

## Annex A: Annual assurance return guidance

### Audited financial statements

1. We ask higher education institutions (HEIs) to send us, via the secure area of the HEFCE website, one scanned PDF of their complete financial statements that has been signed by all the relevant parties. The financial statements shall be signed by the accountable officer and by the chair or one other member of the governing body appointed by that body.

2. For the financial year 2014-15, HEIs are required to follow the 2007 version of the 'Statement of recommended practice: accounting for further and higher education' (SORP) in preparing their financial statements<sup>1</sup>. HEIs should also comply with 'HEFCE's Accounts direction to higher education institutions for 2014-15 financial statements' (HEFCE Circular letter 25/2014). The audited financial statements should, as a minimum, include the following.

- a. A narrative report that provides a comprehensive and balanced analysis of the institution's finances and operations, including the following information specified in the 2007 SORP.
  - i. The development, performance and operation of the business and operation of the HEI during the financial year.
  - ii. The position of the HEI at the end of the year.
  - iii. The main trends and factors underlying the development, performance and position of the business of the HEI and its academic performance during the financial year.
  - iv. The main trends and factors which are likely to affect the HEI's future development, performance and position.

HEIs that are companies are also required to follow the 'Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013'. In June 2014 the Financial Reporting Council published guidance on the requirements ('Guidance on the Strategic Report').

b. A statement on internal control (corporate governance). In formulating their statements, HEIs should refer to best practice guidance, including guidance from the Institute of Chartered Accountants in England and Wales, the British Universities Finance Directors Group, and to the HEFCE accounts direction to higher education institutions for 2014-15 financial statements (which can be found at [www.hefce.ac.uk/pubs/year/2014/CL252014/](http://www.hefce.ac.uk/pubs/year/2014/CL252014/)).

c. Where appropriate, a report in the corporate governance statement of the HEI's annual audited financial statements that the institution has had regard to the

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<sup>1</sup> The SORP (2007) is available at <http://www.universitiesuk.ac.uk/highereducation/Pages/SORP.aspx#.VcoLZpp0yUI>.

voluntary Committee of University Chairs (CUC) governance code of practice. Where an HEI considers that it follows the code of practice set out in the CUC guide, it should state this in its annual financial statements in accordance with the guide. Conversely, where an HEI's practices are not consistent with particular provisions of the Code, an explanation should be published in the financial statements which state where it departs from the code, and why. Adoption of the CUC code of practice, with the principles of the Code adapted as appropriate to each HEI's character, is an important factor in enabling HEFCE to rely on self-regulation within HEIs and hence minimise the accountability burden. The CUC published a new code in December 2014, 'The Higher Education Code of Governance', which will apply from 2015-16 onwards and is available at [www.universitychairs.ac.uk/publications/](http://www.universitychairs.ac.uk/publications/).

d. The HEI's external auditors must provide a report to the governing body (see Annex A paragraphs 18 to 25 of the Memorandum of Assurance and Accountability, HEFCE 2014/12).

Reporting requirements for HEIs that are exempt charities have been included in the Accounts direction for 2014-15 (HEFCE Circular letter 25/2014). Guidance about these requirements is available at [www.hefce.ac.uk/reg/charityreg/](http://www.hefce.ac.uk/reg/charityreg/).

### **Audit committee annual report**

3. As stated in the Audit Code of Practice (Annex A to HEFCE 2014/12) the HEI's audit committee must produce an annual report for the governing body and the accountable officer. The audit committee's annual report must include the required opinions and cover the financial year 2014-15, and include any significant issues (including its consideration of the 2014-15 financial statements, internal and external audit reports) up to the date of preparation of the report. The audit committee annual report must be presented to and reviewed by the governing body before the annual financial statements are signed.

4. The report is likely to record the work of the committee over a period of 15 or 16 months up to the date of its presentation, and to consider the following:

- the information and assurances it has received to support its opinions
- the external auditors' management letter (for 2013-14 and 2014-15)
- the internal auditors' annual report (for 2013-14 and 2014-15)
- the committee's consideration of the performance of the internal and external audit services
- any VFM work
- any HEFCE assurance service or other relevant evaluation.

5. The report might also identify any key issues for the HEI arising out of its activity over the year. This would include any fraud or other serious incidents.

6. If the annual VFM report is part of the Audit Committee report, it would be helpful if it could also be uploaded as a separate document so that it can be included in any summary analysis.

## External audit management letter

7. External auditors should report to those charged with governance at each HEI (the governing body, audit committee or both) by way of an annual management letter and, if necessary, an audit issues memorandum that highlights any significant accounting and control issues arising from the audit. The HEI's management should provide written responses to any recommendations made or issues raised, and these must be submitted to HEFCE.

8. **Where issues are communicated through more than one report** (for example, a separate report covering information technology audits or governance issues, or one detailing management's responses), **the additional reports should also be submitted to HEFCE.** These should all be submitted **as a single document.**

## Internal audit annual report

9. The internal audit annual report (see Annex A of HEFCE 2014/12) must relate to financial year 2014-15 and must include the required opinions, and any significant issues up to the date of preparing the report that affect the opinion. This must be addressed to the governing body and the accountable officer, and must be considered by the audit committee.

10. The opinions should be placed into their proper contexts: that is, the work undertaken should have been based on the agreed audit strategy and on the areas reviewed in the year, as well as incorporating knowledge of areas audited in previous years (including from a previous auditor). Internal audit performance measures should be provided, including coverage achieved against the original audit plan. The annual report should also draw attention to any significant audit recommendations which the internal audit service considers have not received adequate management attention.

## Efficiency and value for money

11. BIS has expressed the need for the sector to make greater progress in delivering efficiencies and noted that students will expect value for the fees they pay. HEFCE has been asked to work with BIS and Treasury ministers, the Research Councils and vice-chancellors to build on the Diamond and Wakeham reviews to drive further and faster improvements in efficiency. HEFCE is also working with Professor Sir Ian Diamond and Universities UK on the latest review of efficiency in higher education institutions. In this context, HEIs must continue to demonstrate good value for money and one way in which they can do so is share their annual VFM reports with HEFCE.

12. HEIs are therefore strongly encouraged to submit an annual VFM report as part of the annual accountability returns via the secure area of the HEFCE website by 1 December 2015. This is not a mandatory requirement, but this information will help provide a better evidence base of VFM activities in the sector. The VFM reporting is intended to be a non-burdensome opportunity to demonstrate the value for money institutions provide to students and the taxpayer. HEFCE will not publish any individual reports but may use aggregated and anonymised information in reports, publications and policy making.

13. If provided, the report should provide commentary on how the HEI delivers economy, efficiency and effectiveness: in other words how the HEI makes the best use of its available resources to achieve the desired output and maximise its benefit.

14. As this is optional, there is no prescribed format for this report, and we are happy to accept an annual report produced for internal purposes, provided this is reviewed by the governing body (either by the board of governors or audit committee). Good practice guidelines for VFM activity and reporting may be found at [www.hefce.ac.uk/reg/guidance/vfmon/](http://www.hefce.ac.uk/reg/guidance/vfmon/) under 'Value for money'.

15. However, institutions may wish to take into account the findings of a review of the VFM reports which formed part of the 2012 submissions and the good practice that was identified. The full report can be found at [www.hefce.ac.uk/reg/guidance/vfmon/](http://www.hefce.ac.uk/reg/guidance/vfmon/).