on behalf of the Governing Body, tasks that are attributed in this guidance document to the Governing Body, the results of the relevant committees' work should be reported to, and considered by, the Governing Body. The Governing Body takes responsibility for the disclosure on internal control in the annual report and accounts.
- 12 Effective monitoring on a continuous basis is an essential component of a sound system of internal control. The Governing Body cannot, however, rely solely on the embedded monitoring processes within the institution to discharge its responsibilities. It should regularly receive and review reports on internal control. In addition, the Governing Body should undertake an annual assessment for the purposes of making its public statement on internal control to ensure that it has considered all significant aspects of internal control for the institution for the year under review and up to the date of approval of the annual report and accounts.
- 13 The reference to 'all controls' in Code Provision D.2.1 should not be taken to mean that the effectiveness of every internal control (including controls

**GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)**

designed to manage immaterial risks) should be subject to review by the Governing Body. Rather it means that, for the purposes of this guidance, internal controls considered by the Governing Body should include all types of controls including those of an operational and compliance nature, as well as internal financial controls.

- 14 The Governing Body should define the process to be adopted for its review of the effectiveness of internal control. This should encompass both the scope and frequency of the reports it receives and reviews during the year, and also the process for its annual assessment, such that it will be provided with sound, appropriately documented, support for its statement on internal control in the institution's annual report and accounts.
- 15 The reports from management to the Governing Body should, in relation to the areas covered by them, provide a balanced assessment of the significant risks and the effectiveness of the system of internal control in managing those risks. Any significant control failings or weaknesses identified should be discussed in the reports, including the impact that they have had, could have had, or may have, on the institution and the actions being taken to rectify them. It is essential that there be openness of communication by management with the Governing Body on matters relating to risk and control.
- 16 When reviewing reports during the year, the Governing Body should:
  - consider what are the significant risks and assess how they have been identified, evaluated and managed;
  - assess the effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failings or weaknesses in internal control that have been reported;
  - consider whether necessary actions are being taken promptly to remedy any significant failings or weaknesses; and
  - consider whether the findings indicate a need for more extensive monitoring of the system of internal control.
- 17 Additionally, the Governing Body should undertake an annual assessment for the purpose of making its public statement on internal control. The assessment should consider issues dealt with in reports reviewed by it during the year together with any additional information necessary to ensure that the Governing Body has taken account of all significant aspects of internal control for the institution for the year under review and up to the date of approval of the annual report and accounts.
- 18 The Governing Body's annual assessment should, in particular, consider:

**GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)**

- the changes since the last annual assessment in the nature and extent of significant risks, and the institution's ability to respond to changes in its business and the external environment;
  - the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and, where applicable, the work of its internal audit function and other providers of assurance;
  - the extent and frequency of the communication of the results of the monitoring to the Governing Body (or Governing Body's committee(s)) which enables it to build up a cumulative assessment of the state of control in the institution and the effectiveness with which risk is being managed;
  - the incidence of significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the institution's financial performance or condition; and
  - the effectiveness of the institution's public reporting processes.
- 19 Should the Governing Body become aware at any time of a significant failing or weakness in internal control it should determine how the failing or weakness arose and re-assess the effectiveness of management's ongoing processes for designing, operating and monitoring the system of internal control.

**The Governing Body's statement of internal control**

- 20 In its narrative statement of how the institution has applied Code principle D.2, the Governing Body should, as a minimum, disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the institution, that it has been in place for the year under review and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Governing Body and accords with the Turnbull guidance.
- 21 The Governing Body may wish to provide additional information in the annual report and accounts to assist understanding of the institution's risk management processes and system of internal control.
- 22 The disclosure relating to the application of principle D.2 should include an acknowledgement by the Governing Body that it is responsible for the institution's system of internal control and for reviewing its effectiveness. It should also explain that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

**GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)**

- 23 In relation to Code provision D.2.1, the Governing Body should summarise the process it (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.
- 24 Where a Governing Body cannot make one or more of the disclosures in paragraphs 5.20 and 5.23 of the code, it should state this fact and provide an explanation.
- 25 The Governing Body should ensure that its disclosures provide meaningful, high-level information and do not give a misleading impression.
- 26 Where material joint ventures and associates have not been dealt with as part of the group for the purposes of applying this guidance, this should be disclosed.

