



Skills Funding
Agency



Education
Funding
Agency

Accounts Direction for 2012/13 Financial Statements

This Accounts Direction advises colleges of the requirements of the Secretary of State acting through the Education Funding Agency in accordance with paragraph 2 of the sixth form college funding agreement 2012/13 and the Chief Executive of Skills Funding in accordance with paragraph 16 of the Financial Memorandum Part 1 in respect of their audited financial statements for 2012/13.

May 2013

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

Overview

This Accounts Direction advises colleges of the requirements of the Secretary of State for Business, Innovation and Skills, acting through the Education Funding Agency (EFA) in accordance with paragraph 2 of the sixth-form college funding agreement 2012/13 and the Chief Executive of Skills Funding in accordance with paragraph 16 of the Financial Memorandum Part 1 in respect of their audited financial statements for 2012/13.

It is of interest to principals and chief executives of colleges, finance directors at colleges, chairs of finance and audit committees, financial statements' auditors, directors of funding bodies, and other key organisations in the learning and skills sector.

Effective for all colleges' financial statements ending on or after 31 July 2013

Statement of Recommended Practice: Accounting for Further and Higher Education

In preparing their financial statements, colleges are required to follow the **Statement of Recommended Practice: Accounting for Further and Higher Education (SORP)**, or any successor to the SORP. The latest version of the SORP (2007) is available from the Universities UK [website](#).

All colleges must comply with the financial reporting requirements contained in any UK legislation relevant to their constitution. **Where a college is constituted as a company, the financial statements must be properly prepared in accordance with the provisions of the Companies Act 2006 as appropriate.**

Financial supervision of colleges

1. Colleges which are now formally designated as sixth-form colleges, either because they were initially designated under the Initial Sixth Form College

Corporation Designation (England) Order 2010, or because they subsequently elected to be designated as such, are subject to financial supervision by the EFA, which is an executive agency of the Department for Education. The remaining colleges are subject to supervision by the Chief Executive of Skills Funding (the Skills Funding Agency).

Approval of reports and financial statements

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

- The Members' report or equivalent must be signed and dated by the chair of governors on behalf of the corporation.
- The balance sheet(s) must 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 (them).
- Statement of the Responsibilities of the Members of the Corporation must be signed and dated by the Chair of Governors.
- The Corporate Governance and Internal Control must be signed and dated by the Chair of Governors and the Principal.

3. The signatories should sign the above items on the same date, on or very shortly before the date on which the college's financial statements' auditors sign and date their audit report.

Corporate governance and internal control

4. The voluntary Governance Code contained in the English Colleges' Foundation Code of Governance (the Foundation Code), which was drawn up recognising the guidance found in the UK Corporate Governance Code, recommends that colleges report in the Statement of Corporate Governance and Internal Control that they have adopted the Foundation Code. Where a college's practices are not consistent with any particular provisions of the Foundation Code an explanation should be published in that statement.

5. An Audit and Accountability Annex to the Foundation Code, **optional for adoption in its own right**, has been developed by the Governors' Council of the Association of Colleges. The annex sets out the minimum expectations in respect of audit and accountability matters for colleges. Where a college has adopted the annex, this should be reported in the Statement of Corporate Governance and Internal Control, together with an explanation of why the college's practices are not consistent with any particular provisions of the annex.

6. Where a college does not choose to follow the provisions of either or both of the Audit and Accountability Annex and the Foundation Code, then it must ensure that it complies with the provisions of the UK Corporate Governance Code issued by the FRC in June 2010. This is, in so far as they apply to the FE sector, and that it has complied throughout the year ended 31 July 2013.

7. Colleges must include in their annual financial statements a Statement of Corporate Governance and Internal Control. In preparing the Statement of Corporate Governance and Internal Control, colleges should consider best practice guidance, a summary of which is included in Appendix 1. In particular, the Statement of Corporate Governance and Internal Control must include the governing body's opinion on the adequacy and effectiveness of the college's arrangements for governance, risk management and control, and how it has fulfilled its statutory responsibility for *"the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets"*¹

8. Colleges must make a statement on corporate governance covering the period 1 August 2012 to 31 July 2013 and **up to the date of approval** of the audited financial statements.

External and regularity audit requirements

9. Colleges are required to ensure that their contracts for external audit include the requirements for a Separate Regularity Audit opinion as to whether in all material respects the expenditure disbursed and income received for the year ended 31 July

¹ (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)

2013 have been applied to the purposes intended by Parliament; and the financial transactions conform to the authorities which govern them. The format of the Audit Report on Regularity will be included in the Regularity Audit Framework Appendix to the Joint Audit Code of Practice (ACOP) Part 2.

Documents to submit

10. The following must be submitted to the responsible funding body no later than December 2013. For FE colleges this will be the Skills Funding Agency and for sixth-form colleges, the EFA:

- audited financial statements (including the regularity audit opinion) of the college and its subsidiaries (where applicable) for the year ending 31 July 2013 (electronic copy of signed accounts)
- finance record for the year ending 31 July 2013 signed by the college's principal or chief executive (electronic copies for signed version and unsigned Excel version)
- financial statements auditor's management letter, including the college's response (electronic version only)
- Annual Internal Audit Report (electronic version only) (FE colleges only).

11. The funding bodies **do not** require colleges to submit hard (paper) copies of any of the above documents.

12. Where the college is subject to the individualised learner record (ILR) audit regime, the return date for the financial statements and finance record is also 31 December 2013.

13. Financial statements 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 appropriate funding body. Auditors of general FE colleges should contact the Director of Provider

Finance at the Skills Funding Agency and the Director of External Assurance at the EFA.

