

Clarification on the requirements of the accounts direction

1. This document clarifies the guidance set out in our published accounts direction in a number of areas. It should be read in conjunction with the published accounts direction, Regulatory advice 9, and applies to accounting periods beginning on or after August 2019. The guidance is intended to clarify not replace the accounts direction, with a view to achieving consistency in reporting across the sector.

Disclosures about access and participation expenditure

2. Where a provider has an approved access and participation plan for 2019-20 or 2020-21, we expect it to meet its commitments to students under both the 2019-20 plan and the 2020-21 plan. It is particularly important that providers deliver the direct financial support to students set out in its plans.
3. We have informed providers, in the communication issued on 25 March 2020,¹ that after the coronavirus (COVID-19) pandemic we will assess how providers have sought to meet their commitments. In doing so we will consider the circumstances and assess whether a provider has made reasonable decisions that take into account the needs of students, especially students from underrepresented groups.
4. The OfS accounts direction applies for reporting periods beginning on or after 1 August 2019.² It stipulates that providers must disclose expenditure on access and participation and that this disclosure must be explicitly covered in the external auditor's report. The auditor must state in its report in the financial statements whether it has anything to report in relation to whether the provider's grant and fee income, as disclosed in the note to the accounts, has been materially misstated. The OfS accounts direction applicable for the reporting periods beginning on or after 1 August 2019 stipulates that providers must disclose expenditure on access and participation and that this disclosure must be explicitly covered in the external auditor's report. We expect auditors to adopt a materiality threshold in this area at the same level set for the financial statements as a whole (at provider 'entity' level) and we expect the audit opinion to reflect this.
5. The OfS requires disclosure of all investment that supports the ambitions in a provider's access and participation plan. The expenditure should be reported in four categories. These are:
 - access investment
 - financial support to students

¹ See www.officeforstudents.org.uk/publications/regulatory-requirements-during-the-coronaviruscovid-19-pandemic/.

² See www.officeforstudents.org.uk/publications/regulatory-advice-9-accounts-direction-accountingperiods-beginning-on-or-after-1-august-2019/.

- support for disabled students
 - research and evaluation related to access and participation activities.
6. It is possible that the actual expenditure reported will differ from the commitments in the provider's approved plan. For some providers the coronavirus pandemic may have led to fundamental shifts and expenditure in some areas being materially reduced. Some providers may have spent more, as well as less, than the amounts set out in their plans, for reasons other than the pandemic. We have already stated that providers have flexibility in how they use access and participation monies, so variations in the relative proportions of expenditure in the four categories (compared with the commitments in an approved access and participation plan) should not be reported as a reportable event. These variations are unlikely to lead to compliance concerns in relation to the delivery of the commitments in a provider's access and participation plan and condition A1.
7. We require providers to submit monitoring returns for their access and participation plans. When making regulatory decisions in the future, we will consider whether a provider made reasonable decisions about the delivery of the commitments in its plan. It is therefore important that providers record a clear and robust rationale if they are not going to meet the commitments in their plans and set out the alternative steps they have explored and the reasons these have not been taken. As with all significant decisions, they should be recorded clearly.

The content of audit opinions

8. A number of providers and auditors have told us that some audit opinions for 2020-21 are likely to contain a 'material uncertainty relating to going concern' paragraph or be qualified on a 'going concern' basis. This is due to uncertainties created by the coronavirus pandemic, and the UK's exit from the EU. A 'material uncertainty relating to going concern' is a modified opinion rather than a qualified opinion.
9. The OfS accounts direction stipulates that a provider's financial statements must be audited by an independent external auditor. There is no expectation, or indeed requirement, that the auditor's report must be without modification or be unqualified. While the OfS places significant weight on the reports from external auditors in assessing providers' compliance with ongoing conditions of registration, obtaining a qualified audit opinion is, in itself, unlikely to constitute a breach of these conditions.
10. During the coronavirus pandemic the OfS has introduced a new mandatory reportable event related to providers' short-term financial risk.³ A provider must report to the OfS if it considers it to be reasonably likely that its liquidity will drop below 30 days at any point during a rolling three-month period from the date of the report to the OfS, where it is reasonably likely that it will not be able to manage or mitigate this. The OfS does not require external auditors to provide an opinion in their reports about the information in such reportable events.

³ See www.officeforstudents.org.uk/publications/guidance-on-reportable-events-during-the-coronavirus-pandemic/.

