
Accounts Direction to Higher Education Institutions for 2005-06 & 2006-07

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To: Heads of higher education institutions in
Wales

Summary: This circular provides information on the
Council's requirements for the format of their
audited financial statements

Further information: Nick Williams
Telephone: 029-20682299
E-mail: Nick.Williams@hefcw.ac.uk

INTRODUCTION

- 1 The purpose of the circular is to inform institutions of the Council's requirements for the format of their audited financial statements.

BACKGROUND

- 2 In July 2003, the Accounting Standards Board approved a revised version of '*Statement of Recommended Practice: Accounting for Further and Higher Education Institutions*' (SORP), which was both sponsored and published by Universities UK.

ACCOUNTS DIRECTION FOR 2005-06 AND 2006-07

- 3 The Council requires all institutions to implement the SORP, or any successor SORP, when preparing their financial statements for accounting periods beginning on or after 1 August 2003.
- 4 Institutions should note that the four primary accounting statements (income and expenditure account, balance sheet, cash flow statement and statement of recognised gains and losses) must be presented in the formats set out in the '*Casterbridge College*' model report and financial statements appended to the SORP. Whilst the remainder of the '*Casterbridge College*' example is illustrative, institutions are encouraged to disclose as much of this information as possible.
- 5 The notes to the accounts should contain analyses of income and expenditure and balance sheet items consistent with best accounting practice and should be sufficiently detailed to enable users to obtain a clear understanding of how the institution is performing financially.
- 6 In addition to the requirements of the SORP, the Council requires that institutions' audited financial statements be prepared in accordance with current Accounting Standards, Financial Reporting Standards and Urgent Issue Task Force Abstracts issued or adopted by the Accounting Standards Board. In the case of an institution that is also a company limited by guarantee, this direction is subject to the requirements of the Companies Act. Also, institutions are required to:

Disclose the total emoluments of the Vice-Chancellor, Principal or higher paid employees in accordance with Annex A. Higher paid employees are defined as those whose emoluments exceed £70,000. Disclosures should be expressed in bands of £10,000.

Disclose compensation paid or payable to the Vice-Chancellor, Principal or any higher paid employee whose annual remuneration exceeds £70,000, in accordance with Annex B.

Ensure that their contracts for external audit make provision for an opinion on whether the institution has applied income, where appropriate, in accordance with the Financial Memorandum, and whether Funding Council grants have been used for the purposes for which they were received.

From financial year 2006-07 onwards, provide detailed analysis and disclosure within the financial statements of audit and other fees paid to external auditors, in accordance with Statutory Instrument SI 2005 No 2417 '*The Companies (Disclosure of Auditor Remuneration) Regulations 2005*'. See website 'www.opsi.gov.uk/si/si2005/20052417.htm'. For relevant guidance also see 'www.icaew.co.uk/index.cfm' and search for TECH 04/06.

7 In relation to corporate governance:

- i. The Committee of University Chairmen issued their *'Guide for Members of Higher Education Governing Bodies in the UK'* and the accompanying *'Governance Code of Practice and General Principles'* in November 2004. The voluntary Governance Code of Practice contained in this CUC guidance says that institutions should state that they have had regard to the Code, and should explain in the corporate governance statement where the institution's practices are not consistent with the provisions of the Code. Institutions are reminded that adoption of the CUC Code, with the principles of the Code adapted as appropriate to each institution's character, is an important factor in enabling HEFCW to rely on self-regulation within HEIs.
- ii. Institutions are required to ensure that they maintain a sound system of internal control and that the following key principles of effective risk management have been applied.

Effective risk management:

- Covers all risks - governance, management, quality, reputational and financial. However, it is focused on the most important key risks.
 - Produces a balanced portfolio of risk exposure.
 - Is based on a clearly articulated policy and approach.
 - Requires regular monitoring and review, giving rise to action where appropriate.
 - Needs to be managed by an identified individual and involve the demonstrable commitment of senior governors, academics, and officers.
 - Is integrated into normal business processes and aligned to the strategic objectives of the organisation.
- iii. Institutions are required to review at least annually the effectiveness of their system of internal control.
 - iv. Institutions are required to include in their annual accounts a statement on internal control (corporate governance). In formulating their disclosure statements on corporate governance it is recommended that institutions refer to the framework given in the BUFDG guidance *'Corporate Governance in Higher Education'*. As a minimum these disclosures should include an account of how the following broad principles of corporate governance have been applied:
 - The identification and management of risk should be an ongoing process linked to the achievement of institutional objectives.
 - The approach to internal control should be risk-based, including an evaluation of the likelihood and impact of risks becoming a reality.
 - Review procedures must cover business, operational and compliance as well as financial risk.
 - Risk assessment and internal control should be embedded in ongoing operations.

