Yr Adran Plant, Addysg, Dysgu Gydol Oes a Sgiliau
Department for Children, Education, Lifelong Learning and Skills

Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Accounts direction to further education institutions 2006/07

Guidance

Welsh Assembly Government Circular No: 027-07
Date of issue: 31 July 2007

Accounts direction to further education institutions for 2006/07

Audience Heads of Further Education Institutions in Wales.

Overview This Accounts Direction advises institutions of the Welsh Assembly Government's requirements of their audited financial statements in accordance with paragraph 54 of the Financial Memorandum.

Action required No response required.

Further information

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Additional copies Published on web only.

As a result of severe pressure on translation services, we are having to prioritise our use of the resources available to us. Unfortunately, on that basis, we are unable to provide a Welsh version of the Analysis of the 'Accounts direction to further education institutions 2006/07'. This is because other items have been given a higher priority rating and have thus taken precedence in the allocation of resources. The approach for setting priorities is set out in the Welsh Language Scheme for the Welsh Assembly Government prepared under the Welsh Language Act 1993.

Mae'n rhaid i ni flaenoriaethu'r ffordd yr ydym yn defnyddio'r adnoddau cyfieithu sydd ar gael i ni oherwydd y pwysau mawr sydd ar yr adnoddau hynny. Felly, yn anffodus ni allwn ddarparu fersiwn Cymraeg o'r 'Accounts direction to further education institutions 2006/07', gan fod eitemau eraill yn cael mwy o flaenoriaeth o ran dyrannu'r adnoddau. Mae'r dull a ddefnyddir i bennu blaenoriaeth wedi'i amlinellu yng Nghynllun Iaith Gymraeg Llywodraeth Cynulliad Cymru a baratowyd o dan Ddeddf yr Iaith Gymraeg 1993.

G/258/07-08 July Typeset in 12pt

INTRODUCTION

1 This Accounts Direction advises institutions of the Welsh Assembly Government's requirements of their audited financial statements in accordance with paragraph 54 of the Financial Memorandum.

2 On 1st April 2006 the Welsh Assembly Government merged with the National Council for Education and Training Wales. Throughout this document any reference to the Welsh Assembly Government includes its predecessor bodies the National Council for Education and Training Wales and the Further Education Funding Council.

BACKGROUND

3 Paragraph 54 of the Financial Memorandum between the Welsh Assembly Government and institutions requires institutions to comply with the Accounts Direction issued from time to time by the Welsh Assembly Government. The direction will cover information to be contained in the financial statements, the manner in which they are to be presented and the methods and principles according to which they are prepared and will be in accordance with Generally Accepted Accounting Principles.

4 In issuing this direction the Welsh Assembly Government wishes to ensure the form, content and disclosures within institution's financial statements follow good practice, are consistent across the sector and meet any specific requirements of the Welsh Assembly Government.

Accounts Direction for 2006/07

5 The Welsh Assembly Government requires all institutions to comply with the Statement of Recommended Practice: Accounting for Further and Higher Education ("the SORP") in preparing their financial statements for the year ended 31 July 2007.

6 In October 2003 the HE/FE SORP Board issued a revised SORP effective for all accounting periods ending on or after 31 July 2004. This is the SORP that applies for the 2006/07 financial year. Copies of the SORP can be downloaded from Universities UK's website at http://bookshop.universitiesuk.ac.uk.

7 A consultation document for a revised Statement of Recommended Practice (SORP) for further and higher education was issued in January 2007. The consultation period has closed, however the revised SORP has not yet been published. This SORP will be applicable from 1 August 2007.

8 Institutions should note that paragraph 41 of the current SORP requires that the four primary accounting statements (income and expenditure account, balance sheet, cash flow statement and statement of total recognised gains and losses) must be presented in the formats set out in the Casterbridge College model financial statements in the appendix to the SORP. In the past, certain institutions have chosen not to do so. This defeats

the objective of the SORP to provide institutions and third parties with consistent and comparable financial information. The Welsh Assembly Government therefore requires institutions to comply fully with the SORP in this respect.

9 Whilst the remainder of the 'Casterbridge College' example is illustrative, institutions are encouraged to disclose as much of this information as possible.

10 In addition to the requirements of the SORP, the Welsh Assembly Government requires that institutions' audited financial statements be prepared in accordance with current Accounting Standards, FRS's and Urgent Task Force (UITF) Abstracts issued or adopted by the Accounting Standards Board.

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

12 Where an institution has subsidiaries that are limited companies they will be subject to the requirements of the Companies Act.

13 Where an institution is a registered charity they will be subject to the additional requirements of the 'Accounting and reporting by Charities' Statement of recommended Practice (revised 2005) and the Charities Act 2006. For those that are currently exempt charities see Annex H for the impact of the Charities Act 2006 on requirements.

14 Institutions are also required to include in their financial statements the following:

i a statement covering the responsibilities of their governing body in relation to corporate governance. This statement, that incorporates a statement on internal control, 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 Annex A and a model statement is shown in Annex B.

ii the total emoluments of the Principal and higher paid employees. A higher paid employee is defined as an employee whose total emoluments exceed £50,000 during the financial year. Full guidance on the required disclosures is set out in Annex C.

iii the compensation for loss of office paid or payable to the Principal or any higher paid employee (as defined in Annex D). Full guidance on the required disclosures is set out in Annex D.

iv details of the net cost to an institution in respect of expenditure on overseas activities in accordance with Annex E.

v within the members' report to the financial statements, a statement on the payment performance of the institution during the period. For further guidance see Annex F.

