College Accounts Direction 2015 to 2016

This college accounts direction sets out the financial reporting framework for sixth-form colleges and other further education colleges.

January 2016

Of interest to principals and chief executives, finance directors, chairs of finance and audit committees, financial statements auditors, internal auditors, directors of funding bodies, and other key organisations in the further education and skills sector.

Contents

Introduction

1. This accounts direction 2015 to 2016 sets out the requirements for colleges' annual reports and financial statements for periods ending 31 July 2016, bringing together requirements of:

    - the Secretary of State for Education as principal regulator of sixth-form colleges, acting through the Education Funding Agency (EFA) and in accordance with the [2015 to 2016 funding agreement]

    - the Secretary of State for Business, Innovation and Skills as principal regulator of other further education colleges, acting through the Skills Funding Agency (SFA) and in accordance with the [2015 to 2016 financial memorandum]

2. EFA and SFA (the funding bodies) review the accounts direction annually. This version will remain in force until the funding bodies notify otherwise.

Submission of financial statements

3. Colleges **must** submit the following documents for the period ending 31 July 2016 to their principal regulator **by 31 December 2016**:

    - audited annual report and financial statements, including the reporting accountant's assurance report on regularity (scanned copy)

    - finance record signed by the accounting officer (scanned copy of signed version and unsigned Excel version)

    - external auditor's management letter, including the college's response (scanned copy)

    - annual report of the college's audit committee (scanned copy)

- where appropriate, audited annual report and financial statements of subsidiary company accounts (scanned copy)

4. The funding bodies will confirm the submission route closer to the deadline. Colleges **do not** need to submit hard copies of documents.

5. Colleges **must** publish their annual report and financial statements on their website by the end of January following the financial year to which they relate. Colleges should retain at least two years of annual reports and financial statements on their website.

Approval of financial statements

6. The annual report and financial statements **must** be approved by the Corporation and signed and dated as follows:

Component	Signatory
Members' report or equivalent	Chair of governors
Balance sheet(s)	Accounting officer and one other member of the Corporation, usually the chair of governors
Statement of responsibilities of the members of the Corporation	Chair of governors
Statement of corporate governance and internal control (see **Appendix 1**)	Accounting officer and chair of governors
Statement of regularity, propriety and compliance (see **Appendix 2**)	Accounting officer and chair of governors

7. Components should be signed on the same date, which should be on or very shortly before the date the auditor signs their audit opinion and regularity report.

Basis for preparing financial statements

8. Colleges **must** follow the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP 2015), or any successor to SORP 2015, in preparing their annual report and financial statements. For accounting periods ending 31 July 2016, colleges **must** adopt SORP 2015, which is effective from 1 January 2015.

9. This direction is subject to the requirements the financial reporting requirements of any legislation relevant to colleges' constitutions, for example the Companies Act 2006.

10. Colleges **must** comply with the requirements for the specific statements as set out in **Appendix 1 and 2**.

11. Colleges **must** comply with the specific accounting and disclosure matters as set out in **Appendix 3**.

12. Assurance requirements for colleges are set out in the Joint Audit Code of Practice (JACOP) and are not duplicated here.

Appendix 1: Statement on corporate governance and internal control

In March 2015, the Association of Colleges published the Code of Good Governance for English Colleges (the Code) to help colleges meet and exceed basic governance requirements.

The Code sets out principal responsibilities and practices which any college will need to adopt in order to demonstrate that it is conducting its business in the best interest of its students and funders. Colleges **must either**:

- comply with the Code, **or**
- have due regard to the principles and guidance of the UK Corporate Governance Code 2014 insofar as they apply to the college sector

Colleges **must** publish a statement of corporate governance and internal control with their financial statements (Section 3.12 of SORP 2015). The statement **must** include the following:

- a declaration of compliance with the Code, with explanations for any departures or, if not adopted, a statement to the effect of, 'whilst not having adopted the UK Corporate Governance Code 2014 the college has due regard to its principles and guidance'