## **MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL**

The Institution is committed to exhibiting best practice in all aspects of corporate governance.

This summary describes the manner in which the Institution has applied the principles set out in section one of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the governors, the Institution complies with all the provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2009.

### **The Corporation**

The composition of the Corporation is set out on page..... It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the Institution together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Corporation meets each term.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are finance and general purposes, remuneration, search and audit.

All governors are able to take independent professional advice in furtherance of their duties at the Institution's expense and have access to the Clerk to the Corporation, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are also provided on an ad-hoc basis.

The Corporation has a strong and independent non-executive element and no individual or group dominates its decision making process. The Corporation considers that each of its non-executive members is independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chairman and Principal are separate.

**MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL (continued)**

## Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a search committee which is comprised of..... which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years.

## Remuneration committee

Throughout the year ending 31 July 2009, the Institution's remuneration committee comprised ..... The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior potholders.

Details of remuneration for the year ended 31 July 2009 are set out in note ..... to the financial statements.

## Audit committee

The audit committee comprises of three members of the Corporation (excluding the Principal and Chair). The committee operates in accordance with written terms of reference approved by the Corporation.

The audit committee meets on a termly basis and provides a forum for reporting by the Institution's internal and financial statement auditors, who have access to the committee for independent discussion, without the presence of Institution management. The committee also receives and considers reports from the Welsh Assembly Government as they affect the Institution's business.

The Institution's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the audit committee.

Management are responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

The audit committee also advises the Corporation on the appointment of internal and financial statement auditors and their remuneration for both audit and non-audit work.

**MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL (continued)**

## Internal control

## Scope of responsibility

The Corporation is ultimately responsible for the Institution's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the Institution's policies, aims and objectives, whilst safeguarding the public funds and assets for which he/she is personally responsible, in accordance with the responsibilities assigned to him/her in the Financial Memorandum between Casterbridge and the Welsh Assembly Government. He/she is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of institution policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Casterbridge College for the year ended 31 July 2009 and up to the date of approval of the annual report and accounts.

## Capacity to handle risk

The Corporation has reviewed the key risks to which the Institution is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the Institution's significant risks that has been in place for the period ending 31 July 2009 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.



## **MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL (continued)**

### The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- Regular reviews by the governing body of periodic and annual financial reports, which indicate the financial performance against forecasts
- Setting targets to measure financial and other performance
- Clearly defined capital investment control guidelines
- The adoption of formal project management disciplines, where appropriate

Casterbridge College has an internal audit service, which operates in accordance with the requirements of the Welsh Assembly Government. The work of the internal audit service is informed by an analysis of the risks to which the institution is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit provides the governing body with a report on internal audit activity in the institution. The report includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Institution's system of risk management, controls and governance processes.

### Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. His/her review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors
- the work of the executive managers within the Institution who have responsibility for the development and maintenance of the internal control framework
- comments made by the Institution's financial statements auditors and the Welsh Assembly Government's auditors in their management letters and other reports.

The Principal has been advised on the implications of the result of his/her review of the effectiveness of the system of internal control by the audit committee, which oversees the work of the internal auditor, (and Risk Committee, if appropriate) and a

## MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL (continued)

plan to address weaknesses and ensure continuous improvement of the system is in place.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the audit committee also receive regular reports from internal audit, which include recommendations for improvement. The audit committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the audit committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its October 2009 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2009 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2009

Significant internal control problems (if applicable)

(If there are significant internal control problems, record here an outline of the actions taken, or proposed, to deal with them. The wording should be tailored to reflect the circumstances of the case.)

