

Accounts Direction Handbook 2009/10

For Action: Responses to Annex A are requested by 31 December 2010

Finance

Accounts Direction to Colleges for 2009/10

Summary

The purpose of this Handbook is to provide direction to Colleges and financial statements auditors on the preparation of Colleges' annual financial statements. Production of the Handbook has been a joint exercise involving the College Finance Directors' Group (CFDG), the Association of Colleges (AoC), the Skills Funding Agency and the Young Peoples Learning Agency (YPLA) in consultation with financial statements auditors. The Handbook supplements the 2007 *Statement of Recommended Practice (2007 SORP)* and consolidates all previous accounting policies guidance issued by the former Learning and Skills Council (LSC). The Handbook applies for the year ending 31 July 2010, and highlights issues for future years.

The Handbook is of interest to principals and chief executives of Colleges, finance directors at Colleges, financial statements auditors, directors of funding bodies, local authorities and other key stakeholder organisations in the learning and skills sector.

The Accounts Direction Handbook 2009/10 supersedes the Handbook published for the 2008/09 financial statements.

Following the approval of the Apprenticeships, Skills, Children and Learning Act the LSC was dissolved and two successor organisations set up in its stead:

- The Young Peoples Learning Agency (YPLA) is a non departmental public body sponsored by the Department of Education, to support the delivery of educational training to young people in England; and
- The Skills Funding Agency, an agency of the Department for Business, Innovation and Skills responsible for funding education and training for adults

With the introduction of these Machinery of Government changes with effect from 1 April 2010, the funding arrangements and oversight roles have changed. There are 93 Colleges who are now formally designated as Sixth Form Colleges either because they were initially designated under The Initial Sixth Form College Corporation Designation (England) Order 2010, or because they subsequently elected to be designated as such. Those Sixth Form Colleges will, from the 1 April 2010, be subject to financial supervision by their local authority, with the YPLA providing a facilitation role. The

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remaining Colleges will transfer to Skills Funding Agency control. The details of the processes that will underpin these changes are still being agreed but essentially will utilise the existing arrangements found through the LSC as far as possible.

This Accounts Direction uses the following convention when describing the various arrangements:

- “LSC” or “FEFC” where there are historic arrangements that have continuing relevance
- “appropriate funding body” to cover the YPLA, local authorities and Skills Funding Agency
- “Learning and Skills Council (LSC) and its successor bodies” to encompass situations where procedures were initiated before 1st April 2010 and then taken forward by one or more of the new agencies

June 2010

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Executive Summary

Date: June 2010

Subject: Accounts Direction to Colleges for 2009/10

Content: The Accounts Direction Handbook 2009/10 supersedes the Handbook published for the 2008/09 financial statements.

The key changes are as follows.

- Updating references to the LSC for the Machinery of Government changes effective from the 1 April 2010
- Incorporating relevant elements of the Addendum issued in October 2009

Updates to the Accounts Direction Handbook 2009/10 are available on the [Skills Funding Agency website](#); the [YPLA website](#) and the [AoC website](#).

Intended recipients: Principals and chief executives of Colleges, finance directors at Colleges, financial statements auditors, directors of funding bodies, local authorities and other key organisations in the Learning and Skills sector.

Status: For information and response.

Date of response

The following should be submitted to the appropriate funding body no later than 31 December 2010. For FE Colleges this will be the Skills Funding Agency and for Sixth Form Colleges the relevant local authority (but see below):

- audited financial statements of the College and its subsidiaries (where applicable) for the year ending 31 July 2010
- hard copy of the finance record for the year ending 31 July 2010, signed by the Principal or Chief Executive of the College
- financial statements auditor's management letter, including the College's response.

For FE Colleges, electronic copies of the College's finance record for the year ending 31 July 2010 should also be submitted to the Skills Funding Agency via email no later than 31 December 2010.

Revised submission requirements for Sixth Form Colleges

This Accounts Direction Handbook was prepared before the ministerial announcement that, from 1 August 2010, the YPLA will directly fund Sixth Form Colleges and General Further Education Colleges for 16-19 provision, rather than payments being made via local authorities.

This announcement removes the need for local authorities to manage grant agreements with colleges and reduces burdens on them in terms of the financial monitoring and assurance of provision at Sixth Form Colleges.

