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Cylchlythyr | Circular

Accounts Direction to Higher Education Institutions for 2011-12

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This circular provides information on the Council's requirements for the format of Welsh Higher Education institutions' audited financial statements.

If you require this document in an alternative accessible format, please telephone us on (029) 2068 2225 or email info@hefcw.ac.uk.

Noddir gan Lywodraeth Cymru
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Introduction

1 The purpose of this circular is to inform institutions of the Council's requirements for the format of their audited financial statements for the year 2011-12.

Background

2 In October 2007, the Accounting Standards Board approved a revised version of *'Statement of Recommended Practice: Accounting for Further and Higher Education'* (SORP), which was both sponsored and published by Universities UK. The SORP provides the essential framework for the presentation and content of institutions' financial statements.

Accounts Direction for 2011-12

3 HEIs are required to follow the 'Statement of Recommended Practice: Accounting for Further and Higher Education' (the SORP), or any successor SORP, when preparing their financial statements. The latest version of the SORP (2007) is available from the Universities UK web-site at http://bookshop.universitiesuk.ac.uk.

In the case of an institution which is also a company limited by guarantee, this direction is subject to the requirements of the Companies Acts. The financial statements shall be signed by the accountable officer and by the chair or one other member of the governing body appointed by that body.

4 Institutions should note that the formats of the primary accounting statements (income and expenditure account, statement of historical cost surpluses and deficits, statement of total recognised gains and losses, balance sheet, cash flow statement and reconciliation of net cash flow to movement in net funds) included in Appendix 2 of the SORP must be followed. The British Universities' Finance Directors' Group (BUFDG)'s latest *'Model accounts for HEIs based on the 2007 SORP',* should also be referred to as guidance, but not as a pro-forma for the format of an institution's financial statements.

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 all current and relevant Financial Reporting Standards, Statements of Standard Accounting Practice and Urgent Issue Task Force Abstracts issued or adopted by the Accounting Standards Board. The financial statements should further comply with any relevant requirements of the Charities Act 2011 in so far as it relates to an institution.

7 HEIs should also:

- Ensure that the 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. Guidance on wording is available in paragraph 89 of the Audit Code of Practice.

- Provide detailed analysis and disclosure within the financial statements of audit and other fees paid to external auditors, in accordance with Statutory Instrument SI 2008 No 489 - *The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008*. This came into force for financial statements for financial years commencing 6 April 2008 and is required for those HEIs to which company law applies from financial year 2008-09 onwards. The Statutory Instrument can be viewed at the Office of Public Sector Information website (www.legislation.gov.uk).

Going concern and liquidity risk

8 Following good practice in private sector corporate governance HEFCW is considering the scope of a going concern disclosure to be made by HEIs in their financial statements. A number of UK HE institutions will be participating voluntarily in a pilot project to produce going concern statements for 2011/12 in readiness for all institutions in the sector reporting on this for financial year 2012/13.

Sustainability reporting

9 The Financial Sustainability Strategy Group (FSSG) has established a pilot scheme for sustainability reporting, and a number of UK HEIs will be voluntarily submitting sustainability statements for 2011/12. It is likely that all institutions will be required to include a form of sustainability disclosure in their financial statements at a future date.

Corporate governance and internal control

10 The voluntary Governance Code of Practice contained in the Committee of University Chairs' (CUC's) 'Guide for Members of Higher Education Governing Bodies in the UK' (HEFCE 2009/14, available at http://www.hefce.ac.pubs/hefce/2009/09_14/) recommends that HEIs report in the corporate governance statement of their annual audited financial statements that they have regard to the Code, and that where an HEI's practices are not consistent with particular provisions of the Code an explanation should be published in that statement.

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 and hence reduce the accountability burden.

11 In relation to corporate governance, risk management and internal controls:

i. Institutions are required to ensure that they maintain a sound system of internal control and tha*t 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 governors, academics and officers
- Is integrated into normal business processes and aligned to the strategic objectives of the organisation.

ii. Institutions are required to review at least annually the effectiveness of their system of internal control.

iii. Institutions are required to include in their annual accounts a statement on internal control (corporate governance). In formulating their disclosure statements it is recommended that institutions refer to the BUFDG best practice guidance and also to the guidance of the Institute of Chartered Accountants in England and Wales. As a minimum these disclosures should include an account of how the following broad principles of corporate governance have been applied (see also Annex C):

- 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.

iv. Institutions should 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 in the model disclosure notes included in the BUFDG 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.

v. 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.

vi. External auditors might consider whether to report by exception in the opinion section of their audit report. This might be appropriate if, for example, the auditors had grounds for believing the statement did not reflect their understanding of the process undertaken. In most circumstances the reporting by exception would result in an ‘other matter’ paragraph and would not qualify the audit opinion.

vii. However, in other circumstances it could qualify the opinion, since by not complying with the Accounts Direction the institution would be in breach of the Financial Memorandum (see ‘Revised Financial Memorandum and Audit Code of Practice’, HEFCW circular W08/36HE). This could be the case if, for example, no statement on corporate governance was included. Furthermore, a qualification could be made if weaknesses in the internal control and risk management arrangements were such that the auditor was unable to provide a view on the truth and fairness of the financial statements.