Going concern

After making appropriate enquiries, the Corporation considers that the Institution has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

[Signed]  
[Date]  
[Chair]

[Signed]  
[Date]  
[Principal]

*NB. As a result of the Companies Act 2006 there has been a change in the requirements from auditors for company directors and the disclosure that all relevant information has been given to the auditors. This may be transferred to the FE sector by auditors requiring similar disclosures under the governor's responsibilities. The wording of the governors report in respect to this should be agreed individually by each institution by their auditors.*

**Guidance on the suggested form of wording for the audit report by an institution's external auditors for the year ended 31 July 2009.**

## Independent Auditors' Report to the Governing Body of Casterbridge College

We have audited the financial statements of Casterbridge College for the year ended 31 July 2009, which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention [as modified by the revaluation of certain fixed assets] and the accounting policies set out therein.

This report is made solely to the corporation's members, as a body. Our audit work has been undertaken so that we might state to the corporation's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation and the corporation's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Governing Body and the Auditors

As described in the Statement of Governing Body's Responsibilities the Governing Body is responsible for the preparation of the Report of the Governing Body and the financial statements in accordance with the Accounts Direction issued by the Welsh Assembly Government, the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Accounts Direction issued by the Welsh Assembly Government and the Statement of Recommended Practice – Accounting for Further and Higher Education. We also report to you whether in our opinion, in all material respects, monies expended out of Welsh Assembly Government grants and other funds from whatever source administered by the Institution for specific purposes have been properly applied to those purposes and, if appropriate, managed in compliance with all relevant legislation and whether in our opinion, in all material respects, income has been applied in accordance with the financial memorandum with the Welsh Assembly Government.

We also report to you if, in our opinion, the Members' Report is not consistent with the financial statements, if the Institution has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

**Independent Auditors' Report to the Governing Body of Casterbridge College  
(continued)**

We read the Report of the Governing Body including the corporate governance statement and the statement of internal control and consider the implications for our report if we become aware of any apparent misstatement within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Auditing Standards issued by the Auditing Practices Board and the Audit Code of Practice issued by the Welsh Assembly Government. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Institution's Governing Body in the preparation of the financial statements and whether the accounting policies are appropriate to the Institution's circumstances, consistently applied and disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary, in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluate the overall adequacy of the presentation of the information in the financial statements.

**Opinion**

In our opinion:

- a) the financial statements give a true and fair view of the state of the Institution's affairs as at 31 July 2009 and of its surplus of income over expenditure and cash flows for the year then ended, and have been properly prepared in accordance with the Accounts Direction issued by the Welsh Assembly Government and the Statement of Recommended Practice – Accounting for Further and Higher Education;
- b) in all material respects, monies expended out of Welsh Assembly Government grants and other funds from whatever source administered by the Institution for specific purposes have been properly applied to those purposes and, if appropriate, managed in compliance with all relevant legislation;
- c) in all material respects, income has been applied in accordance with the financial memorandum with the Welsh Assembly Government.

Name

Registered Auditors

Address

Date

## EMOLUMENTS OF THE PRINCIPAL AND HIGHER PAID EMPLOYEES

Disclosure requirements:

- 1 These disclosures apply to the Principal and any higher paid employee. A higher paid employee for the purposes of this disclosure is one whose total emoluments paid or payable during the financial year exceeded £60,000.
- 2 Institutions are required to disclose the following in their audited financial statements:
  - the emoluments of the Principal, disclosing a sub total that excludes the employer's pension contributions and a total that includes these contributions
  - the emoluments of the highest paid employee, if that is not the Principal
  - emoluments due to a higher paid employee but waived by the employee
  - the salary bands of higher paid employees (including the Principal), giving the number of such employees that fall into each band. The width of each salary band should be £10,000
  - the aggregate amount of any compensation paid to any Principal or higher paid employee for loss of office (see Annex E)
  - the number of employees who have been paid such compensation
- 3 'Emoluments' mean emoluments paid to or receivable by any person for:
  - services to the institution
  - services as a director or officer of any subsidiary of the institution
- 4 For this purpose, 'emoluments' paid to or receivable by an employee include their normal salary, and:
  - fees
  - any expense allowance (to the extent that they are chargeable to UK income tax)
  - employer's pension contributions
  - the estimated money value of any benefits received other than in cash (the money value of benefits in kind should be estimated by reference to the market value of the facility provided)