- details of those who served on the Corporation during the year and up to the date of approval of the annual report and financial statements, including a record of attendance at Corporation meetings

- the governance framework, including:

    - the committee structure
    - appointments to the Corporation

    - the coverage of the Corporation’s work during the period

- how the college identifies, evaluates and manages risk (including operational, financial, compliance and other risks)

- the internal control and assurance framework and how the Corporation has met its statutory responsibility for “the effective and efficient use of resources, the solvency of the institution and the corporate body and the safeguarding of their assets” (as required by paragraph 6(3)(c) of Part 2 of Schedule 4 of the Further and Higher Education Act 1992, as updated by the Education Act 2011)

- an assessment of whether the college is a going concern. This disclosure supports the adoption of the going concern assumption and should not be inconsistent with the other disclosures in the annual report and financial statements or the auditor’s report thereon and must include:

    - supporting assumptions
    - qualifications as necessary
    - mitigating actions where appropriate

- the Corporation’s performance, including its assessment of its own effectiveness

- actions taken or proposed to deal with significant internal control issues, where appropriate

This statement **must explicitly** cover the period from 1 August 2015 to 31 July 2016, and up to the date of approval of the annual report and financial statements.

Appendix 2: Statement on regularity, propriety and compliance

Colleges are in receipt of significant public funds and, as part of that stewardship role, **must** be able to assure parliament and the public of high standards of probity in the management of those funds.

The chair of governors and the accounting officer **must** sign a statement on regularity, propriety and compliance each year on behalf of the Corporation and submit this with the annual report and financial statements:

Statement on regularity, propriety and compliance

The Corporation has considered its responsibility to notify the [Skills Funding Agency/ Education Funding Agency] of material irregularity, impropriety and non-compliance with [Skills Funding Agency/Education Funding Agency] terms and conditions of funding, under the [financial memorandum/funding agreement] in place between the college and the [Skills Funding Agency/Education Funding Agency]. As part of our consideration we have had due regard to the requirements of the [financial memorandum/funding agreement].

We confirm on behalf of the Corporation that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the college, or material non-compliance with the [Skills Funding Agency/Education Funding Agency]'s terms and conditions of funding under the college's [financial memorandum/funding agreement].

Either:

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the [Skills Funding Agency/Education Funding Agency].

Or:

We confirm that the following instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the [Skills Funding Agency/Education Funding Agency]. If any instances are identified after the date of this statement, these will be notified to the [Skills Funding Agency/Education Funding Agency]:

- [x]
- [x]

[Signed]	**[Signed]**
[Name to be typed] Accounting officer	**[Name to be typed]** Chair of governors
[Date]	**[Date]**

Appendix 3: Specific accounting and disclosure matters

We draw colleges' attention to a number of specific accounting and disclosure matters:

i. **SORP 2015**

SORP 2015 is an update from SORP 2007, and reflects changes in the underlying accounting standards. Sections 27.1 and 27.2 of SORP 2015 set out the disclosures needed on first-time adoption.

ii. **Legal status**

The college **must** include details of its charitable status.

iii. **Public benefit**

The college **must** provide a statement that the charity has had due regard for the Charity Commission's guidance on public benefit. It **must** also provide a report on how the college has delivered its charitable purposes for the public benefit.

iv. **Plans for future periods / reserves policy**

Sections 3.19 to 3.22 of SORP 2015 set out what colleges **must** include in their members' report or equivalent, including information about principal risks and uncertainties, and future prospects.

We encourage transparency in colleges' annual reports and financial statements, which should where appropriate include plans for student recruitment, cost saving and efficiencies, such as shared services and structural change.

We also encourage colleges to review their reserves policy, the level of reserves held and set out, where appropriate, how these align with strategic plans.

v. **Strategic report**

Where an incorporated college meets the definition of large or medium under the Companies Act 2006, it must produce a strategic report and follow the Financial

Reporting Council’s guidance on strategic reporting.

vi. Related parties

Sections 25.2 to 25.7 of SORP 2015 set out disclosures needed to draw attention to the possibility that the existence of related parties and the transactions and balances with such parties may have affected a college’s finances.

