

Office for  
Students



# Regulatory advice 9: Accounts direction

Guidance on preparing and publishing  
financial statements

Reference **OfS 2018.26**

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# Contents

<b>Introduction</b>	<b>2</b>
<b>Part A: Requirements for higher education institutions funded by HEFCE or the OfS up to 31 July 2019</b>	<b>3</b>
Disclosures about senior staff pay	4
Disclosures about management and governance	7
Disclosures for an exempt charity	9
Report from the external auditor	9
Signing and publishing audited financial statements	10
<b>Part B: Requirements for providers registered with the OfS during the transition period</b>	<b>11</b>
Disclosures about senior staff pay	12
Disclosures about management and governance	15
Report from the external auditor	16
Signing and publishing audited financial statements	17

# Introduction

1. This accounts direction sets out the information that providers are required to include in their audited financial statements.
2. **Part A** applies to higher education institutions that were funded by the Higher Education Funding Council for England (HEFCE) from 1 August 2017 to 31 March 2018 and are funded by the Office for Students (OfS) from 1 April 2018 to 31 July 2019. For these providers this accounts direction should be read alongside the following:
  - ‘Regulatory notice 2: Regulation up to 31 July 2019 of providers that were previously funded by HEFCE’ (OfS 2018.12)
  - ‘Terms and conditions of funding for higher education institutions’ (OfS 2018.15)
  - ‘Regulatory advice 5: Exempt charities’ (OfS 2018.23).
3. **Part B** applies to higher education providers not covered by Part A that have been registered by the OfS and so are subject to ongoing condition of registration E3 relating to ‘Accountability’. For these providers this accounts direction should be read alongside the regulatory framework (OfS 2018.01) and whichever one of the following applies:
  - ‘Regulatory Notice 2: Regulation up to 31 July 2019 of providers that were previously funded by HEFCE’ (OfS 2018.12)
  - ‘Regulatory Notice 3: Regulation up to 31 July 2019 of providers currently designated for student support by the Secretary of State’ (OfS 2018.13)
  - ‘Regulatory Notice 4: Regulation of newly registered providers up to 31 July 2019’ (including Tier 4 only providers) (OfS 2018.14).
4. This accounts direction will remain in force until it is replaced by the OfS.
5. Please contact [regulation@officeforstudents.org.uk](mailto:regulation@officeforstudents.org.uk) with any queries about the requirements set out in this document.

## Part A: Requirements for higher education institutions funded by HEFCE or the OfS up to 31 July 2019

6. The OfS's regulatory framework, published in February 2018 (OfS 2018.01), will not come fully into force until 1 August 2019. The secondary legislation that enacts the Higher Education and Research Act 2017 (HERA) makes provision for the powers and duties of HEFCE (under the Further and Higher Education Act 1992) and the Director of Fair Access to Higher Education (under the Higher Education Act 2004) to be exercised by the OfS until all of its new powers are commenced.
7. This means that higher education institutions previously funded by HEFCE will be funded and regulated by the OfS from 1 April 2018 to 31 July 2019 through a combination of the powers and duties 'carried forward' from the previous legislation and the new HERA powers and duties. This is called the 'transition period'.
8. During the transition period a higher education institution is required to comply with the terms and conditions of funding that are in place under the 'carried forward' powers (OfS 2018.15). Those terms and conditions that relate to the preparation of the audited financial statements are:
  - a. In preparing their audited financial statements, higher education institutions must follow the OfS's accounts direction and the 'Statement of recommended practice: Accounting for further and higher education' (SORP), or any successor to the SORP, in preparing their audited financial statements for the years ended 31 July 2018 and 31 July 2019. If there are any inconsistencies between the requirements of the SORP and this accounts direction then this accounts direction will prevail.
  - b. If a higher education institution is also a company limited by guarantee, this direction is subject to the requirements of the Companies Act.
  - c. The latest date for submission of higher education institutions' audited financial statements for 2017-18 is Monday 3 December 2018. Earlier submission is welcome.
  - d. The external auditors must report whether in all material respects:
    - i. The financial statements give a true and fair view of the state of the higher education institution's affairs, and of its income and expenditure, gains and losses, changes in reserves and cash flows for the year. They should take into account relevant statutory and other mandatory disclosure and accounting requirements, and OfS and Research England requirements.
    - ii. The financial statements have been properly prepared in accordance with the financial reporting standards (FRS102) and the 'Statement of recommended practice: Accounting for further and higher education', and relevant legislation.
    - iii. Funds from whatever source administered by the higher education institution for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation.

