

Accounts Direction to Further Education Colleges for 2005/06

April 2006

This circular is of interest to principals and chief executives of further education (FE) colleges, finance directors at FE colleges, financial statements auditors, regional LSCs and other key organisations in the learning and skills sector.

Further information

For further information, please contact the appropriate regional Learning and Skills Council office, or write to:

Learning and Skills Council
Cheylesmore House
Quinton Road
Coventry CV1 2WT

www.lsc.gov.uk

© For action

Responses to Annex A are requested by
31 December 2006

Summary

The purpose of this circular is to provide direction to colleges and financial statements auditors on the preparation of colleges' annual financial statements. The Learning and Skills Council (LSC) has consulted financial statements auditors and sector representatives on this guidance, which supplements that in the Statement of Recommended Practice (SORP) and consolidates all previous accounting policies guidance issued by the LSC. This circular applies for the year ending 31 July 2006, and highlights issues for future years.

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- B: Comments on Aspects of the Accounts Direction Handbook

Supplement

- A: Finance Record 2005/06

Executive Summary

Date: April 2006

Subject: Accounts Direction to Further Education Colleges for 2005/06

Content: This circular updates Circular 05/02 *Accounts Direction to Further Education Colleges for 2004/05*. The circular consists of the main circular (including two annexes) and one supplement (Supplement A: Finance Record 2005/06). The key changes are as follows.

- a Casterbridge College's model financial statements have been fully updated to reflect the full implementation of Financial Reporting Standard (FRS) 17 Retirement Benefits with effect from 1 August 2005.
- b The finance record for 2005/06 has been revised to closer resemble the format of many colleges' management accounts.
- c New guidance is provided in respect of:
 - college mergers
 - FRS 17 prior year adjustments
 - reversal of Statement of Standard Accounting Practice (SSAP) 24 provisions for underfunding in the Local Government Pension Scheme (LGPS)
 - the accounting treatment of insurance proceeds where the fixed asset has been either destroyed or lost
 - Financial Reporting Standards up to FRS 29
 - Financial Reporting Exposure Drafts (FREDs) up to FRED 39.

Supplement A and updates to the *Accounts Direction Handbook* are available on the LSC's website (www.lsc.gov.uk).

Intended recipients: Principals and chief executives of further education (FE) colleges, finance directors at FE colleges, financial statements auditors, regional directors of Learning and Skills Councils (LSCs) and other key organisations in the learning and skills sector.

Status: For information and response.

Date of response: The following should be submitted to the regional LSC office no later than 31 December 2006:

- audited financial statements of the college and its subsidiaries (where applicable) for the year ending 31 July 2006
- hard copy of the finance record for the year ending 31 July 2006, which has been signed by the Principal or Chief Executive of the college
- financial statements auditor's management letter, including the college's response.

The following should be submitted via email no later than 31 December 2006:

- college's finance record for the year ending 31 July 2006.

Further information: For further information, please contact the appropriate regional LSC office, or write to:

Learning and Skills Council
Cheylesmore House
Quinton Road
Cheylesmore
Coventry
CV1 2WT

www.lsc.gov.uk

Responses to this document: Responses to Annex A are requested by 31 December 2006.

Enquiries: Provider Financial Management (National Office)

Telephone helpline: 024 7682 3581

Email: pfm@lsc.gov.uk

Accounts Direction to Further Education Colleges for 2005/06

1. Introduction

Introduction

1 The purpose of this circular is to provide direction on the preparation of colleges' financial statements for the year ending 31 July 2006 and to identify issues that will require consideration for future years. This direction supplements that in the *Statement of Recommended Practice: Accounting for Further and Higher Education* (the SORP) and updates the *Accounts Direction Handbook* issued by the Learning and Skills Council (LSC) in Circular 05/02 *Accounts Direction to Further Education Colleges for 2004/05*.

2 In publishing this guidance, the LSC has consulted college financial statements auditors and sector representatives.

3 The LSC's accounting policies for the sector are applicable to all colleges, regardless of their size, constitution or complexity. Its policies are not currently applicable to external institutions, private training providers or other public bodies in receipt of LSC funding.

4 The accounting policies need not be applied to immaterial items. Guidance on the determination of what is material may be found in statement 2.401 *The Interpretation of "Materiality" in Financial Reporting* issued by the Council of the Institute of Chartered Accountants in England and Wales.

