Education & Skills Funding Agency

Supplementary Bulletin to the College Accounts Direction 2020-21 and the Post-16 Audit Code of Practice 2020-21

July 2021

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Part 1: Introduction

1.1. This supplementary bulletin should be read in conjunction with and has the same status as the College Accounts Direction 2020 to 2021 (CAD) and the Post-16 Audit Code of Practice 2020 to 2021 (P16ACOP). It does not change any of the existing requirements of the CAD or the P16ACOP, including the requirement to submit an audited annual report and financial statements to the ESFA by the required deadline. However, it does introduce a small number of additional requirements that college corporations must comply with.

1.2. The bulletin also aims to provide guidance to principals/accounting officers, governors as charity trustees and their external auditors / reporting accountants on matters arising from the COVID-19 pandemic which may impact on the corporation's accounts for the year ending 31 July 2021. ESFA may issue further guidance or requirements as appropriate.

1.3. ESFA recognises the challenges which all college corporations have continued to face in dealing with the COVID-19 pandemic and appreciate this has significantly affected the day to day operations of all corporations in the year to 31 July 2021. ESFA also appreciates that external audit teams will again consider the implications and impact of COVID-19 in their risk assessments prior to the start of their audit work.

1.4. The continuing challenges of COVID-19 mean that ensuring and maintaining strong financial governance is as important as ever.

1.5. Part 2 of this bulletin is primarily aimed at college corporation external auditors and reporting accountants, whereas parts 3 to 7 and the Annexes are primarily aimed at college corporations. However, all parts of the document will be of interest to each of these groups.

Part 2: Regularity and audit implications

2.1 Introduction

2.1.1 The scope of the audit and regularity assurance engagement remains unchanged– it should cover, at least, income and expenditure, including any Covid-19 funding, as well as governance arrangements. ESFA is not seeking any additional assurance from reporting accountants and has not removed any existing guidance.

2.1.2 The continuing pandemic has posed a number of governance and control issues for college corporations. Key areas of concern may include:

- issues with conducting the college's usual programme of internal audit;
- management accounts which have not been produced or shared with the relevant parties;
- financial processes not carried out in time, for example missed deadlines for financial returns;
- a reduced number of governance meetings, for example due to corporations being unable to hold board or audit committee meetings.

2.1.3 Because of the pandemic and associated restrictions, internal audit work may have been prevented from proceeding as initially planned. In these circumstances the corporation may have had to put alternative measures in place, such as remote audit or alternative procedures, to allow the audit committee to report to the board on its activities and conclusions. The Chartered Institute for Internal Auditors has provided guidance on issues internal auditors may face.

2.2 Regularity self-assessment questionnaire

2.2.1 To aid corporations in their assessment of regularity relating to COVID-19 issues, and to clarify the key considerations in this regard, Annex B sets out additional issues for corporations to consider. A copy of this completed Annex must be signed by the accounting officer and chair of governors and provided to the reporting accountant, alongside the standard Regularity Self-Assessment Questionnaire.

2.3 Regularity report

2.3.1 The work of the external auditors on the financial statements and of reporting accountants on regularity remains key to the ESFA's overall assurance framework. Therefore, the format of the regularity report published in the P16ACOP remains unchanged from previous years.

2.4 Auditor judgement

2.4.1 The implications of COVID-19 for the external audit opinion and regularity conclusion are a matter of the professional judgement of each auditor / reporting accountant. The Financial Reporting Council has provided guidance for auditors on the impact of Covid-19.

2.4.2 Auditors will take account of a range of factors in determining the implications for their audit and the audit work necessary. When considering the corporation's activities, these may include:

- Capacity: To what extent were the governance and control arrangements, staffing levels and operations of the corporation affected by COVID-19? If alternative arrangements were considered necessary, was there anything to suggest the approach taken was not reasonable and practical under the circumstances at the time?

- Proactivity: At what point were any financial control and regularity issues faced, for example difficulty in segregating duties as a result of staffing shortages, identified by the corporation? Did it seek ESFA or DfE guidance on particular matters? Did it consult with other corporations in similar situations?

- Reaction: Did the corporation attempt to take retrospective or redressive action after the event (if appropriate)?

- Evidence: Has the corporation retained a documented trail of its decision-making process, including the rationale for the decision and details of those employees or corporation leaders involved?

2.5 Procurement policy notes and value for money

2.5.1 Procurement policy note (PPN) 04/20, supported by additional DfE guidance set out information and guidance for public bodies on payment of their suppliers to ensure service continuity during the pandemic. The PPN expired on 31 October 2020.