■ FURTHER SPECIFIC GUIDANCE

15 Additional guidance is included in Annex F on the following matters:

- the disclosures for 2006/07 relating to FRS 17 Retirement Benefits;
- enhanced pension provisions (FRS 12) provisions;
- accounting for grants, where specific guidance is provided on DDA and backlog maintenance funding;
- agency costs;
- prompt payments disclosures;
- consortium income;
- auditor fees;
- changes to financial statement disclosures;
- Further and Higher Education SORP.

■ EXTERNAL AUDIT

16 Institutions are required to 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 Welsh Assembly Government grants have been used for the purposes for which they were received.

17 Institutions should be aware that their external auditors will be reviewing the corporate governance and internal controls statement as part of their audit work and will be including a reference to this work in their audit opinion. An exemplar certificate is available in Annex G. External audit engagement letters should be amended from the model set out in the Audit Code of Practice to allow the auditors to provide this opinion.

18 This Accounts Direction and the Financial Memorandum should be copied to the external auditors.

19 External auditors are reminded that where they are unable to express an unqualified opinion on the institution'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 Welsh Assembly Government, Department for Children, Education, Lifelong Learning and Skills, Head of Division Standards, Quality and Governance.

20 Audit firms cannot be appointed as internal and external auditors at the same time or for the same financial year under any circumstances.

21 External auditors should be following the new International Auditing Standards which came into force for periods starting on or after 15th December 2004. It is expected that there will be a

greater emphasis on planning and the possibility of extra work completed as a result of these new standards.

■ MATTERS ARISING FROM OUR REVIEW OF THE 2005/06 ACCOUNTS

22 There were a number of different ways of disclosing FRS17 charges by institutions in the 2005/06 financial statements. In order that FRS17 is treated consistently throughout the sector the FRS 17 staff costs charge should be disclosed as a separate line, rather than apportioning across staffing categories as required in the prior year.

■ ACCOUNTING DEVELOPMENTS

23 There have been no new accounting standards since the 2005/06 Accounts Direction. However there have been a number of other developments. Annex H provides a summary of these and comments on those that are of most relevance to the sector.

■ ACCOUNTS TIMETABLE

24 Paragraph 54 of the Financial Memorandum requires institutions to provide the Welsh Assembly Government with copies of its financial statements by 31 December. The Welsh Assembly Government also requires the external auditor's management letter, including the institution's response, to be submitted at the same time.

■ CHANGES FOR 2007/08

25 We are not aware of any significant changes in accounting standards for 2007/08, other than those listed in Annex H at present. A revised version of the SORP is expected for 2007/08.

■ REVIEW OF THIS DIRECTION

26 The Accounts Direction will be reviewed each year. This Accounts Direction will remain in force unless institutions are notified otherwise.

GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE

Turnbull Combined Code Compliance

The Welsh Assembly Government expected full implementation of the Turnbull guidance from the year ended 31 July 2004 and required that a combined statement on corporate governance and internal control be prepared and included in an Institution's financial statements. This statement must be signed by the Principal as Accounting Officer and the Chair of the Governing Body.

The Financial Reporting Council published an updated Combined Code on 27/6/06 which contains a small number of changes. None of these changes are relevant to the Further Education Sector.

A standard model has been provided (at Annex B) as a consistent starting point. However, as institutions are different in complexity and size, there may be a need to change the model which should be tailored to the institution's own requirements, showing:

- what work has been done to embed risk management in the corporate governance of the institution, and
- what assurance can be gained by the reader of the institution's accounts

Maintaining a sound system of internal control

1 The Governing Body is responsible for the institution's system of internal control. It should set appropriate policies on internal control and seek regular assurance that will enable it to satisfy itself that the system is functioning effectively. The Governing Body must further ensure that the system of internal control is effective in managing risks in the manner, which it has approved.

2 In determining its policies with regard to internal control, and thereby assessing what constitutes a sound system of internal control in the particular circumstances of the institution, the Governing Body's deliberations should include consideration of the following factors:

   - the nature and extent of the risks facing the institution;
   - the extent and categories of risk which it regards as acceptable for the institution to bear;
   - the likelihood of the risks concerned materialising;
   - the institution's ability to reduce the incidence and impact on the business of risks that do materialise; and
   - the costs of operating particular controls relative to the benefit thereby obtained in managing the related risks.

GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)

3 It is the role of management to implement the Governing Body's policies on risk and control. In fulfilling its responsibilities, management should identify and evaluate the risks faced by the institution for consideration by the Governing Body and design, operate and monitor a suitable system of internal control which implements the policies adopted by the Governing Body.

4 All employees have some responsibility for internal control as part of their accountability for achieving objectives. They, collectively, should have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal control. This will require an understanding of the institution, its objectives, the environment in which it operates, and the risks it faces.

5 An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of an institution that, taken together:

- facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the institution's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed;
- help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation.
- help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

6 An institution's system of internal control will reflect its control environment, which encompasses its organisational structure. The system will include:

- control activities;
- information and communications processes; and
- processes for monitoring the continuing effectiveness of the system of internal control.

7 The system of internal control should:

- be embedded in the operations of the institution and form part of its culture;
- be capable of responding quickly to evolving risks to the business arising from factors within the institution and to changes in the higher education sector; and

GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)

- include procedures for reporting immediately to appropriate levels of management any significant control failings or weaknesses that are identified together with details of corrective action being undertaken.