Revisions to Accounting or Auditing Guidance

5 Circular 05/02 took account of Financial Reporting Standards (FRSs) up to FRS 26 *Financial Instruments*:

Measurement and various exposure drafts. This circular considers:

- FRS 28 *Corresponding Amounts*
- updates to the *Accounts Direction Handbook*
- accounting for recovery of funds 2005/06
- audit opinion 2005/06
- going concern and impairment reviews
- finance record 2005/06.

6 The following FRSs are not addressed on the grounds of their limited applicability to the sector:

- FRS 27 *Life Assurance*
- FRS 29 (IFRS 7) *Financial Instruments: Disclosures*.

7 If colleges consider the guidance referred to in paragraph 6 may be relevant to their particular circumstances, they should discuss accounting treatments with their financial statements auditors.

Return of Audited Financial Statements for 2005/06

8 The financial relationship between the LSC and colleges is set out in its financial memorandum as detailed in Further Education Funding Council (FEFC) Circular 99/48 *Financial Memorandum*. The financial memorandum sets out the terms and conditions on which payments of grant will be made from the LSC to institutions. A specific responsibility of the college is to provide the LSC with audited financial statements for the financial year no later than five months after the year end.

9 Therefore, each college should send an original signed copy of its audited financial statements for 2005/06, together with its signed finance record and, where applicable, copies of the audited financial statements of its subsidiaries, to the relevant regional LSC office to arrive on or before 31 December 2006.

10 Where the college is still subject to the individualised learner record (ILR) audit regime, the return date for the financial statements and finance record is also 31 December 2006.

11 A cover sheet for the returns is attached at Annex A to this circular.

Audit Reports and Management Letters

12 Colleges should send a copy of the final version of the financial statements auditor's management letter (including any separate regularity audit letter) and the college's response, to the relevant regional audit manager by 31 December 2006.

13 Financial statements auditors are reminded that where they are unable to express an unqualified opinion on the college'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 finance and resources executive director at the relevant regional LSC office.

Guidance

14 Colleges with queries on how to apply the LSC's guidance on accounting policies to the particular circumstances of their own college may wish to consult their financial statements auditors or the regional LSC office.

Approval of Reports and Financial Statements

15 The reports and financial statements must be approved by the corporation. They should be signed and dated as follows.

- The members' report should be signed and dated by the chair of governors on behalf of the corporation.
- The balance sheet should be signed and dated by the principal and one other member of the corporation, usually the chair of governors; the director of finance is not required to sign it.
- The statement of the responsibilities of the members of the corporation should be signed and dated by the chair of governors.
- The revised corporate governance and internal control statement should be signed and dated by the chair of governors and the principal.

16 The above items should normally be signed on the same date. They must also be signed on or very shortly before the date on which the college's financial statements auditors sign and date their audit report.

2. Updates to the Accounts Direction Handbook

17 In Circular 05/02, the LSC published the *Accounts Direction Handbook* (the Handbook). The Handbook was prepared in order to provide:

- a one-stop document that colleges can refer to when completing their financial statements
- further clarification to colleges on completing the members' report and the accounts to the financial statements
- a version of the Handbook, accessed through the LSC's website, that is completely up to date for changes in Generally Accepted Accounting Principles (GAAP) issued by the Accounting Standards Board (ASB) and other guidance issued by the LSC.

18 Any future amendments to the Handbook would be tracked and an audit trail of the changes provided on

the amendments record list provided at the beginning of the Handbook.

19 The Handbook will be only issued in hard copy format to colleges when substantial changes have occurred since its last publication. Instead, the LSC will publish the latest version of the Handbook on its website (www.lsc.gov.uk/National/Partners/PolicyandDevelopment/FEcolleges-Finance/sapg.htm). When the Handbook undergoes a substantial update, a hard copy will be sent to subscribing colleges for them to update their version.

20 If you would like to be on a distribution list in order to receive notification and copies of any Handbook updates, please complete the form at Annex B to this circular and return to Peter Darwen either by email or by post (contact details appear at the beginning of this document).

21 The Handbook has been designed to be a useful document for colleges. If you have any comments on its improvement, please complete Annex B and return to Peter Darwen.

22 Table 1 shows the amendments that have been made to the Handbook since Circular 05/02 was issued.

Table 1: Amendments to the Accounts Direction Handbook since Circular 05/02.

