

Higher Education Funding Council for England

Title	HEFCE's Accounts Direction to higher education institutions for 2011-12 financial statements and revised Accounts Direction for 2010-11
To	Heads of HEFCE-funded higher education institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Governance, Finance, Audit, Management
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Enquiries to	For further information contact your HEFCE assurance consultant or assurance adviser. Contact details are at http://www.hefce.ac.uk/aboutus/cop/contact/ .

Dear Vice-Chancellor or Principal

HEFCE's Accounts Direction to higher education institutions for 2011-12 financial statements and revised Accounts Direction for 2010-11

1. I am writing to inform you of a revision to HEFCE's Accounts Direction for 2010-11; and of the Accounts Direction to higher education institutions (HEIs) on preparing financial statements for 2011-12.

Revision of HEFCE's Accounts Direction for 2010-11 financial statements

2. The HEFCE Accounts Direction for 2010-11 remains as published in 'HEFCE's Accounts Direction to higher education institutions for 2010-11 financial statements and revised Accounts Direction for 2009-10' (HEFCE Circular letter 19/2010, available at http://www.hefce.ac.uk/pubs/circlets/2010/cl19_10/) but with a revision which results from our role as principal regulator of English HEIs that are exempt charities under the Charities Act 2006.

3. Following consultation with the sector in September 2009, the following information about linked charities should be disclosed in HEIs' financial statements from 2010-11:

- a. For each paragraph (w) charity that has income in the year of £100,000 or more:
 - i. The name and charitable purpose.
 - ii. The opening balance, income and expenditure for the year, and closing balance.
- b. For all other paragraph (w) charities:

- i. An analysis into appropriate groups (for example: prize funds, bursary/scholarship funds, research support funds) stating the number of entities in each group.
- ii. For each group: the aggregate opening balances, income and expenditure for the year, and closing balances. (Note: the terms 'opening' and 'closing' balance should be interpreted as total reserves where the paragraph (w) charity is an operating charity.)

HEFCE's Accounts Direction for 2011-12 financial statements

4. HEFCE's direction is as follows.

Statement of Recommended Practice: Accounting for Further and Higher Education

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

6. In the case of an HEI that is also a company limited by guarantee, this direction is subject to the requirements of the Companies Act. 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.

Going concern and liquidity risk

7. Following good practice in private sector corporate governance HEFCE is reflecting on the scope of a going concern disclosure to be made by HEIs in 2011-12 financial statements. This will be informed by the outcome of the current inquiry into going concern assessments by the Financial Reporting Council. The Accounts Direction for 2011-12 will be revised in this respect in the light of the Financial Reporting Council inquiry.

Corporate governance and internal control

8. 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.uk/pubs/hefce/2009/09_14/) recommends that HEIs report in the corporate governance statement of their annual audited financial statements that they have had 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.

9. Adoption of the CUC Governance Code of Practice, with the principles of the Code adapted as appropriate to each HEI's character, is an important factor in enabling HEFCE to rely on self-regulation within HEIs and hence minimise the accountability burden.

10. HEIs are required to maintain a sound system of internal control and to ensure that the following key principles of effective risk management have been applied.

Effective risk management:

- covers all risks – including governance, management, quality, reputational and financial – but is focused on the most important 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.

11. HEIs are required to review at least annually the effectiveness of their system of internal control.

12. HEIs are required to include in their annual financial statements a statement on internal control (corporate governance). In formulating their statements, HEIs should refer to best practice guidance, including guidance from the Institute of Chartered Accountants in England and Wales and the British Universities Finance Directors Group. As a minimum these disclosures should include an account of how the following broad principles of corporate governance have been applied:

- a. The identification and management of risk should be an ongoing process linked to the achievement of institutional objectives.
- b. The approach to internal control should be risk-based, including an evaluation of the likelihood and impact of risks becoming a reality.
- c. Review procedures must cover business, operational and compliance as well as financial risk.
- d. Risk assessment and internal control should be embedded in ongoing operations.
- e. The governing body or relevant committee should receive regular reports during the year on internal control and risk.
- f. The principal results of risk identification, evaluation and management review of its effectiveness should be reported to, and reviewed by, the governing body.
- g. The governing body acknowledges that it is responsible for ensuring that a sound system of control is maintained, and that it has reviewed the effectiveness of the above process.
- h. Where appropriate, details of actions taken or proposed, to deal with significant internal control issues should be set out (see Annex C – annexes are available alongside this letter at http://www.hefce.ac.uk/pubs/circlets/2011/cl20_11/).

13. HEIs are required to make a full statement on corporate governance covering the period 1 August 2011 to 31 July 2012 and up to the date of approval of the audited financial statements.

Date of submission to HEFCE of audited financial statements

14. The latest date for submission of HEIs' 2011-12 audited financial statements is 1 December 2012. Earlier submission is very welcome.