8 A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgment in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the occurrence of unforeseeable circumstances.

9 A sound system of internal control therefore provides reasonable, but not absolute, assurance that an institution will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an institution failing to meets its objectives or all material errors, losses, fraud, or breaches of laws or regulations.

Reviewing the effectiveness of internal control

10 Reviewing the effectiveness of internal control is an essential part of the Governing Body's responsibilities. The Governing Body will need to form its own view on effectiveness after due and careful enquiry based on the information and assurances provided to it. Management is accountable to the Governing Body for monitoring the system of internal control and for providing assurance to the Governing Body that it has done so.

11 The role of institutional committees in the review process, including that of the audit committee, is for the Governing Body to decide and will depend upon factors such as the nature of the significant risks that the institution faces. To the extent that designated Governing Body committees carry out, on behalf of the Governing Body, tasks that are attributed in this guidance document to the Governing Body, the results of the relevant committees' work should be reported to, and considered by, the Governing Body. The Governing Body takes responsibility for the disclosure on internal control in the annual report and accounts.

12 Effective monitoring on a continuous basis is an essential component of a sound system of internal control. The Governing Body cannot, however, rely solely on the embedded monitoring processes within the institution to discharge its responsibilities. It should regularly receive and review reports on internal control. In addition, the Governing Body should undertake an annual assessment for the purposes of making its public statement on internal control to ensure that it has considered all significant aspects of internal control for the institution for the year under review and up to the date of approval of the annual report and accounts.

13 The reference to 'all controls' in Code Provision D.2.1 should not be taken to mean that the effectiveness of every internal control (including controls

GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)

designed to manage immaterial risks) should be subject to review by the Governing Body. Rather it means that, for the purposes of this guidance, internal controls considered by the Governing Body should include all types of controls including those of an operational and compliance nature, as well as internal financial controls.

14 The Governing Body should define the process to be adopted for its review of the effectiveness of internal control. This should encompass both the scope and frequency of the reports it receives and reviews during the year, and also the process for its annual assessment, such that it will be provided with sound, appropriately documented, support for its statement on internal control in the institution's annual report and accounts.

15 The reports from management to the Governing Body should, in relation to the areas covered by them, provide a balanced assessment of the significant risks and the effectiveness of the system of internal control in managing those risks. Any significant control failings or weaknesses identified should be discussed in the reports, including the impact that they have had, could have had, or may have, on the institution and the actions being taken to rectify them. It is essential that there be openness of communication by management with the Governing Body on matters relating to risk and control.

16 When reviewing reports during the year, the Governing Body should:

- consider what are the significant risks and assess how they have been identified, evaluated and managed;
- assess the effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failings or weaknesses in internal control that have been reported;
- consider whether necessary actions are being taken promptly to remedy any significant failings or weaknesses; and
- consider whether the findings indicate a need for more extensive monitoring of the system of internal control.

17 Additionally, the Governing Body should undertake an annual assessment for the purpose of making its public statement on internal control. The assessment should consider issues dealt with in reports reviewed by it during the year together with any additional information necessary to ensure that the Governing Body has taken account of all significant aspects of internal control for the institution for the year under review and up to the date of approval of the annual report and accounts.

18 The Governing Body's annual assessment should, in particular, consider:

GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)

- the changes since the last annual assessment in the nature and extent of significant risks, and the institution's ability to respond to changes in its business and the external environment;

- the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and, where applicable, the work of its internal audit function and other providers of assurance;

- the extent and frequency of the communication of the results of the monitoring to the Governing Body (or Governing Body's committee(s)) which enables it to build up a cumulative assessment of the state of control in the institution and the effectiveness with which risk is being managed;

- the incidence of significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the institution's financial performance or condition; and

- the effectiveness of the institution's public reporting processes.

19 Should the Governing Body become aware at any time of a significant failing or weakness in internal control it should determine how the failing or weakness arose and re-assess the effectiveness of management's ongoing processes for designing, operating and monitoring the system of internal control.

The Governing Body's statement of internal control

20 In its narrative statement of how the institution has applied Code principle D.2, the Governing Body should, as a minimum, disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the institution, that it has been in place for the year under review and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Governing Body and accords with the Turnbull guidance.

21 The Governing Body may wish to provide additional information in the annual report and accounts to assist understanding of the institution's risk management processes and system of internal control.

22 The disclosure relating to the application of principle D.2 should include an acknowledgement by the Governing Body that it is responsible for the institution's system of internal control and for reviewing its effectiveness. It should also explain that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

GUIDANCE ON THE STATEMENT ON CORPORATE GOVERNANCE (continued)

23 In relation to Code provision D.2.1, the Governing Body should summarise the process it (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.

24 Where a Governing Body cannot make one or more of the disclosures in paragraphs 5.20 and 5.23, it should state this fact and provide an explanation.

25 The Governing Body should ensure that its disclosures provide meaningful, high-level information and do not give a misleading impression.

26 Where material joint ventures and associates have not been dealt with as part of the group for the purposes of applying this guidance, this should be disclosed.

MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL

The Institution is committed to exhibiting best practice in all aspects of corporate governance.

This summary describes the manner in which the Institution has applied the principles set out in section one of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the governors, the Institution complies with all the provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2007.

The Corporation

The composition of the Corporation is set out on page……. It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the Institution together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Corporation meets each term.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are finance and general purposes, remuneration, search and audit.