Reference	Reason for amendment	Date of change
Chapter 4 note 8	The requirement for the disclosure of overseas activities for other staff has been removed.	13 July 2005
Chapter 7	The 2004/05 finance record has been changed to reflect the new mandatory benchmarking schedules and changes on existing schedules: <ul style="list-style-type: none"> • Schedule 1a – new line: Line 1c Other Funding Council grants • Schedule 1c – new lines: Line 5a Marketing, line 5b Exams and line 5c Other general expenditure • Schedule 1c – contract tuition services has been moved to line 1c so that it now is included under teaching department expenditure • Schedule 2 should now be completed in £000s rather than £s. 	13 July 2005
Chapter 8	This has been fully revised to reflect the changes in the benchmarking schedules.	13 July 2005

Continued...

Table 1: Amendments to the Accounts Direction Handbook since Circular 05/02 (continued).

Reference	Reason for amendment	Date of change
Chapter 4	Casterbridge College has been updated for the new Auditors Report (page 12) and the Regularity Auditors Report (page 42).	12 October 2005
Chapter 6	The accounting treatment for a model B merger has been changed to reflect the guidance in the <i>SORP: Accounting for Further and Higher Education</i> (paragraph 6.24).	12 October 2005
Chapter 6	Table 6.2 has been revised to show the correct treatment of the pension finance income / (costs).	12 October 2005
Chapter 6	New guidance has been issued on: <ul style="list-style-type: none"> • the accounting treatment of insurance proceeds where the fixed asset has either been destroyed or lost (paragraph 6.172) • FRED 36 <i>Business Combinations</i> (paragraphs 6.176 to 6.183) • FRED 37 <i>Intangible Fixed Assets</i> (paragraphs 6.184 to 6.190) • FRED 38 <i>Impairment of Assets</i> (paragraph 6.191) • FRED 39 Amendments to FRS 12 and FRS 17 (paragraphs 6.192 to 6.201) • <i>Proposed Statement of Principles for Public Benefit Entities</i> (paragraphs 6.203 to 6.224). 	12 October 2005
Chapter 4	Casterbridge College has been fully updated to reflect the change of years and to reflect the full implementation of FRS 17 in the financial statements, including the prior year adjustment note.	1 March 2006
Chapter 5	This has been fully revised to reflect: <ul style="list-style-type: none"> • the implementation of FRS 17 in colleges' financial statements and accompanying finance records (paragraphs 5.166 to 5.172 and 5.193 to 5.198) • FRS 21 <i>Events after the Post Balance Sheet Date</i> (paragraph 5.199) • FRS 23 <i>The Effects of Changes in Foreign Exchange Rates</i> (paragraph 5.76) • Amendments to the 2005/06 finance record (paragraphs 5.25 to 5.214). 	1 March 2006

Continued...

Table 1: Amendments to the Accounts Direction Handbook since Circular 05/02 (continued).

Reference	Reason for amendment	Date of change
Chapter 6	New guidance has been provided in respect of: <ul style="list-style-type: none"> • model B mergers between colleges (paragraphs 6.33 to 6.41) • FRS 17 prior year adjustments (paragraphs 6.166 to 6.171) • reversal of SSAP 24 provisions for underfunding in LGPS, including pooled schemes (paragraphs 6.160 to 6.165) • FRS 28 <i>Corresponding Amounts</i> (paragraphs 6.225 to 6.232). 	1 March 2006
Chapter 7	The finance record for 2005/06 has been updated to reflect the changes made to the format of the financial plan. For details of the changes please refer to Chapter 8 in the Handbook.	1 March 2006
Chapter 8	Chapter 8 has been updated to reflect changes to the finance record and data collection system.	1 March 2006
Chapter 10	The index has been fully revised to reflect the changes since the Accounts Direction Handbook was issued in April 2005.	1 March 2006

23 For details of these amendments, colleges should refer to the relevant paragraph of the Handbook as given in Table 1 above.

3. Other Guidance

Arrangements for the Recovery of Funding for Underachievement against Funding Agreements

24 The arrangements for the recovery of funding for underachievement against funding agreements for the year ending 31 July 2006 are the same as set out in the Addendum to Circular 05/01 *Further Education Individualised Learner Record Funding Estimate/Claim 2004/05*. Circular 05/01 outlines two different approaches to the recovery of funds in 2005/06 depending upon whether the college is in or out of plan-led funding.