2.5.2 The purpose of the guidance was to ensure service continuity during and after the COVID-19 outbreak. It effectively allowed in-scope entities to take a longer-term approach to obtaining value for money when procuring goods and services. Such purchases, where they met the conditions of the note, were not considered to be regularity breaches. The notices need only be applied in circumstances where corporations have a concern that a supplier may not be able to continue to provide them with a required product/service.

2.5.3 Corporations should note that whilst Managing Public Money prohibits payment in advance of need in absence of Treasury consent, Treasury granted consent for such payments (with limits) where the corporation's accounting officer was satisfied that a value for money case was made by virtue of securing continuity of supply of critical services in the medium and long term. Examples of such costs for corporations are catering costs and exam board fees.

2.5.4 Reporting accountants should take account of the requirements of the notices so that they can decide whether its application has any implications for their report on regularity.

2.5.5 Accounting officers must reflect cases where the notes have been applied in the governance statement. They should also explain any other situations where COVID-19 has adversely impacted on value for money, if applicable.

2.6 Post-16 Funding

2.6.1 ESFA has introduced a range of additional financial support packages (see Part 5 and Annex A for further details), as well as a number of flexibilities in relation to the funding rules in response to COVID-19. Operational guidance for further education providers has been published, which contains information on funding, assessment and accountability. Colleges and their auditors should consider the implications of updates to the funding rules for each funding stream:

- ESFA Funded Adult Education Budget (AEB) Performance Management and Funding Rules for 2020 to 2021, particularly the changes to the funding rules for the year 2020 to 2021 which are set out on page 103.
- ESFA Funding guidance for young people 2020 to 2021, particularly the ‘what’s new’ section on page 8.
- ESFA Apprenticeship funding rules for main providers August 2020 to July 2021, and in particular the additional Summary of changes document.

Part 3: Financial Sustainability

3.1 The nature and scale of the virus and the measures introduced to tackle it will have had a significant impact on all aspects of corporations’ finances, budgeting and strategic planning. We recognise that this will be an area of significant concern for corporations and therefore it is vital that timely and accurate information is produced to monitor their financial sustainability. Key considerations may be:

- the impact of different scenarios and the sensitivity of the financial information produced
- the impact on KPIs and key funding streams
- the availability of external finance
- government assistance received
- the impact on accounting estimates
- the implications for carrying values of assets and liabilities

3.2 This information will also be important to auditors in supporting their conclusion on going concern.

3.3 Due to the crisis and its economic impact, there is likely to be greater scrutiny by auditors and other stakeholders of the corporation's going concern assessment. Corporations will need to carry out robust scenario planning and build this into their forecasts.

3.4 There may be further impactions for corporations reliant on bank borrowings, as an impaired financial performance and position may adversely affect compliance with bank loan covenants. Corporations are advised to ensure that conversations with their lenders take place promptly where covenants are in danger of being breached, to mitigate the risk that amounts will become repayable on demand.

3.5 If bank covenants have been breached, the going concern assessment within the financial statements should include a summary of the outcome or status of negotiation with the lender, including whether waivers have been obtained. The status of these negotiations at the balance sheet date is likely to be critical to corporations in determining whether the borrowings are classed as short or long-term in the financial statements, and so constitutes a major factor in the determination of solvency as well as the formal assessment of financial health.

Part 4: Annual report disclosures

4.1 Whilst COVID-19 matters will appear in many of the same sections in the annual report as in 2019 to 2020, corporations should consider whether additional or different disclosures are required to reflect the challenges of 2020 to 2021.

4.2 College corporations must tailor their annual report to their specific circumstances, following the principles set out under Part 3 of the Statement of Recommended Practice for Further and Higher Education.

4.3 Areas where additional information is likely to be required include, but are not limited to:

- **Corporations' financial reviews**
  The College Accounts Direction 2020 to 2021 highlighted the importance of the financial review section of the strategic report. Colleges should explain here how COVID-19 has impacted on the financial performance of the corporation, including any impact on the reserves policy and level of reserves held. Corporations should explain how any extra COVID-19 funding has been deployed.

- **Financial sustainability and going concern**
  Corporations should explain any financial uncertainties regarding financial sustainability, which may include the considerations set out in Part 3 of this

document. This should be extended to non-educational activities, such as trading activities carried out by a subsidiary of the corporation.

- **Governance**
  Corporations should consider the effect of COVID-19 on their governance framework and ensure the content accurately reflects the suitability and effectiveness of its framework.

