Education & Skills Funding Agency

College accounts direction 2018 to 2019

Financial reporting requirements for sixth-form and further education colleges

February 2019

Contents

Summary

The college accounts direction 2018 to 2019 sets out Education and Skills Funding Agency's (ESFA's) financial reporting requirements for sixth-form and further education corporations.

Corporations are entities that operate one or more colleges. They have the legal status of statutory corporations and exempt charities. A college is a charitable activity undertaken by its corporation; it does not have a separate legal entity distinct from that of its corporation.

We publish the accounts direction on behalf of the Secretary of State for Education, in their role as principal regulator of corporations as exempt charities. Compliance with this accounts direction is a requirement in corporations' funding agreements with ESFA.

Designated institutions

We use the term corporation to refer to sixth-form and further education corporations, established under the Further and Higher Education Act 1992, where members of the corporation form the governing body. Requirements in this guidance apply equally to institutions designated under §28 of the same Act as being in the further education sector, to the extent permitted by their legal status and underlying legislation.

Validity

We update this guidance annually. This version applies to all financial reporting periods commencing on or after 1 August 2018.

Who is this publication for?

This accounts direction is primarily for use by the above bodies':

- principals / accounting officers, chief executives and finance directors
- governors as charity trustees
- external auditors / reporting accountants

This document does not apply to specialist post-16 institutions, non-maintained special schools or independent learning providers. Academy trusts with post-16 provision should refer to the academies accounts direction.

What has changed in this edition?

Changes in this version include:

- emphasising that corporations risk ESFA intervention if they do not submit their audited accounts and associated documents by 31 December 2019
- clarifying that new corporations incorporated on or after 1 January 2019 must apply the updated underlying accounting framework
- clarifying that corporations in existence up to 31 December 2019 can adopt early, the updated underlying accounting framework
- highlighting that corporations and their auditors need to be mindful of the new insolvency regime in preparing accounts
- clarifying that the scope of the 'Statement of regularity, propriety and compliance' (annex B) and the 'Statement of responsibilities of the members of the corporation' (annex C) includes all public funds
- highlighting that annex D has been substantially updated to include additional reporting and transparency requirements
- removing submission arrangements from this document which will be published separately

Clarification of terms

We use the terms 'must' and 'should' in this document:

- must – means a funding agreement condition or requirement
- should – identifies minimum good practice for which there is no absolute requirement, but which corporations should apply unless an alternative better suits their circumstances

Further information and feedback

Additional guidance is available in the college accounts direction handbook published by Association of Colleges. Corporations and their auditors can ask ESFA questions via an on-line enquiry form.

We are grateful to the individuals and organisations that have made suggestions or observations about this document. We are constantly striving to improve how we communicate. If you have suggestions for future editions please contact ESFA.

Part 1: Submission requirements

Submission of documents

1. Corporations must submit the following documents to ESFA by 31 December 2019:

- audited annual report and financial statements (the accounts) including the reporting accountant's report on regularity (a scanned, signed copy)
- Excel finance record (or equivalent) which includes accounting officer's declaration within the cover sheet
- external auditor's management letter, including the corporation's response
- annual report of the corporation's audit committee
- audited accounts of all subsidiary companies (if any)

2. We will publish details of the submission arrangements separately that will include new secure on-line upload arrangements. There is no requirement to submit:

- hard copies of documents to ESFA
- documents by email or in hard copy form to OfS – ESFA will share information with OfS to facilitate their conditions of registration compliance monitoring

3. We take late submission of financial information very seriously and corporations that miss key deadlines risk ESFA intervention. It is important corporations inform ESFA at the earliest opportunity, if the deadline of 31 December 2019 may be missed.

Extended and short period accounts

4. Corporations can only produce extended period final accounts if:

- this does not contravene their articles of government
- the receiving corporation is able to meet the 31 December 2019 deadline
- ESFA's prior approval has been obtained

5. Corporations producing either extended period final accounts beyond 31 July 2019, or short period final accounts ending prior to 31 July 2019, must meet the requirements and timescales set out above.

6. In respect of business combinations, the chair and accounting officer of the receiving corporation are responsible for signing, and submitting to ESFA, the audited accounts of a dissolving corporation, by 31 December 2019.