- The governing body or relevant committee should receive regular reports during the year on internal control and risk.
 - The principal results of risk identification, evaluation and management review of its effectiveness should be reported to, and reviewed by, the governing body.
 - The governing body acknowledges that it is responsible for ensuring that a sound system of control is maintained, that it has reviewed the effectiveness of the above process.
 - Where appropriate, set out details of actions taken or proposed, to deal with significant internal control issues.
- v. Include in their financial statements a statement covering the responsibilities of their governing body in relation to corporate governance. The statement is required to indicate how the institution has complied with current best practice in this area. Guidance on how institutions can comply with this requirement is available both in the *'Casterbridge College'* model report appended to the SORP and in the model disclosure notes included in the British Universities Finance Directors Group guidance *'Corporate Governance in Higher Education'*. It is recognised that these model notes may need to be adapted to more accurately reflect the different internal structures and systems in place in each individual institution.
- vi. All institutions are required to make a full disclosure statement on corporate governance covering the period 1 August to 31 July each financial year and up to the date of approval of the annual accounts.

This Accounts Direction will remain in force unless institutions are notified otherwise.

ANNEX A

EMOLUMENTS OF THE VICE-CHANCELLOR, PRINCIPAL OR HIGHER PAID EMPLOYEES

Disclosure requirements:

- 1 A higher paid employee is defined as the Vice-Chancellor, Principal and any employee whose total emoluments during the accounting period under review exceed £70,000.
- 2 Institutions are required to disclose the following in their audited financial statements:
 - The emoluments of the Vice-Chancellor or Principal disclosing a sub total that excludes the employer's pension contributions and a total that includes these contributions.
 - The emoluments of the highest paid employee, if that is not the Vice-Chancellor or Principal.
 - Emoluments due to a higher paid employee but waived by the employee.
 - The salary bands of higher paid employees (including the Vice-Chancellor or Principal), giving the number of such employees that fall into each band. The width of each salary band should be £10,000.
 - The aggregate amount of any compensation paid to any Vice-Chancellor, Principal or higher paid employee for loss of office (see Annex B).
 - The number of employees who have been paid such compensation.
- 3 'Emoluments' mean emoluments paid to or receivable by any person for:
 - Services to the institution.
 - Services as a director or officer of any subsidiary of the institution.
- 4 For this purpose, 'emoluments' paid to or receivable by an employee include their normal salary, and:
 - Fees.
 - Any expense allowance (to the extent that they are chargeable to UK income tax).
 - Employer's pension contributions.
 - The estimated money value of any benefits received other than in cash (the money value of benefits in kind should be estimated by reference to the market value of the facility provided).
- 5 Emoluments should 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.
- 6 If more than one person has been Vice-Chancellor or Principal during the year, each such person's total emoluments for the year must be attributed to that part of the year during which they were Vice-Chancellor or Principal, and these amounts must be disclosed separately.
- 7 Disclosure of the various emoluments should show the analysis between:
 - Salaries.
 - Benefits in kind.
 - Pension contributions.

COMPENSATION FOR LOSS OF OFFICE

Disclosure requirements:

- 1 The disclosure requirements are detailed below and relate to the Vice-Chancellor, Principal or any higher paid employee whose emoluments exceeded £70,000 in the reporting year and/or in the year immediately preceding the reporting year.
- 2 Institutions shall show the aggregate amount of any compensation paid or payable to the Vice-Chancellor, Principal or any higher paid employee in respect of loss of office.
- 3 This amount disclosed must also include and distinguish between compensation paid or payable for loss of:
 - Any other office in connection with the management of the institution's affairs.
 - Any office in connection with the management of the affairs of a subsidiary undertaking of the institution.
- 4 Compensation disclosed shall include the estimated monetary value of any non-cash benefits paid or payable and the disclosure will also describe the nature of such compensation.
- 5 References to compensation for loss of office include compensation paid or payable in consideration for, or in connection with, retirement and/or enhancement of pension scheme benefits.