

# Circular 02/07

**For Action: Responses to annex A are requested by 31 January 2003**  
**Responses to annex B are requested by 05 June 2002**

## Finance

Further Education Colleges:  
Accounting Policies and Return of Audited Financial Statements

### Summary

The purpose of this circular is to provide guidance to colleges and external auditors on the preparation of colleges' annual financial statements. The Council has consulted the major providers of external audit services and sector representatives on this guidance. This guidance supplements that in the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions and Circular 01/04 *Sector Accounting Policies and Return of Audited Financial Statements*. This circular is applicable for the year ending 31 July 2002, and highlights issues for future years, and is of interest to college principals, finance directors and external auditors.

### Supplements (available on the Council's website: [www.lsc.gov.uk](http://www.lsc.gov.uk))

- A Revised Model Report and Financial Statements for Casterbridge College for the Year Ended 31 July 2002
- B Revised Enhanced Pensions Tables
- C Finance Record 2001/02 Proforma
- D Notes and Guidance on the Finance Record 2001/02



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## **Further information**

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

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## **Responses to this document**

Responses to Annex A are requested by 31 January 2003  
Responses to Annex B are requested by 05 June 2002

## **Enquiries**

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# Executive Summary

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1 The purpose of the circular is to provide guidance to colleges and external auditors on the preparation of colleges' annual financial statements. The Council has consulted the major providers of external audit services and sector representatives on this guidance. This guidance supplements that in the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions and Circular 01/04 Sector Accounting Policies and Return of Audited Financial Statements. This circular is applicable for the year ending 31 July 2002, and highlights issues for future years, and is of interest to college principals, finance directors and external auditors.

2 The circular consists of:

a. Main circular – five parts and four annexes:

- i. Part 1: Introduction
- ii. Part 2: The Development of Accounting Policies for the FE Sector
- iii. Part 3: Update to the F&HE SORP
- iv. Part 4: Other Guidance
- v. Part 5: Consultation with the FE Sector
- vi. Annex A: Cover Sheet for the Return of Audited Financial Statements and Finance Record for the Year Ended 31 July 2002
- vii. Annex B: Consultation Document
- viii. Annex C: Illustrative Corporate Governance Statements

- ix. Annex D: Revised Standard Unqualified Audit Opinion for Colleges' Financial Statements for the Year Ended 31 July 2002

b. Four Supplements:

- i. Supplement A: Revised Model Report and Financial Statements for Casterbridge College for the Year Ended 31 July 2002
- ii. Supplement B: Revised Enhanced Pensions Tables
- iii. Supplement C: Finance Record 2001/02 Proforma
- iv. Supplement D: Notes and Guidance on the Finance Record 2001/02.

# Further Education Colleges: Accounting Policies and Return of Audited Financial Statements

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## Introduction

1 The purpose of this circular is to provide guidance on the preparation of colleges' financial statements for the year ending 31 July 2002 and to identify issues that will require consideration for future years. The guidance provides additional information and supplements the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions (the SORP) and Circular 01/04 *Sector Accounting Policies and Return of Audited Financial Statements*. Colleges may obtain further copies of the SORP from the Council's website.

2 In publishing this guidance, the Council has consulted major providers of external audit services to sector colleges and sector representatives (please see paragraphs 24 to 28 below).

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

5 Following the changes in the arrangements for the audit of the

individualised student record (ISR), and the requirement from 2002/03 to comply with risk management best practice (Turnbull), the Council is in the process of revising the Audit Code of Practice. The updated code will include revised model engagement letters between colleges and their financial statements auditors and revised model audit opinions. In the meantime colleges should continue to refer to the guidance issued by the Council in Supplement B of circular 01/04 *Audit Issues*. A revised unqualified audit opinion for the year ended 31 July 2002 is set out in Annex D.

## Revisions to accounting/ auditing guidance

6 Circular 01/04 took account of Financial Reporting Standards (FRSs) up to FRS 19 Deferred Tax and various exposure drafts. This circular considers:

- FRS 17 *Retirement Benefits*
- FRED 22 - Revision of FRS 3 *Reporting and Financial Performance*
- Enhanced pensions calculations
- Corporate governance
- Risk management principles
- Going concern and impairment reviews
- Accounting for recovery of funds (tolerance account)
- Audit opinion

- Revised model report and financial statements for Casterbridge College
- Finance record 2001/02

7 The following FRSs and UITF abstracts are not addressed on the grounds of their limited applicability to the sector:

- UITF abstract 30 *Date of award to employees of shares or rights to shares*
- UITF abstract 31 *Exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate*
- UITF abstract 32 *Employee benefit trusts and other intermediate payment arrangements*
- UITF abstract 33 *Obligations in capital instruments*

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

## **Return of audited financial statements for 2001/02**

9 The financial relationship between the Council and colleges is set out in its financial memorandum as detailed in 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 Council to institutions. A specific responsibility of the college is to provide the Council with audited financial statements for the financial year no later than five months after the year-end.

10 In preparing their financial statements for the year ending 31 July 2001 some colleges have had difficulties complying with the requirements of the financial memorandum due to the new arrangements for the audit of the ISR. The Council wishes to ensure that all colleges are able to meet the requirements of the financial memorandum in respect of their financial statements for the year ending 31

July 2002. This circular should be taken as advising colleges that for 2001/02 the Council is amending the requirement within the financial memorandum so that audited financial statements for the year ending 31 July 2002 should be submitted no later than SIX months after the year-end. The Council will review this change for future years as part of the consultation process in the revision of the financial memorandum.