Colleges can demonstrate transparency in their annual reports and financial statements by taking robust action to understand which transactions fall in scope of related party requirements.

vii. Remuneration of key management personnel and higher-paid staff

Sections 25.8 and 25.9 of SORP 2015 set out disclosures needed on the remuneration of key management personnel and higher-paid staff:

a) Key management personnel

Key management personnel are, “those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity”.

Colleges **must** disclose:

- the number of key management personnel whose emoluments received in the year (gross of any salary sacrifice arrangements and excluding any employer pension costs) fall within each band of £10,000 from a starting point of £nil

- aggregate emoluments received by key management personnel, split by type of emolument, both including and excluding pension contributions

- aggregate emoluments due to key management personnel, but waived

b) Accounting officer

Colleges **must** separately disclose the emoluments of the accounting officer, and of the highest-paid member of key management personnel if not the accounting officer, both including and excluding pension contributions.

Where there has been more than one accounting officer during the course of the year, the emoluments of each **must** be disclosed separately, together with their start and end date.

c) Higher-paid staff

Colleges **must** disclose the number of higher-paid staff whose emoluments received in the year (gross of any salary sacrifice arrangements and excluding any employer pension costs) fall within each band of £10,000 from a starting point of £60,000.

Colleges **must** include staff who joined or left part way through a year but who would have received remuneration in these bands in a full year.

d) Definitions for part vii

Emolument types include:

- salary
- fees
- performance-related awards (including other bonuses)
- expense allowances (to the extent that they are chargeable to UK income tax)
- contributions paid under a pension scheme (unless otherwise noted)
- the estimated money value of any other taxable benefits other than cash (in particular company cars, subsidised loans and subsidised accommodation)
- emoluments for any person accepting office
- employee benefits provided by the college itself or on behalf of the college

Emoluments do not include:

- adjustments arising from FRS 17 otherwise included within the staff costs note
- employer's national insurance contributions
- compensation for loss of office

Colleges **must** also describe any salary sacrifice arrangements, or if there are no such arrangements a statement to that effect.

viii. Compensation for loss of office

Colleges **must** disclose details of any compensation for loss of office paid or payable to the accounting officer, key management personnel (both past and present) and staff earning in excess of £60,000 per year. Colleges **must** disclose:

- the aggregate value of any compensation for loss of office paid to these staff (excluding payments in lieu of notice)

- the number of people to whom this was paid

- the nature of any benefits other than cash

Compensation for loss of office includes:

- the estimated money value of benefits other than cash

- compensation in consideration for, or in connection with, retirement

- any top-up or enhancement to the pension scheme

ix. Severance payments

Colleges **must** disclose:

- all severance costs, split between contractual and non-contractual payments

- whether costs were approved by the Corporation or a committee established by the Corporation for this purpose

x. Transactions with governors or trustees

In certain cases it may be justifiable to compensate governors and trustees for the costs of childcare, loss of earnings and reimbursement of travel expenses or similar costs incurred in connection with their duties as a governor or trustee. Before making such a payment, the Corporation **must**:

- be satisfied that there is no remunerative element

- where appropriate, gain express permission from the Charity Commission

Colleges **must** disclose details of any such payments made (including the total of such payment and number of governors or trustees who received the payments), or if none a statement to that effect.

xi. Accounting for government grants

In addition to disclosure requirements set out in SORP 2015, colleges **must** disclose in the notes to the accounts:

- deferred income relating to government grants as separate items, distinct from other accruals and deferred income, split between under and over one year

- the income recognised in any period related to government grants as separate items in an analysis of income from funding body grants

In each case, colleges **must** distinguish deferred income relating to government grants between amounts related to capital and revenue grants.

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