

## **FE Accounts Direction Handbook (“ADH”) 2010/11**

### **Addendum – October 2011**

We set out below an update on a small number of areas to inform the completion of 2010/11 college financial statements and external audits. These reflect issues which were subject to further discussion/clarification at time of the original issue of the 2010/11 ADH in May 2011 or deal with emerging developments since that date.

#### **External audit report – financial statements**

The International Standard on Auditing (UK and Ireland) 700 *The Auditors’ Report on Financial Statements* is effective for audits of financial statements for periods ending on or after 15 December 2010 and as a result applies for the first time to the FE sector in 2010/11.

A revised example report has been devised as attached which should suffice as a standard report albeit one where individual firms may wish to apply their own house styles and therefore make minor amendments to the wording employed. These ought not to change the overall structure which will remain recognisable to the funding bodies. In addition, the few FE colleges that are also governed by the Companies Act 2006 will require a different format - one that will be very similar to that already in place for the subsidiary companies in the sector.

The full text of the ISA is available at [700 The auditor's report on financial statements](#)

#### **Consolidation of academies and UTCs etc**

A number of FE colleges have become sponsors of academies and similar organisations such as UTCs (collectively “academies”). As a result there has been an increase in the number of queries as to the appropriate accounting treatment for the sponsored academy in light of the perceived level of potential and actual control over the composition of the Trust board in particular.

Each case will have to be examined on its own particular merits as there will inevitably be variations from the expected models at a local level. At a high level, the expectation of the Skills Funding Agency and the YPLA is that colleges would **not** typically be expected to be consolidating the academy companies into their accounts for 2011. Sponsor colleges have not previously consolidated Academies.

The matter has been reviewed internally by the YPLA and discussed between the members of the Audit Forum. The consensus was that control would not normally rest with the sponsor, in particular if reference is made to the distribution of assets on a winding up of an academy company where such assets would not be distributed to the members, but transferred to some other charity having similar objects to the Academy Trust - and NOT to the College sponsor.

Detailed guidance is being worked up at present and will be distributed once complete. The purpose of this note is to set out the expectations of the funding bodies in the meantime.

## **Reporting to the Skills Funding Agency and YPLA**

This is also a reminder that all financial statements & associated documents should be submitted, electronically, to the respective agencies using the email boxes used for submitting financial plans at the end of July 2011. The ADH set out the following submission requirements:

- 1) audited financial statements (including the regularity audit opinion) of the College and its subsidiaries (where applicable) for the year ending 31 July 2011 (electronic copy of signed accounts if possible)
- 2) finance record for the year ending 31 July 2011, signed by the Principal or Chief Executive of the College (electronic copies for signed version and unsigned Excel version)
- 3) financial statements auditor's management letter, including the College's responses (electronic version only)
- 4) Annual Internal Audit report (electronic version only).

Electronic copies for the year ending 31 July 2011 should be submitted to the appropriate funding body via email at the addresses shown below no later than 31 December 2011.

Skills Funding Agency: [pfm@skillsfundingagency.bis.gov.uk](mailto:pfm@skillsfundingagency.bis.gov.uk)

YPLA: [afm@ypla.gov.uk](mailto:afm@ypla.gov.uk)

## **Independent auditor's report to the [Corporation/Governing Body]<sup>1</sup> of ABC College<sup>2</sup>**

We have audited the Group and College financial statements (“the financial statements”) of ABC College for the year ended 31 July 2011 set out on pages X to Y. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

This report is made solely to the [Corporation/Governing Body], as a body, in accordance with [Article 22 of the College's Articles of Government]<sup>3</sup>. Our audit work has been undertaken so that we might state to the [Corporation/Governing Body], as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the [Corporation/Governing Body], as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of the [Corporation/Governing Body] of ABC College and Auditor**

As explained more fully in the Statement of the [Corporation/Governing Body]'s responsibilities set out on page [ ], the [Corporation/Governing Body] is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the [Group's and the] College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the [Corporation/Governing Body]; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the [describe Annual Report] to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

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<sup>1</sup> Addressee will depend on the naming conventions used in the Instrument and Articles of Government and will differ between General FE Colleges, Sixth Form Colleges, Specialist Designated Colleges and those colleges that are companies limited by guarantee

<sup>2</sup> This report format assumes that the College is NOT incorporated. If this is not the case, reference should be made to the Companies Act 2006 specific requirements including the need to report by exception in line with the guidance given in ISA 700 *The Auditor's Report on Financial Statements* and the examples in APB Bulletin 02/2010 (revised)

<sup>3</sup> Check the specific reference for the institution concerned as this may differ from the reference for FE Colleges shown above

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of [the Groups' and of] the College's affairs as at 31 July 2011 and of the [Group's/College's] surplus of income over expenditure for the year then ended;
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions<sup>4</sup>

## **Opinion on other matters prescribed by the revised Joint Audit Code of Practice (Part 1) issued jointly by the Skills Funding Agency and the YPLA and the Audit Code of Practice issued by the Learning and Skills Council<sup>5</sup>**

In our opinion:

- proper accounting records have been kept, and
- the financial statements are in agreement with the accounting records.<sup>6</sup>

**[Audit firm signature in accordance with individual processes]**

**[Date]**

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<sup>4</sup> There is no specific requirement for the audit opinion to include references to compliance with the Accounts Direction though Colleges are required to comply with it in the preparation of their accounts

<sup>5</sup> At the current time (September 2011) the revised JACOP Part 1 has been issued and is applicable from 1st April 2010 but until Part 2 is issued, the requirements of the existing Audit Code of Practice found in LSC Circular 04/07 continue to apply

<sup>6</sup> The ACoP currently makes reference (Paragraph 69 of Supplement A to Circular 04/07) to a requirement for the audit opinion to include a "report on the FE College's compliance with the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange". The funding bodies have confirmed that this does not mean specific opinions should be included within the financial statements audit report though auditors may wish to consider the impact on the Regularity Audit opinion if they become aware of any compliance issues.