- **Overall impact**
  Corporations are free to highlight any positive impacts of COVID-19 on the corporation and should not feel that they are expected or required to focus solely on any negative aspects.

4.4 The Charities SORP Committee has issued advice on the financial reporting implications that may arise from the measures being put in place to contain the impact of COVID-19 virus. Whilst college corporations are not within the scope of the Charities SORP, they nevertheless are charities and the advice issued provides a useful guide on the disclosures which may be helpful to users of the financial statements. The guidance is advisory and aims to assist the preparers, auditors and examiners of accounts. The Charities SORP Committee has also provided links to other sources of advice regarding accounting issues posed by COVID-19.

Part 5: Financial Support for COVID-19

5.1 COVID-19 funding disclosures

5.1.1 During 2020 to 2021, corporations may have been eligible to receive funding provided by DfE and other government bodies related to COVID-19. Where material, external auditors will, in line with International Standards on Auditing, perform a risk assessment of these funding streams and will note the eligibility criteria. Eligibility criteria may be unique to each funding stream. Reporting accountants will have an interest in whether the funding received has been used for the purposes intended.

5.1.2 The main COVID-19 funding streams are listed in Annex A, along with a brief description of their application. Accounting principles for recognising income and expenditure apply to these funding streams, but ESFA requires additional disclosures within the financial statements of college corporations for some of these.

5.1.3 Where a corporation has been eligible to receive one of the funding streams listed in Annex A and the funding it has received is material, it must separately disclose it in the income notes to the financial statements. Where a corporation has received funding through the Coronavirus Job Retention Scheme this must be separately disclosed regardless of materiality.

5.2 Funding body grants

5.2.1 Amounts received from ESFA under the individual schemes listed in Annex A must be set out separately within the financial statements as non-recurrent funding body grants where such income streams are material to the financial statements, and corporation must also provide a narrative disclosure on the related costs incurred.

5.2.2 The note below shows how corporations should set out these transactions within the financial statements.

	Year ended 31 July 2021 Group £'000	Year ended 31 July 2021 College £'000	Year ended 31 July 2020 Group £'000	Year ended 31 July 2020 College £'000
Specific grants – Coronavirus additional funding				
Education and Skills Funding Agency – [name of grant scheme 1]	x	x	y	y
Education and Skills Funding Agency – [name of grant scheme 2]	x	x	y	y
Total	**x**	**x**	**y**	**y**

The corporation has been eligible to claim additional funding in year from government support schemes in response to the coronavirus outbreak.

The funding received for [name of grant scheme 1] covered costs of £x and the funding for [name of grant scheme 2] covered costs of £x in 2020 to 2021.

5.2.3 There is no requirement for any unfunded exceptional or COVID-19 related costs to be separately disclosed. However, college corporations are free to disclose such costs where they would be helpful to the readers of the accounts.

5.3 Other grant income

5.3.1 Corporations may have received COVID-19 related grants from other government or non-government sources, for example corporations may have furloughed staff under the Coronavirus Job Retention Scheme (CJRS), subject to certain conditions being met.

5.3.2 Amounts received under these individual schemes must be shown separately within the financial statements, where the amounts are material.

5.3.3 The note below shows how corporations should set out these transactions within the financial statements.

Other grants and contracts	Year ended 31 July 2021 Group £'000	2021 College £'000	Year ended 31 July 2020 Group £'000	2020 College £'000
Coronavirus additional funding				
Coronavirus Job Retention Scheme grant	x	x	y	y
[name of grant scheme 3]	x	x	y	y
Total	**x**	**x**	**y**	**y**

The corporation furloughed [insert roles of furloughed staff, for example, 'some of the catering staff'] under the government's Coronavirus Job Retention Scheme. The funding received in respect of x staff of £x relates to staff costs which are included within the staff costs note below as appropriate.

The funding received for [name of grant scheme 3] covered costs of £x in 2020 to 2021.

5.4 Other funding

5.4.1 Corporations may have received COVID-19 related funding which is not covered in Annex A. In these instances, corporations should consider materiality and the legitimate public interest in the impact of COVID-19 on publicly funded bodies and the expectations of the users of their accounts that they should be as transparent as is practical, but should nevertheless apply judgement to determine the level of disclosure required. They should consider whether amounts are material by nature or amount to users of the financial statements and refer to the above example for guidance on how ESFA expects such information to be disclosed.