Colleges within plan-led funding

25 These colleges will suffer no retrospective clawback of funds (or unplanned growth funding) from their final funding claim and will already have discussed with their local LSC the need for any adjustment to their funding allocation that may apply in-year regarding the 2005/06 financial year.

26 These colleges do not have their final funding claim audited for 2005/06.

Colleges outside plan-led funding

27 The arrangements for those colleges outside plan-led funding are as follows.

- There is no retrospective recovery of funds for colleges achieving 97 per cent or more of their planned activity in 2005/06 (the 3 per cent "tolerance" mechanism).
- There is an opportunity for colleges achieving below 97 per cent of planned activity to bring themselves within the 97 per cent threshold by returning baseline funds for 2005/06 **and** 2006/07 by **30 November 2006** in order to remove retrospective clawback.
- Colleges whose final underperformance exceeds 3 per cent of the FE-funded cash allocation will be subject to full clawback for all underperformance.

Unplanned or responsive growth in 2005/06

28 The LSC will not make any unplanned or responsive growth payments for colleges' overdelivery in 2005/06.

Deadlines

29 In order to access the recovery of funds thresholds or any cash core funding protection as set out in Circular 05/01, colleges must comply with the deadline for final returns set out in this circular.

30 In order to meet the returns timetable set out in Table 2, colleges outside plan-led funding must ensure that the final funding claim and final ILR data are shared with funding auditors in time for them to be able to meet the return timetable. Funding auditors have requested that final data should be shared with them at least one month before the final claim is due, that is, by 31 October 2006 (which is the same date as the return date to LSC for all providers within plan-led funding).

Table 2: Recovery and tolerance deadlines.

Annex required	Colleges within plan-led funding	Colleges outside plan-led funding
Annex B: In-year Estimate	28 February 2006	28 February 2006
Annex B: End-year Estimate	31 August 2006	31 August 2006
Annex B: Final Claim	31 October 2006	30 November 2006
Annex C: Final Audit Report (Financial statements auditor)	No return needed	Annex C: 30 November 2006
Annex D: Final Audit Report (LSC-contracted funding auditor)	No return needed	Annex D: 30 November 2006
Return of funding for those below 97 per cent of their allocation	In-year discussions with their local LSC	30 November 2006 (recovered by no later than 20 December 2006)
Retrospective clawback profile for 2005/06	Not applicable	In one-third equal instalments between January and March 2007

Colleges outside plan-led funding - accounting treatment of the tolerance and recovery of funding in their 2005/06 financial statements

31 Where those colleges outside plan-led funding achieve at least 97 per cent of their planned activity (based on the ILR auditor's final claim), the LSC's expectation is that they will recognise 100 per cent of their allocation in the financial statements.

32 Colleges expecting to achieve below 97 per cent of their planned activity would be expected to agree with the local LSC by 30 November 2006 the return of funds to bring them to the 97 per cent threshold. In this situation, while the LSC expects that the 3 per cent tolerance should be recognised as income in the accounts, individual circumstances should once again be taken into account in determining the most appropriate accounting treatment.

33 Any reduction in the college's 2005/06 recurrent allocation made after 31 July 2006 should be shown as a creditor due within one year in the college's 2005/06 financial statements.

Adjustments to recurrent funding in relation to prior year

34 Where a college has adjustments relating to its 2004/05 allocation from the LSC, the college should show the difference between its final 2004/05 outturn

and that recognised in the 2004/05 accounts as a separate line in the funding council grants note under the heading "adjustment to recurrent funding in relation to prior year". This could result in either a positive or negative adjustment in 2005/06.

Enhanced Pension Provisions

35 A college's enhanced pension provision, as calculated using the enhanced pension provision tables provided at Supplement A to Circular 05/02, constitutes two different types of provision:

- a enhanced pensions resulting from redundancy (termination costs)
- b enhanced pensions resulting from early retirement, where an expectation of that payment existed prior to retirement (retirement benefit).

36 The element relating to scenario a) should be treated as a provision under FRS 12 *Provisions, Contingent Liabilities and Assets*, and the element relating to scenario b) should be treated as a retirement benefit provision under FRS 17.