All governors are able to take independent professional advice in furtherance of their duties at the Institution's expense and have access to the Clerk to the Corporation, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are also provided on an ad-hoc basis.

The Corporation has a strong and independent non-executive element and no individual or group dominates its decision making process. The Corporation considers that each of its non-executive members is independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chairman and Principal are separate.

MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL (continued)

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a search committee which is comprised of………… which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years.

Remuneration committee

Throughout the year ending 31 July 2007, the Institution's remuneration committee comprised …………. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior potholders.

Details of remuneration for the year ended 31 July 2007 are set out in note …… to the financial statements.

Audit committee

The audit committee comprises of three members of the Corporation (excluding the Principal and Chair). The committee operates in accordance with written terms of reference approved by the Corporation.

The audit committee meets on a termly basis and provides a forum for reporting by the Institution's internal and financial statement auditors, who have access to the committee for independent discussion, without the presence of Institution management. The committee also receives and considers reports from the Welsh Assembly Government as they affect the Institution's business.

The Institution's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the audit committee.

Management are responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

The audit committee also advises the Corporation on the appointment of internal and financial statement auditors and their remuneration for both audit and non-audit work.

MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL (continued)

Internal control

Scope of responsibility

The Corporation is ultimately responsible for the Institution's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the Institution's policies, aims and objectives, whilst safeguarding the public funds and assets for which he/she is personally responsible, in accordance with the responsibilities assigned to him/her in the Financial Memorandum between Casterbridge and the Welsh Assembly Government. He/she is also responsible for reporting to the corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of institution policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Casterbridge College for the year ended 31 July 2007 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the Institution is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the Institution's significant risks that has been in place for the period ending 31 July 2007 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL (continued)

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- Regular reviews by the governing body of periodic and annual financial reports, which indicate the financial performance against forecasts
- Setting targets to measure financial and other performance
- Clearly defined capital investment control guidelines
- The adoption of formal project management disciplines, where appropriate

Casterbridge College has an internal audit service, which operates in accordance with the requirements of the Welsh Assembly Government. The work of the internal audit service is informed by an analysis of the risks to which the institution is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit provides the governing body with a report on internal audit activity in the institution. The report includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Institution's system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. His/her review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors
- the work of the executive managers within the Institution who have responsibility for the development and maintenance of the internal control framework
- comments made by the Institution's financial statements auditors and the Welsh Assembly Government's auditors in their management letters and other reports.

The Principal has been advised on the implications of the result of his/her review of the effectiveness of the system of internal control by the audit committee, which oversees the work of the internal auditor, (and Risk Committee, if appropriate) and a

MODEL CORPORATE GOVERNANCE STATEMENT INCORPORATING THE STATEMENT OF INTERNAL CONTROL (continued)

plan to address weaknesses and ensure continuous improvement of the system is in place.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the audit committee also receive regular reports from internal audit, which include recommendations for improvement. The audit committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the audit committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its October 2007 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2007 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2007.

Significant internal control problems (if applicable)

(If there are significant internal control problems, record here an outline of the actions taken, or proposed, to deal with them. The wording should be tailored to reflect the circumstances of the case.)

Going concern

After making appropriate enquiries, the Corporation considers that the Institution has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

[Signed]	[Signed]
[Date]	[Date]
[Chair]	[Principal]

NB. As a result of the Companies Act 2006 there has been a change in the requirements from auditors for company directors and the disclosure that all relevant information has been given to the auditors. This may be transferred to the FE sector by auditors requiring similar disclosures under the governor's responsibilities. The wording of the governors report in respect to this should be agreed individually by each institution by their auditors.

EMOLUMENTS OF THE PRINCIPAL AND HIGHER PAID EMPLOYEES

Disclosure requirements:

1 These disclosures apply to the Principal and any higher paid employee. A higher paid employee for the purposes of this disclosure is one whose total emoluments paid or payable during the financial year exceeded £50,000.

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

- the emoluments of the 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 Principal
- emoluments due to a higher paid employee but waived by the employee
- the salary bands of higher paid employees (including the 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 Principal or higher paid employee for loss of office (see Annex D)
- 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)

EMOLUMENTS OF THE PRINCIPAL AND HIGHER PAID EMPLOYEES

Disclosure requirements (continued):

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 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 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

Benefits in kind

8 As noted in 4 above, wherever possible the money value of benefits in kind should be estimated 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 that institutions should discuss with their auditors on the treatment of motor cars and subsidised accommodation is set out below.

Motor cars

9 Where an institution provides a leased motor car the market value could be calculated with reference to the lease payments and additional running costs borne by the institution. Likewise, if the institution purchases a car 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 Principal/higher paid employee to keep a record of his or her private and institutional mileage. These amounts may more properly represent the cost to the institution than the taxable benefit.

Subsidised accommodation

10 Where the institution owns the property, the benefit derived by the Principal / higher paid employee is the difference between the rent he/she paid (if any) and the estimated market rent for that property which the institution would receive if it were to lease the premises on a commercial basis. If the institution merely leases the property, the benefit could be assessed as the difference between the rent and other expenses paid by the institution and that paid by individual. Private and institutional use of the accommodation will need to be apportioned on a fair and consistent basis; and it would be helpful if the individual kept a record of institutional use to help with the calculation of a fair apportionment.