Approval of documents

7. Financial statements must be approved by the corporation and signed as follows:

<table>
<tr><th>Component</th><th>Signatory</th></tr>
<tr><td>Members’ report (or equivalent)</td><td>Chair of governors</td></tr>
<tr><td>Balance sheet(s)</td><td>Accounting officer and one other member of corporation (usually chair of governors)</td></tr>
<tr><td>Statement of corporate governance and internal control (annex A)</td><td rowspan="2">Accounting officer and chair of governors</td></tr>
<tr><td>Statement of regularity, propriety and compliance (annex B)</td></tr>
<tr><td>Statement of responsibilities of the members of the corporation (annex C)</td><td>Chair of governors</td></tr>
</table>

8. 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.

Publishing accounts

9. Corporations must publish their 2018 to 2019 audited accounts in an easily accessible location on their website. To maximise transparency and to support accountability this should be done as soon as possible after the accounts are signed, and no later than 31 January 2020. Corporations should also retain at least two years of accounts on their website. As charities, corporations should also provide their accounts to anyone requesting a copy.

10. Stakeholders have a right to expect information on the financial performance and results of a corporation to be published on their website. Failure to do so is a breach of the corporation’s funding agreement with ESFA.

Part 2: Finance record (or equivalent)

Corporations in scope

11. All corporations in existence as at 31 July 2019, must prepare a finance record (or equivalent) and submit this to ESFA alongside their audited accounts.

12. Corporations must ensure the finance record (or equivalent):

- is completed in full, including all parts of all schedules
- replicates the accounts insofar as the template allows, including subsidiaries and joint ventures where they have been consolidated
- includes a narrative explanation for any significant variances from the estimated outturn submitted in the 2019 financial plan (or equivalent)

13. The table below clarifies the circumstances in which a corporation must submit a finance record (or equivalent):

Scenario	Finance record
12 months accounts (1 August to end July) as normal	Yes – to 31 July 2019
Extended period accounts – beyond 31 July 2019	Yes – to 31 July 2019
Final short period accounts – ending prior to 31 July 2019	No
Short period accounts – incorporation to 31 July 2019	Yes – to 31 July 2019

14. We will publish the finance record template (or equivalent) separately.

Benchmarking

15. Data from finance records supports ESFA's financial benchmarking tool for colleges which allows corporations to compare their financial performance with others in the sector. It is important corporations ensure all tabs in the finance record are completed accurately.

Part 3: Basis for preparing accounts

Financial accounting framework

16. In preparing their accounts, corporations must follow the financial accounting framework of:

- FRS 102 (Financial Reporting Standard 102); and
- FE and HE SORP (Statement of Recommended Practice: Accounting for Further and Higher Education)

17. An updated financial accounting framework takes effect for financial reporting periods on or after 1 January 2019. We are distinguishing between the two as follows:

Existing accounting framework	Updated accounting framework
FRS 102 (Sept 2015)	FRS 102 (March 2018)
FE and HE SORP (2015)	FE and HE SORP (2019)

Existing corporations

18. Corporations that exist up to 31 December 2018 can continue to follow the existing accounting framework. Early adoption of the updated accounting framework in 2018 to 2019 is permitted. providing all amendments are applied at the same time.

New corporations

19. The updated accounting framework of FRS 102 and FE & HE SORP must be followed where the legal form of a corporation takes effect, on or after, 1 January 2019.

Other considerations

20. Corporations must also:

- include the statements set out in annex A, annex B and annex C
- follow the accounting and disclosure requirements set out in annex D
- adopt an accounting reference date of 31 July

21. Corporations and their external auditors should be mindful of the new insolvency regime in preparing accounts.

22. Assurance arrangements are set out in ESFA's post-16 audit code of practice.

Annex A: Statement of corporate governance and internal control

Good corporate governance is fundamental to any effective organisation and is the hallmark of a well-managed entity, and for corporations it demonstrates they are conducting business in the best interests of their students and funders. All corporations must comply with one of the following governance codes:

- Code of Good Governance for English Colleges (developed by Association of Colleges)
- Charity Governance Code (endorsed by the Charity Commission)
- The UK Corporate Governance Code 2016[1] (developed by the Financial Reporting Council). Corporations are not expected to be in full compliance but should have due regard to the principles and guidance, insofar as they apply to the further education and charity sectors

ESFA's preference is that corporations adopt a governance code that comprehensively reflects their legal structure, operations and stakeholders.