14. Electronic copies for the year ending 31 July 2013 must be submitted to the responsible funding body at the email address shown below no later than 31 December 2013:

Skills Funding Agency: pfm@skillsfundingagency.bis.gov.uk

EFA: externalassurance.EFA@education.gsi.gov.uk.

Remuneration of senior post-holders and higher-paid staff

15. Colleges must disclose the following:

- a. The total remuneration of the principal and of senior post-holders. Further details are at Appendix 2.
- b. The annual remuneration of senior post-holders and higher-paid staff in bands of £10,000 from a starting point of £60,000. Disclosure is required for staff who joined or left part-way through a year but who would have received remuneration in these bands in a full year.
- c. Details of any compensation for loss of office paid or payable to the principal or senior post-holders, or to staff whose annual remuneration exceeds £60,000, as detailed in Appendix 2.

Governors' expenses

16. In certain cases, it is deemed justifiable to compensate governors for the costs of childcare, loss of earnings and for reimbursement of travel expenses incurred in connection with their duties as a governor. The governing body will need to consider each case for an exceptional payment on its merits and be satisfied that there is no remunerative element to it. Colleges are required to disclose full details of any such payments made to governors in their financial statements.

Other

17. The Accounts Direction is reviewed at least annually. This Accounts Direction for 2012/13 financial statements will remain in force unless colleges are notified otherwise.

Appendix 1 Statement of corporate governance and internal control

Paragraph 39 of the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 states:

“The SORP Board considers that it is best practice to produce a statement of corporate governance and internal control with the financial statements, and this is specifically required by some Funding Bodies in their accounts directions. In preparing their corporate governance statement institutions should consider the best practice guidance issued by Funding Bodies, including the requirement to publish details of their systems of internal control and how such a system is linked to institutional objectives and implemented across the organisation. Guidance is also available from the British Universities Finance Directors Group (BUFDG) on the production of a statement of corporate governance, and this is available on the BUFDG website at <http://www.bufdg.ac.uk>. Institutions should ensure as a minimum that they comply with the requirements of the accounts directions from the Funding Bodies.”

Colleges must include a Statement of Corporate Governance and Internal Control with their financial statements. As a minimum, the Skills Funding Agency and the EFA consider that the following must be included within the Statement of Corporate Governance and Internal Control:

- the governing body’s assessment of its compliance with the English Colleges’ Foundation Code of Governance or if not adopted, the UK Corporate Governance Code 2010 (in so far as that code applies to the FE sector) with explanations of any departures
- details of the members who served on the corporation during the year and up to the date of the approval of the accounts, including a summary of their attendance records
- details of the governance framework, including information about the committee structure, appointments to the corporation, and the coverage of their work during the period

- how the college identifies, evaluates and manages risk (including operational, financial, compliance and other risks)
- details of the internal control and assurance framework and how the Board has fulfilled its statutory responsibility for “*the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets*”
- the governing body’s performance, including its assessment of its own effectiveness.

Where appropriate the governing body should also set out in the statement of internal control details of actions taken or proposed to deal with significant internal control issues.

Appendix 2 Remuneration of the principal, senior post-holders and higher-paid staff

Higher-paid staff

The total number of higher-paid staff, including senior post-holders, in bands of £10,000 per annum. (above a threshold of total emoluments of £60,000 each year per annum. in line with that found in *Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005)* (the Charities SORP), must be disclosed in the interests of public accountability in the staff costs note. The number of senior post-holders within each band must be separately identified within the note. For this purpose, emoluments include taxable benefits in kind but **not** employer pension costs.

Senior post-holders' emoluments

Colleges are required to disclose the following in their financial statements:

- the emoluments of the principal; where there has been more than one principal during the course of the year, the emoluments must be disclosed **separately**
- the aggregate emoluments of the college's senior post-holders (see below)
- the aggregate emoluments of the corporation's members
- the annual emoluments of the highest paid senior post-holder, if not the principal
- annual emoluments due to a senior post-holder but waived by the post-holder
- the number of senior post-holders (in bands of £10,000), including the principal (this information may be combined with similar information for all higher-paid staff) **but without the de minimus threshold of £60,000 per annum.**
- the aggregate amount of any compensation paid to senior post-holders or past senior post-holders for loss of office, excluding any payments in lieu of notice (as these form part of the annual emoluments)
- the number of post-holders who have been paid such compensation

“Senior post-holders’ emoluments” means emoluments paid to, or receivable by, any person for:

- services as a senior post-holder of the college
- services as a director or officer of any subsidiary of the college, during the period of appointment as a senior post-holder.

For this purpose, “emoluments” paid to, or receivable by, a senior post-holder include the normal remuneration salary, and the following:

- fees
- any expense allowances (to the extent that they are chargeable to UK income tax)
- contributions paid for the senior post-holder under a pension scheme
- the estimated money value of any benefits received other than in cash
- emoluments for any person accepting office as a senior post-holder.

Note – the emoluments above do not include any adjustments arising from FRS 17 otherwise included within the staff costs note.

Senior post-holders’ emoluments must **not** include the employer’s national insurance contributions. Compensation for loss of office is a category of payment different from an “emolument”. Consequently, it should **not** be included in that person’s emoluments for banding purposes.

“Compensation” includes benefits otherwise than in cash, and in relation to such compensation references to its amount are to the estimated money value of the benefit. Compensation for loss of office includes:

- any amount paid in connection with a senior post-holder’s retirement
- the estimated monetary value of benefits received or receivable other than in cash and, where compensation is given in kind, disclosure of its nature in detail
- any top-up or enhancement to the pension scheme.

Severance payments

Colleges are required to disclose the amount of severance costs for each year and state whether these were approved by the corporation or a committee established by the corporation for this purpose.



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