EMOLUMENTS OF THE PRINCIPAL AND HIGHER PAID EMPLOYEES

Disclosure requirements (continued):

11 Where an institution makes it a condition of employment that an individual resides in an official residence, then disclosure on the basis of treatment for tax purposes is reasonable. Institutions and their auditors should reach a judgement that apportionments about private use are fair. The line adopted by the Inland Revenue can serve to inform that judgement.

COMPENSATION FOR LOSS OF OFFICE

Disclosure requirements:

1 This disclosure applies to the Principal and any higher paid employee. A higher paid employee for the purposes of this disclosure is one whose total emoluments paid or payable during the financial year (or the preceding financial year) exceeded £50,000 or whose total emoluments paid or payable during the financial year exceeded £50,000 on a per annum basis.

2 Institutions shall show the aggregate amount of any compensation paid or payable to the 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; and

- 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.

COSTS IN RESPECT OF OVERSEAS ACTIVITIES

Disclosure requirements:

	Travel and accommodation £k	Subsistence and Hospitality £k	Other Costs £k	Number of Visits No
Governors				
Senior Post Holders				
Other individuals				

Explanatory Notes and Guidance

Certain costs incurred in relation to the undertaking of overseas activities will need to be disclosed in the audited financial statements of the institution. The disclosure requirements relate to the net cost to the institution in respect of expenditure on overseas activities incurred by or on behalf of:

- members of the governing body;
- senior post holders, and
- other individuals.

Institutions should expand on this minimum disclosure where this would contribute to the overall understanding of their financial statements. The disclosure note should appear immediately after the detailed note on ‘other operating expenses’.

Foreign activities are defined as ‘expenditure incurred outside the United Kingdom, or incurred in connection with travel outside the United Kingdom’. Institutions need not disclose expenditure incurred in respect of:

- students involved in course related overseas activity;
- staff (but not governors) travelling with students involved in course related overseas activity; and
- overseas activities where the full costs are met by students.

The number of visits column is designed to reflect the number of person visits. For example if three people went on one trip, and four people went on another trip, then the column would show seven, not two. To simplify the disclosure, institutions may show the cost of breakfast in the accommodation column if it is integral to the room rate.

Where any items are recorded under expenditure for or on behalf of ‘Other individuals’, who are not members of staff, full details (including the names of the travellers and the reason for the expenditure) also need to be disclosed. For example, this additional disclosure would be needed where expenditure had been incurred for or on behalf of the spouse of a governor.

SPECIFIC GUIDANCE

Financial Reporting Standard 17 retirement benefits

Guidance on disclosures for 2006/07

There have been no changes to the disclosure requirements for 2006/07. However an amendment to FRS17 has been published that is effective for 2007/08 and will require comparatives. See Annex H.

The staff costs impact should be included in a separate line for 2006/07 and not apportioned across the staff categories.

The full disclosure notes required can be found in the Casterbridge College model financial statements. The model for 2007 can be found on the LSC website at the following link :

http://readingroom.lsc.gov.uk/lsc/National/4a_Chapter_Four_-_Model_Casterbridge_College_Financial_Statements_for_the_Year_Ended_31_July_2007_v1.4.doc

Enhanced Pension Provisions

There have been significant changes in life expectancy since the instigation of early retirement provisions funded by individual institutions. FRS 12 requires that the basis of calculating provisions, in this case actuarial assumptions, be reviewed regularly to ensure that the provision remains an appropriate estimate of the likely costs.

The Learning and Skills Council and Welsh Assembly Government funded an actuarial exercise to update the information previously used by Institutions based on a circular issued by the former FEFCW in the early 1990s.

The Welsh Assembly Government requires institutions to use these tables as the basis of their enhanced pension provision unless they have had their own independent actuarial assessment undertaken.

This requirement is to ensure comparability of approach across the sector and is in response to questions put to us by both Institutions and their external auditors.

Tables to calculate the enhanced pension provision can be found on the Learning and Skills Welsh Assembly Government website within Circular 05/02 Supplement A – Enhanced pension provisions spreadsheet.

http://readingroom.lsc.gov.uk/lsc/2005/funding/providers/circular-05-02-enhanced-pensions-spreadsheet.xls

SPECIFIC GUIDANCE (Continued)

Enhanced Pension Provisions (continued)

Please note that the Excel Add – Ins programs have to be activated in order for the spreadsheet to work properly.

The table below shows the fixed interest 10 year yield indices and index-linked over 5 years indices (5% inflation real yield) of UK Bonds - FTSE Actuaries Government Securities as at 31 July 2006 and 31 July 2007.

	31 July 2006	31 July 2007
Fixed Interest 10 year yield	4.61	5.22
Index-linked over 5 years (5% inflation real yield)	1.25	1.48

Colleges with enhanced pensions provisions should use these indices when using the enhanced pensions tables (as detailed in Supplement A to Circular 05/02 Spreadsheet to Calculate Provisions for Enhanced Pensions) to calculate the level of provision in their financial statements for the year ending 31 July 2007. The tables have not been updated since 2005.

Accounting for Grants

Any grants received from public funds should be accounted for in accordance with SSAP 4 Accounting for Government Grants. This means that the income should be matched to the relevant expenditure. Any capital grant received should be credited to a deferred capital grant account and not deducted from the purchase price of the assets concerned. The amount of the grant should be credited to the I&E account over the useful economic life of the related asset, on a basis consistent with the depreciation policy. If a capital grant is received before the purchase of the relevant asset, then the grant should be held in payments on account until spent. Where the conditions attached to an award of a grant state that the grant should be directed towards capital expenditure, it should be treated as a deferred capital grant.

