



Skills Funding
Agency



Education
Funding
Agency

Accounts Direction for 2013 to 2014 Financial Statements

May 2014

Of interest to colleges

Overview

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 2013/14 and the Chief Executive of Skills Funding in accordance with paragraph 21.1 of the Financial Memorandum in respect of their audited financial statements for 2013 to 2014.

It is of interest to principals and chief executives of colleges (the "Accounting Officers"), 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 for periods ending on or after 31 July 2014

Statement of Recommended Practice: Accounting for Further and Higher Education

Colleges are required to follow the 'Statement of Recommended Practice: Accounting for Further and Higher Education' (SORP), or any successor to the SORP, in the preparation of their financial statements. 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 Education Funding Agency (EFA), an executive agency of the Department for Education. The remaining colleges are subject to financial supervision by the Chief Executive of Skills Funding (the Skills Funding Agency).

Approval of financial statements

2. The 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 Accounting Officer and one other member of the Corporation, usually the Chair of Governors; the director of finance is not required to sign it (them).
 - The Statement of the Responsibilities of the Members of the Corporation must be signed and dated by the Chair of Governors.
 - The Statement of Corporate Governance and Internal Control must be signed and dated by the Chair of Governors and the Accounting Officer.

3. The above items should normally be signed on the same date. They should also be signed 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 in their annual, audited financial statements that they have adopted the Foundation Code, and that 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, has been developed by the Governors' Council of the Association of Colleges. This Annex sets out the minimum expectations in respect of audit and accountability matters for colleges. Where the Annex has been adopted by a college, 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. A college must **either**:
 - (a) comply with:
 - (i) the Foundation Code and
 - (ii) the *Audit and Accountability Annex* which is only available to colleges that have formally decided to adopt (i); or
 - (b) noting that a college is not required to comply with the *Financial Reporting Council's UK Corporate Governance Code 2010* nor to make a statement on compliance with that Code, have due regard to the principles and guidance therein in so far as those are applicable to the college sector.
7. Colleges must include in their annual financial statements a statement of corporate governance and internal control. In preparing the Corporate Governance and Internal Control statement, 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 Corporation'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 include in the Corporate Governance and Internal Control statement, the Corporation's and Accounting Officer's statement on regularity, propriety and compliance. The format for the regularity statement is included in **Appendix 1**. This statement does not confer new responsibilities on Corporations; it is a formal attestation that existing, long standing responsibilities have been met.
9. Colleges must make a statement on corporate governance covering the period 1 August 2013 to 31 July 2014 and **up to the date of approval** of the audited financial statements.

External and Regularity audit requirements

10. Colleges are required under the Joint Audit Code of Practice (JACoP) Part 2 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 2014 have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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).

The format of the Audit Report on Regularity and associated guidance will be included in the Regularity Audit Framework Appendix to the JACOP Part 2 due for publication in June 2014.

Documents to be submitted

11. The following must be submitted to the responsible funding body no later than 31 December 2014. 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 2014 (electronic copy of signed financial statements)
 - Finance Record for the year ending 31 July 2014 signed by the **Accounting Officer** of the college (electronic copies for signed version and unsigned Excel version)
 - financial statements auditor's management letter, including the college's response (electronic version only)
 - **Annual report of the Audit Committee**
12. The funding bodies **do not** require colleges to submit hard (paper) copies of any of the above documents.
13. **In accordance with Charity Commission guidance, all colleges must however make their annual reports and accounts promptly available on their websites.**
14. 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 **Accounting Officer**, 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 **Deputy Director, Provider Financial Management and Assurance** at the Skills Funding Agency and for sixth form colleges, the **Deputy Director, Risk Analysis Division** at the EFA.
15. Electronic copies for the year ending 31 July 2014 must be submitted to the responsible funding body via e-mail at the address shown below no later than 31 December 2014:

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

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

Remuneration of senior postholders and higher-paid staff

16. Colleges must disclose the following.
 - a) The total remuneration of the **Accounting Officer** and of senior postholders. Further details are at **Appendix 2**.
 - b) The annual remuneration of senior postholders **with no de minimus**, and for higher-paid staff in bands of £10,000 from a starting point of £60,000 each year. Disclosure is required, **in the appropriate band**, 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 **Accounting Officer** or senior postholders, or to staff whose annualised remuneration exceeds £60,000, as detailed in **Appendix 2**.

Governors' expenses

17. 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 Corporation 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.

Charities Act 2011

18. The following information should be included in the college's audited financial statements and related reports.
 - a) The charitable status of the college.
 - b) The trustees who served at any time during the financial year and until the date the financial statements were formally approved.
 - c) A statement that the charity has had regard to the Charity Commission's guidance on public benefit.
 - d) A report on how the college has delivered its charitable purposes for the public benefit.
 - e) Information about payments to or on behalf of trustees, including: expenses, payments to trustees for serving as trustees (and waivers of such payments), and related party transactions involving trustees. This should be, as a minimum, the total of such payments made in the year (or if none, a statement to that effect) and the number of trustees who received the payments. Comparative figures should also be included.

Other

19. The Accounts Direction is reviewed at least annually. This Accounts Direction for 2013 to 2014 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 Corporation’s assessment of its compliance with the English Colleges’ Foundation Code of Governance (and its Annex if appropriate) or if not adopted, the principles and guidance within the UK Corporate Governance Code 2010² (in so far as they apply to the Further Education 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 for the Corporation meetings
- 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)
- The Corporation’s 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 its consideration the Corporation has had due regard to the requirements of the [financial memorandum/funding agreement].

*We confirm, on behalf of the Corporation, that **to the best of its knowledge**, the Corporation believes it is 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]. We further confirm that any instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the [Skills Funding Agency/Education Funding Agency].*

² Reference to the 2010 Code follows the narrative used in the Listing Rules which do not at present refer specifically to the (later) 2012 version of the Code. Colleges can refer instead to the 2012 Code if they wish but should be aware of the additional reporting requirements therein (<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>).

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

Where appropriate the Corporation 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 Accounting Officer, Senior Postholders and higher-paid staff

Higher-paid staff

The total number of higher-paid staff, including senior post-holders (where those are defined by the Instruments and Articles of Government), in bands of £10,000 each year (above a threshold of total emoluments of £60,000 each year 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 Accounting Officer. Where there has been more than one Accounting Officer 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 Accounting Officer
- 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 Accounting Officer (this information may be combined with similar information for all higher paid staff) **but without the de minimus threshold of £60,000 each year**
- 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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