Corporations must include a statement of corporate governance and internal control within their accounts, relating to the period from 1 August 2018 to the date of the signing of the accounts, which must include:

- declaration of compliance with their adopted governance 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 2016[3] the corporation has due regard to its principles and guidance'
- details of those who served as members of the corporation during the year including a record of attendance at meetings
- the governance framework, including:
    - committee structure
    - appointments to the corporation
    - the coverage of the corporation's work during the period

[1] FRC has introduced a Corporate Governance Code 2018 applying to accounting periods beginning on or after 1 January 2019; early adoption for financial periods 2018 to 2019 is permitted (see FAQs).

- how the corporation identifies, evaluates and manages risk (including an impact and likelihood evaluation of key operational, financial, compliance and other risks)
- any significant internal control weaknesses or failures that have arisen, and actions taken
- 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 § 5(3)(c) of Part 2 of Schedule 4 of the Further and Higher Education Act 1992)
    - contractual responsibilities under its funding agreements and contracts with ESFA
- an assessment of whether the corporation is a going concern, whether this supports the adoption of the going concern assumption, and any supporting assumptions, qualifications and mitigating actions, as appropriate (which must be consistent with other disclosures in the accounts and auditor's report)
- the corporation's performance, including an assessment of its own effectiveness

Annex B: Statement of regularity, propriety and compliance

Corporations are in receipt of significant public funds and as part of their stewardship role, must be able to assure ESFA, who in turn 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 of regularity, propriety and compliance each year on behalf of the corporation and submit this with the accounts.

Statement of regularity, propriety and compliance

The corporation has considered its responsibility to notify ESFA of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the corporation's grant funding agreements and contracts with ESFA. As part of our consideration we have had due regard to the requirements of grant funding agreements and contracts with ESFA.

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 corporation, or material non-compliance with the terms and conditions of funding, under the corporation's grant funding agreements and contracts with ESFA, or any other public funder.

[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 ESFA.

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

- [instances to be raised]

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

Annex C: Statement of responsibilities of the members of the corporation

The chair of governors must sign a statement of responsibilities of the members of the corporation each year on behalf of the corporation and submit this with the accounts. The model statement below should be amended, as needed, for the specific circumstances of the corporation.

Statement of responsibilities of the members of the corporation

The members of the corporation, as charity trustees, are required to present audited financial statements for each financial year.

Within the terms and conditions of the corporation's grant funding agreements and contracts with ESFA, the corporation – through its accounting officer – is required to prepare financial statements and an operating and financial review for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which gives a true and fair view of the state of affairs of the corporation and surplus/deficit of income over expenditure for that period.

In preparing the financial statements, the corporation is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the corporation will continue in operation

The corporation is also required to prepare a Members' Report that describes what it is trying to do and how it is going about it, including information about the legal and administrative status of the corporation.

The corporation is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the corporation and which enable it to ensure that the financial statements are prepared in accordance with relevant legislation including the Further and Higher Education Act 1992 and Charities Act 2011, and relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

The corporation is responsible for the maintenance and integrity of its website(s); the work carried out by auditors does not involve consideration of these matters and, accordingly, auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Members of the corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from ESFA, and any other public funds, are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time by ESFA, or any other public funder. Members of the corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the corporation are responsible for securing economic, efficient and effective management of the corporation's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA and other public bodies are not put at risk.

Approved by order of the members of the corporation on **[date]** and signed on its behalf by:

[Signed]

[Name to be typed]

Chair of governors

Annex D: Specific accounting and disclosure matters

We draw corporations' attention to a number of specific accounting and disclosure matters that are considered to go beyond the requirements of FRS 102 and the FE & HE SORP.

Corporations receive significant investment from public funds and need to demonstrate to stakeholders that decisions made on executive pay are evidence-based, proportionate and represent value for money. This year, as a matter of policy, we have increased transparency around executive pay to support accountability, and to help maintain public confidence and trust in executive pay. Some of these disclosures also reflect Office for Students' accounts direction.

We encourage corporations to make every effort to evidence their disclosures fully, and to consider what other information enhance transparency and understandability. For example, corporations could consider providing stakeholders with more meaningful information to help them understand pay structures and movements, such as

- remuneration paid or payable in the year, alongside full-time equivalent information
- whether they have adopted AoC's Governor's Council's The Colleges Senior Staff Remuneration Code

i. Legal status

The corporation must include details of its charitable status.

ii. Public benefit

The corporation must provide a statement that it has had due regard for Charity Commission's (CC's) guidance 'charitable purposes and public benefit'. It must also provide a report on how the corporation has delivered its charitable purposes for the public benefit.

iii. Plans for future periods / reserves policy

We encourage transparency in corporation accounts, which should, where appropriate, include plans for student recruitment, cost saving and efficiencies such as shared services and structural change.