External audit requirements

15. HEIs are required to ensure that their contracts for external audit make provision for an opinion on whether the HEI 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 71 of Annex B in HEFCE 2010/19.

Remuneration of higher-paid staff

16. HEIs are required to disclose the following:
- a. The actual total remuneration of the head of institution including bonuses (but not details of bonuses earned). Further details are at Annex A.
 - b. 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 outside the affairs of the HEI. Disclosure is required for staff who joined part-way through a year but who would have received remuneration in these bands in a full year.
 - c. Details of any compensation paid or payable to the head of institution or staff whose annual remuneration exceeds £100,000, as detailed at Annex B.

Charities Act 2006

17. The following information should be included in the HEI's 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.
- f. For each paragraph (w) charity that has income in the year of £100,000 or more:
 - i. The name and charitable purpose.
 - ii. The opening balance, income and expenditure for the year, and closing balance.
- g. For all other paragraph (w) charities:
 - i. An analysis into appropriate groups (for example prize funds, bursary/scholarship funds, research support funds) stating the number of entities in each group.
 - ii. For each group: the aggregate opening balances, income and expenditure for the year, and closing balances. (Note: the terms 'opening' and 'closing' balance should be interpreted as total reserves where the paragraph (w) charity is an operating charity.)

Other

18. The Accounts Direction is reviewed annually. The 2011-12 Accounts Direction will remain in force unless HEIs are notified otherwise. We recommend providing copies of this letter and the annexes to the HEIs finance and audit committees.

19. Any matters arising from this letter should be referred to your HEFCE assurance consultant or assurance adviser. Contact details are at <http://www.hefce.ac.uk/aboutus/cop/contact/>.

Yours sincerely

Sir Alan Langlands
Chief Executive

Annex A Remuneration of heads of institutions

Definition

1. Remuneration is defined as follows:
 - a. Salary.
 - b. Any sums paid by way of expenses allowances (in so far as those sums are charged to UK income tax).
 - c. Any sums paid in respect of the head of institution under any pension scheme.
 - d. The estimated money value of any other benefits received by the head of institution otherwise than in cash (in particular share options, company cars, subsidised loans including mortgage subsidies, and subsidised accommodation).

Best practice

2. 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, subsidised accommodation and pension contributions is as follows.

Cars

3. 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 business mileage.

Subsidised accommodation

4. 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.

Pension contributions

5. Employer's pension contributions form part of total remuneration. When disclosing the head of institution's aggregate remuneration, the HEI shall show a sub-

total excluding such contributions and a total including these contributions. Pensions paid or receivable under an adequately funded pension scheme do not require disclosure.

Annex B Compensation for loss of office

Disclosure requirements

1. HEIs must have regard to 'Severance Payments to senior staff in higher education institutions' (HEFCE Circular letter 06/2009, available at http://www.hefce.ac.uk/pubs/circlets/2009/cl06_09/).
2. The disclosure requirements are analogous to those set out in the Companies Act. These are set out below and cover the head of institution and staff whose remuneration exceeded £100,000 in the year.
3. HEIs shall show the aggregate amount of any compensation in respect of loss of office to the head of institution and staff whose remuneration exceeded £100,000 in the year.
4. This amount includes compensation received or receivable by a head of institution or employee whose remuneration exceeded £100,000 in the year for:
 - a. Loss of office as a head of institution or employee whose remuneration exceeded £100,000 in the year, or
 - b. While a head of institution or employee whose remuneration exceeded £100,000 in the year, or on or in connection with his/her ceasing to be a head of institution or employee whose remuneration exceeded £100,000 in the year, loss of:
 - i. Any other office in connection with the management of the HEI's affairs, or
 - ii. Any office as a head of institution or employee whose remuneration exceeded £100,000 in the year, or otherwise in connection with the management of the affairs of a subsidiary undertaking of the HEI.
5. The amount shall distinguish between compensation in respect of the office of head of institution or employee whose remuneration exceeded £100,000 in the year, whether of the HEI or any of its subsidiary undertakings, and compensation in respect of other offices.
6. References to compensation include benefits otherwise than in cash, and in relation to such compensation references to its amount are to the estimated money value of the benefit. The nature of such compensation shall be disclosed in detail. HEIs shall describe the source of funding for any compensation award.
7. References to compensation for loss of office include compensation 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. It seriously prejudices or prevents achievement of a principle objective of the HEI.
 - b. It resulted in the need to seek additional funding to enable it to be resolved, or resulted in significant diversion of resources from other parts of the HEI.
 - c. It has led to a material impact on the financial statements.
 - d. The audit committee advises that it is significant in this context.
 - e. The head of internal audit reports on it as significant for this purpose in their annual opinion.
 - f. The issue or its impact has attracted significant public interest or has seriously damaged the reputation of the HEI.