37 The element of each college's current provision which relates to each of these scenarios will vary. The Casterbridge College model accounts provided at Chapter 4 of the Handbook have therefore been designed to treat the entire provision as relating to reorganisation costs and so treated as scenario a) outlined above. This is because it is anticipated that the majority of the college enhanced pension provisions will relate to termination costs. Therefore, note 20 in Casterbridge College has just been amended to show how a college should disclose any prior year adjustment relating to provisions.

38 Each college should discuss with their auditors the suitability of this treatment, and where materially different, the relevant elements of the provision should be recognised under FRS 17.

Audit Opinion 2005/06

39 In October 2005, the LSC issued a "true and fair" model audit opinion and a regularity audit opinion for use in colleges' 2004/05 financial statements. The "true and fair" audit opinion has been updated to reflect the implementation of International Standards on Auditing (UK and Ireland) by the Auditing Practices Board. Therefore, the audit opinion provided on page 12 of Chapter 4 has been updated. The regularity audit opinion provided on page 42 of Chapter 4 has been updated for just the change in year.

40 Where the true and fair audit opinion is included on the college's website, the college should ensure that the statement of governing body's responsibilities clearly:

- states the governing body's responsibility for the maintenance and integrity of the website
- refers to the fact that uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

41 Where the college decides not to update the statement of governing body's responsibilities, then it should ensure that the true and fair audit opinion shown on the website includes the following words:

The maintenance and integrity of the (name of college) website is the responsibility of the governing body of the college; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have

occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern and Impairment Reviews

42 Where colleges and/or their financial statements auditors have concerns about the appropriateness of the value of assets or the use of the going-concern basis for the preparation of accounts, they should contact the LSC's national director of provider financial management and the financial and resources executive director at the relevant regional LSC office.

Finance Record 2005/06

43 After discussions with college representatives, the finance record for 2005/06 has been changed to reflect more accurately the style of colleges' management accounts. For details of these changes, colleges should refer to Chapters 7 and 8 of the Handbook.

44 The finance record was designed to be an electronic version of the audited financial statements. When the LSC wishes to refer to the financial performance of the sector or of individual colleges (for example, when making submissions to ministers or publishing benchmarking information), it uses the finance record as its source.

45 For the 2005/06 finance record, colleges are requested to:

- send a signed paper copy of their finance record with the audited financial statements to the regional LSC by 31 December 2006; and
- submit an electronic copy by email to pfm@lsc.gov.uk by 31 December 2006.

46 Supplement A of this circular provides a copy of the finance record. Colleges should download the finance record worksheet from the LSC's website and return the worksheet via email by 31 December 2006.

Annex A: Cover Sheet for the Return of Audited Financial Statements and Finance Record for the Year Ended 31 July 2006

(Reference: LSC-P-NAT-060228)

This cover sheet must be completed by all colleges. Please photocopy, complete and return to the relevant regional LSC office by 31 December 2006.



Leading learning and skills

Name of college <i>(please print)</i>
Code
Contact for queries <i>(please print)</i>
Telephone number

Returns Enclosed (Please Tick)

One signed copy of the college's audited financial statements for 2005/06.	<input type="checkbox"/>
One signed paper copy of the college's finance record for 2005/06.	<input type="checkbox"/>
One copy of each of the college's subsidiary undertakings audited financial statements for 2005/06.*	<input type="checkbox"/>
One copy of the financial statements auditor's management letter for 2005/06, including college response.	<input type="checkbox"/>

*If these accounts have not yet been signed, please return an unsigned copy indicating when you expect to be able to forward a signed copy.



Annex B: Comments on Aspects of the Accounts Direction Handbook

(Reference: LSC-P-NAT-060228)

Distribution List

If you would like to join a distribution list in order to receive notification of when the Accounts Direction Handbook has been updated, please complete the form below and return to Provider Financial Management (National Office) either by email (to pfm@lsc.gov.uk) or by post (to Cheylesmore House, Quinton Road, Coventry, CV1 2WT).



Leading learning and skills

Name of college <i>(please print)</i>
Contact for queries <i>(please print)</i>
Email address
Telephone number

Other Comments

If you have any suggestions on improving the content of the Accounts Direction Handbook, please write them below and send them to Provider Financial Management (National Office) at the above address.



Notes

Learning and Skills Council.
National Office

Learning and Skills Council
Cheylesmore House
Quinton Road
Coventry
CV1 2WT
www.lsc.gov.uk

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