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Consequently, the YPLA will be responsible for reviewing all Sixth Form College financial statements and finance records. All relevant documents should therefore be submitted to the YPLA rather than to local authorities, as indicated elsewhere in this Handbook.

Each Sixth Form College should submit:

- One signed copy of the College's audited financial statements for 2009/10 (plus copies of those for subsidiary undertakings, where relevant);
- One signed paper copy of the College's finance record for 2009/10; and
- One copy of the financial statements auditor's management letter for 2009/10, including College response,

to Linda Stubbs, Financial Support Manager, YPLA, Cheylesmore House, Coventry, CV1 2WT, to arrive no later than 31 December 2010.

Electronic copies of the College's finance record for the year ending 31 July 2010 should still be submitted by e-mail to the YPLA at afm@ypla.gov.uk no later than 31 December 2010.

This addendum supersedes all other references regarding the submission requirements for Sixth Form Colleges that can be found elsewhere in this Handbook, including the Finance Record template.

This addendum alters the submission requirements for Sixth Form Colleges only and does not amend those for General Further Education Colleges. For queries, please contact afm@ypla.gov.uk.

Skills Funding Agency web addresses:

- North: pfnorth@skillsfundingagency.bis.gov.uk
- Central: pfncentral@skillsfundingagency.bis.gov.uk
- South: pfnsouth@skillsfundingagency.bis.gov.uk
- Coventry: pfn@skillsfundingagency.bis.gov.uk

YPLA web address: afm@ypla.gov.uk

Further information

For further information, please contact **the appropriate funding body**

Responses to this document

Responses to Annex A are requested by 31 December 2010.

Accounts Direction to Colleges for 2009/10

1: Introduction

Introduction

- 1 The purpose of this Handbook is to provide direction on the preparation of Colleges' financial statements for the year ending 31 July 2010 and to identify issues that will require consideration for future years. This direction supplements that in the 2007 *Statement of Recommended Practice: Accounting for Further and Higher Education* (the 2007 SORP) and supersedes the Handbook published for the 2008/09 financial statements.
- 2 In publishing this guidance, the Skills Funding Agency and the YPLA have worked with the CFDG and the AoC and consulted with College financial statements auditors.
- 3 The accounting policies set out in this handbook for the sector are applicable to all Colleges, regardless of their size, constitution or complexity. The policies are not currently applicable to external institutions, private training providers or other public bodies in receipt of learning and skills sector funding.
- 4 The accounting policies need not be applied to immaterial items. Guidance on the determination of what is material may be found in statement 2.401 *The Interpretation of "Materiality" in Financial Reporting* issued by the Council of the Institute of Chartered Accountants in England and Wales.

Revisions to Accounting or Auditing Guidance

- 5 The 2008/09 Handbook took account of Financial Reporting Standards (FRSs) up to FRS 29 *Financial Instruments: Disclosures* and exposure drafts up to and including FRED 42 Heritage Assets. This Accounts Direction considers:
 - updates to the Accounts Direction Handbook
 - audit opinion 2009/10
 - finance record 2009/10
- 6 All extant accounting standards that are relevant to the sector have been included within the Handbook as appropriate. For completeness this includes all standards up to and including:
 - FRS 30 Heritage Assets
 - UITF 46 (IFRIC Interpretation 16) Hedge of a Net Investment in a Foreign Operation
 - Amendment to FRS 25 (IAS 32) 'Financial Instruments: Presentation' Classification of Rights Issues (25 January 2010)

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Return of Audited Financial Statements for 2009/10

- 7 The financial relationship Colleges and FE funding bodies is set out in its financial memorandum as detailed in the LSC publication, *Financial Memorandum, Part 1, issued November 2006*. The financial memorandum sets out the terms and conditions on which payments of grant will be made from the FE funding bodies to institutions. Colleges must provide the appropriate funding body with audited financial statements for the financial year no later than five months after the year end.
- 8 Therefore, each College should send an original signed copy of its audited financial statements for 2009/10, together with its signed finance record and, where applicable, copies of the audited financial statements of its subsidiaries, to the appropriate funding body to arrive on or before 31 December 2010.
- 9 Where the College is still subject to the individualised learner record (ILR) audit regime, the return date for the financial statements and finance record is also 31 December 2010.
- 10 A cover sheet for the returns is attached at Annex A to this Accounts Direction.

