Supplement A

to Circular 01/04

Specific FE Guidance to Supplement the SORP

Learning+Skills Council

Contents

Further information

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Supplement A: Specific FE Guidance to Supplement the SORP

General

1 The SORP refers institutions to the funding council's latest guidance. Supplement A to the circular sets out that additional guidance.

Members' report

2 A proforma members' report for use by colleges is set out at Annex A to this supplement. Colleges should not follow the example in the SORP. Attention is drawn, in particular, to the following:

- a disability statement is mandatory
- a note on the expenditure against the planned maintenance plan is mandatory; and
- a new note on risk management is required see paragraph 73 of circular.

Statement on internal financial controls

3 As in previous years, the Principal, as accounting officer, is required to make and sign a statement on internal financial controls. A proforma statement is set out in annex B to this supplement.

Statement of governing body's responsibilities

4 The statement of the governing body's responsibilities should be as in previous years. For completeness, it is reproduced below.

Casterbridge College Statement of the Responsibilities of the Members of the Corporation

The members of the corporation of the college are required to present audited financial statements for each financial year. Within the terms and conditions of the Financial Memorandum agreed between the Further Education Funding Council (and taken over by the Learning and Skills Council from 1 April 2001) and the corporation of the college, the corporation,through its Principal, is required to prepare financial statements for each financial year, that give a true and fair view of the state of affairs of the college and the result for that year.

In preparing the financial statements the corporation is required to:

- *select suitable accounting policies and apply them consistently*
- *make judgements and estimates that are reasonable and prudent*
- *state whether applicable accounting standards were followed, subject to any material departures disclosed and explained in the financial statements; and*
- *prepare financial statements on the going concern basis unless it is inappropriate to assume that the college will continue in operation.*

The corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the college and to enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of *incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard assets of the college and to prevent and detect fraud and other irregularities.*

Members of the corporation are responsible for ensuring that funds from the Council are used only in accordance with the Financial Memorandum with the Council and any other conditions that the Council may from time to time prescribe. Members of the corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the corporation are responsible for securing economical, efficient and effective management of the college's resources and expenditure.

Audit report

5 The format of the audit report is addressed in supplement B.

Statement of principal accounting policies

6 Colleges should state:

These financial statements were prepared in accordance with the statement of recommended practice (SORP): Accounting in Further and Higher Education Institutions and in accordance with applicable Accounting Standards. They conform to guidance published by the Learning and Skills Council, in circular xx.

Income and expenditure account

Exceptional items

7 Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the college and which individually or, if of a similar type, in aggregate, need disclosure by virtue of their size or incidence if the financial statements are to give a true and fair view.

8 The amount of each exceptional item will be disclosed separately by way of a note or on the face of the income and expenditure account if that degree of prominence is necessary for a true and fair view.

9 The following items, including provisions in respect of such items, will be shown separately on the face of the income and expenditure account after operating surplus:

- surplus or deficits on the sale or termination of an operation
- costs of a fundamental reorganisation or restructuring which have a material effect on the nature and focus of operations
- surplus or deficits on the disposal of fixed assets.

10 In some instances where staff restructuring were extensive, the costs will be disclosed as an exceptional item. This is a matter for each college to discuss with its external auditors.

Note 1 Funding council grants

11 A full analysis of specific grants will be provided as shown in the example note below. If the college has received any other revenue grants from the Council then they will be disclosed separately here. Grant from the Higher Education Funding Council for England (HEFCE) will be included in note 1. Please note that following publication of the SORP, Access funds (but not other student support funds) should not be included in income and expenditure and analysed in note 1. Instead, these funds should be recorded only in a note (as illustrated in note 38 of the SORP).

Adjustments to recurrent funding

12 Following receipt by the Council of an audited student number claim, a colleges' recurrent funding for prior years may get adjusted in excess of the estimates included in

their audited financial statements. Such further adjustment will be included in Council grants on the income and expenditure account and separately disclosed in the notes to the accounts where Council grants are analysed.

13 Such late adjustments will not be significant or fundamental enough to justify a prior-year adjustment in the financial statements.

14 From 1 April 2001 income previously received from the Training and Enterprise Councils will be part of the Learning and Skills Council income. For 2000/01 the format below should be followed.

Note 1 Funding council grants

	Training and Enterprise Councils* £000s	Further Education Funding Council* £000s	Learning and Skills Council* £000s	Higher Education Funding Council £000s	Total 2000/01 £000s	Total 1999/00 £000s
Recurrent grant						
Adjustment to recurrent funding relating to previous year						
Releases of deferred capital grants						
Income for payments under Section 6 (5) of the Further and Higher Education Act 1992						
Income to support financing of major works						
Rationalisation funds						
FE Standards fund						
Former Section 11 grant						
Crèche provision						
Basic skills schools						
Non-schedule 2 funds						
University for Industry						
IT for students with disabilities						
Inclusive learning quality initiative						
Widening participation strategic partnerships						
Other funds						
Total						

**From 1 April 2001 contracts with the Training and Enterprise Council (TEC) and funding agreements with the Further Education Funding Council were replaced with contracts/agreements with the Learning and Skills Council. Contracts with the TEC were previously disclosed in note 2 under education contracts,the comparative figures for 1999/00 have been amended to include TEC contracts in the figures above.*

Note 2 Tuition fees and education contracts

15 Education contracts will be analysed between LEA, higher education and other. The footnote above for note 1 will also be repeated for note 2. The comparative figures on the face of the income and expenditure account will also be amended. Colleges are not required to head up the column on the income and expenditure account as 'restated'.