5.4.2 This bulletin does not cover funding receivable in respect of costs incurred in 2021 to 2022.

5.4.3 Corporations may have received financial support in forms other than via income received, for example through cashflow support or loan schemes. Where this is the case, the corporation must include details of material assistance received in their financial statements.

Part 6: Other COVID-19 accounting matters

6.1 Accounting for laptops and other devices

6.1.1 During the year corporations may have received laptops and other devices to support disadvantaged learners to access remote learning.

6.1.2 The DfE scheme has distributed devices, and ESFA is aware of other schemes to provide devices, such as those operated by local authorities or by third party donors. The terms of each of these schemes may be different from the DfE scheme and from each other.

6.1.3 Whilst it is not possible to provide a method of recognition and accounting for every set of circumstances, the following points will be useful to college corporations when determining the appropriate accounting treatment for these arrangements.

6.1.4 The process for accounting for these items should be determined initially by whether the college corporation is acting as a principal or agent in the transaction, as defined by FRS102.

6.1.5 When acting as an agent, a corporation has no discretion about the use to which the laptops are put. As principal, however, the corporation will have allocation discretion. Corporations may find it helpful to review the terms and conditions of the scheme, including any documentation, in determining this.

6.1.6 Where acting as principal, the corporation should determine whether the laptops are lent or donated to the recipient.

- Where the corporation has lent the devices to learners, the corporation should consider whether the risks and rewards of ownership of the devices remain with the corporation. If so, the devices will be classed as fixed assets of the corporation, subject to its capitalisation policy, and depreciated in line with the corporation's depreciation policy.

- Where the corporation has given the devices to learners or to other organisations, this equipment should be accounted for as stock, with the corresponding income recognised within donations. Once distributed, corporations should recognise the expense in the SOCI.

6.1.7 When considering the value at which to recognise these items, corporations will apply Section 34 of FRS102, which requires that donated assets should be measured at value to the corporation, or fair value. As this is likely to involve some estimation, college corporations should be able to justify the rationale applied.

6.2 FRS102 amendment

6.2.1 In October 2020 the Financial Reporting Council issued an amendment to FRS 102 surrounding the accounting for COVID-19 related rent concessions on operating leases. This amendment was then extended in June 2021. The effective date for this amendment is accounting periods beginning on or after 1 January 2020 so, if relevant, this amendment is applicable to most college corporations for the first time in their financial year beginning 1 August 2020.

6.2.2 The amendment requires college corporations to recognise changes in operating lease payments due to COVID-19 on a systematic basis over the periods that the change in lease payments is intended to compensate.

Part 7: Further Guidance

7.1 Additional guidance in respect of the impact of Covid-19 on corporations’ accounts may be issued by the ESFA where necessary.

Annex A: Main sources of COVID-19 funding in 2020 to 2021

Funding stream name	Brief description	Link to further guidance
Provider relief scheme	Provides funding to further education colleges applying PPN 04/20 in order to ensure that suppliers to the sector can continue to delivery education and training during the pandemic. Corporations applied for funding if eligible, and received amounts up to a funding cap. This scheme expired in October 2020.	ESFA post-16 provider relief scheme (July to October 2020)
Free student meals	Funding has been provided to colleges to help them meet their obligation to provide free meals to disadvantaged students. Colleges should apply the principles of the FE and HE SORP and FRS102 in order to determine whether the college acted as an agent.	Free meals in further education funded institutions: guide for the 2020 to 2021 academic year
16-19 tuition fund	This is one off additional funding to mitigate the disruption to learning arising from COVID-19. Whilst funding should be used in the 2020 to 2021 year where possible, unspent funding can be used to support learners in 2021 to 2022.	16 to 19 funding: 16 to 19 tuition fund
High value courses for school and college leavers	This is additional funding to encourage and support delivery of selected level 2 and level 3 qualifications in specific subjects and sectors in response to coronavirus.	High value courses for school and college leavers: a one-year offer for 18 and 19-year-olds
COVID-19 workforce fund	The fund covered support for eligible colleges to help them meet the cost of covering workforce absences.	Coronavirus (COVID-19) workforce fund for colleges
Sector based work academies	Sector-based work academies last up to 6 weeks and involve a placement with three components: 1) pre-employment training, 2) work experience placement and 3) a guaranteed job interview or help with an employer's recruitment process. This programme was introduced due to COVID-19 as part of the skills package.	Sector-based work academy programme: employer guide

