



Skills Funding  
Agency



Education  
Funding  
Agency

# Accounts Direction for 2014 to 2015 Financial Statements

March 2015

Of interest to colleges

# Accounts Direction for 2014 to 2015 financial statements

## Overview

This Accounts Direction advises Colleges of the requirements of the Secretary of State acting through the Education Funding Agency in accordance with paragraph 9.1 of the Sixth Form College Funding Agreement 2014/15 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 2014 to 2015.

It is of interest to principals and chief executives of Colleges (the “Accounting Officers”), finance directors at Colleges, Chairs of Finance and Audit Committees, **auditors and reporting accountants**, 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 2015

### 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](#).

**FRS 102 and the new SORP (2015) will only apply for the 2015/16 financial statements and onwards and must not be adopted early.**

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 designated as Sixth Form Colleges 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.
  - **The Statement on Regularity, Propriety and Compliance must be signed and dated by the Chair of Governors and the Accounting Officer**

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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 2012* nor to make a statement on compliance with that Code, have due regard to the principles and guidance therein insofar 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 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*"<sup>1</sup>
8. Colleges **must** include **as a separate statement**, the **Accounting Officer's Statement** on Regularity, Propriety and Compliance. The format for **this** regularity statement is included in **Appendix 2** and has been updated since 2014. 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 2014 to 31 July 2015 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 **terms** for a separate Regularity **Assurance engagement**. The format of the **Assurance** Report on Regularity and associated guidance is included in the Regularity Audit Framework Appendix to the JACOP Part 2.

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<sup>1</sup> (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)

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## Documents to be Submitted

11. The following **must** be submitted to the responsible funding body no later than 31 December 2015. For FE Colleges this will be the Skills Funding Agency and for Sixth Form Colleges, the EFA:
  - audited financial statements (including the **regularity assurance report**) of the College and its subsidiaries (where applicable) for the year ending 31 July 2015 (electronic copy of signed financial statements);
  - Finance Record for the year ending 31 July 2015 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); and
  - 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. **This is interpreted to mean that Colleges must publish their annual accounts on their website by the end of January following the financial year to which the accounts relate.**
14. Financial statements auditors are reminded that where they are unable to express an unmodified 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 Director of Provider Finance 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 2015 **must** be submitted to the responsible funding body via e-mail at the address shown below no later than 31 December 2015:

**Skills Funding Agency:** [pfm@sfa.bis.gov.uk](mailto:pfm@sfa.bis.gov.uk)

**The EFA will confirm their email address in due course.**

## 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 3**. **The College must show a sub-total excluding pension contributions and a total including them.**
  - b) The annual remuneration of senior postholders with no de minimis, and for higher-paid staff in bands of £10,000 from a starting point of £60,000 **p.a.** 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 3**.

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### 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 **must** 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 **must** also be included.

### Other

19. The Accounts Direction is reviewed at least annually. This Accounts Direction for 2014 to 2015 financial statements will remain in force unless Colleges are notified otherwise.

# Accounts Direction for 2014 to 2015 financial statements

## 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 2012<sup>2</sup> (insofar 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);
- 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*”;
- confirmation that the College is a going concern, with supporting assumptions and qualifications as necessary. This disclosure provides support for the use of the going concern accounting policy and should not be inconsistent with the disclosures regarding going concern either in the financial statements or the auditors’ report thereon;
- 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.

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<sup>2</sup> Reference to the 2012 Code as the 2014 Code is applicable for accounting periods beginning on or after 1<sup>st</sup> October 2014 (<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>).

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## 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** complete and sign a statement on Regularity, Propriety and Compliance each year on behalf of the Corporation and submit this to the [Skills Funding Agency/Education Funding Agency] with the audited accounts:

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]

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## Appendix 3 Remuneration of the Accounting Officer, Senior Postholders and Higher paid staff

### Higher paid staff

The total number of higher paid staff, including senior postholders (where those are defined by the Instruments and Articles of Government), in bands of £10,000 p.a. (above a threshold of total emoluments of £60,000 p.a. 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 postholders 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 Postholders’ 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 College must show a sub-total excluding pension contributions and a total including them.
- the aggregate emoluments of the College’s senior postholders (see below); the College must show a sub-total excluding pension contributions and a total including them.
- the aggregate emoluments of the Corporation’s members
- the annual emoluments of the highest paid senior postholder, if not the Accounting Officer
- annual emoluments due to a senior postholder but waived by the postholder
- the number of senior postholders (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 minimis threshold of £60,000 p.a.**
- the aggregate amount of any compensation paid to senior postholders or past senior postholders for loss of office, excluding any payments in lieu of notice (as these form part of the annual emoluments)
- the number of postholders who have been paid such compensation

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

- services as a senior postholder of the College
- services as a director or officer of any subsidiary of the College, during the period of appointment as a senior postholder.

For this purpose, “emoluments” paid to, or receivable by, a senior postholder 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 postholder 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 postholder.

Note – the emoluments above do not include any adjustments arising from FRS 17 otherwise included within the staff costs note. The aggregate of these emoluments’ disclosure should include each of the above as separate lines, with a sub-total excluding pension contributions and a total including them.



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Senior postholders' 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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