## EMOLUMENTS OF THE PRINCIPAL AND HIGHER PAID EMPLOYEES

Disclosure requirements (continued):

- 5 Emoluments should not include the employer's national insurance contributions. Compensation for loss of office is a category of payment different from an 'emolument'. Consequently, it should not be included in that person's emoluments for banding purposes.
- 6 If more than one person has been Principal during the year, each such person's total emoluments for the year must be attributed to that part of the year during which they were Principal, and these amounts must be disclosed separately.
- 7 Disclosure of the various emoluments should show the analysis between:
  - salaries
  - benefits in kind
  - pension contributions

Benefits in kind

- 8 As noted in 4 above, wherever possible the money value of benefits in kind should be estimated by reference to the market value of the facility provided. Where it is not practicable to use market values, taxable values should be used. Guidance that institutions should discuss with their auditors on the treatment of motor cars and subsidised accommodation is set out below.

Motor cars

- 9 Where an institution provides a leased motor car the market value could be calculated with reference to the lease payments and additional running costs borne by the institution. Likewise, if the institution purchases a car then the sum disclosed could be calculated by reference to annual running costs including depreciation and associated interest costs. This may involve distinguishing between private and business mileage and require the Principal/higher paid employee to keep a record of his or her private and institutional mileage. These amounts may more properly represent the cost to the institution than the taxable benefit.

Subsidised accommodation

- 10 Where the institution owns the property, the benefit derived by the Principal / higher paid employee is the difference between the rent he/she paid (if any) and the estimated market rent for that property which the institution would receive if it were to lease the premises on a commercial basis. If the institution merely leases the property, the benefit could be assessed as the difference between the rent and other expenses paid by the institution and that paid by individual. Private and institutional use of the accommodation will need to be apportioned on a fair and consistent basis; and it would be helpful if the individual kept a record of institutional use to help with the calculation of a fair apportionment.

## **EMOLUMENTS OF THE PRINCIPAL AND HIGHER PAID EMPLOYEES**

Disclosure requirements (continued):

- 11 Where an institution makes it a condition of employment that an individual resides in an official residence, then disclosure on the basis of treatment for tax purposes is reasonable. Institutions and their auditors should reach a judgement that apportionments about private use are fair. The line adopted by the Inland Revenue can serve to inform that judgement.

## COMPENSATION FOR LOSS OF OFFICE

Disclosure requirements:

- 1 This disclosure applies to the Principal and any higher paid employee. A higher paid employee for the purposes of this disclosure is one whose total emoluments paid or payable during the financial year (or the preceding financial year) exceeded £60,000 or whose total emoluments paid or payable during the financial year exceeded £60,000 on a per annum basis.
- 2 Institutions shall show the aggregate amount of any compensation paid or payable to the Principal or any higher paid employee in respect of loss of office.
- 3 This amount disclosed must also include and distinguish between compensation paid or payable for loss of:
  - any other office in connection with the management of the institution's affairs;
  - any office in connection with the management of the affairs of a subsidiary undertaking of the institution.
- 4 Compensation disclosed shall include the estimated monetary value of any non-cash benefits paid or payable and the disclosure will also describe the nature of such compensation.
- 5 References to compensation for loss of office include compensation paid or payable in consideration for, or in connection with, retirement and/or enhancement of pension scheme benefits.



## COSTS IN RESPECT OF OVERSEAS ACTIVITIES

### Disclosure requirements:

	Travel and accommodation £k	Subsistence and Hospitality £k	Other Costs £k	Number of Visits No
Governors				
Senior Post Holders				
Other individuals				

### Explanatory Notes and Guidance

Certain costs incurred in relation to the undertaking of overseas activities will need to be disclosed in the audited financial statements of the institution. The disclosure requirements relate to the net cost to the institution in respect of expenditure on overseas activities incurred by or on behalf of:

- members of the governing body;
- senior post holders, and
- other individuals.

Institutions should expand on this minimum disclosure where this would contribute to the overall understanding of their financial statements. The disclosure note should appear immediately after the detailed note on 'other operating expenses'.