Notes 6 and 7 Staff costs

Governors' expenses

16 In certain cases, it is deemed justifiable to compensate governors for the costs of childcare and/or loss of earnings. The governing body will need to consider each case on its merits and be satisfied that there is no remunerative element. Colleges are required to disclose full details of such payments to governors in their financial statements.

Cost relating to overseas activities

17 The total costs associated with staff and governors travelling abroad on college business will be disclosed separately for the following:

- members of the corporation
- senior postholders; and
- other higher paid staff as defined in paragraph 19.

18 If the total costs borne by the college are reimbursed from any source then the total cost, the amount of the reimbursement and the net cost to the college will be disclosed. If a college wishes to disclose brief additional information about overseas activities it may do so in consultation with its external auditors. Comparative figures are not required.

19 The disclosure in relation to remuneration of higher paid staff and senior post holders will now be given in bands of £10,000 from a starting point of £50,000. This is consistent with the disclosure required by HEFCE and under the charities SORP.

Balance Sheet

Note 12 Fixed Assets

20 Colleges will continue to refer to the use of the transitional arrangements under FRS 15. The suggested disclosure in accounting policies is:

The college's policy is to carry all assets at historical cost, except for inherited assets which are included on the balance sheet at a valuation existing at 31 July 1999 when the college implemented FRS 15 for the first time.

The fixed asset note will include the following:

As stated in the policy note the college carries inherited assets at an inherited valuation of £x. The assets were valued on incorporation and not updated since. The historic cost of the assets is nil.

Impairment

21 FRS 11 relates to tangible fixed assets and goodwill. Investment properties and most investments are excluded from the scope of the FRS. However, investments in subsidiary undertakings, associates and joint ventures are included within the scope of FRS 11.

22 Impairment is measured by comparing the carrying value of a fixed asset with its recoverable amount. The recoverable amount is the higher of the amount that could be obtained from selling the fixed asset (net realisable value) or using the fixed asset (value in use).

23 If it is not possible to test a single fixed asset for impairment because the cashflows on which the calculation is based do not arise from a single asset, then the test can be applied to a group of assets (an income

generating unit, or IGU) which produces a largely independent income stream. FRS 11 provides guidance on identifying IGUs. In the context of the FE sector, in many cases the college as a whole may be the only IGU. However, IGUs may include:

- a school or department
- a site
- a management centre
- an asset(s) held for disposal.

24 It is only necessary to carry out an impairment review where there is an indication that impairment has occurred. FRS 11 provides examples of indicators of impairment, including:

a. current period operating loss in the business in which the fixed asset or goodwill is involved or net cash outflow from the operating activities of that business, combined with either past operating losses or net cash outflows from such operating activities or an expectation of continuing operating losses or net cash outflows from such operating activities;

b. a significant decline in a fixed asset's market value during the period;

c. evidence of obsolescence or physical damage to the fixed asset;

d. a significant adverse change in either the business or the market in which the fixed asset or goodwill is involved, such as the entrance of a major competitor or a significant change in the statutory or other regulatory environment in which the business operates;

e. any 'indicator of value' (for example turnover) used to measure the fair value of a fixed asset on acquisition;

f. a commitment by management to undertake a significant reorganisation;

g. a major loss of key employees; and

h. a significant increase in market interest rates or other market rates of return that are likely to affect materially the fixed asset's recoverable amount.

25 Examples c), d), e), f) and g) above appear relevant to the FE sector. However, a current period historical loss is considered to be a better indicator of impairment for colleges than a current period operating loss (example a). Example b) is unlikely to apply, since the majority of college buildings are specialised buildings, valued at depreciated replacement cost rather than open market value.

26 Other examples of impairment indicators specific to the sector include a significant under-performance against a college's funding agreement with the Council (or another major funding source) and a withdrawal from certain areas of provision.

27 Such indicators can exist without having an adverse impact on the measurement of fixed assets. However, if impairment is identified, FRS 11 states that it is appropriate to review the useful economic lives and residual values of the relevant fixed assets since these may be affected.

28 In summary, if no indicators of impairment are identified there is no requirement to carry out an impairment review.

29 FRS 11 requires an impairment loss to be recognised in the income and expenditure account unless it arises on a previously revalued asset.An impairment loss on a revalued fixed asset will be fully recognised in the income and expenditure account where it

is due to a 'clear consumption of economic benefits'. Otherwise, the impairment will be recognised in the statement of total recognised gains and losses until the carrying amount falls to the amount of the asset's depreciated historical cost and thereafter in the income and expenditure account.

30 Where the recoverable amount of a fixed asset increases as a result of a change in economic conditions or the expected use of the asset, then the reversal of any previous impairment loss will be recognised.

Disposal of fixed assets

31 The profit or loss on a disposal of a tangible fixed asset will be accounted for in the income and expenditure account for the period when the disposal occurs. It is the difference between the net sale proceeds and the carrying amount, whether carried at historical cost or valuation. Profit or losses on the disposal of fixed asset should be shown in accordance with FRS 3 Reporting Financial Performance.