- iv. Funds provided by the OfS and Research England have been applied in accordance with these terms and conditions and any other terms and conditions attached to them.
  - v. The requirements of the OfS's accounts direction have been met.
  - e. In their management letters or reports, auditors should have regard to the specific requirements of the terms and conditions, such as compliance with those relating to increases in financial commitments thresholds, or other issues of non-compliance, as set out in paragraph 23 of Annex C of 'Terms and conditions of funding for higher education institutions' (OfS 2018.15).
9. In addition, all registered providers are required to comply with the ongoing conditions of registration that are imposed from the date of their registration. This includes condition E3:

### Condition E3: Accountability

Condition E3	<p>The governing body of the provider must:</p> <ul style="list-style-type: none"> <li>i. Accept responsibility for the interactions between the provider and the OfS and its designated bodies.</li> <li>ii. Ensure the provider's compliance with all of its conditions of registration and with the OfS's accounts direction.</li> <li>iii. Nominate to the OfS a senior officer as the 'accountable officer' who has the responsibilities set out by the OfS for an accountable officer from time to time.</li> </ul>
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10. The regulatory requirements set out in paragraphs 8 and 9 above each include a requirement to comply with the OfS's accounts direction. During the transition period, compliance with the requirements set out in Part A of this document for the financial year ending on 31 July 2018 will satisfy both of these requirements.

### Disclosures about senior staff pay

11. In the strategic guidance issued under section 77 of HERA, the Secretary of State has asked the OfS to:
- a. Drive better value for money and transparency in relation to senior staff pay.
  - b. Review and republish HEFCE's guidance on severance pay and the remuneration of senior staff in light of recent developments affecting senior staff pay, including the Committee of University Chairs' (CUC's) fair remuneration code (published in June 2018).
  - c. Ask providers to publish their pay ratios, in order to aid transparency.
12. This accounts direction addresses the Secretary of State's guidance.
13. This accounts direction focuses primarily on the remuneration of heads of providers. The OfS will address issues of senior staff pay beyond that of the head of provider in 2019.

## Senior staff pay

14. Providers must have regard to the 'Higher education senior staff remuneration code'<sup>1</sup> published by the CUC.
15. A provider must include the following disclosures in the 'staff costs' note to its financial statements:
  - a. The number of staff with a basic salary of over £100,000 per annum, broken down into bands of £5,000. Providers do not need to include staff who joined or left part-way through a year but who would have received salary in these bands in a full year. Where a proportion of the salary is reimbursed by the NHS, only the portion paid by the institution must be disclosed. Providers must include this as a table in order to help users of the financial statements to be able to understand this information – see below for an example.

Basic salary per annum	Number of staff (2016-17)	Number of staff (2017-18)
£100,000-£104,999	3	4
£105,000-£109,999	5	7
£110,000-£114,999	4	3
£115,000-£119,999	10	12
...	...	...

- b. Full details of the total remuneration package for the head of provider. Providers must disclose separate values for:
  - i. Basic salary.
  - ii. Payment of dividends (including, but not limited to, dividends paid in lieu of salary).
  - iii. Performance-related pay and other bonuses awarded during the financial year, including any deferred payment arrangements and separate disclosure of any amounts waived.
  - iv. Pension contributions and payments in lieu of pension contributions.
  - v. Salary sacrifice arrangements.
  - vi. Compensation for loss of office.

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<sup>1</sup> See [www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Remuneration-Code.pdf](http://www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Remuneration-Code.pdf).