Traineeships	Funding has been made available to provide new traineeships to help young people into work. A traineeship is a skills development programme that includes a work placement and can last from 6 weeks up to 1 year. This programme was introduced due to COVID-19 as part of the skills package.	ESFA funding for traineeships
COVID-19 mass testing funding	Colleges were allocated funding under the National Testing Programme to support them with the costs of incurred conducting on-site testing. Colleges could submit claims to cover exceptional costs as a result of the National Testing Programme which exceed the formulaic allocation, for example premises-related costs.	Coronavirus (COVID-19) testing in schools and colleges: grant funding Coronavirus (COVID-19) mass testing funding for schools and colleges: exceptional costs guidance
National Skills Fund	The National Skills Fund offer provides funding for any adult aged 19 and over to achieve their first full level 3 qualification in specific qualifications and an uplift incentive has been added to the individual qualification rates. Funding for the level 3 offer (National Skills Fund) will be routed via the adult education budget and is ring-fenced within the Covid Skills budget line.	National Skills Fund

Annex B: COVID-19 Regularity Self-Assessment Questionnaire

Accountability requirements	Questions	Corporation response (compliance and evidence)
Where the corporation has applied a procurement policy note, the required conditions have been met and the corporation has given due consideration to value for money.	The guidance issued in May 2020 suggests a five-stage approach to applying the note. Has this been followed and documented? Otherwise, or where the note has been applied prior to the guidance being issued, has the corporation given due consideration as to how the conditions of the note have been met? For example: - Does the contractual relationship with the supplier meet the requirements for PPN 04/20 to be applicable? - Has the Accounting Officer documented their reasoning as to how they are satisfied that value for money has been obtained? - How is the corporation satisfied that the supplier has acted transparently? - Has the corporation enquired as to what other COVID-19 support the supplier has received, to prevent double funding?	
The coronavirus job retention scheme has been appropriately applied.	Where the scheme has been applied by the corporation, can it be demonstrated that the conditions of the funding have been met? Namely: • the employee works in an area of business where services are temporarily not required and whose	

Accountability requirements	Questions	Corporation response (compliance and evidence)
	salary is not covered by public funding • the employee would otherwise be made redundant or laid off • the employee is not involved in delivering provision that has already been / is being funded • (where appropriate) the employee is not required to deliver provision for a child of a critical worker and/or vulnerable child • the grant from the Coronavirus Job Retention Scheme would not duplicate other grants received and would not lead to financial reserves being created Have communications to furloughed employees confirmed that work for the corporation cannot be undertaken when the employee is under furlough? Where necessary, have contractual changes been discussed and appropriately communicated? Has legal advice been sought where necessary? Have payments continued to staff as usual, and do the funding receipts reconcile to the amount paid to employees?	
COVID-19 related funding has been correctly claimed and has been spent in line with the	For allocated funding, how does the college ringfence funds where required to ensure that the funding is spent in line with the purposes intended?	

Accountability requirements	Questions	Corporation response (compliance and evidence)
purposes intended.	Does the college have an effective audit trail to ensure that it can appropriately document compliance with terms and conditions, and provide evidence to support funding claims? How does the college monitor unspent funds, to ensure that the college is benefitting as much as possible in line with the funding aims? How has the college ensured that the risk of receiving double funding in respect of COVID-19 related income has been minimised?	
Where the usual internal control procedures and lines of reporting and approval have been interrupted, the corporation has put appropriate measures in place to ensure good governance is maintained.	Where capacity issues with staffing levels mean that segregation of duties cannot not be performed or approval cannot be obtained as required by the college's finance regulations, has the corporation ensured that appropriate alternative measures have been / are being established? Has / is appropriate retrospective action been / being taken? Where the corporation had cause to deviate from its normal procurement procedures, for example because of suppliers not being available, has this been documented and has approval been obtained from the board or finance committee, as required? Where online working means that access to documentation is limited, has the corporation take	

Accountability requirements	Questions	Corporation response (compliance and evidence)
	action to ensure that decisions are taken based on the best available information? Are governance procedures, such as board meetings and regular communication with the chair, maintained wherever possible? Has appropriate documentation been retained? Have any disruptions to internal control procedures and the mitigating actions been reported by the audit committee?	
The corporation has taken appropriate additional measures, where required, to adjust to the impact of COVID-19.	Where processes have moved online, secure systems have been established to reduce the threat of cyber-security issues. Where corporations have closed campuses and reduced the use of college buildings, have security measures been implemented to ensure safeguarding of the corporation's property? Has an appropriate level of consultation taken place to ensure the corporation is monitoring its financial position and activities (including the need to request exceptional funding and incur exceptional costs) appropriately?	