11 Each college should send an original signed copy of its audited financial statements for 2001/02, together with its signed finance record and disk and, where applicable, copies of the audited financial statements of its subsidiaries to the relevant local Learning and Skills Council to arrive on or before 31 January 2003.

12 A cover sheet for the returns is attached at annex A to this circular.

## **Audit reports and management letters**

13 External auditors should send a copy of the final version of their management letters, including college responses, to the head of the provider financial assurance function at the relevant Local Learning and Skills Council, at the same time that they are sent to the college (by 31 January 2003).

14 External 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 executive director of the relevant Local Learning and Skills Council.

## **Guidance**

15 Colleges with queries on how to apply the Council's guidance on accounting policies to the particular circumstances of their own college may wish to consult their external auditors or the Local Learning and Skills Council. Colleges wishing to make general points about the development of accounting guidance should contact Peter Darwen in the

provider financial support team at the national Learning and Skills Council.

## **Approval of reports and financial statements**

16 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 corporate governance statement should be signed and dated by the chair of governors
- The internal financial controls statement should be signed and dated by the principal.

17 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 external auditors sign and date their audit report.

## Part 2: The Development of Accounting Policies for the FE Sector

Statement of Recommended Practice:  
Accounting for Further and Higher Education  
Institutions (the F&HE SORP)

18 The F&HE SORP was introduced in 2000 to be effective for all accounting periods commencing on or after 1 August 1999. This continues to be the primary document to be followed by colleges. There are some areas where FE institutions are advised to seek further guidance on the requirements for their sector, that guidance is included in circular 01/04 and in this circular.

19 The F&HE SORP is intended to apply to all colleges, including voluntary aided sixth form colleges, voluntary controlled sixth form colleges and specialist designated institutions. Where these bodies are constituted as companies limited by guarantee they should follow the F&HE SORP with any additional disclosures required to comply with the Companies Act 1985.

20 In the small number of cases where the institution is a separate registered charity and less than 50 per cent of the income is from the Council then it is likely that application of the charities SORP will give a better representation of the institution's activities than the F&HE SORP. Where additional information is required under the F&HE SORP that information should be given by way of note. Where a college considers that it may fall in this group, then it should discuss the position with its external auditors and the Local Learning and Skills Council.

### Higher education / further education board for the SORP

21 The sponsoring body of the F&HE SORP is the Higher Education/Further Education Board for the SORP (HE/FE Board). This body comprises of the Committee of Vice-Chancellors and Principals (CVCP) together

with the Association of Colleges (AoC) and includes a representative from the Learning and Skills Council and the chair of the British Universities Finance Directors' Group (BUFDG).

22 The Accounting Standards Board (ASB)'s Statement SORPs: *Policy and Code of Practice* requires that SORP making bodies, such as the HE/FE Board, keep their SORPs under review and report to the ASB, at least annually, the results of such a review and to also confirm that they continue to comply with their Code of Practice. In conducting such a review the HE/FE Board will consider:

- The impact of new Urgent Issues Task Force (UITF) abstracts and Financial Reporting Statements (FRS)s on the F&HE SORP, and;
- Whether a common approach on the implementation of these accounting directives in the further and higher education sectors through the appropriate Funding Council has occurred.

23 The ASB wishes to see the continuance of a high quality SORP for the further and higher education sectors. To meet this objective the Council has agreed with the HE/FE Board that:

- The HE/FE Board will issue accounts direction on any necessary amendments to the F&HE SORP. This accounts direction is published by the Council through its Sector Accounting Policies circular. This ensures that all institutions in the further and higher education sectors prepare financial statements on a comparable and consistent basis
- The issue of additional disclosure requirements, such as, corporate governance statements, are issued by individual Funding Councils.

### Sector accounting policies group

24 In issuing guidance to the FE sector on the preparation of annual financial statements,



the Council has previously held an annual event, where it consulted with the major providers of external audit services to sector colleges and sector representatives. The aim of such events was to gain a consensus amongst the group on the correct interpretation of accounting and auditing directives from the ASB and the Auditing Practices Board (APB). The Council held such an event in June 2001, with circular 01/04 *Sector Accounting Policies and Return of Audited Financial Statements*, being published shortly afterwards.

25 At the meeting in June 2001, the Council made the commitment to look to improve the deliberative and consultative processes leading up to the issue of any future sector accounting policies circulars.

26 The Council wished to introduce a more pro and inter-active approach to this process, drawing in interested parties and providing guidance during the year about accounting issues. In January 2002 the Sector Accounting Policies Group was formed. Its aims are to encourage colleges to consider such matters as early as possible and provide a forum for the bringing together of any issues and/or problems over their implementation. The Council wishes to inform the sector of the decisions of the Sector Accounting Policies on a timely basis. This is carried out through the publication of the minutes of the meetings through the Council's website.

27 Nevertheless, the Council recognises that where colleges have questions about sector accounting policies they would seek clarification from their external auditors. However an improved forum would look to identify and address issues arising in the sector in a more timely and effective way.

28 It is expected that the Sector Accounting Policies Group will feed back to the HE/FE Board issues over the implementation of accounting directives from the ASB.

## Part 3: Update to the F&HE SORP

29 The accounting guidance on the following UITF Abstracts and FRSs have been issued after consultation with the HE/FE Board.