Specific grants for DDA work and backlog maintenance have been distributed during the year. To the extent that these grants have not been spent at the year end they should be included in payments received in advance within creditors. Once spent they should either be shown as revenue or credited to deferred capital grants as appropriate in line with the nature of the expenditure.

SPECIFIC GUIDANCE (Continued)

Agency costs

Institutions should review and consider the guidance set out in paragraph 67 of the SORP in respect of agency costs.

Where the institution disburses funds it has received as paying agent on behalf of another body and it has no beneficial interest in the funds the receipt and subsequent disbursement of the funds should be excluded from the income and expenditure of the institution where the FRS 5 test for the recognition of an Asset is not met, i.e. where the institution does not have control over the future economic benefits.

What constitutes an agency arrangement will depend upon each individual fund and its own individual characteristics. However, Financial Contingency Funds (access funds) and Educational Maintenance Allowances are such funds that institutions will need consider to assess if the FRS 5 test would be met or not.

The key test is whether the institution has any future beneficial interest in the funds. In the majority of cases the funds will be given to students to support their studies, and so the beneficial interest will be transferred from the institution to the learner. Where this occurs, the funds should be excluded from the income and expenditure account. In the institution's year-end financial statements there should be a separate note for each of the funds showing how they have been treated.

In some cases, funds might not be passed direct to the student but to a third party, in order to pay for student-related transactions, such as residential costs and equipment. In these cases, as the contract is between the institution and the third party, the beneficial interest is not transferred from the institution to the learner. Where this occurs, the funds should be included within the income and expenditure of the institution. For example, large items of equipment purchased from the access fund for a student's need might remain the property of the institution.

Institutions are recommended to include a new accounting policies note on agency arrangements in their financial statements, for example:

> The institution acts as an agent in the collection and payment of financial contingency funds and educational maintenance allowances. Related payments received from the National Welsh Assembly Government for Education and Training for Wales and the Welsh Assembly Government and subsequent disbursements to students and institutions are excluded from the income and expenditure account and are shown separately in note xxxx.

If you have any queries over the interpretation of this guidance please contact your external auditor.

SPECIFIC GUIDANCE (Continued)

Payment Performance

The Better Payments Practice Code

The four key principles of the Better Payments Practice Code, which institutions should adopt are:

- agree payment terms at the outset of a deal and stick to them;
- explain the payment procedures to suppliers;
- pay bills in accordance with any contract agreed with the supplier, or as required by law; and
- tell suppliers without delay when an invoice is contested and settle quickly on receiving a satisfactory response.

HM Treasury expects public sector bodies to comply with this code as it represents best practice.

The Late Payment of Commercial Debts

The Late Payment of Commercial Debts (Interest) Act 1998 provides small businesses with a statutory right to claim interest on late payment of commercial debts. In November 1998, small firms were first given the right to charge interest to large companies and public sector organisations. The Late Payment of Commercial Debts (Interest) Act 1998 was extended to cover large companies in November 2002. If no credit period has been agreed, then the Act sets a default period of 30 days after which interest can run.

Required disclosures

The institution's policy and practice on payment of creditors should be disclosed in the Members Report. This should include a policy statement for the following financial year and the number of days (calculated in the prescribed manner) taken to pay bills in the current financial year.

The statement must include whether:

- it is the institution's policy to follow any code or standard on payment practice and, if so, give the name of the code or standard; and
- in respect of some, or all, of its suppliers, it is the institution's policy to:

    i settle the terms of payment with those suppliers when agreeing the terms of each transaction;

SPECIFIC GUIDANCE (Continued)

Payment Performance (continued)

ii ensure that these suppliers are made aware of the terms of the payment; and

iii abide by the terms of payment.

Where the statement does not cover all suppliers, the policy for the other suppliers needs to be disclosed.

The amount of any interest paid under The Late Payment of Commercial Debts (Interest) Act 1998 should also be disclosed.

Calculation of payment days

The Companies Act 1985 (Directors' Report) (Statement of Payment Practice) Regulations 1997 (SI 1997/571) introduced a provision which required that the directors' report of companies should state the number of days represented by trade creditors falling due for payment within one year at the year end, compared to the total amounts invoiced to suppliers during the year. This calculation method, which should be familiar to your external auditors, is as follows:

Trade creditors at the end of the year are £100k.

Amounts invoiced during the year by suppliers are £1m

Number of days in the financial year is 365.

$$\frac{100}{1{,}000} \times 365 = 36.5 \text{ days}$$

Consortium income

There are an increased number of consortium arrangements in place. If the institution is acting as the lead in the consortium, it should only include its own income earned in the I&E, not that passed onto other consortium members. An extra note under the funding council grants note will be required to detail consortium income as follows :

“The Institution is the lead partner in a consortium to deliver xxxx. The income included in these accounts is earned by the institution in its capacity as a provider and consortium lead. All other income relating to the consortium and payable to consortium members has been excluded from the accounts. Total income claimed in the year and the related payments to partners was as follows” :

SPECIFIC GUIDANCE (Continued)

Consortium income (continued)

Total income	x
Payments to FE partners	x
Payments to non FE partners	<u>x</u>
Net income	x

Auditor fees

The Companies Act 2006 required a more detailed breakdown of auditor's fees for years beginning on or after 1 Oct 2005, this requirement is transferred to the FE sector. The disclosures required are a split between audit fees and other fees for both the internal and external auditors. Comparatives are required.