Audit Reports and Management Letters

- 11 Colleges should send a copy of the final version of the financial statements auditor's management letter (including any separate regularity audit letter) and the College's response, to the appropriate funding body by 31 December 2010. General FE Colleges should address this to the relevant Regional Audit Manager at the Skills Funding Agency.
- 12 Financial statements auditors are reminded that where they are unable to express an unqualified opinion on the College's financial statements, they should immediately communicate this to the Principal, the Chair of the Corporation and the Chair of the Audit Committee. They should also inform the appropriate funding body. Auditors of general FE Colleges should contact the relevant Divisional Head of Provider Financial Management of the Skills Funding Agency.

Guidance

- 13 Colleges with queries on how to apply this guidance on accounting policies to the particular circumstances of their own College may wish to consult their financial statements auditors or the appropriate funding body.

Approval of Reports and Financial Statements

- 14 The reports and financial statements must be approved by the Corporation. They should be signed and dated as follows.
 - The members' report should be signed and dated by the Chair of Governors on behalf of the Corporation.

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- The balance sheet(s) should be signed and dated by the Principal and one other member of the Corporation, usually the Chair of Governors; the director of finance is not required to sign it (them).
 - The Statement of the Responsibilities of the Members of the Corporation should be signed and dated by the Chair of Governors.
 - The Corporate Governance and Internal Control statement should be signed and dated by the Chair of Governors and the Principal.
- 15 The above items should normally be signed on the same date. They must also be signed on or very shortly before the date on which the College's financial statements auditors sign and date their audit report.

2: Updates to the Accounts Direction Handbook

- 16 This Handbook is prepared in order to provide:
 - a one-stop document that Colleges can refer to when completing their financial statements
 - further clarification to Colleges on completing the members' report and the accounts to the financial statements
 - a version of the Handbook, accessed through the appropriate website, that is up to date for changes in Generally Accepted Accounting Principles (GAAP) issued by the Accounting Standards Board (ASB) and other guidance issued by the funding agencies.
- 17 Any future amendments to the Handbook will be tracked and an audit trail of the changes provided on the amendments record list provided at the beginning of the Handbook.
- 18 The Handbook will only be re- issued to Colleges when **substantial** changes have occurred since its last publication. Updates to the Accounts Direction Handbook 2009/10 are available on the [Skills Funding Agency website](#); the [YPLA website](#) and the [AoC website](#).

When the Handbook undergoes a substantial update Colleges will be notified to visit the websites and download the latest versions.

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- 19 Table 1 shows the significant amendments (other than the naming conventions referred to earlier) that have been made to the Handbook since the 2008/09 version was issued.

Table 1: Amendments to the Accounts Direction Handbook.

Reference	Reason for amendment	Date of change
Chapter 1		
Chapter 2		
Chapter 3		
Chapter 4		
Chapter 5		
Chapter 6		
Chapter 7		
Chapter 8		

- 20 For details of these amendments, Colleges should refer to the relevant Chapter of the Handbook as given in Table 1 above.

3: Other Guidance

Arrangements for the adjustment to payments against Funding Agreements

- 21 The arrangements for the adjustment to payments against funding agreements for the year ending 31 July 2009 were set out in the LSC publication *ILR Funding Claims and Audit Returns* dated September 2008. Paragraphs 17 to 27 inclusive set out the principles for adjustments to payments and outlined two separate approaches based on the funding model underpinning the original allocation and reference should be made to those sections for the full details.
- 22 The general advice on how to complete funding estimate returns and final claims remains valid for all 2009/10 returns and is also set out in the LSC Funding Guidance 2009/10 Update – v4.3, paragraphs 184 – 193. This guidance was updated by Guidance Note 4 issued by the Skills Funding Agency in June 2010 which ended the requirement to average at least 100% of funding over the period 2008/09 to 2010/11.
- 23 All negotiations with the LSC and its successor organisations regarding adjustments to payments should be undertaken in the knowledge that the LSC's successor organisations expect Colleges to average at least 100% of their funding agreements in every funding year and that the "tolerance" mechanism and the non reconciliation of 16-18 learner responsive funding is not designed to reward persistent underperformance. This was reiterated in Guidance Note 4 stating that where performance was below 100% in both 2008/09 and 2009/10, then the Skills Funding Agency will automatically rebase the 2010/11 funding allocation to reflect the actual level of delivery in 2009/10.