### Urgent issues task force abstracts

UITF abstract 28: *Operating Lease Incentives*

30 UITF abstract 28 should be adopted for financial statements for accounting periods ending on or after 22 September 2001 in respect of lease agreements commencing in the current or preceding accounting period. Colleges should adopt the treatment for the year ended 31 July 2002.

31 The abstract addresses incentives that a lessor may provide to a lessee to enter into or renew an operating lease, particularly in respect of buildings. Colleges are more likely to be lessees.

32 All incentives should be recognised as an integral part of the payment for use of the leased asset irrespective of their nature.

33 The lessee should recognise the benefit of the incentive as a reduction of the rental expense. The benefit should be allocated over the shorter of the lease term or the period until a full market rental will be payable. It is expected that the allocation will be on a straight-line basis.

34 The lessor should recognise the cost of the benefit as a reduction in rental income over the same period.

35 Where colleges have entered into facilities management contracts, they will need to consider the rental portion and whether there was an element of incentive.

## Financial reporting standards

### Financial reporting standard 17 retirement benefits

36 In Circular 01/04 the Council indicated that FRS 17 Retirement Benefits was being implemented in stages over three years to accounting periods ending on or after 22 June 2003, with the first set of disclosures required for accounting periods ending on or after 22 June 2001. This circular identifies the necessary disclosure requirements for colleges to comply with the FRS in their financial statements for the year ended 31 July 2002.

### Teachers' pension scheme

37 Circular 01/04 indicated that even though the Teachers' Pension Scheme (TPS) was a defined benefit scheme and prima facie colleges would be expected to comply with the requirements of the FRS, it was recognised that as a multi-employer scheme colleges may not be able to identify their share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. The circular, therefore, recommended that the scheme be treated as though it were a defined contribution scheme. This circular does not seek to change this view. However, in order to be consistent in the disclosure requirements between the higher education and further education sectors, the disclosure note has been amended. Colleges should note that all reference to notional assets and liabilities has been removed from the disclosure note. A revised proforma note is set out in Supplement A to this circular, *Revised Model Report and Financial Statements for Casterbridge College for the Year Ended 31 July 2002*.

### Local government pension scheme

#### Introduction

38 In Circular 01/04, the Council indicated that in respect of financial statements for the year ended 31 July 2001:

- a. Colleges should be able to demonstrate that they have sought to obtain the necessary information from their pension administrators, and
- b. Where the information is not available, colleges should make similar disclosures to those required for the Teachers' Pension Scheme.

39 Some colleges with Local Government Pension Schemes (LGPS) have encountered difficulties trying to implement the FRS disclosure requirements. The three most common problems have been:

- a. The actuarial valuation dates of these schemes is 31 March, and therefore, the actuary will need to roll forward/update the valuation to 31 July for colleges
- b. Local Authorities will not need to comply with the FRS until 31 March 2002 at the earliest, so the actuaries had not carried out similar work for other parts of the funds.
- c. FE colleges represent only a very small proportion of the LGPS fund.

40 It is expected that the problems encountered by colleges in trying to comply with the FRS in their financial statements for the year ended 31 July 2001 will be resolved for the current year. The Council is working with the AoC, Higher Education Funding Council for England (HEFCE), DfES and the Audit Commission to ensure that colleges are able to comply fully and cost effectively with the FRS for financial statements ended 31 July 2002. In particular, Local Learning and Skills Councils will work with colleges within their regions to ensure a co-ordinated request is made for information to the relevant Local Government Pension Fund.

41 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee has recently published as an exposure draft, its proposals for implementing FRS 17 in the local authority sector. This includes information on

the Joint Committee's view of the classification of schemes as well as accounting guidance. In particular, in relation to multi-employer schemes, it provides guidance on whether or not it is possible for an individual employer, such as a college, to identify its share of the assets and liabilities in the scheme on a consistent and reasonable basis. The Joint Committee classifies the Local Government Pension Scheme as a multi-employer scheme, where it is possible for individual employers to identify their share of assets and liabilities, and therefore it should be accounted for as a defined benefit scheme, in accordance with FRS 17.

## Disclosures

42 Under the transitional arrangements of the FRS there is no requirement to fully implement the accounting standard until the year ended 31 July 2003. The Council recommends that colleges do **NOT** adopt the Standard early and fully implement FRS 17 in the current year in the light of ongoing discussions and debate nationally in respect of this Accounting Standard. Colleges should ensure that for their financial statements for the year ended 31 July 2002 that they disclose in a note to the accounts what entries would be made in the financial statements if the FRS was fully implemented. It is expected that colleges should have the following disclosure notes in their financial statements for the year ended 31 July 2002:

- Amount of net pension asset/(liability)
- Analysis of the amount charged to the income and expenditure account
- Analysis of net return on pension scheme
- Amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)
- Movement in surplus/(deficit) in year
- History of experience gains and losses (from 2006, five years must be shown)

43 The audit firms have indicated that they will qualify their audit reports (on the grounds of non-compliance with FRS 17) should these disclosures not be incorporated in the current year's accounts.

44 In addition, a number of college financial statements include SSAP 24 provisions in respect of the under funding of the LGPS. In producing the FRS 17 disclosure note, such provisions will need to be factored into the disclosure. (In particular, such provisions will need to be added back to the reported College net assets per the balance sheet at 31 July 2002 to give a revised net asset figure for FRS 17 disclosure purposes).

45 A proforma note in respect of FRS 17 for the LGPS is set out as follows (also included in the model Casterbridge accounts)

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds.

