Education & Skills
Funding Agency

College accounts direction 2017 to 2018

Financial reporting requirements for sixth-form and further education colleges

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Contents

Summary

The college accounts direction 2017 to 2018 sets out Education and Skills Funding Agency's (ESFA's) financial reporting requirements for sixth-form and further education corporations[1]. They have the legal status of statutory corporations and exempt charities, and operate one or more colleges. A college is a charitable activity undertaken by its corporation; it does not have a separate legal identity distinct from that of its corporation. Where we use the term college in this guidance the legal and regulatory requirements apply to the corporation.

The accounts direction is published by ESFA on behalf of the Secretary of State for Education in his role as principal regulator of college corporations as exempt charities.

Validity

This guidance is updated annually. This version applies to all periods commencing on or after 1 August 2017.

Who is this publication for?

This accounts direction is primarily for use by:

- 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:

- integrating submission arrangements and document naming conventions
- accepting an accounting officer's declaration within the Excel finance record
- confirming that corporations must publish their accounts on their website by 31 January 2019

[1] Includes designated institutions as set out in paragraph 15

- extending to 31 December 2018 when corporations must submit to ESFA short-period accounts ending before 31 July 2018
- emphasising that in respect of combinations, 'receiving' corporations are responsible for signing off, and submitting to ESFA, accounts of 'dissolving' corporations
- setting out the circumstances in which extended-period accounts are permitted
- clarifying when a finance record to 31 July 2018 must be submitted to ESFA
- highlighting that adjusted income in the finance record excludes restructuring facility support grant
- recognition of the Charity Governance Code as an option for corporations
- the updating of all 4 annexes

Part 1: Submission requirements

Submission of documents

1. Colleges must submit the following documents for the year ending 31 July 2018, to ESFA by 31 December 2018, via email PRA.Financialhealth@education.gov.uk:

Document type	Naming convention
Audited annual report and financial statements (the accounts) including the reporting accountant's report on regularity (a scanned, signed copy)	UKPRN_FS_1718_college code
Excel finance record workbook which includes accounting officer's declaration within the cover sheet	UKPRN_FR_1718_college code
External auditor's management letter, including corporation's response	UKPRN_ML_1718_college code
Annual report of the college's audit committee	UKPRN_ACAR_1718_college code
Audited accounts of all subsidiary companies (if any)	UKPRN_FSSub1_1718_college code (Sub2 for the second subsidiary etc)

2. As an example, 'Casterbridge College', with one subsidiary, a UKPRN number of 98765432 and a college code of CASTB, would name its documents:

Document	Name
Scanned, signed financial statements	98765432_FS_1718_CASTB
Excel finance record workbook	98765432_FR_1718_CASTB
External auditor's management letter	98765432_ML_1718_CASTB
College's audit committee annual report	98765432_ACAR_1718_CASTB
Audited accounts of its one subsidiary	98765432_FSSub1_1718_CASTB

3. Colleges producing either extended-period final accounts beyond 31 July 2018, or short-period final accounts ending prior to 31 July 2018, must meet the requirements and timescales set out above.

4. In respect of business combinations, the chair and accounting officer of the receiving college are responsible for signing, and submitting to ESFA, the audited accounts of any dissolving college, by 31 December 2018. Colleges can only produce extended final accounts if:

- they do not contravene their articles of government
- prior approval from ESFA has been secured
- the receiving entity is able to meet the 31 December 2018 submission deadline

5. Colleges must publish their 2017 to 2018 audited accounts on their website by 31 January 2019, and should retain at least two years of accounts on their website.

Approval of documents

6. Accounts 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 the 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>

7. 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.

Part 2: Finance record

8. All college corporations in existence as at 31 July 2018, must prepare a finance record template as at 31 July 2018, and submit this to ESFA alongside their audited accounts.

9. Corporations must ensure that the finance record:

- is completed in full, including all parts of all schedules
- replicates the accounts insofar as the template allows
- includes a narrative explanation for any significant variances from the estimated outturn submitted in the July 2018 financial plan

10. The table below clarifies the circumstances in which a corporation must submit a finance record template:

Scenario	Finance record
12 months accounts (1 August to end July) as normal	Yes – to 31 July 2018
Extended period accounts – beyond 31 July 2018	Yes – to 31 July 2018
Final short-period accounts – ending prior to 31 July 2018	No
Short-period accounts – incorporation to 31 July 2018	Yes – to 31 July 2018
Extended-period accounts – incorporation to 31 July 2018	Yes – to 31 July 2018

11. Due to its potentially distorting effect, 'restructuring facility support grant' (tab 3c Other agency income #1f) is not recognised in 'adjusted income used in ratio analysis' (tab 2b ratios #1).