Foreign activities are defined as 'expenditure incurred outside the United Kingdom, or incurred in connection with travel outside the United Kingdom'. Institutions need not disclose expenditure incurred in respect of:

- students involved in course related overseas activity;
- staff (but not governors) travelling with students involved in course related overseas activity; and
- overseas activities where the full costs are met by students.

The number of visits column is designed to reflect the number of person visits. For example if three people went on one trip, and four people went on another trip, then the column would show seven, not two. To simplify the disclosure, institutions may show the cost of breakfast in the accommodation column if it is integral to the room rate.

Where any items are recorded under expenditure for or on behalf of 'Other individuals', who are not members of staff, full details (including the names of the travellers and the reason for the expenditure) also need to be disclosed. For example, this additional disclosure would be needed where expenditure had been incurred for or on behalf of the spouse of a governor.

## SPECIFIC GUIDANCE

### Enhanced Pension Provisions

A college's enhanced pension provision can constitute two different types of provision :

- i) enhanced pensions resulting from redundancy (termination related pension entitlements)
- ii) enhanced pensions relating from early retirement, where an expectation of that payment existed prior to retirement.

It is expected that the majority of enhanced pensions in colleges are termination related pension entitlements and these are outside the scope of FRS 17 and therefore should be treated as a provision under FRS 12 Provisions, Contingent Liabilities and Assets and should be disclosed separately from FRS17.

Tables to calculate the enhanced pension provision can be found on the Learning and Skills Welsh Assembly Government website within Circular 05/02 Supplement A – Enhanced pension provisions spreadsheet. The Welsh Assembly Government requires institutions to use these tables as the basis of their enhanced pension provision unless they have had their own independent actuarial assessment undertaken.

<http://readingroom.lsc.gov.uk/lsc/2005/funding/providers/circular-05-02-enhanced-pensions-spreadsheet.xls>

Please note that the Excel Add – Ins programs have to be activated in order for the spreadsheet to work properly.

Colleges should use the fixed interest 10 year yield indices and index-linked over 5 years indices (5% inflation real yield) of UK Bonds - FTSE Actuaries Government Securities as at 31 July 2008 and 31 July 2009 when using the enhanced pensions tables (as detailed in Supplement A to Circular 05/02 Spreadsheet to Calculate Provisions for Enhanced Pensions) to calculate the level of provision in their financial statements for the year ending 31 July 2009.

The table below shows the relevant rates to use.

	31 July 2008	31 July 2009
Fixed Interest 10 year yield	4.87	3.89
Index-linked over 5 years (5% inflation real yield)	0.95	0.92

## **Accounting for Grants**

Any grants received from public funds should be accounted for in accordance with SSAP 4 Accounting for Government Grants. This means that the income should be matched to the relevant expenditure. Any capital grant received should be credited to a deferred capital grant account and not deducted from the purchase price of the assets concerned. The amount of the grant should be credited to the I&E account over the useful economic life of the related asset, on a basis consistent with the depreciation policy. If a capital grant is received before the purchase of the relevant asset, then the grant should be held in payments on account until spent. Where the

### **SPECIFIC GUIDANCE (Continued)**

#### **Accounting for Grants (continued)**

conditions attached to an award of a grant state that the grant should be directed towards capital expenditure, it should be treated as a deferred capital grant.

Specific grants for DDA work and backlog maintenance have been distributed during the year. To the extent that these grants have not been spent at the year end they should be included in payments received in advance within creditors. Once spent they should either be shown as revenue or credited to deferred capital grants as appropriate in line with the nature of the expenditure.

#### **Agency costs**

Institutions should review and consider the guidance set out in paragraph 55 of the SORP in respect of agency costs.

Where the institution disburses funds it has received as paying agent on behalf of another body and it has no beneficial interest in the funds the receipt and subsequent disbursement of the funds should be excluded from the income and expenditure of the institution where the FRS 5 test for the recognition of an Asset is not met, i.e. where the institution does not have control over the future economic benefits.