Financial memorandum

32 The Council requires the Board to obtain its consent for land and buildings transactions where the total cost exceeds £1,000,000 or 5% of the college's annual revenue, whichever is the lower.

Note 20 Deferred capital grants

33 Deferred capital grants received from the Further Education Funding Council or the Learning and Skills Council will be analysed as follows:

Analysis of capital grants received from the Further Education Funding Council during 2000/01:

	£'000
IT infrastructure	*184*
Rationalisation	*30*
Support for major works	*250*
Hunter funds	*52*
	516

Note 23 Movement on general reserves

34 The note states that restricted reserves apply only to further education institutions. However, the Council would now only expect to see a restricted reserve in extremely limited circumstances, for example, in respect of a prize fund.

Note 32 Pensions and similar obligations

Teachers' Pension Scheme Valuation

35 Based on the information available the disclosure for the TPS will be as set out below for colleges. This replaces note 32 in the model financial statements to the SORP.

TPS

The college is a member of the TPS, a defined benefit pension scheme.

The TPS is an unfunded scheme. Contributions on a 'pay–as-you-go' basis are credited to the exchequer under arrangements governed by the Superannuation Act 1972. Actuarial valuations are carried out on a notional set of investments.

Under the definitions set out in Financial Reporting Standard 17 Retirement Benefits, the TPS is a multi-employer pension scheme. The college is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly, the college has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The college has set out below the information available on the deficit in the scheme and the implications for the college in terms of the anticipated contribution rates.

The pensions cost is assessed every five years in accordance with the advice of the government actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	*31 March 1996*
Actuarial method	*prospective benefits*
Investment returns per annum	*8.5% per annum*
Salary scale increases per annum	*6.5% per annum*
Value of notional assets at date of last valuation	*£61,710 million*
(estimated future contributions together with	
notional investments held at 31 March 1996)	
Proportion of members' accrued benefits covered by the actuarial value of the assets	*94%*

Following the implementation of Teachers' Pensions (Employers' Supplementary Contributions) Regulations 2000 the government actuary carried out a further review on the on the level of employers' contributions. For the period from 1 April 2000 to 31 March 2002 the employer contribution will be 7.2% plus 0.2% in respect of benefit improvements to the scheme. From 1 April 2002 there will be a further increase of 0.95%.

Note 33 Post balance sheet events

36 A post-balance sheet event is an event that occurs between the balance sheet date and the date on which the financial statements are approved (as defined in SSAP 17 Accounting for Post-balance Sheet Events). Post-balance sheet events will be disclosed in the notes to the financial statements in addition to the disclosure in the members' report. The financial impact of post-balance sheet events will also be disclosed where it is known or can be estimated.

Note 36 Contingent liability

37 A contingent liability is defined in FRS 12 as follows:

> a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or a present obligation that arises from past events but is not recognised because either: i. it is not probable that a transfer of economic benefits will be required to settle the obligation; or ii. the amount of the obligation cannot be measured with sufficient reliability.

38 Contingent liabilities are not recognised as liabilities because they are either: i. possible obligations, as it has yet to be confirmed whether the entity has an obligation that could lead to a transfer of economic benefits; or ii. present obligations that do not meet the recognition criteria in FRS 12 because either it is not probable that a transfer of economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made.

39 A material contingent loss not accrued should be disclosed except where the

possibility of loss is remote. If the possibility of loss becomes probable then a provision should be recognised.

40 In respect of each contingency which is required to be disclosed, the following information will be stated by way of notes in financial statements:

- the nature of the contingency
- the uncertainties which are expected to affect the amount or timing of the ultimate outcome
- a prudent estimate of the financial effect, made at the date on which the financial statements are approved by the members of the corporation; or a statement that it is not practicable to make such an estimate
- the possibility of any reimbursement.

41 Where there is a disclosure of an estimate of the financial effect of a contingency, the amount disclosed is the potential financial effect.

42 A contingent asset is defined in FRS 12 as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

43 Contingent assets will not be recognised in financial statements until the realisation is virtually certain and the asset is therefore no longer 'contingent'. Details of contingent assets that are not virtually certain will only be disclosed where an inflow of economic benefits is probable.

Note 37 Related party disclosures

44 FRS 8 Related Party Disclosures requires the disclosure of information on related party transactions.

45 Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operating policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

46 FRS 8 states that the following are deemed to be related parties to a reporting entity:

- subsidiary undertakings
- its associates and joint ventures
- the investor or venturer in respect of which the reporting entity is an associate or joint venture
- directors of the reporting entity
- pension funds for the benefit of employees of the reporting entity or of any entity that is a related party of the reporting entity.

47 The following are presumed to be related parties (unless it can be demonstrated that neither party has influenced the financial and operating policies of the other):

- the key management of the reporting entity and the key management of its parent undertaking or undertakings
- each person acting in concert in such a way as to be able to exercise control

or influence over the reporting entity; and

- an entity managing or managed by the reporting entity under a management contract.

48 Following the definitions above the members of the corporation would be deemed to be related parties to the college and members of the senior management team would be presumed to be related parties.

49 Members of the corporation may have an interest in businesses with which the college trades. It will need to be considered for each case whether that individual can influence the actions of the business to the extent that either the college or the business has subordinated its own separate interests.