The total contribution made for the year ended 31 July 2002 was £285,000 of which employers' contributions totalled £178,000 and employees' contributions totalled £107,000. The agreed contribution rates for future years are 11% for employers and 6% for employees.

The following information is based on a full actuarial valuation of the Fund at 31 March 2001, updated to 31 July 2002 by a qualified independent actuary.

	At 31 July 2002	At 31 July 2001
Inflation	2.0%	3.0%
Rate of increase in salaries	4.0%	5.5%
Rate of increase for pensions in payment	2.5%	4.0%
Discount rate for liabilities	4.5%	7.0%

The assets in the scheme (of which the college's share is estimated at 0.77%) and the expected rates of return were:

	Long-term rate of return expected at	Value at 31 July 2002	Long-term rate of return expected at	Value at 31 July 2002
	2002	£000	2001	£000
Equities	8.0%	967,000	8.0%	625,000
Bonds	5.9%	298,000	6.0%	192,000
Property	7.2%	149,000	7.2%	96,000
Cash	4.5%	74,000	4.5%	49,000
Total Market Value of assets		1,488,000		962,000

	Year Ended 31 July 2002	Year Ended 31 July 2001
	£000	£000
College's estimated asset share	11,503	12,503
Present value of scheme liabilities	(12,963)	(11,063)
Surplus/(deficit) in the scheme	(1,460)	1,440

**Under the transitional arrangements of FRS17, no provision has been made by the college for the institution's share of the deficit of the scheme. If provision were made, the following entries would be made:**

<b>Balance Sheet Presentation</b>	<b>Year Ended 31 July 2002</b>	<b>Year Ended 31 July 2001</b>
	£000	£000
* Net assets excluding FRS 17 pension (liability)/asset	99,169	101,841
Net pension (liability)/asset	(1,460)	1,440
Net assets including FRS 17 pension (liability)/asset	97,709	103,281

<b>Reserves Note</b>	<b>Year Ended 31 July 2002</b>	<b>Year Ended 31 July 2001</b>
	£000	£000
*Income and expenditure account excluding FRS 17 pension (liability)/asset	17,359	8,793
Pension reserve	(1,460)	1,440
Income and expenditure account including FRS 17 pension (liability)/asset	15,899	10,233

**\*These amounts exclude SSAP 24 provisions for LGPS scheme under funding included within the College's balance sheet.**

**Under the transitional arrangements of FRS 17, the College's pension charge for the year calculated under FRS 17 assumptions is not included in the financial statements (as this is currently calculated on a SSAP 24 basis). If the charge had been included on an FRS 17 basis, the following entries would be made:**

**Analysis of the amount charged to income and expenditure account (comparatives not required)**

<b>Year Ended 31 July 2002</b>	<b>Analysis of net return on pension scheme</b>	
£000	Expected return on pension scheme assets	917
Service cost	Interest on pension liabilities	(664)
Past service cost	Net return	253
Total operating charge		

**Amount recognised in the statement of total recognised gains and losses (STRGL)**

<b>Year Ended 31 July 2002</b>	
Actual return less expected return on pension scheme assets	(2,203)
Experience gains and losses arising on the scheme liabilities	(400)
Change in financial and demographic assumptions underlying the scheme liabilities	(310)
Actuarial gain/(loss) recognised in STRGL	(2,913)

**Movement in surplus during year**

<b>Year Ended 31 July 2002</b>	
Surplus/(Deficit) in scheme at 1 August	1,440
Movement in year:	
Current service charge	(388)
Contributions	285
Past service costs	(137)
Net interest/return on assets	253
Actuarial gain or loss	(2,913)
Surplus/(Deficit) in scheme at 31 July	(1,460)

**History of experience gains and losses (in practice, from 2006, 5 years must be shown)**

<b>Difference between the expected and actual return on assets:</b>	
amount £m	(2,203)
% of scheme assets	19%
<b>Experience gains and losses on scheme liabilities:</b>	
amount £m	(710)
% of scheme liabilities	5%
<b>Total amount recognised in STRGL</b>	
amount £m	(2,913)
% of scheme liabilities	22%

## **FRED 22 – revision of FRS 3 reporting financial performance**

46 In circular 01/04 the Council provided colleges with guidance on FRED 22 ASB and the International Accounting Standards Board (IASB) are working in partnership to develop a standard that would require a new statement to replace the existing income and expenditure account and the statement of total recognised gains and losses. This builds on FRED 22.

47 For the time being colleges should be aware that the ASB and IASB are considering fundamental changes to the format of the income and expenditure account, statement of total recognised gains and losses and note of historical gains and losses. However, it is not proposed that colleges seek to adopt the proposals in the FRED. It is anticipated that a revision to the F&HE SORP will be required to incorporate the proposals of any revised FRS. Colleges should refer to circular 01/04 for further details of the proposed accounting standard.



## Part 4: Other Guidance Enhanced Pension Provisions

48 Many colleges are carrying historic provisions for enhanced pensions that were calculated on the basis of tables published by the FEFC in 1995. These provisions may no longer represent the actuarial value of the college's future liability. Circular 01/04 indicated that until the Council issued a revised set of enhanced pensions tables, colleges might wish to commission their own actuarial review or revise their provisions using more up to date tables. Colleges were referred to additional tables that are available on the HEFCE website [www.hefce.ac.uk](http://www.hefce.ac.uk) under "Finance" and "SSAP24". Where colleges are granting additional enhanced pensions it was expected that these tables or an actuarial valuation should be used.