What constitutes an agency arrangement will depend upon each individual fund and its own individual characteristics. However, Financial Contingency Funds (access funds) and Educational Maintenance Allowances are such funds that institutions will need consider to assess if the FRS 5 test would be met or not.

The key test is whether the institution has any future beneficial interest in the funds. In the majority of cases the funds will be given to students to support their studies, and so the beneficial interest will be transferred from the institution to the learner. Where this occurs, the funds should be excluded from the income and expenditure account. In the institution's year-end financial statements there should be a separate note for each of the funds showing how they have been treated.

In some cases, funds might not be passed direct to the student but to a third party, in order to pay for student-related transactions, such as residential costs and

equipment. In these cases, as the contract is between the institution and the third party, the beneficial interest is not transferred from the institution to the learner. Where this occurs, the funds should be included within the income and expenditure of the institution. For example, large items of equipment purchased from the access fund for a student's need might remain the property of the institution.

Institutions are recommended to include a new accounting policies note on agency arrangements in their financial statements, for example:

## **SPECIFIC GUIDANCE (Continued)**

### **Agency costs (continued)**

The institution acts as an agent in the collection and payment of financial contingency funds and educational maintenance allowances. Related payments received from the National Welsh Assembly Government for Education and Training for Wales and the Welsh Assembly Government and subsequent disbursements to students and institutions are excluded from the income and expenditure account and are shown separately in note xxxx.

If you have any queries over the interpretation of this guidance please contact your external auditor.

## **Payment Performance**

### **The Better Payments Practice Code**

The four key principles of the Better Payments Practice Code, which institutions should adopt are:

- agree payment terms at the outset of a deal and stick to them;
- explain the payment procedures to suppliers;
- pay bills in accordance with any contract agreed with the supplier, or as required by law; and
- tell suppliers without delay when an invoice is contested and settle quickly on receiving a satisfactory response.

HM Treasury expects public sector bodies to comply with this code as it represents best practice.

### **The Late Payment of Commercial Debts**

The Late Payment of Commercial Debts (Interest) Act 1998 provides small businesses with a statutory right to claim interest on late payment of commercial

debts. In November 1998, small firms were first given the right to charge interest to large companies and public sector organisations. The Late Payment of Commercial Debts (Interest) Act 1998 was extended to cover large companies in November 2002. If no credit period has been agreed, then the Act sets a default period of 30 days after which interest can run.

### **Required disclosures**

The institution's policy and practice on payment of creditors should be disclosed in the Members Report. This should include a policy statement for the following

**SPECIFIC GUIDANCE (Continued)**

#### **Payment Performance (continued)**

financial year and the number of days (calculated in the prescribed manner) taken to pay bills in the current financial year.

The statement must include whether:

- it is the institution's policy to follow any code or standard on payment practice and, if so, give the name of the code or standard; and
- in respect of some, or all, of its suppliers, it is the institution's policy to:
  - i settle the terms of payment with those suppliers when agreeing the terms of each transaction;
  - ii ensure that these suppliers are made aware of the terms of the payment; and
  - iii abide by the terms of payment.

Where the statement does not cover all suppliers, the policy for the other suppliers needs to be disclosed.

The amount of any interest paid under The Late Payment of Commercial Debts (Interest) Act 1998 should also be disclosed.

#### **Calculation of payment days**

The number of days represented by trade creditors falling due for payment within one year at the year end, compared to the total amounts invoiced to suppliers during the year. This calculation method, which should be familiar to your external auditors, is as follows:

Trade creditors at the end of the year are £100k.

Amounts invoiced during the year by suppliers are £1m

Number of days in the financial year is 365.

$$\frac{100}{1,000} \times 365 = 36.5 \text{ days}$$

## SPECIFIC GUIDANCE (Continued)

### Consortium income

There are an increased number of consortium arrangements in place. If the institution is acting as the lead in the consortium, it should only include its own income earned in the I&E, not that passed onto other consortium members. An extra note under the funding council grants note will be required to detail consortium income as follows :

“The Institution is the lead partner in a consortium to deliver xxxx. The income included in these accounts is earned by the institution in its capacity as a provider and consortium lead. All other income relating to the consortium and payable to consortium members has been excluded from the accounts. Total income claimed in the year and the related payments to partners was as follows” :

Total income	x
Payments to FE partners	x
Payments to non FE partners	<u>x</u>
Net income	x

### Auditor fees

The Companies Act 2006 required a more detailed breakdown of auditor’s fees for years beginning on or after 1 Oct 2005, this requirement is transferred to the FE sector. The disclosures required are a split between audit fees and other fees for both the internal and external auditors. Comparatives are required.