50 FRS 8 does not require disclosure of the relationship and transactions between the reporting entity and the parties listed below simply as a result of their role as:

- providers of finance in the course of their business in that regard
- utility companies
- government departments and their sponsored bodies.

51 Transactions with the Council do not need to be disclosed under the requirements of FRS 8.

Note 38 Access funds

52 Access funds (but not other student support funds) will be excluded from income and expenditure and disclosed only as a note, as illustrated in the SORP.

Foreign currency transactions

53 Where a college enters into transactions in one or more foreign currencies, the transactions will be translated into sterling and exchange differences recognised in accordance with SSAP 20 Foreign Currency Transactions.

Preparation for the proposed introduction of the Euro

54 Colleges need to consider how the Euro might impact on their finance systems and discuss this with their external auditors.

55 Any financial commitments in respect of the Euro will be disclosed in the notes to the financial statements.

Group accounts

Subsidiary undertakings

56 Where a college has subsidiary undertakings, it will prepare consolidated financial statements in accordance with FRS2 Accounting for Subsidiary Undertakings. Where a college prepares consolidated financial statements it will also present a balance sheet for the college alone.

57 In accordance with FRS 2 Accounting for Subsidiary Undertakings, an undertaking is the parent undertaking of another undertaking (a subsidiary undertaking) if any of the following apply:

- it holds a majority of the voting rights in the undertaking
- it is a member of the undertaking and has the right to appoint or remove directors holding a majority of the voting rights at meetings of the board on all, or substantially all, matters
- it has the right to exercise a dominant influence over the undertaking by virtue of provisions contained in the undertaking's memorandum or articles, or by virtue of a control contract
- it is a member of the undertaking and controls alone, pursuant to an

agreement with other shareholders or members, a majority of the voting rights in the undertaking

- it has a participating interest in the undertaking and it actually exercises a dominant influence over the undertaking, or it and the undertaking are managed on a unified basis.

58 A subsidiary undertaking will only be excluded from consolidation where:

- severe long-term restrictions substantially hinder the exercise of the rights of the college over its assets or management
- the interest in the subsidiary undertaking is held exclusively with a view to subsequent resale and it has not previously been consolidated in the college's group accounts
- its activities are so different from those of the college that its inclusion would be incompatible with the obligation to give a true and fair view. FRS 2 notes that it is exceptional for such circumstances to arise.

59 Colleges will include all subsidiary undertakings regardless of materiality.

60 Where any subsidiary undertakings are excluded from consolidation, the notes to the financial statements should disclose:

- their names
- the reasons why they are excluded
- particulars of the balances between the excluded subsidiary undertakings and the rest of the group
- the nature and extent of transactions of the excluded subsidiary undertakings with the rest of the group
- for subsidiary undertakings excluded because of different activities, the separate financial statements of those undertakings
- the aggregate amount of the capital and reserves of such undertakings as at the end of the relevant financial year and their profit or loss for that period, unless the subsidiary undertakings are included in the consolidated financial statements using the equity method of accounting
- where equity accounting was not applied, any amounts included in the consolidated financial statements in respect of dividends received and receivable from the excluded undertakings, and any write-downs in the period in respect of the investment in those undertakings or amounts due from those undertakings.

61 The Council would normally expect a subsidiary undertaking's accounting period to be coterminous with that of the college.

62 Where a college has only one subsidiary undertaking and it qualifies for exemption from consolidation full disclosure will still be provided as set out above.

63 A full copy of each subsidiary undertaking's audited financial statements will be sent to the Council with a college's own audited financial statements. If a subsidiary undertaking was dormant during the year then this will be stated in a covering letter and a copy of these accounts are not required. If a subsidiary undertaking's financial statements were not signed by the return date for college accounts, a draft copy will be provided with the college's financial statements and a signed copy provided as soon as it becomes available.

Links with other companies

64 Where a college has links with companies or other organisations these will normally be the subject of a formal memorandum between the college and the company or joint venture in accordance with FEFC circular 99/14 *College Companies, Joint Ventures and Overseas Operations*. Where a college has material business links with any companies or other organisations which are not consolidated or disclosed as subsidiary undertakings, associates or joint ventures then details of these business links and any related potential liabilities will be disclosed in the notes to the accounts. Comparative figures are not required. Colleges will prepare a full list of business links for discussion with them and agree with their external auditors which are material and need disclosure. Examples of such links include:

- a link through a trust which controls a company or organisation with which the college has or had dealings; or
- where the college is a major or minor partner in a large European grant-funded project. For example, under the terms of an ADAPT project each partner may bear liability in respect of the project as a whole to a varying degree (full, partial, joint and several, or none) and this needs disclosure.

65 In circumstances such as these the nature of material links will be disclosed together with details of:

- the name of the company or organisation
- the principal activity
- any investment by the college; and
- whether any of the activities take place outside England.

Details of any material contingent liability will be disclosed in the note on contingent liabilities.

Associates and joint ventures and partnerships

66 FRS 9 Associates and Joint Ventures requires the equity method of accounting for associates and the gross equity method of accounting for joint ventures. It prohibits proportional consolidation, which is currently adopted for some joint ventures, and proposes an accounting treatment, for ‘joint arrangements that are not entities’, that is broadly similar to proportional consolidation. FRS 9 requires such arrangements to be accounted for at the individual entity level as well as on consolidation. Many collaborative activities fall within the scope of FRS 9 and colleges need to consult their external auditors on accounting for proposed collaborative initiatives.