11. On 24 March 2021 UK Research and Innovation (UKRI) updated its funding policy.⁴ This guidance will be helpful to auditors when arriving at their opinion on whether funds provided by UKRI have been applied in accordance with the relevant terms and conditions.

Publication of audited financial statements 2021

12. On 31 March 2021 we wrote to accountable officers to confirm that the deadline for the publication of providers' financial statements had been extended by two months, from five months after the relevant year end, to seven months after the relevant year end. This is an extension of two months from the position set out in paragraph 50 of the accounts direction. It applies only to financial years ending in the calendar year 2021, after which the position will revert to the timing stated in the published accounts direction.

Senior staff pay disclosures

13. The paragraphs below should be read in conjunction with paragraphs 10-14 of the accounts direction, which relate to senior staff pay disclosures. They are intended to clarify, not replace, the content of the accounts direction with a view to achieving consistency in reporting from providers that may have complex or varied corporate structures or remuneration arrangements. They also allow us to capture information about heads of provider who may have chosen to waive elements of their remuneration during the coronavirus pandemic.
14. In addition to complying with the accounts direction, all providers are welcome to include additional notes and disclosures in their financial statements if they consider this to be beneficial for the reader.
15. In relation to the disclosures about the head of provider's remuneration, there may be circumstances in which this individual is on secondment from another post or is 'acting up' as head of the provider for a fixed period. For all cases of this nature, we expect the total remuneration paid by the provider to be disclosed, not just the portion allocated to the secondment or acting up role. For these cases, the full set of disclosures should be made as set out in paragraph 12b of the accounts direction. An additional note should clarify the status of the individual acting as head of provider and explain any other duties they may have.
16. There may be instances where the head of the provider is employed or paid by an entity other than the provider, for example where the provider is part of a group structure or in cases where the individual is head of two different registered providers. For these cases, the full set of disclosures should be made as set out in paragraph 12b of the accounts direction, to recognise the total remuneration of the head of provider. An additional note should clarify which entity is responsible for funding the remuneration and any other related benefits if this is not specifically the entity that is registered with the OfS. The purpose of requiring disclosures in this way is to ensure that the total remuneration received by an individual acting as the head of a provider is disclosed, regardless of the source of the funding used to pay that remuneration.

⁴ See www.ukri.org/our-work/tackling-the-impact-of-covid-19/guidance-for-applicants-and-awardholders-impacted-by-the-pandemic/supporting-students-through-the-pandemic/policy/.

17. In relation to the disclosures required under paragraph 12a, for the avoidance of doubt, the table of the number of staff with a full time equivalent basic salary of over £100,000 per annum should include the head of provider.
18. To allow for transparency about the impact of the coronavirus pandemic on the remuneration of heads of provider, the disclosures set out in 12b of the accounts direction should relate to the remuneration package paid to the head of provider. In some circumstances the head of provider may have chosen to waive, or not accept, some element of their remuneration. In these circumstances, the amount awarded to the individual but not accepted, or received and waived, should be disclosed separately, with a brief explanation.
19. In circumstances where the head of provider is awarded vested shares⁵ these should be disclosed in the accounts in the year they are awarded as 'other remuneration' at a nominal value if appropriate, and then again in the year they vest as either performance-related pay and other bonuses, or as taxable benefits, as appropriate.
20. In relation to the disclosures required under paragraph 12d, for the calculation of the pay multiple, both 'basic salary' and 'total remuneration' should be gross of any waivers.

Consolidation of financial statements

21. Where a provider has subsidiaries, it must prepare consolidated financial statements as set out in paragraphs 30 and 31 of the accounts direction. For the avoidance of doubt, this includes all subsidiaries, whether or not their purpose is related to the provision of higher education. The only exceptions would be where the provider, with the agreement of its auditors, excludes dormant or immaterial subsidiaries from consolidation. Where a provider itself is a subsidiary of a wider group structure there is no requirement for the preparation of consolidated accounts to include the parent company.

Newly registered providers

22. As set out in paragraph 7 of the accounts direction, a provider is required to comply with the relevant accounts direction for financial years ending more than 12 months after the date of its first registration with the OfS. This means that a provider does not need to comply with the disclosures set out in the accounts direction where its financial year ends less than 12 months after the date of its first registration, unless it chooses to do so. However, all registered providers are required to provide audited financial statements as set out in the regulatory framework, regardless of the timing of their first registration. The financial statements should be prepared as required by the financial reporting standards without application of any statutory exceptions.

30 July 2021

⁵ By vested shares, we mean shares or share options that an employee is awarded where the full rights are received over a set period, or when a specific milestone is hit, often performance-related.