49 In supplement B of this circular, Revised Enhanced Pensions Tables, the Council provides a revised set of enhanced pensions tables, which should be used in colleges' annual financial statements for the year ended 31 July 2002. The supplement includes:

- Full instructions on the use of the tables in the calculation of the provisions
- The charge to the income and expenditure account in the year of early retirement
- The interest charge in the current and subsequent years
- A summary of the conversion issues from SSAP24 to allow provisions to be calculated on the net interest basis method as required by FRS17.

50 As noted in paragraph 42, the Council recommends that colleges do not fully implement FRS 17 in the current year. As a result, enhanced pension provisions should be updated by the College and accounted for within the financial statements on the existing SSAP 24 basis.

51 Under the Accounting Standard, further information will need to be included within the FRS 17 disclosure note detailing the impact on reported results of treating the enhanced pension provisions on a SSAP 24 basis rather than a FRS 17 basis. These disclosures are in the same format as those disclosed for the LGPS fund set out above and colleges should consider combining the disclosures into one note setting out, in overall terms, the differences between accounting for pension costs on a SSAP 24 basis versus FRS 17 basis.

52 For clarity, the revisions to the enhanced pension provisions apply to all enhancements (TPS or LGPS) and compiling information for the FRS 17 disclosure note will need to be carried out by the College. Where provisions are material, the College may wish to consider obtaining advice from their external auditors or an actuary.

## Corporate governance and risk management

53 The Turnbull Committee published its guidance on internal control in September 1999. Although this guidance was written for companies it has been adapted for further education as set out in the following paragraphs.

54 The Turnbull Committee has sought to reflect some of the best practices in designing and operating systems of internal control, and in embedding a risk-based approach. The aim is to move Corporate Governance to being integrated with management processes. More corporation involvement is now implied, with the process explicitly risk-based and subject to both review and assessment by the corporation.

55 In outlining broad principles the guidance suggests that the corporation should use judgment to assess whether or not it has complied. The expectation is that the corporation will implement the spirit of the guidance in a way that helps it to achieve its own institutional objectives, and will build on practices already in place.

56 It is important to understand that the Turnbull guidance is broader than that of the previous Cadbury guidance in that the review must cover business, operational and compliance as well as financial control.

57 Principles within the guidance are:

- Making sure the key risks have been identified and not lost in a myriad of detail
- Not missing opportunities as well as striving to mitigate downside risk
- Keeping the risk analysis under constant review and not seeing it as a one-off exercise subsequently updated in a cursory manner
- Embedding risk management within the organisation rather than treating it as separate from the general management of the college
- Learning all the time from control reviews and other sources and seeking continual improvement, and
- Deriving key risks from the objectives of the college.

58 Previous guidance from the Council has required that in the college's financial statements:

- The principal, as accounting officer, makes a statement on the system of internal financial control at the college; and
- The corporation (through the members report) makes a statement on corporate governance (first included in 2000/01 financial statements).

59 However, the corporation has overall responsibility for the adequacy and effectiveness of the college's system of internal control, usually through and receiving reports from committees. The corporation must set appropriate policies on internal controls and seek regular assurance that will

enable it to satisfy itself that the system is functioning effectively. It is likely that the Council will require from colleges a revised statement on the system of internal controls after publishing a revised Audit Code of Practice in the summer.

60 Circular 01/04 indicated that some colleges might be in a position to make a full compliance statement on the Turnbull recommendations for their financial statements for the year ending 31 July 2002, whilst all colleges must make a full compliance statement covering all aspects of internal control for their financial statements for the year ending 31 July 2003.

61 It is expected that to be able to make a full compliance statement in colleges' financial statements for the year ending 31 July 2003, colleges will have to establish processes to meet the Turnbull requirements by 1 August 2002.

## Risk management principles

62 A significant element of meeting Turnbull requirements is the adoption of a risk-based approach to assessing the systems and controls.

63 Risk management aims to reduce the probability and impact of

- A significant undesirable event occurring, or
- An important opportunity missed.

64 Risk management is a requirement for the vast majority of publicly funded bodies including the Learning and Skills Council, and is a sensible component of running any organisation. It is also a key activity that gives assurance to the Corporation in making the Corporate Governance Statement in a college's financial statements.

65 Risk management aims to reduce risk to a **reasonable acceptable** level. The management of risk should be **embedded** and **ongoing** in everyday operations and activities. It should not be a one-off exercise and

subsequently updated in a cursory manner. It should be responsive to changing risks and circumstances.

66 However, the core process of risk management needs to be systematic and documented. This can be achieved by some form of **risk register**. The process involves:

- Deciding on the level of acceptable risk and the risk appetite.
- Establishing the key objectives of the college, including the
  - Strategic and operational planning objectives, and
  - Protection of reputation & credibility of the college.
- Identifying risks to achieving the objectives. These include risks relating to people, third parties, quality, funding, information technology, communications, environmental, legal, health & safety, financial matters.
- Assessing the likelihood of each risk arising and the impact if the risk does crystallise under two scenarios:
  - Not taking into account the controls and mitigating actions already operating. This gives an overall sense of a college's potential risk exposure (**inherent risk**).
  - Taking into account the controls and mitigating actions already operating to manage the risk. This shows the impact of controls and gives an indication of the current risk exposure (**residual risk**).
- Evaluating the effectiveness of mitigating actions already in place and working.
- Introducing new mitigations where current mitigating actions do not reduce the risk to an acceptable level.