67 FRS 9 sets out definitions of ‘joint arrangements that are not entities’.An entity carries out a trade or business of its own not just part of the business of the organisations. Examples of joint arrangements that are not entities are where:

- the partners derive their benefits from products or services taken in kind rather than by receiving a share in the results of trading; or
- each partner’s share of the output of the joint activity is determined by supply of inputs.

68 Colleges need to assess whether they are entering into a joint venture or a joint arrangement, most partnerships currently operating between colleges are joint arrangements.

69 Under a joint arrangement each college should account for its own share of the assets,

liabilities and cashflows of the arrangement. The share should be set out in an agreement of understanding between the partners.

70 Where the cashflow for a particular project undertaken by an arrangement is via a lead college then that college will record the cash receipt and outflow in its published cashflow statement as:

- Receipt of grant for partnership £xxx
- Transfer of grant to partnership £xxx.

Any sums not transferred at the year end will be recorded as payments received on account.

71 Paragraphs 69 and 70 apply whether a college is preparing consolidated accounts or single entity accounts.

72 An example might be:

- 4 colleges have a partnership arrangement to set up a shared network and develop learning materials to deliver over that network
- a grant towards setting up the network is received by a lead college
- each college contributes, in equal proportions, learning materials and a share of running costs
- each college will record, within its operating activities, its contribution to running costs, the costs of developing learning materials and depreciation on its share of assets and its share of release of deferred capital grant and on the balance sheet a quarter of the value of the fixed assets owned by the partnership and relevant proportion on the deferred capital grant
- the lead college will record the receipt and transfer of the grant

73 If the partnership is deemed to be a joint venture then the following treatment should be applied in consolidated accounts:

- the share of joint venture income should be shown as a deduction from group income (which will include it)
- the share of operating surplus of the joint venture should then be added back in
- the share of assets and liabilities of the joint venture should be shown on the balance sheet under investments.

74 Where consolidated accounts are not prepared the information at paragraph 69 and the effect of including it should be included by way of a note.

Use of college companies

75 In May 2000 the Further Education Funding Council issued guidance on college companies and joint ventures in *College Companies, Joint Ventures:A good practice guide*. Guidance is also available in *Related Companies: Recommended practice guidelines* by Robson Rhodes (March 1996), based on a study which was commissioned by the Higher Education Funding Council for England. Colleges need to consult their external auditors before making a decision on whether to establish a subsidiary undertaking.

76 It is the responsibility of each college and its corporation to ensure that the activities of its subsidiary and associated undertakings and those of any joint venture to which it is a party are within the scope of its primary powers under the *Further and Higher Education Act 1992*. Colleges are also reminded of the amendments to s19 of the *Further and Higher Education Act 1992* made by the *Learning and Skills Act 2000*. Colleges are given a specific power to subscribe for or otherwise acquire shares in or securities of a company but this

power must not be exercised for the purpose of conducting an educational institution. Colleges should not participate in companies for the purpose of the provision of education, if that provision is funded wholly or partly by the Council, unless the Council consents. Colleges must ensure that they obtain independent legal advice on the exercise of their power to participate in companies.

College combinations

77 Colleges will comply with FRS 6 Acquisitions and Mergers as far as possible. However, when acquisition accounting is used, reorganisation can generate negative goodwill through one college acquiring the assets of another for no consideration. Strictly, the negative goodwill arising on an acquisition is shown as a negative asset and recognised in the income and expenditure account in the periods in which the non-monetary assets acquired are recovered, whether through depreciation or sale, in accordance with FRS 10.

78 Under FRS 6 reorganisations will meet the criteria for a merger when:

- neither college is portrayed as acquirer or acquired
- both colleges, as represented by the corporations, participate in establishing the management structure and management personnel of the combined college: those decisions should be made on the basis of consensus rather than purely by the exercise of voting rights
- the relative sizes of the two colleges are not so disparate that one college dominates the combined college by virtue of its size.

79 Practical experience in accounting for reorganisations resulted in a revision of the previous sector accounting guidance (revised in FEFC circular 98/26). Mergers and acquisitions in the further education sector cannot be compared directly with commercial mergers and acquisitions, which take place in the private sector. Following consultation with the major providers of external audit services and sector representative associations it was agreed that merger accounting be used in each case.

80 Where a reorganisation is to be accounted for as a merger, the income and expenditure and cashflows of both colleges will be brought into the financial statements of the combined college from the beginning of the financial year in which the merger occurred. The corresponding figures will be restated by including the results for both colleges for the previous period and their balance sheets for the previous balance sheet date.

81 Any adjustment necessary to achieve uniformity of accounting policies will be made. However, the carrying values of the assets and liabilities of both colleges are not required to be adjusted to fair value on consolidation.

82 The following disclosures will be made for the period in which the merger took place:

- the names of the colleges which have merged
- the date of the merger; and
- whether the combination was accounted for as an acquisition or a merger.