Changes to Financial statement disclosures

- Staff costs note : contracted out lecturing services should be included in staff costs in the financial statements, in line with the finance record.

- The employer rates for pensions should be disclosed for the whole year (usually this is two rates as the financial year crosses the pension year), in the pensions note.

Further and Higher Education SORP

- The final version of the SORP has not yet been published – there are not expected to be any major changes to the consultation draft.

- The SORP is applicable for periods ended 31st July 2008.

- There have been no major changes in the format or requirement since the last SORP, the changes that have been made are as follows :

    - Update on the financial reporting standards that have been released since the last SORP – these have been covered in the annual accounts direction where relevant;
    - An operating and financial report / governors report should be included and follow the best practice set out in the OFR reporting statement in Jan 2006;
    - A section has been added on the presentation of summary financial statements which may be relevant to some colleges that publish an operating review document;
    - The technical requirements by subject are listed in more detail.

Guidance on the suggested form of wording for the audit report by an institution's external auditors for the year ended 31 July 2007.

Independent Auditors' Report to the Governing Body of Casterbridge College

We have audited the financial statements of Casterbridge College for the year ended 31 July 2007, which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention [as modified by the revaluation of certain fixed assets] and the accounting policies set out therein.

This report is made solely to the corporation's members, as a body. Our audit work has been undertaken so that we might state to the corporation's members 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 and the corporation's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Governing Body and the Auditors

As described in the Statement of Governing Body's Responsibilities the Governing Body is responsible for the preparation of the Report of the Governing Body and the financial statements in accordance with the Accounts Direction issued by the National Welsh Assembly Government – Welsh Assembly Government, the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Accounts Direction issued by the National Welsh Assembly Government – Welsh Assembly Government and the Statement of Recommended Practice – Accounting for Further and Higher Education. We also report to you whether in our opinion, in all material respects, monies expended out of National Welsh Assembly Government – Welsh Assembly Government grants and other funds from whatever source administered by the Institution for specific purposes have been properly applied to those purposes and, if appropriate, managed in compliance with all relevant legislation and whether in our opinion, in all material respects, income has been applied in accordance with the financial memorandum with the National Welsh Assembly Government – Welsh Assembly Government.

We also report to you if, in our opinion, the Members' Report is not consistent with the financial statements, if the Institution has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

Independent Auditors' Report to the Governing Body of Casterbridge College (continued)

We read the Report of the Governing Body including the corporate governance statement and the statement of internal control and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board and the Audit Code of Practice issued by the National Welsh Assembly Government - Welsh Assembly Government. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Institution's Governing Body in the preparation of the financial statements and whether the accounting polices are appropriate to the Institution's circumstances, consistently applied and disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary, in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluate the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion:

a) the financial statements give a true and fair view of the state of the Institution's affairs as at 31 July 2007 and of its surplus of income over expenditure and cash flows for the year then ended, and have been properly prepared in accordance with the Accounts Direction issued by the Welsh Assembly Government and the Statement of Recommended Practice – Accounting for Further and Higher Education;

b) in all material respects, monies expended out of Welsh Assembly Government grants and other funds from whatever source administered by the Institution for specific purposes have been properly applied to those purposes and, if appropriate, managed in compliance with all relevant legislation;

c) in all material respects, income has been applied in accordance with the financial memorandum with the National Welsh Assembly Government.

Name
Registered Auditors
Address
Date

RECENT FINANCIAL REPORTING DEVELOPMENTS

Statement of principles for financial reporting : interpretation for public benefit entities – published 28th June 2007

The statement sets out the principles that the Accounting Standards Board (the Board) believes should underlie the preparation and presentation of general purpose financial statements of public benefit entities. The primary purpose of articulating the application of the principles to public benefit entities is to provide a coherent frame of reference to be used in the development of Statements of Recommended Practice (SORPs) or other sector specific guidance. Nothing in the proposed Interpretation overrides the requirements of existing accounting standards or SORPs.

There are two sections in the statement that could be deemed contentious in relation to FE. Firstly the statement says that capital grants should be accounted for as revenue where all the conditions of the grant are met and if not recognised as a liability until the conditions have been met. This is not consistent with the requirements of SSAP 4 Accounting for Government Grants, the SSAP and SORP take precedence.

Secondly voluntary services that would have been purchased if not given should be recognised in the income and expenditure account. This is only the case where the service can be reliably measured. If the services are not included then they should be disclosed in the notes or governors report.

FRSSE
An updated version of the FRSSE was published in Jan 2007. This takes into account any changes in accounting standards and UITF's since the last FRSSE (Jan 2005) and may be applicable to subsidiary companies whose accounts are prepared under the FRSSE.

FRED 40
This relates to heritage assets and may impact on institutions if they hold heritage assets. Heritage assets are those that have historic, artistic, scientific, technological, geophysical or environmental qualities and are maintained principally for their contribution to knowledge and culture. The main change in the exposure draft is that all assets should be included on the balance sheet at current value where it is practicable, this would superseded the requirements in FRS 15 for heritage assets.

Abstract 45 – Waste electrical and electronic equipment
The abstract is effective for accounting periods starting on or after 22 June 2007 (2007-08). It relates to the liability for meeting the cost of disposal of electrical items.

