

Circular 00/22

Finance

Sector Accounting Policies

Summary

The purpose of this circular is to provide accounting guidance to colleges and external auditors on the preparation of their annual financial statements. The Council has consulted the major providers of external audit services and sector representative associations on the guidance for this year. The guidance set out in this circular and its supplements is additional to that provided in Circular 99/23, consolidating and updating previous information. This circular includes guidance on the new SORP for FE and HE and additional paragraphs on 2% tolerance, FRED 20 and FRED 21. This circular is applicable for the year ending July 2000, and is of interest to college principals and external auditors.

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Sector Accounting Policies

Introduction

1 The purpose of this circular is to offer guidance on the preparation of financial statements for the year ending 31 July 2000 and identify issues that will require consideration for future years. The guidance provides additional information and supplements Circular 99/23 *Sector Accounting Policies* related to financial statements for 1998-99. The 1998-99 circular was comprehensive in that it provided a new Casterbridge model for financial reporting.

2 In publishing this guidance, the Council has consulted major providers of external audit services to sector colleges and sector representative organisations.

Background

3 The further education (FE) sector in England comprises general FE colleges, art and design and performing arts colleges, agriculture and horticulture colleges, tertiary colleges, sixth form colleges, voluntary-aided sixth form colleges, voluntary-controlled sixth form colleges and other specialist designated colleges. The word 'college' is used in this document to refer to all colleges in the FE sector.

4 All colleges have charitable status; some are registered charities but most are exempt charities. A small number of colleges are also companies limited by guarantee.

5 Colleges vary in the range of activities they conduct and in their size and complexity. The main activity of all colleges is teaching but increasingly they may also undertake other activities incidental to teaching. The range of such activities across the sector is wide and includes the provision of catering services, student residences and farming. A significant number of colleges have established limited liability companies to pursue income-generating activities.

Model Financial Statements

6 The Council requires that the following items be presented in the format set out in supplement C of this circular:

- financial highlights
- members' report
- income and expenditure account
- statement of recognised gains and losses
- note of historical cost surpluses and deficits
- balance sheet
- cashflow statement
- description of the responsibilities of the members of corporation
- corporate governance statement on internal financial controls.

Scope

7 The Council is required to establish accounting policies for the FE sector under the terms of its financial memorandum with the Department for Education and Employment (DfEE). The Council's accounting policies for the sector are applicable to all colleges, regardless of their size, constitution or complexity. They 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.

Structure

8 This circular and its supplements are organised in the following way:

- this introductory section, which summarises key requirements including a timetable
- detailed guidance on accounting policies (annex A to supplement A)
- a cover sheet for colleges' returns (annex B to supplement A)
- the statement of recommended practice (SORP) for the FE and HE sector (supplement B)
- model reports and financial statements (supplement C).

Revisions to Guidance

9 The model financial statements which were provided with Circular 99/23 took account of financial reporting standards (FRS) up to FRS 15

Tangible Fixed Assets. This circular considers recent Financial Reporting Exposure Drafts (FREDs) and includes new or revised guidance on the following areas:

- SORP for the FE and higher education (HE) sectors
- restricted reserves
- 2% tolerance on funding units
- teachers' pension scheme valuation
- financial reporting exposure draft FRED 20 retirement benefits
- financial reporting exposure draft FRED 21 accounting policies
- corporate governance (recommendations of the Turnbull committee)
- charities SORP (exposure draft consultation period ended on 30 April 2000)
- urgent issues task force (UITF) sheet 34
- mergers
- capital grants
- leasehold property.

College Financial Statements 1999-2000

10 Financial statements comprise the accounts (income and expenditure account, statement of recognised gains and losses, statement of historical cost surpluses and deficits, balance sheet and cashflow statement), the statement of accounting policies and notes to the accounts.

11 Reports and financial statements comprise a members' report, the financial statements, a statement of the responsibilities of the members of the corporation, a corporate governance statement and an auditors' report to the members of the corporation.

12 The Council would like to remind colleges that disclosures requirements regarding overseas travel as stated in Circular 99/23 supplement A, paragraphs 61 to 63 comes into effect for the year ending 31 July 2000.

Approval of reports and financial statements

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

- a. the members' report should be signed and dated by the chair of governors on behalf of the corporation;
- b. the balance sheet should be signed and dated by the principal and one other member of the corporation, usually the chair of governors. (The footnote to the balance sheet should state the range of pages included in the financial statements and the date of approval by the full corporation); and
- c. the corporate governance statement should be signed and dated by the principal.

14 Items a), b) and c) 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.

15 Following a combination of two or more colleges (merger), the governing body in existence at the date on which the financial statements are due to be signed is required to approve and sign the financial statements relating to each of the former separate colleges.

Timetable

16 Under the terms of Circular 99/48 *The Financial Memorandum*, colleges are required to send a signed copy of their audited reports and financial statements (bearing original signatures) to the Council no later than five months after the end of each accounting period.

17 Each college should send a signed copy of its financial statements for 1999-2000, together with its signed finance record and disk and, if applicable, financial statements for its subsidiary undertakings, to the Council's Coventry office to arrive on or before 31 December 2000. A cover sheet for the returns is attached at annex B of supplement A to this circular.

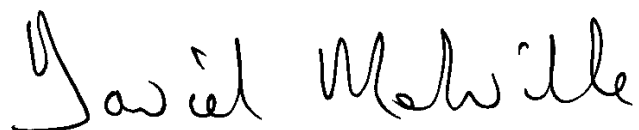
Audit reports and management letters

18 The Council's requirements regarding external auditors' audit reports and management letters were sent out in supplement C to Circular 98/15 *Audit Code of Practice*. In particular, external auditors are reminded that they should send a copy of the final version of their management letters, including the college's responses, to the chief auditor of the Council at the time they are sent to the college.

19 External auditors are also reminded that where they determine that 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. The chief auditor of the Council should also be informed without delay. This requirement is set out in paragraph 8 of supplement C to Circular 98/15.

Guidance

20 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 regional finance director. Colleges wishing to make general points about the development of accounting guidance should contact Gilbert George at the Council's Coventry office.

A handwritten signature in black ink that reads "David Melville". The signature is written in a cursive style with a large initial 'D'.

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