83 The combined college should also disclose the following information:

- an analysis of the current period's income and expenditure account and statement of total recognised gains and losses into:

- amounts relating to the merged college for the period after the date of the merger; and
- for each college, amounts relating to that college for the period up to the date of the merger
- an analysis between the merging colleges of the principal components of the income and expenditure account and a statement of total recognised gains and losses for the previous financial period
- the aggregate book value of the net assets of each merging college at the date of the merger
- the nature and amount of significant accounting adjustments made to the net assets of either college to achieve consistency of accounting policies, and an explanation of any other significant adjustments made to the net assets of either college as a consequence of the merger
- a statement of the adjustments to consolidated reserves resulting from the merger.

84 The analysis of the income and expenditure account required above will show, as a minimum:

- income
- operating surplus
- exceptional items split between continuing operations, discontinued operations and acquisitions
- surpluses before taxation
- taxation
- extraordinary items.

85 Where a merger takes place after 31 July, but before the financial statements are published, the merger will be disclosed in the financial statements of both colleges as a significant post balance sheet event.

86 The dissolved corporation (in model A mergers (where both corporations are dissolved) this is both corporations) is required to prepare accounts to the date of dissolution. Ordinarily accounts will not be prepared for a period of more than one year but in this situation the corporation must seek the Council's approval to extend the period to up to two years. These final accounts will be audited. In a model B merger the continuing corporation does not need to prepare accounts for a part year.

Acquisition of private training providers

87 A number of colleges have acquired the business of private training providers. Each of these acquisitions will be considered on its own merit and acquisition or merger accounting applied as appropriate. It is presumed that acquisition accounting will apply in the majority of cases.

Annex A: Proforma Members Report

Casterbridge College Report of the Members of the Corporation for the Period from 1 August 2000 to 31 July 2001

Corporation

1 The corporation was established under The *Further and Higher Education Act 1992* for the purpose of conducting Casterbridge College. The college is an exempt charity for the purposes of the *Charities Act 1993*.

Corporation Name

2 The corporation was incorporated as Casterbridge College of Arts and Technology. On 1 October 2000 the Secretary of State granted consent to the corporation to change its name to Casterbridge College. The corporation believes that the new name represents the broader activities of the college.

Mission

3 The college's mission as approved by its members is:

to lead in meeting the needs for accessible, responsive,high-quality education training and complementary services in the community of Casterbridge and its surroundings.

Objectives

4 In 1999 the college prepared a strategic plan for the period 1 August 1999 to 31 July 2003. This strategic plan includes an accommodation strategy and financial forecasts. The corporation monitors the performance of the college against these plans. The plans are reviewed and updated each year. The college's continuing strategic objectives are:

- to achieve a student body of 4,200 full-time equivalents (FTEs) by 31 July 2003
- to improve student retention to 92% by 31 July 2003
- to achieve a grade 2 for all areas in the 2002 college inspection
- to retain the Investors in People award
- to achieve space utilisation of five square metres per FTE by 31 July 2002
- to maintain the financial viability of the college by maintaining cash days in hand of 40, a current ratio of 2:1, and accumulated reserves of 5% of income.

The college is on target for achieving these objectives.

5 The college's specific objectives for 2000/01 and achievement of those objectives is addressed below:

- the college achieved an estimated 581,000 funding units against an allocation of 606,000 units (see below)

- on 15 January 2000 the corporation resolved to merge with Wessex College of Agriculture; this merger was achieved on 1 August 2001
- to improve student retention to 90%; this was achieved
- to maintain financial viability of the college by maintaining cash days in hand of 40, a current ratio of 2:1, and accumulated reserves of 5% of income; this was achieved
- to open outreach centres in Upper Bridgethorpe and North Town; the centre in Upper Bridgethorpe has been successfully opened, the North Town centre has been delayed.

Performance indicators

6 Performance indicators relating to key areas of the college's activity are set out in the Further Education Funding Council's publication *Performance Indicators 1998-99*. This document compares the performance of different colleges in the following areas:

- achievement of funding target
- percentage change in student numbers
- in-year retention rates
- achievement rates
- contribution to national targets
- out-turn average level of funding.

Student numbers

7 The college is funded according to the units of activity it generates each year. In 2000/01 the college achieved an estimated 581,000 units against an allocation of 606,000 units.

8 This represents growth of 3% over 1999-00. The majority of this growth has been achieved by opening an outreach centre in Upper Bridgethorpe. The centre caters for the rural population of Upper Bridgethorpe and surrounding villages which does not have easy access to the main college site. The college will be opening a further outreach centre at North Town in September 2001. This centre had originally been planned for January 2001 and the delay accounts for the shortfall in units against the college's allocation.

9 The college is likely to exceed its objective of 4,200 FTEs.

Student achievements

10 Students achieved an estimated 65% of their qualification aims (2000: 62%).

Curriculum developments

11 Methods of teaching and learning are under continuous review and development to ensure that the curriculum meets the needs of the local population.

12 The need for outreach centres was identified following discussions with Wessex training and enterprise council and the local learning partnership. A centre has been opened in Upper Bridgethorpe and a further centre is planned for North Town.

13 The new building, opened during the year, incorporates a learning resource centre, thus enabling greater use of modern teaching methods.

14 Higher National Diploma programmes franchised from Wessex University are continuing to be expanded.

Governance and management

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

monthly. The audit committee and the full corporation meet termly. The remuneration and search committees are convened as necessary. Full minutes of all meetings are available from the clerk to the corporation at:

Casterbridge College
Park Lane
Casterbridge
Wessex

16 The clerk to the corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

Finances

17 The college generated an operating deficit in the year of £3,540,000 (1999-00 surplus of £189,000). The result in 2000/01 is stated after accounting for the disposal of the Church Street annexe.