Adult Learner-responsive funding model

- 24 Payment for growth over target is subject to affordability. At present there is no expectation that there will be funding for growth. If any **growth** payments are made, then the likely tolerance will be 5%.
- 25 The LSC and its successor organisations intend to moderate any retrospective clawback of funds for Colleges within the Adult Learner Responsive model that have not achieved their funding allocation. This will mean that any performance above 97% of the agreed or revised cash allocation will not result in any retrospective recovery of funds (similar to the tolerance mechanism seen in previous years).
- 26 Colleges whose final underperformance exceeds 3% of the cash allocation will be subject to clawback for **all** underperformance.
- 27 The LSC and its successor organisations gave Colleges and providers achieving below 97 per cent of their planned activity the opportunity to rebase to bring themselves within the 97 percent threshold by agreeing the return of baseline funds in 2009/10. The final deadline for consideration of the rebasing of 2009/10 allocations was 15 February 2010. The final year end claim due in November 2010 will form the basis

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for final claims and adjustments, with recovery of funding **in full** in December 2010.

- 28 Where performance was below 100% in both 2008/09 and 2009/10, then the Skills Funding Agency will automatically rebase the 2010/11 funding allocation to reflect the actual level of delivery in 2009/10.

16-18 Learner-responsive funding model

- 29 Colleges are the recipients of grant in aid funding and as such are **not** subject to in year contract adjustments for 16 -18 learner responsive funding (but see also the funding principles for 2009/10 in paragraph 23 above).

Deadlines

- 30 In order to qualify for any underperformance tolerance or access any eligible growth funding, providers must comply with the deadline for all returns set out in Table 2 below.
- 31 In order to meet the returns timetable set out in Table 2, Colleges must ensure that their final funding claims and final ILR data are shared with auditors in time for them to be able to meet the return timetable.

Table 2: Deadlines for returns

Funding model	Deadlines for returns
Annex B: Mid year estimate	15 February 2010
Deadline for rebasing 2009/10 allocations	31 December 2009 - the last date at which the LSC and its successor organisations guaranteed to accept rebasing reductions in allocations for 2009/10 15 February 2010 - the last date at which the LSC and its successor organisations will consider rebasing reductions in allocations for 2009/10
Annex B: Year end estimate	6 September 2010
Annex B: Final Claim	22 November 2010
Annexes C and D: Final Audit report	As specified by the LSC and its successor organisations on an individual provider basis. Where requested, all audit reports on individual funding claim returns must meet the claim return deadlines set out above.
Annex I: Partner provider self declaration form	31 August 2009

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Accounting treatment for adjustments to payments in the 2009/10 financial statements

- 32 Where Colleges within the adult learner responsive (ALR) model have
- achieved 97% or more of their allocation, the expectation is that they will recognise 100 per cent of their allocation in the financial statements
 - delivered below 97% of their ALR allocation (as agreed at 15 February 2010), they will not be eligible for **any** tolerance for underperformance in 2009/10.
- 33 A short example will illustrate this:
- ALR allocation was £1 million
 - Rebased by 15 February to £900,000
 - Final claim £870,000 (96.67% of £900,000)
 - Repay £30,000 in December 2010
- Alternatively:
- ALR allocation was £1 million
 - Rebased by 15 February to £900,000
 - Final claim £880,000 (97.77% of £900,000)
 - Nothing to repay in December 2010
- 34 Financial statements auditors must therefore seek assurance that any underperformance falls within the 3% tolerance for College to be able to recognise all of the allocation as income or the entirety of the underperformance should be recorded as a clawback of funding
- 35 Any reduction in the College's (revised) 2009/10 recurrent allocation made after 31 July 2010 should be shown as a creditor due within one year in the College's 2009/10 financial statements.
- 36 Similarly, in the event that a College has amounts agreed for growth funding under the above guidelines, this would be shown as accrued income at that date.