- Management monitoring the risks, controls and the implementation of additional actions.

67 The management of these risks should be tracked as part of the standard performance management arrangements that will be already in place in the college. It should not be seen as a separate process from the general management of the college.

68 As part of the process, it is important that the '**top risks**' are drawn out separately and not lost in the myriad of detail arising from the process. Management responsibility should be assigned for implementing mitigating actions etc. Senior management responsibility should be assigned to monitor the process. The Audit Committee should be involved in the process from its inception and formally consider the effectiveness of both the process and the internal control system generally at the end of the financial year to allow the Corporation to make the required financial statement disclosures

69 The top risks of the college are likely to be a derivation of the senior management team's work to establish the top risks from their perspective and also include significant risks emanating from operational areas.

70 In Annex E of Circular 01/01 *Strategic Plans, Including Financial Forecasts and Accommodation Data*, the Council issued a checklist for colleges to use in compiling their risk management plan. The information in this Circular will be supplemented at a later date by a practical guide which colleges may find useful in their development of a risk management culture in the institution. Colleges will be aware that they need to consider all risks to the institution, non-financial as well as financial risks.

## Financial statements disclosure

71 Annex C sets out illustrative corporate governance disclosures to be included within financial statements for the year ended 31 July 2002. For 2002 colleges are required to include the following statements:

- Corporate governance statement setting out the institution's position in respect of complying with the Turnbull Combined Code;
- Principal's statement, as accounting officer, on the system of internal financial control at the College. (as in prior years)

72 Two corporate governance statements are included, one where the College has fully complied with Turnbull during the year ended 31 July 2002, the other for partial compliance where the College intends to comply from 1 August 2002.

73 Changes to the wording of the examples should be kept to a minimum. However, the key areas outlined in the annex are the minimum disclosures expected and the corporation is encouraged to describe any additional features of their policies in complying with Turnbull recommendations.

## Going concern and impairment reviews

74 Where colleges and/or their external 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 Council's director of finance and the executive director at the relevant LLSC.

## Tolerance of over or under achievement against funding agreement

75 The arrangements for tolerance of performance against funding agreements are set out in Council Circular 01/11 *Monitoring*

*Growth 2000/01*. In the circular the Council stated that institutions should plan for the system of tolerance to end in July 2002, along with the funding system brought forward from the FEFC, and plan for any underachievement outstanding at 31 July 2002 to be recovered. Institutions should therefore expect the Council to recover any negative balances remaining in the tolerance account at 31 July 2002.

76 As set out in FEFC Circular 00/16 *Monitoring Growth 1999/2000*, recovery will be at the average level of funding (ALF) for the final year (i.e. the ALF for 2001/02). It is expected that, where appropriate, the recovery of funds will be included in creditors due within one year within institutions' 2001/02 financial statements.

## Accounting for college-administered funds, including University for industry (Ufi) funding

77 Over recent years, colleges have increasingly acted as conduits for funding, which has passed to other organisations, for example Ufi funding, Non-schedule 2 pilots. The Council has previously indicated such funding should be accounted for in accordance with the principles of FRS 9 for joint ventures and partnerships. Following queries from a number of audit firms and sector representatives, the Council has sought clarification on the policy to be adopted for Council funds from the DfES. The DfES has confirmed that for Council funding, funding should be accounted 'net' where Council funds are passed to other FE sector bodies (who in turn will recognise the income in their financial statements). This will ensure the financial statements for the sector as a whole do not double count Council funding. Where Council funding passes to organisations outside the sector the college should account for the income and expenditure gross to ensure all funding is captured within the sector's accounts. For example, where a college is a recipient for Ufi, funding passed to

other colleges should be excluded from the recipient college's income and expenditure account. Funding which is passed to other Ufl partners (for example under franchising arrangements) should be included within the college's income and expenditure.

78 Where institutions have adopted a different approach in the previous year's financial statements, and the revision would have a material effect on comparatives, they should be restated and disclosure made within the notes to the financial statements in a similar way to the restatement of Access funds in earlier years.

## Audit opinion

79 Supplement B of Circular 01/04 *Audit Issues* provided a revised audit opinion for 2001/02, which should be used by the college's financial statement auditor, when issuing the standard unqualified audit opinion for the year ending 31 July 2002. This revised audit opinion has been slightly amended to indicate that the accounts are also prepared in accordance with the F&HE SORP. Where institutions intend to comply fully with the requirements of Turnbull for the year ended 31 July 2002, additional disclosure will be required within the audit opinion setting out clearly the scope of the auditor's work in this area. In such circumstances, arrangements should be agreed with the institution's external auditors. The model opinion contains example wording, which could be used in such circumstances.

80 The standard unqualified audit opinion to be used with colleges' financial statements for the year ending 31 July 2002 is provided in annex D of this circular.

## Revised model report and financial statements for Casterbridge College

81 The Council is aware that there have been several accounting standards issued by the ASB since the publication of the F&HE SORP in July 2000. In Circular 01/04 the Council

provided guidance on the implementation of these accounting standards and also a set of revised disclosure notes in the members report and body of the annual report. The Council wishes to aid the process of the production of the financial statements by colleges. With this in mind the Council has provided in supplement A of this circular a revised model annual report for Casterbridge College for the year ending 31 July 2002. Colleges can download the revised model report for Casterbridge College from the Council's website. The model report is in the following formats:

- Members' report, auditor's report and accounting policies disclosure note downloaded in a word format
- Income and expenditure account, STRGL, balance sheet, cashflow statement and disclosure notes are downloaded in excel format.