18 During the year the college took out a secured loan of £1.5 million to help finance a new building on its main site. The building cost £4 million and replaces a number of poor-quality temporary classrooms. The building includes a learning resource centre, which has enabled the college to change its teaching methods, to make greater use of information technology, to accommodate delivery of curriculum 2000, and to be more efficient. The building was opened on 10 October 2001 by the secretary of state. The balance of the capital cost was met by use of the disposal proceeds from sale of the college's Church Street annexe for £2,500,000.

19 The college has accumulated reserves of £5,503,000 and cash balances of £2,554,000. The college wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.

20 The college has two subsidiary companies, ABC Limited and XYZ Limited. The principal business activity of ABC limited is the rental of property. XYZ Limited carries out training of employees on behalf of employers. Any surpluses generated by the subsidiaries are transferred to the college under gift aid. In the current year the surpluses generated were £6,000 and £4,000 for ABC Limited and XYZ Limited respectively.

Post-balance sheet events

21 On 1 August 2001 the college merged its activities with those of Wessex College of Agriculture.

Staff and student involvement

22 The college considers good communication with its staff to be very important and to this end publishes a regular newsletter which is available to all staff. The college encourages staff and student involvement through membership of formal committees.

Taxation

23 The majority of the college's activities do not fall to be charged to corporation tax.

Employment of disabled persons

24 The college considers all applications for employment from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled every effort is made to ensure that employment with the college continues. The college's policy is to provide training, career development and opportunities for promotion that are, as far as possible, identical to those for other employees.

Disability statement

25 The college seeks to achieve the objectives set down in the *Disability Discrimination Act 1995* and in particular makes the following commitments:

a. as part of the redevelopment of the buildings it is installing lifts and ramps so that eventually most of the facilities will allow access to people with a disability;

b. there is a list of specialist equipment, such as lighting for audio facilities, which the college can make available for use by students;

c. the admissions policy for all students is described in the college charter. Appeals against a decision not to offer a place are dealt with under the complaints policy;

d. the college has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities;

e. specialist programmes are described in programme information guides, and achievements and destinations are recorded and published in the standard college format;

f. counselling and welfare services are described in the college charter.

Planned maintenance programme

26 The cost of the college's planned maintenance programme over a period of five years is estimated to be £2,000,000, resulting in an average annual charge of £400,000. The programme was developed following a survey of the college's estate, which was carried out during 1998-99. The programme is reviewed each year.

27 The college plans to carry out the works which were outstanding at 31 July 2001, together with the works planned for the following two years, by 31 July 2003 and has set aside funds for this purpose.

Planned maintenance programme

	1998/99	1999/2000	2000/01	2001/02	2002/03
Year	1	2	3	4	5
	£000	£000	£000	£000	£000
Outstanding at 1 August	70	70	43	0	20
Average annual charge	400	400	400	400	400
Actual or planned expenditure	(400)	(427)	(443)	(380)	(400)
outstanding at 31 July	70	43	0	20	20

Corporate governance

28 The college acknowledges and endorses the principles of corporate governance, including adopting a risk based approach to internal controls. The college principal currently reports on his review of the effectiveness of the internal financial controls. The governors have commenced a review of corporate governance and the major risks to which the college is exposed. This will cover business, operational and compliance, in addition to financial systems. The college will review its procedures and establish systems to mitigate risks. The college expects to have completed this review by July 2002 and will be in a position to operate enhanced systems for the financial year 2002/03. The governors expect to be able to make a full statement on their corporate governance policy and their review of risks and the systems put in place to mitigate those risks in their report for the year to 31 July 2003.

[signed]

[date]

[chair]

Annex B: Proforma Accounting Officer Statement

Casterbridge College Statement of the System of Internal Financial Control

As accounting officer, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by Casterbridge College.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or will be detected within a timely period.

The system of internal financial 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 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, that is required to operate in accordance with the requirements of the Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the college 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 college's governing body on the recommendation of the audit committee. At least annually, the head of internal audit (HIA)provides the governing body with a report on internal audit activity in the college. The report includes the HIA's independent opinion on the adequacy and effectiveness of the college's system of internal control, including internal financial control. My review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors, the audit committee which oversees the work of the internal auditor, the executive managers within the college who have responsibility for the development and maintenance of the financial control framework, and comments made by the college's external auditors and the Council appointed auditors of the college's individualised student record and funding claim in their management letters and other reports.

[Signature] [Date]

T Ross Principal

Annex C: Statement of Internal Financial Control

Checklist

Issue	Evidence	Action Required
A. Organisational framework		
A1. Roles and responsibilities		
A1.1 How are the Accounting Officer (and Board) responsibilities in respect of internal financial controls defined and implemented?		
A1.2 What mechanisms exist to link corporate and operational objectives with the levels of responsibility and authority delegated to individual staff?		
A1.3 How does the existing college structure support these allocations of responsibility and what procedures exist to ensure individual responsibilities are sufficiently segregated?		
A1.4 How are options for the achievement of objectives evaluated to deliver best value for money (VFM) (for example, activity to be performed in-house or outsourced)?		
A1.5 How are competencies defined and satisfied for key financial posts?		
A1.6 Are the systems of internal financial control documented? How are they fully implemented across the whole college?		
A1.7 How is responsibility for the implementation and review of the various systems contributing to internal financial control defined?		
A2. Reviewing the effectiveness of systems		
A2.1 What action is undertaken to review the effectiveness of the overall system of internal financial control at regular intervals? What is the timetable?		