### College mergers and partnerships under the transformation programme

A number of mergers will be created, along with partnerships and other arrangements under transformation. The Welsh Assembly government will not be publishing specific guidance on the accounting treatment of these as they will all potentially require individual treatment. For further information with regard to the accounting standards relating to mergers and partnerships see the 2008/09 LSC Accounts Direction, chapter 6, Accounting for Subsidiary and Associate Companies and Joint Ventures and College Combinations at the following link.

[http://readingroom.lsc.gov.uk/lsc/National/6\\_Chapter\\_Six\\_Detailed\\_Guidance\\_on\\_Specific\\_Topics\\_2008\\_09\\_v1.3.doc](http://readingroom.lsc.gov.uk/lsc/National/6_Chapter_Six_Detailed_Guidance_on_Specific_Topics_2008_09_v1.3.doc)

### Changes to Financial statement disclosures

- Staff costs note : contracted out lecturing services has been returned to no pay costs in the finance record due to the difficulty experienced by colleges splitting the pay and non pay elements of contracts and the impact this has on the true and fair view of the accounts.

## RECENT FINANCIAL REPORTING DEVELOPMENTS

### ASB FRS 30- Heritage Assets

This standard was published on the 19/6/09 and is applicable for accounting periods beginning on or after 1 April 2010. It covers heritage assets that are kept principally for their contribution to knowledge and culture, regardless of whether these assets are reported in the balance sheet. The standard introduces significant new disclosure requirements for reporting the content and value of collections. The new disclosures will provide information about an entity's total holding of heritage assets and its stewardship of these assets. It is expected that this standard will be applicable to few institutions and it is recommended that they take specialist advice from their external auditors with regard to its application.

### Other FRS amendments

The following standards and guidance have been issued since the 2007/08 Accounts Direction. It is considered that the majority of these are either not relevant to the sector, not currently applicable to unlisted entities or are exposure drafts that will not be applicable for the current or next year.

#### **ASB amendment to FRS2, FRS 6 and FRS 28**

The ASB has issued an amendment to FRS 2 – Accounting for subsidiary undertakings, FRS 6 – Acquisitions and mergers and FRS 28 – Corresponding Amounts as a result of the changes to the companies Act 2006. These changes are not considered applicable for the FE sector.

#### **ASB exposure draft on embedded derivatives**

Includes proposed amendments to UITF Abstract 42 - reassessment of embedded derivatives and FRS 26 – Financial instruments Recognition and Measurement. This draft clarifies that if an asset is reclassified under the reclassifications amendment in FRS 26, it must be assessed for embedded derivatives at the date of reclassification.

#### **ASB improvements to FRS's**

The ASB has updated a number of FRS's to match the updates to IFRS where those standards are the same. None of the changes should impact FE colleges in Wales. These include :

#### **ASB amendment to FRS 8 – Related party transactions**

#### **ASB amendment to FRS 26 – Financial instruments : eligible hedged items**

#### **ASB amendment to FRS 26 – Financial instruments : reclassifications**

#### **ASB amendment to FRS 25 – Financial instruments : presentation**



## **RECENT FINANCIAL REPORTING DEVELOPMENTS (continued)**

### **International Accounting Standards**

For accounting periods beginning on or after 1 January 2005, the UK's listed companies must use European Union adopted International Accounting Standards in their group financial statements. In the last budget the government decided to postpone the public sector's implementation of international reporting standards until 2009/10, thus the standards will need to be followed from 1<sup>st</sup> April 2009. Although it is not known at this stage whether FE institutions will be required to follow IFRS, it would appear to be inevitable as the ASB is reviewing all of its existing accounting standards to ensure compliance.