Enhanced Pension Provisions

- 37 A College's enhanced pension provision, as calculated using the enhanced pension provision tables provided in a separate document each year, constitutes two different types of provision:
- a enhanced pensions resulting from redundancy (termination related pension entitlements)
 - b enhanced pensions resulting from early retirement, where an expectation of that payment existed prior to retirement (service related pension entitlements)
- 38 The element relating to scenario a) is strictly outside the scope of FRS 17 and therefore should be treated as a provision under FRS 12 *Provisions, Contingent Liabilities and Assets*; the element relating to scenario b) should be treated as a retirement benefit provision under FRS 17.
- 39 The element of each College's current provision which relates to each of these scenarios will vary. The Casterbridge College model accounts provided at Chapter 4 of the Handbook have been designed to treat the entire provision as relating to reorganisation costs and so treated as

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- scenario a) outlined above. This is because it is anticipated that the majority of the College enhanced pension provisions will relate to termination related pension entitlements.
- 40 Each College should discuss with their auditors the suitability of this treatment, and where materially different, the relevant elements of the provision should be recognised under FRS 17. The LSC's successor organisations are aware that in certain cases, the FRS 17 valuation for a College has included liabilities in respect of scenario a) above and that it is complicated to extract those elements from the overall provision for the purposes of the accounts disclosures. Colleges should ensure that sufficient information is conveyed to the actuaries to enable an accurate valuation at the outset but in the (rare) circumstances where this is not possible, the "surplus/deficit" table in the notes to the accounts should clearly identify the FRS 12 element (often described as "unfunded" in the valuation) of the valuation.
- 41 In the light of the Government's announcement in the Pre Budget Report on the 22 June 2010, that public sector (and latterly private sector schemes from 8 July 2010) should use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as a factor in determining future pensions increases, Colleges should determine whether it is appropriate to follow this announcement by reviewing the relevant scheme rules for allowability.

Audit Opinion 2009/10

- 42 The 2009/10 "true and fair" audit opinion can be found on pages 15 and 16 of Chapter 4 of this guidance, and the regularity audit opinion appears on page 17 of Chapter 4. No significant changes have been made to either of these opinions (except to reflect the change in accounting year and to take account of the Machinery of Government changes from 1 April 2010).
- 43 Where the true and fair audit opinion is included on the College's website, the College should ensure that the statement of Governing Body's responsibilities clearly:
- states the Governing Body's responsibility for the maintenance and integrity of the website
 - refers to the fact that uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.
- 44 Where the College decides not to update the statement of Governing Body's responsibilities, then it should ensure that the true and fair audit opinion shown on the website includes the following words:
- The maintenance and integrity of the [name of college] website is the responsibility of the Governing Body of the College; the work carried out by the 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*

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presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern and Impairment Reviews

- 45 Where Colleges and/or their financial statements auditors have concerns about the appropriateness of the value of assets or the use of the going-concern basis for the preparation of accounts, they should contact the appropriate funding body.

Finance Record 2009/10

- 46 The finance record is designed to be an electronic version of the audited financial statements. When the LSC's successor organisations wish to refer to the financial performance of the sector or of individual colleges (for example, when making submissions to ministers or publishing benchmarking information), then the finance record is the main source.
- 47 For the 2009/10 finance record, Colleges other than Sixth Form Colleges are requested to:
- send a signed paper copy of their finance record with the audited financial statements to the Skills Funding Agency by 31 December 2010; and
 - submit an electronic copy by email to the addresses below by 31 December 2010.

Skills Funding Agency web addresses for colleges other than Sixth Form Colleges:

- North: pfmnorth@skillsfundingagency.bis.gov.uk
- Central: pfmcentral@skillsfundingagency.bis.gov.uk
- South: pfm south@skillsfundingagency.bis.gov.uk
- Coventry: pfm@skillsfundingagency.bis.gov.uk

Sixth form colleges should refer to the revised submission arrangements outlined in the Executive Summary above

YPLA web address: afm@ypla.gov.uk

Annex A: Cover Sheet for the Return of Audited Financial Statements and Finance Record for the Year Ended 31 July 2010

This cover sheet must be completed by all Colleges. Please complete and return to the **appropriate funding body** by 31 December 2010.

Name of College (<i>please print</i>):	
UPIN Code:	
Contact for queries (<i>please print</i>):	
Telephone number:	

Returns Enclosed (Please mark with an X)

One signed copy of the College's audited financial statements for 2009/10	
One signed paper copy of the College's finance record for 2009/10	
One copy of each of the College's subsidiary undertakings audited financial statements for 2009/10*	
One copy of the financial statements auditor's management letter for 2009/10, including College response	

*If these accounts have not yet been signed, please return an unsigned copy indicating when you expect to be able to forward a signed copy.

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This publication is available in electronic form on the [Skills Funding Agency website](#); the [YPLA website](#) and the [AoC website](#).