Part 3: Basis for preparing accounts

12. In preparing their accounts college corporations must follow both:

- Financial Reporting Standard 102 (FRS 102)
- Statement of Recommended Practice: Accounting for Further and Higher Education (FE and HE SORP 2015)

13. Corporations must:

- include the statements set out in annex A, annex B and annex C
- follow the accounting and disclosure requirements set out in annex D

14. Assurance requirements for colleges are set out in ESFA's post-16 audit code of practice.

Designated institutions

15. We use the term 'corporation' to refer to further education and sixth-form college corporations established under the Further and Higher Education Act 1992, where members of the corporation form the college's governing body. The 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.

Further information

16. Additional guidance to help colleges and their auditors prepare accounts is available in the college accounts direction handbook 2017 to 2018 published by the Association of Colleges.

17. Financial accountability arrangements to support business combinations is set out in annex C of the college financial planning handbook 2018 and may also be a useful source of reference.

18. Colleges also have access to a range of expertise and advice, including their professional advisers and college association. Colleges and auditors can also ask ESFA questions via email: PRA.Financialhealth@education.gov.uk.

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 college corporations it demonstrates they are conducting business in the best interests of their students and funders. Charitable 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 (developed by the Financial Reporting Council). Corporations should have due regard to the principles and guidance insofar as they apply to the college sector.

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

Corporations must publish a statement of corporate governance and internal control with their accounts (§ 3.12 of SORP 2015) 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 the college 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
- how the corporation identifies, evaluates and manages risk (including operational, financial, compliance and other risks)
- 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, as amended.
- an assessment of whether the college 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 its assessment of its own effectiveness
- actions taken/proposed to deal with significant internal control issues, as appropriate

The statement must cover the period from 1 August 2017 to the date of approval of the accounts.

Annex B: Statement of regularity, propriety and compliance

College 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 college, or material non-compliance with the terms and conditions of funding, under the college's grant funding agreements and contracts with ESFA .

[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 college.

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 college'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 2015 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 give a true and fair view of the state of affairs of the college and its 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 college will continue in operation

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

The corporation is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the college 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 the college's website; the work carried out by auditors does not involve consideration of these matters and, accordingly, the 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 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. 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 economical, efficient and effective management of the college's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA 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 colleges' attention to a number of specific accounting and disclosure matters that are considered to go beyond the requirements of FRS 102 and SORP 2015.

i. Legal status

The college 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 college has delivered its charitable purposes for the public benefit.

iii. Plans for future periods / reserves policy

We encourage transparency in college 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 SORP 2015, 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) fall within each band of £10,000 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

(b) Accounting officer

Corporations must separately disclose the emoluments of the accounting officer, and of the highest-paid member of key management personnel if this is not the accounting officer, both including and excluding pension contributions.

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.

(c) Higher-paid staff

Corporations must disclose the number of higher-paid staff whose emoluments received in the year (gross of any salary sacrifice arrangements and excluding any employer pension costs) fall within each band of £10,000 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.

(d) Definitions for part iv

Emoluments include:

- salary
- fees
- performance-related awards (including other bonuses)
- expense allowances (to the extent that they are chargeable to UK income tax)
- contributions paid under a pension scheme (unless otherwise noted)
- the estimated money value of any other taxable benefits other than cash (in particular company cars, subsidised loans and subsidised accommodation)
- emoluments for any person accepting office
- employee benefits provided by the college itself or on behalf of the college

Emoluments do not include:

- adjustments arising from FRS 102 (section 28) otherwise included in the staff costs note
- employer's national insurance contributions (NIC)[2]
- compensation for loss of office

Corporations must also describe 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 paid or payable to the accounting officer, key management personnel (both past and present) and staff earning in excess of £60,000 per year. Colleges must disclose:

- the aggregate value of any compensation for loss of office paid to these staff (excluding payments in lieu of notice)

[2] A departure from FRS 102 (section 28) which effectively recognises social security contributions within emoluments. Colleges must disclose emoluments of higher paid staff, in both their audited financial statements and finance record, which exclude employers' NIC

- the number of people to whom this was paid
- 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
- if a remunerative element exists, gain express permission from CC
- 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 SORP 2015, colleges 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 related to capital and revenue grants.

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

It is the responsibility of each college corporation to comply with the requirements of this legislation, and to disclose relevant information within their audited financial statements. Detailed information can be found in Cabinet Office’s Supporting Guidance for the Trade Union (Facility Time Publication Requirements) Regulations 2017.

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About this publication:

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