82 Previous Council guidance set out specific disclosure requirements relating to colleges only. These are incorporated within the model Casterbridge College report at Annex A and are summarised below:

- In the members' report, colleges must include the following:
  - A disability statement
  - Note on expenditure against the planned maintenance plan
- Statement on the system of internal financial control signed by the Principal
- Detailed analysis of Funding Council grants
- Detailed analysis of tuition fees and education contracts
- Additional disclosures in respect of the remuneration of senior postholders and other higher paid staff (including details of pay awards for specific individuals/groups etc)

- Analysis of costs associated with overseas activities
- Analysis of deferred capital grants received in the year.

83 If colleges wish to download the model report, they should use it only as a basis for completion of their own accounts. The Council accepts no responsibility for any errors that may result from using the downloaded excel spreadsheet or word file.

### **Finance record**

84 The finance record was designed to be an electronic version of the audited financial statements. When the Council 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.

85 The finance record should be submitted with the audited financial statements to the local Learning and Skills Council by 31 January 2003. Supplement C of this circular provides a copy of the finance record and supplement D provides notes and guidance on the completion of the finance record. Colleges should download the finance record worksheet from the Council's website and return the worksheet via a floppy disk to the local Learning and Skills Council.

## Part 5: Consultation with the FE Sector

### Sector accounting policies circular

86 The FEFC was required to establish accounting policies for the FE sector under the terms of its financial memorandum with the Department for Education and Employment. The FEFC met this requirement through the annual publication of a circular on sector accounting policies. The Council continued with this practice, with the publication of Circular 01/04 in July 2001.

87 The circulars on sector accounting policies have tended to be detailed and the production of a Casterbridge College annual report by the Council was seen to be best practice by the sector. The HE sector is less prescriptive but has more support and resources available. HEFCE publishes the F&HE SORP to HE institutions and leaves the detailed guidance on interpretation and implementation of reporting standards to BUFDG.

88 Does the FE sector want the Council to continue to produce detailed guidance on reporting standards and their implications on colleges' accounts, or does the sector want the Council just to issue general accounts direction, such as follow the F&HE SORP?

### Provision for enhanced pensions tables

89 The Council wishes to gain feedback from the sector in respect of implementing revised tables to enable colleges calculate the level of provisions to be made for enhanced pensions.

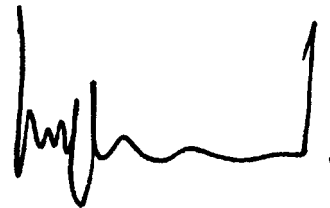
90 The Council believes that the level of provisions for enhanced pensions may no longer represent the actuarial value of the college's future liability. Circular 01/04 indicated that until the Council issued a revised set of enhanced pensions tables, colleges could either commission their own actuarial review or revise their provisions using

the tables issued by the Higher Education Funding Council for England (HEFCE).

91 It is possible that the implementation of the revised tables could result in a material change in the level of the provision required for enhanced pensions, as since the original tables were published by the FEFC in 1995, actuarial assumptions are likely to have changed.

92 The Council seeks the view of colleges on the following:

- Whether the instructions on using the tables are easy to follow
- If any amendments are required to improve the tables and accompanying guidance.



*John Harwood, Chief Executive*

# Annex A: Cover Sheet for the Return of Audited Financial Statements and Finance Record for the Year Ended 31 July 2002

Cheylesmore House  
Quinton Road  
Coventry  
CV1 2WT  
T 024 7649 3758  
F 024 7649 3590

www.lsc.gov.uk  
info@lsc.gov.uk

(Reference Circular 02/07)

This cover sheet must be completed by all colleges. Please photocopy, complete and return to the relevant local Learning and Skills Council office by 31 January 2003.



**Learning+Skills Council**

Name of college ( <i>please print</i> )	
LSC code	
Contact name for enquiries ( <i>please print</i> )	
Tel	Fax
E-mail address	

## Returns enclosed (please tick)

1	One signed copy of the college's audited financial statements for 2001/02	<input type="checkbox"/>
2	One signed paper copy of the college's finance record for 2001/02	<input type="checkbox"/>
3	One copy of the finance record on disk	<input type="checkbox"/>
4	One copy of each of the college's subsidiary undertakings audited financial statements for 2001/02.*	<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: Consultation Document

Cheylesmore House  
Quinton Road  
Coventry  
CV1 2WT  
T 024 7649 3758  
F 024 7649 3590

www.lsc.gov.uk  
info@lsc.gov.uk



**Learning+Skills Council**

(Reference Circular 02/07)

Please photocopy, complete and return this form to the provider financial support team at the Council's national office no later than 5 June 2002.

Institution name <i>(please print)</i>	
Contact name for enquiries	
Signature	
Tel	Fax
E-mail address	

- 1 The college would like the Council to continue to issue detailed guidance on accounting standards
- Agree
- Disagree

**Comments**

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- 2 The college would like the Council to issue just general accounts direction, such as, follow the F&HE SORP
- Agree
- Disagree

**Comments**

---

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3 The college finds the instructions on using the enhanced pension tables are easy to follow

Agree

Disagree

**Comments**

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4 The college believes that no improvements are required to the tables and accompanying guidance

Agree

Disagree

**Comments**

---

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5 The college would like the Sector Accounting Policies Group to consider

Agree

Disagree

**Comments**

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# Annex C: Illustrative Corporate Governance Statements

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## Partial Turnbull implementation

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in section one of the *Combined Code on Corporate Governance* issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

With the exception of the full implementation of the Turnbull guidance as noted below under 'internal control', in the opinion of the Corporation, the College complies with all the provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2002.