Institutions should continue to prepare their financial statements using the principles outlined in the SORP.

### **Financial Reporting Standard 17 retirement benefits**

The full disclosure notes required can be found in the Casterbridge College model financial statements. The model for 2009 can be found on the LSC website at the following link :

**[http://readingroom.lsc.gov.uk/lsc/National/4\\_Chapter\\_Four\\_Model\\_Casterbridge\\_College\\_Financial\\_statements\\_\\_2008\\_09\\_v1.3.doc](http://readingroom.lsc.gov.uk/lsc/National/4_Chapter_Four_Model_Casterbridge_College_Financial_statements__2008_09_v1.3.doc)**

The ASB have published a best practice guide for reporting of retirement benefits, this is best practice and is not mandatory, see link:

**<http://www.frc.org.uk/images/uploaded/documents/Reporting%20Statement%20Web%20optimised.pdf>**

There have been no additional changes to FRS 17 disclosure requirements during the year.

## RECENT FINANCIAL REPORTING DEVELOPMENTS (continued)

### Operating and Financial Review

The Operating and Financial Review may also be called the members report or the report of the Governing Body. The SORP 2007 requires the review to provide an overview of the institutions finances and operations and should follow best practice as set out in the Reporting Statement 'The Operating and Financial Review' issued by the Accounting Standards Board in January 2006.

<http://www.frc.org.uk/images/uploaded/documents/Reporting%20Statements%20OFR%20web.pdf>

A significant number of Welsh Colleges reviewed and enhanced their operating and financial review in 2007/08, there are no changes from the guidance issued in 2007/08 which is included below for those colleges which wish to further enhance their reporting.

Extract from the SORP 2007 with regard to the Operating and Financial Review :

*Specifically the OFR should provide a comprehensive and balanced analysis, consistent with the size and complexity of the institution, of:*

- (a) the development, performance and operation of the business and operation of the institution during the financial year;*
- (b) the position of the institution at the end of the year;*
- (c) the main trends and factors underlying the development, performance and position of the business of the institution and its academic performance during the financial year; and*
- (d) the main trends and factors which are likely to affect the institution's future development, performance and position.*

*The OFR should be produced in accordance with the following principles, in that it should:*

- (a) set out an analysis of the institution through the eyes of the institution's governing body (or equivalent);*
- (b) focus on matters that are relevant to the interests of funders and financial supporters;*
- (c) have a forward-looking orientation, identifying those trends and factors relevant to the funders and financial supporters' assessment of the current and future performance of the institution and the progress towards the achievement of long-term academic and business objectives;*
- (d) complement as well as supplement the financial statements, in order to*

**RECENT FINANCIAL REPORTING DEVELOPMENTS (continued)****Operating and Financial Review (continued)**

- (e) *enhance the overall corporate disclosure;*
- (f) *be comprehensive and understandable;*
- (g) *be balanced and neutral, dealing even-handedly with both good and bad aspects; and*
- (h) *be comparable over time.*

*The OFR should provide information to assist funders and financial supporters to assess the strategies adopted by the institution and the potential for those strategies to succeed. The key elements of the disclosure framework recommended to achieve this are, where significant:*

- (a) *the nature of the institution including a description of the competitive and regulatory environment in which it operates, and the institution's objectives and strategies;*
- (b) *the development and performance of the institution, both in the financial year under review and in the future;*
- (c) *the resources, principal risks and uncertainties and relationships that may affect the institution's long-term financial position; and*
- (d) *the position of the institution including a description of the long-term financing, treasury policies and objectives and liquidity of the institution both in the financial year under review and the future.*

*The form and content of the OFR is not prescribed, the principles set out in paragraph 26 above set a framework for the disclosures to be provided by the governing body (or equivalent) in the OFR. The institution's governing body (or equivalent) should consider how best to use the framework to structure the OFR and the precise content, including the level of detail to be disclosed, relating to the key elements set out in paragraph 27, given the particular circumstances of the institution.*