Remuneration of higher-paid staff

12 HEIs are required to disclose the following:

- The actual total remuneration of the head of institution including bonuses (but not details of bonuses earned). Further details are given at Annex A.
- The remuneration of higher paid staff in bands of £10,000 from a starting point of £100,000. External payments should be included. Payments received from the NHS will normally be in connection with the management of the HEI and should therefore be included as an external payment. There may, however, be cases where royalties or other payments are received which are regarded as outside the affairs of the HEI. Disclosure is also required for those staff who joined part way through a year but who would have received remuneration in these bands in a full year.
- Details of any compensation paid or payable to the head of institution or staff whose annual remuneration exceeds £100,000 in accordance with Annex B.

13 The date for submission of institutions' 2011-12 financial statements is 31 December 2012, with earlier submissions welcome from those able to provide them.

Charities Act 2011

14 Institutions are advised that under the Charities Act 2011 the following information should be included in their audited financial statements and related reports:

a. The charitable status of the HEI.
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 HEI 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); related party transactions involving trustees.

15 The Accounts Direction is reviewed annually. This Accounts Direction will remain in force unless institutions are notified otherwise. We recommend placing a copy of this circular and its annexes before your Finance and Audit Committees for information.

16 For further information, contact either Neil Hempstead or Bethan Owen. Details of all HEFCW contacts are on the web at http://www.hefcw.ac.uk/about_us/staff_directory/staff_dir_con_details.aspx

Equality and diversity implications

17 We have carried out an equality impact assessment (EIA) screening to help safeguard against discrimination and promote equality. We also considered the impact of policies on the Welsh language, and Welsh language provision within the HE sector in Wales. Contact equality@hefcw.ac.uk for more information about EIAs.

Annex A

Emoluments of heads of institutions and higher paid staff

Disclosure requirements:

1 A higher paid employee is defined as the head of institution and any employee whose total emoluments during the accounting period under review exceed £100,000.

2 Institutions are required to disclose the following in their audited financial statements:

- The emoluments of the head of institution disclosing a sub total that excludes the employer's pension contributions and a total that includes these contributions. Pensions paid or receivable under an adequately funded pension scheme do not require disclosure.
- 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 head of institution), 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.
- Disclosure is also required for those staff who joined part way through a year but who would have received remuneration in the disclosure bands in a full year.

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. External payments should be included within the remuneration disclosed. Payments received from the NHS will normally be in connection with the management of the affairs of the university or college and should therefore be included as an external payment. There may, however, be cases where royalties or other payments are received which are regarded as outside the affairs of the institution.
- Bonuses (but not details of bonuses earned).

- 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 (in particular share options, company cars, subsidised loans (including mortgage subsidies) and subsidised accommodation). Best commercial practice is to interpret the money value of benefits in kind by reference to the market value of the facility provided. Where it is not practicable to use market values, taxable values should be used. Guidance on the treatment of cars and subsidised accommodation is as follows:-

Cars

Where an HEI provides a leased car the market value could be calculated with reference to the lease payments and additional running costs borne by the HEI. If the HEI purchases a car for (say) the head of institution then the sum disclosed could be calculated by reference to annual running costs including depreciation and associated interest costs. This may involve distinguishing between private and business mileage and require the head of institution to keep a record of private and institutional mileage.

Subsidised accommodation

Where the HEI owns the property, the benefit derived by the head of institution is the difference between the rent paid (if any) and the estimated market rent for that property which the HEI would receive if it were to lease the premises on a commercial basis. If the HEI leases the property, the benefit could be assessed as the difference between the rent and other expenses paid by the HEI and that paid by the head of institution. Private and institutional use of the accommodation will need to be apportioned on a fair and consistent basis; and the head of institution should keep a record of institutional use to help with the calculation of a fair apportionment. Further information on this can be obtained from the website of the Department for Business, Innovation and Skills.

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 head of institution 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 head of institution, and these amounts must be disclosed separately.

7 Disclosure of the various emoluments should show the analysis between:

- Salaries.
- Benefits in kind.
- Pension contributions.

Annex B

Compensation for loss of office

Disclosure requirements:

1 The disclosure requirements are detailed below and relate to heads of institution or any higher paid employee whose emoluments exceeded £100,000 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 head of institution or 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 or any other office 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. HEIs shall disclose the source of funding for any compensation award.

5 References to compensation for loss of office include compensation paid or payable in consideration for, or in connection with, a head of institution or employee whose remuneration exceeded £100,000 in the year of retirement from office.

Annex C

Significant internal control issues

This annex is derived from guidance produced by the Auditing Practices Board.

1. Where appropriate the governing body should set out in the statement of internal control details of actions taken or proposed to deal with significant internal control issues. This is to deliver assurance that significant internal control issues are being addressed.

2. Although it is not possible to provide a definition to suit all contexts, because the significance may change depending upon the circumstances, the following indicators of a significant internal control issue should be considered:

    a. Does it seriously prejudice or prevent achievement of a principal objective of the institution?

    b. Does it result in the need to seek additional funding to enable it to be resolved, or in a significant diversion of resources from other parts of the institution?

    c. Does it lead to a material impact on the financial statements?

    d. Does the audit committee advise that it is significant in this context?

    e. Does the head of internal audit report on it as significant for this purpose in his (her) annual opinion?

    f. Does the issue or its impact attract significant public interest, or has it seriously damaged the reputation of the institution?