If the item was bought after 13/8/05 then the liability for disposal lies with the producer, hence when items need to be disposed of the producer needs to be

RECENT FINANCIAL REPORTING DEVELOPMENTS (CONTINUED)

Abstract 45 – Waste electrical and electronic equipment (continued)

contacted to see what arrangements they have in place (this may be through the retailer).

For items purchased before 13/8/05 if you are replacing an item, for example a replacement computer for the same use then the liability lies with the company that is replacing the item.

If the item being disposed of is not being replaced and was purchased before 13/8/05 then the liability lies with the end user i.e. the college. A provision should be included within the accounts for the cost of disposal from the date of purchase or the date of the regulation.

Other FRS amendments

The following standards and guidance have been issued since the 2005/06 Accounts Direction. It is considered that the majority of these are either not relevant to the sector, not currently applicable to unlisted entities or are exposure drafts that will not be applicable for the current or next year.

UITF Abstract 44	Group and Treasury Share transactions
Exposure draft	Half yearly financial reports Proposed limited amendment to FRS 3 for users of FRS 26 and FRS 23

Institutions are advised to consult with their external auditors if they consider that a particular standard or guidance is relevant to their particular circumstances.

International Accounting Standards

For accounting periods beginning on or after 1 January 2005, the UK's listed companies must use European Union adopted International Accounting Standards in their group financial statements. Although it is not known at this stage whether FE institutions will have to follow the same rules, it would appear to be inevitable as the ASB is reviewing all of its existing accounting standards to ensure compliance.

Institutions should continue to prepare their financial statements using the principles outlined in the SORP.

RECENT FINANCIAL REPORTING DEVELOPMENTS (CONTINUED)

Companies Act 2006

The Companies Act 2006 was given royal assent in November 2006. There are a number of changes resulting from the Act that may affect the FE sector over the next 18 months.

6 April 2007

- The upper age limit of directors was abolished on 6 Apr 2007, this has transferred to the FE sector in the abolition of the upper age limit for governors, this does not impact on the rules around time limits for governor terms.

1 October 2007

- There are changes to the regulations for company secretaries and AGM's on 1st Oct 2007, this will impact subsidiary companies.
    - There will no longer be the need to have an annual general meeting;
    - written resolutions will no longer need unanimous support; notification of the auditors of such resolutions will not be required;
    - company meetings can be called at short (14 days) notice with 90% (reduced from 95%) agreement of members;
    - there is no longer a requirement to appoint a company secretary, although the functions still have to be undertaken.

6 April 2008

- There will be a reduction in the filing period to nine months for companies.

- There are also some changes with auditors including a capping of auditor liability, the naming of the audit engagement leader, disclosure of the audit engagement terms.

1 October 2008

- Company formation documents change from this date.

Charities Act 2006 – published 8 November 2006

A number of changes have been made by the Charities Act 2006 as follows :

- To be registered as a charity all of the organisation's purposes must be of a charitable nature and for the benefit of the public. The advancement of education remains a charitable purpose.

- The principles of public benefit will change but this is still under consultation. It is expected that colleges will have to show that fees collected are applied to services and facilities that are available for those that would not normally be able to afford them.

RECENT FINANCIAL REPORTING DEVELOPMENTS (CONTINUED)

Charities Act 2006 – published 8 November 2006 (continued)

- FE institutions that are currently exempt charities will have to register with the charity commission. It is anticipated that registration will be required in 2008.

Financial Reporting Standard 17

The ASB have published a best practice guide for reporting of retirement benefits, this is best practice and is not mandatory, see link:

http://www.frc.org.uk/images/uploaded/documents/Reporting%20Statement%20Web%20optimised.pdf

FRS 17 has been revised with additional disclosures effective for periods beginning on or after 6 April 2007 i.e. 2007/08. However comparatives will be needed so the actuaries need to be notified of the requirements this year. The full amendment can be found at the following link:

http://www.frc.org.uk/documents/pagemanager/asb/Amend_FRS17%20web%20optimized.pdf

The main changes to requirements are:

- Information on the nature of the entity's participation in the scheme and the financial effect of changes in the scheme, previously only the nature of the scheme was required to be disclosed.

- The principal actuarial assumptions used at the balance sheet date, in addition to the financial assumptions already required, mortality rates have to be disclosed where it is considered to be a material assumption.

- An analysis of the opening and closing scheme liabilities and scheme assets showing movements in scheme assets and scheme liabilities.

- An analysis of scheme liabilities onto amounts arising from schemes that are wholly unfunded and amounts arising from schemes that are wholly or partly funded.

- The present value of the defined benefit obligation, the fair value of the scheme assets and surplus or deficit in the scheme and experience adjustments arising on the asset and the liabilities of the scheme expressed as an amount or a percentage of the scheme assets at the balance sheet date. These are required for the current year and the previous four years.

- The mid market value of valuation is replaced with the current bids price.

RECENT FINANCIAL REPORTING DEVELOPMENTS (CONTINUED)

Financial Reporting Standard 17 (continued)

The following disclosures are no longer required :

- The date of the most recent full actuarial valuation and if the actuary is an employee or officer of the company.

- The effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities

- The financial assumptions used at the beginning of the period (still required for the balance sheet date)

- An analysis of reserves in the notes to the financial statements distinguishing the amount relating to the defined benefit asset or liability net of the related deferred tax

- The fair value of the assets held by the pension scheme at the beginning and the end of the period analysed into classes of assets and disclosed together with the expected rate of return assumed for each class.

- The difference between the expected and actual rate of return for the accounting period and previous four periods.