## The corporation

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

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

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved

by the Corporation. These committees are finance and general purposes, remuneration, search and audit.

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

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

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

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

## Appointments to the corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a nominations committee which is comprised of..... which is responsible for the selection and nomination of any new member

for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding 4 years.

### **Remuneration committee**

Throughout the year ending 31 July 2002, the College's remuneration committee comprised ..... The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior postholders.

Details of remuneration for the year ended 31 July 2002 are set out in note ..... to the financial statements.

### **Audit committee**

The Audit Committee comprises the Chairman and three other members of the Corporation (excluding the Principal). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal and external auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the Funding Council as they affect the College's business.

The College's internal auditors monitor the systems of internal control in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

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

The Audit Committee also advises the Corporation on the appointment of internal and external auditors and their remuneration for both audit and non-audit work.

### **Internal control**

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer for reviewing the adequacy of the system of internal financial control and making any appropriate amendments. He/she is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal financial control.

(The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place and operational for the period from the beginning of January 2002 up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation. The governors are unable to state that a formalised process has been in place for the first five months of the year, as this period was needed to put in place the procedures, which the Corporation agreed should be established). OR

(The Corporation is unable to state that a formalised process for identifying, evaluating and managing the College's significant risks has been in place and operational during the year ended 31 July 2002. In the period up to 31 July 2002, the College has put in place the procedures the Corporation agreed should be established and the Corporation is of the view that they have been operational from 1 August 2002).

The Corporation expects 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.

### Going concern

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

(Signed) .....

(Date) .....

(Chair) .....

### Full Turnbull implementation

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in section one of the *Combined Code on Corporate Governance* issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the governors, the College complies with all the provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2002.

### The corporation

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

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

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

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

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

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

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

## **Appointments to the corporation**

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

Members of the Corporation are appointed for a term of office not exceeding 4 years.

## **Remuneration committee**

Throughout the year ending 31 July 2002, the College's remuneration committee comprised ..... The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior postholders.

Details of remuneration for the year ended 31 July 2002 are set out in note ..... to the financial statements.

## **Audit committee**

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

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal and external auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the Funding Council as they affect the College's business.

The College's internal auditors monitor the systems of internal control in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

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

The Audit Committee also advises the Corporation on the appointment of internal and external auditors and their remuneration for both audit and non-audit work.

## **Internal control**

The Principal, as Accounting Officer, is responsible for ensuring that an effective system of internal control is maintained and operated by the College.

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer for reviewing the adequacy of the system of internal financial control and making any appropriate amendments. He/she is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal financial control.

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2002 and up to the date of approval of the annual

report and accounts. This process is regularly reviewed by the Corporation.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the audit committee also receive regular reports from internal audit, which include recommendations for improvement. The audit committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the audit committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its October 2002 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2002 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2002.

### **Going concern**

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

(Signed) .....

(Date) .....

(Chair) .....

# Annex D: Revised Standard Unqualified Audit Opinion for Colleges' Financial Statements for the Year Ended 31 July 2002

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## **Independent auditor's report to the corporation of Casterbridge College**

We have audited the financial statements on pages ( ) to ( )

Respective Responsibilities of the Members of the Corporation of Casterbridge College and Auditors

The College's Corporation is responsible for preparing the Members' Report and, as described in the statement of responsibilities on page ( ), the financial statements in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and applicable United Kingdom law and Accounting Standards.

Our responsibilities as independent auditors are established in the United Kingdom by applicable statute relevant legal and regulatory requirements, the Auditing Practices Board and our profession's ethical guidance. We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions. We also report to you whether, in our opinion, in all material respects, monies expended out of funds from whatever source administered by the College for specific

purposes have been properly applied for those purposes and, if appropriate, managed in compliance with relevant legislation and whether in our opinion, in all material respects, monies expended out of funds provided by the Learning and Skills Council (and Higher Education Funding Council for England) have been applied in accordance with the financial memorandum between the Learning and Skills Council and the Corporation of the College (and the funding agreement with the Higher Education Funding Council for England) and any other terms and conditions attached to them.

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

(We have also, at the request of the College's Corporation, reviewed whether the statement on page ( ) reflects the College's compliance with the relevant provisions of the Combined Code specified for our review by the Corporation, and we report if it does not. We are not required to consider whether the statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the College's corporate governance procedures or its risk and control procedures)



We read the other information contained in the Members' Report (including the corporate governance statement) and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the College (and the group) as at 31 July 2002 and of the group's deficit of income over expenditure for the year then ended, and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions.

In our opinion, in all material respects, monies expended out of funds from whatever source administered by the College for specific purposes have been properly applied for those purposes and, if appropriate, managed in

compliance with relevant legislation for the year ended 31 July 2002.

In our opinion, in all material respects, monies expended out of funds provided by the Learning and Skills Council (and Higher Education Funding Council for England) have been applied in accordance with the Financial Memorandum between the Learning and Skills Council and the Corporation of the College (and the funding agreement with the Higher Education Funding Council for England) and any other terms and conditions attached to them for the year ended 31 July 2002.

**Touché-Brand** Date .....

Chartered Accountants  
Registered Auditors

# Notes

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Publication enquiries: 0870 900 6800

Reference CIRC/0237/02