Checklist

Issue	Evidence	Action Required
A2.2 What process is there to monitor the performance of each element of the overall system of internal financial control and to facilitate the continuous improvement of control procedures?		
A2.3 What procedures are in place to document shortfalls and take corrective action?		
A2.4 What procedures are there to provide reasonable assurance on the reliability of financial information and effectiveness of internal financial controls to the Accounting Officer?		
A2.5 Are the internal financial control systems independently reviewed/ verified? How is this achieved?		
A2.6 How is recognised best practice on internal financial control integrated?		
A2.7 How is the strategic and operational work of the internal audit team planned and controlled?		
A2.8 How is independence of audit opinion on the adequacy and effectiveness of the internal financial controls ensured?		
A2.9 Has an audit committee been established and what is its role?		
A3. Reaction to weakness in systems		
A3.1 What arrangements are in place to ensure effective compliance with regulations and other guidance on internal financial control?		
A3.2 How is it ensured that material errors or irregularities are prevented or detected within a timely period?		
A3.3 How does the culture of the college contribute to effective internal financial control?		
A4. Identifying and managing business risks		
A4.1 What systems of risk management exist as part of the system of internal financial control?		
A4.2 How were the systems of internal financial control developed in accordance with perceived risk?		
A4.3 Is there an established anti-fraud strategy?		

Checklist

Issue	Evidence	Action Required
B. Accountability		
B1. Internal financial control environment		
B1.1 What framework of control (for example, delegation limits) exists?		
B1.2 What arrangements exist to ensure all assets are properly safeguarded and controlled (that is, against unauthorised use or disposals)?		
B1.3 What controls are in place to ensure that all resources are used effectively, efficiently and economically? How is VFM measured and achieved?		
B1.4 Are there adequate procedures for disseminating guidance and instructions? What mechanisms are in place to demonstrate they are communicated effectively. Is adequate support training given?		
B1.5 How responsive is the college to changes in circumstances that impact on the system of internal financial control?		
C. Comprehensive budget systems		
C1. Planning		
C1.1 What strategic and operational business planning activities take place (for example, setting budgets in accordance with key objectives and targets)?		
C1.2 What internal procedures exist to review and agree budgets?		
C1.3 How are budgets delegated within the college?		
C1.4 How are the agreed budget plans documented and disseminated?		
C2. Monitoring processes: existence and effectiveness		
C2.1 How is financial and other related performance measured?		
C2.2 What types of internal financial report are prepared (for example, forecast out-turn, actuals v budget) and how frequently are they issued?		
C2.3 What use is made of these reports?		
C2.4 How is the need for, and benefit of, particular report formats reviewed?		

Checklist

Issue	Evidence	Action Required
D. Capital investment		
D1. Planning		
D1.1 What processes are in place to evaluate the need for, and benefits of, any potential capital projects?		
D1.2 What processes are in place to assist with deciding between conventional capital procurement and using private finance initiative (PFI) solutions?		
D1.3 What mechanisms are used to prepare, and then disseminate, capital maintenance plans?		
D1.4 What formal project management disciplines exist?		
D2. Monitoring processes: existence and Effectiveness		
D2.1 How are capital investment projects controlled and monitored during currency of contract?		
D2.2 What procedures are there for reviewing capital investments made, and assessing value obtained once the contract is complete?		
E. Reliability of financial information produced		
E1. Accounting records		
E1.1 What procedures exist for ensuring proper and accurate accounting records are generated and retained in accordance with relevant accounting rules (for example, original invoice through to entry in ledger)?		
E1.2 What systems are in place to ensure entries into the accounting records are properly authorised?		
E2. Internal reporting		
E2.1 How does the college ensure that information produced is sufficient, relevant and reliable?		
E2.2 What controls exist to ensure the security and accuracy of both systems and data?		
E3. External reporting		

Checklist

Issue	Evidence	Action Required
E3.1 How does the college ensure that the information produced complies with any reporting requirements?		
E3.2 How does the college ensure that the information produced is sufficient, relevant and reliable for all potential users?		
E3.3 What mechanisms are there to ensure all published information is timely, objective, balanced and understandable?		
F. Standards of behaviour		
F1. Leadership		
F1.1 How is internal financial control consciousness communicated and encouraged?		
F1.2 What procedures exist to demonstrate that managers exercise leadership with competence and integrity?		
F2. Regularity and propriety		
F2.1 Has a formal code of conduct defining the standards of public behaviour to which all staff are expected to subscribe been documented and disseminated throughout the college?		
F2.2 What processes exist to ensure propriety and regularity are maintained?		
F2.3 What mechanisms are there to ensure staff are not influenced by prejudice, bias or conflicts of interest, including the influence of gifts and hospitality?		
F2.4 How do staff appraisal and development training (for example, Investors in People) schemes contribute to maintaining appropriate standards of behaviour?		

This publication is available in an electronic form on the Council's website: www.lsc.gov.uk

Reference CIRC/0043/01