We also encourage corporations to review their reserves policy and the level of reserves held, setting out, where appropriate, how these align with strategic plans and to CC's guidance 'charity reserves: building resilience'.

iv. Remuneration of key management personnel and high-paid staff

(a) Key management personnel

In addition to disclosure requirements set out in the relevant FE & HE SORP, corporations must disclose in the notes to the accounts:

- the number of key management personnel whose emoluments received in the year (gross of any salary sacrifice arrangements and excluding any employer pension costs) that fall within each band of £5,000 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
- justification for the total emoluments linked to value and performance delivered, alongside an explanation of the processes adopted for judging performance and total emoluments, including benchmarking or other means of comparison to the broader market

Where previous key management personnel continue to receive emoluments in an employed or consultancy role, such as in an advisory or sabbatical role, this must be disclosed, with an explanation.

(b) Accounting officer

Corporations must separately disclose emoluments of the accounting officer (and of the highest-paid member of key management personnel in the unlikely event this is not the accounting officer), both including and excluding pension contributions. Corporations must breakdown this disclosure by emolument type [see (e) below] in their accounts.

A justification for the total emoluments of the accounting officer must be disclosed, linked to value and performance delivered, alongside an explanation of the processes adopted for judging performance and total emoluments, including benchmarking or other means of comparison to the broader market.

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

Where a previous accounting officer continues to receive emoluments in an employed or consultancy role, such as in an advisory or sabbatical role, this must be disclosed with an explanation.

(c) Pay multiple

Corporations must disclose the relationship between the accounting officer’s emoluments and that of all other employees as a pay multiple, expressed as follows:

- accounting officer’s basic salary divided by the median pay of all other corporation employees (all on a full-time equivalent basis); and

- accounting officer's total emoluments divided by the median pay of all other corporation employees (all on a full-time equivalent basis)

The corporation must briefly explain the basis of their methodology and any exceptions applied, such as agency workers.

(d) Higher-paid staff

Corporations must disclose the number of higher-paid staff whose emoluments received in the year (excluding any employer pension costs) fall within each band of £5,000 from a starting point of £60,000.

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

(e) Definitions for part iv

Emolument types include:

- basic salary
- fees
- performance-related pay and other bonuses, including any deferred payment arrangements and separate disclosure of any amounts waived
- expense allowances (to extent that they are chargeable to UK income tax)
- pension contributions and payments in lieu of pension contributions
- any sums paid under any pension scheme in relation to employment with the corporation
- monetary value of any taxable benefits other than cash (for example, company cars, subsidised loans and accommodation)
- employee benefits provided by, or on behalf of, the corporation
- any other type of emolument and cost to the corporation of providing each type, for example, loss of benefits, ex-gratia, consultancy, accepting office ('golden handshake'), and dividends or 'off payroll' amounts in respect of any subsidiaries or other entities
- monetary value of any non-taxable benefits available only to key management personnel

Emoluments do not include:

- adjustments arising from FRS 102 (section 28) otherwise included in the staff costs note
- employer's national insurance contributions (NIC)

- compensation for loss of office
- salary sacrifice arrangements

Corporations must, however, disclose separately any salary sacrifice arrangements, or if there are no such arrangements a statement to that effect.

v. Compensation for loss of office

Corporations must disclose details of any compensation for loss of office, loss of any other office connected with corporation affairs and/or connected with the affairs of a parent or subsidiary undertaking of the corporation; where paid or payable to the accounting officer, key management personnel (both past and present) and staff earning at least £60,000 per year. Corporations must disclose:

- the aggregate value of any compensation for loss of office paid or payable to these staff (excluding payments in lieu of notice)
- the number of people to whom this was paid or payable
- 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

vi. Severance payments

Corporations 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

vii. Transactions with governors/trustees

In certain cases it may be justifiable to compensate governors/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/trustee. Before making such a payment, the corporation must:

- be satisfied that there is no remunerative element
- gain express permission from CC if a remunerative element exists
- have due regard to CC’s guidance ‘trustee expenses and payments’

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

viii. Accounting for government grants

In addition to disclosure requirements set out in the relevant SORP, corporations 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, corporations must distinguish deferred income relating to government grants between amounts attributable to capital and revenue grants.

ix. Trade Union (Facility Time Publication Requirements) Regulations 2017

It is the responsibility of each corporation to comply with the requirements of this legislation as appropriate, and to disclose relevant information within their audited financial statements.

Education & Skills
Funding Agency

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