- vii. Any sums paid under any pension scheme in relation to employment with the provider.
  - viii. Other taxable benefits. Providers must state the nature of each of the taxable benefits and the estimated money value of each of the benefits (in particular company cars, subsidised loans including mortgage subsidies, and subsidised accommodation).
  - ix. Non-taxable benefits. Providers must disclose the nature of each of the non-taxable benefits and the cost to the provider of providing each of them. The non-taxable benefits that must be disclosed are those that are available only to senior members of staff or are available only to the head of the provider. This may include contributions to relocation costs, living accommodation and any other tangible benefit to which the provider should be able to ascribe a cost of provision of the benefit. Providers do not need to disclose non-taxable benefits that simply flow from being a member of the provider's staff and that are given to, or as a minimum are available to, all members of staff.
  - x. Other remuneration. Providers must disclose the nature of any other types of remuneration and the cost to the provider of providing each type of remuneration. The types of remuneration may include compensation for loss of benefits, ex-gratia and remuneration payments while on sabbatical, and payments for consultancy work that are made to the individual (via the provider), rather than to the provider, for work delivered using the provider's resources.
- c. A justification for the total remuneration package for the head of the provider. The justification must include reference to the context in which the provider operates, and be linked to the value and performance delivered by the head of the provider. It should contain an explanation of the process adopted for judging their performance.
- d. The relationship between the head of provider's remuneration and that for all other employees, expressed as a pay multiple. All other employees includes academic and non-academic staff. The pay multiple must be expressed as the head of the provider's remuneration divided by the median pay at the provider (on a full-time equivalent basis). This should be calculated across all staff pay, not just the academic staff. For example, the head of a provider earns £250,000 per annum as their basic salary and receives a further £75,000 per annum in other remuneration (as set out in paragraph 15b above) and the median salary at the provider is £35,000 per annum (on a full-time equivalent basis) and staff receive a further median of £5,000 in other remuneration (such as overtime, bonuses). In this example, the pay ratios that need to be disclosed are as follows:
- i. The head of the provider's basic salary is 7.1 times the median pay of staff, where the median pay is calculated on a full-time equivalent basis for the salaries paid by the provider to its staff.
  - ii. The head of the provider's total remuneration is 7.5 times the median total remuneration of staff, where the median total remuneration is calculated on a full-time equivalent basis for the total remuneration by the provider of its staff.
16. Where there is a change in the head of the provider (including the appointment of an acting head) either between years or during a year, providers must make the disclosures set out separately for each individual, and provide the start and end dates of appointments for both the

current financial year and previous financial year. Where a previous head of provider continues to receive remuneration in an employed or consultancy role after they cease to be the head of the provider, such as in an advisory or sabbatical role, this should be included in the total with an explanation.

## **Severance payments**

17. Providers must have regard to the 'Guidance on decisions taken about severance payments in HEIs'<sup>2</sup> published by the CUC.
18. A provider must include the following disclosures in the 'staff costs' note to its financial statements:
  - a. The total amount of any compensation for loss of office paid across the whole provider (irrespective of the basic salary of an individual), and the number of people to whom this was payable for any of the following occurrences:
    - i. Loss of office.
    - ii. Loss of any other office connected with the provider's affairs.
    - iii. Loss of any other office connected with the affairs of a parent or subsidiary undertaking of the provider.
  - b. The amount of compensation for loss of office paid to the head of the provider. The disclosure should also state separately the amount of compensation paid for loss of office at the provider as one figure and, as a separate figure, the total compensation paid for loss of office at any of the provider's parent or subsidiary undertakings or any other office(s) connected to the provider's affairs.
  - c. Where the compensation paid to the head of the provider includes benefits other than cash, the provider must disclose the nature of the benefit in detail and the estimated money value of the benefit. The source of funding for any compensation paid or benefits given must be disclosed.
  - d. Where the compensation paid to the head of the provider includes additional pension contributions relating to the employment with the provider (whether these are voluntary contributions or otherwise), the amount of the pension contribution must be disclosed.

## **Disclosures about management and governance**

19. The requirements set out below are driven by the terms and conditions of funding during the transition period. For financial years ending on or after 31 July 2019, we expect the requirements to mirror the reduced requirements set out in Part B of this accounts direction.

## **Corporate governance**

20. A provider must include a 'statement of corporate governance' in its financial statements. The statement of corporate governance must set out a description of the provider's corporate governance arrangements and a statement of the responsibilities of the governing body. It must

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<sup>2</sup> See [www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Remuneration-Code-Severance.pdf](http://www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Remuneration-Code-Severance.pdf).



explicitly relate to the period covered by the financial statements, and the period up to the date of approval of the audited financial statements.

21. A provider may combine the statement of corporate governance with the statement of internal control (see below) provided that all of the disclosures required are made.

### **Internal control**

22. A provider must include a 'statement of internal control' in its financial statements. The statement of internal control relates to a provider's arrangements for the prevention and detection of corruption, fraud, bribery and other irregularities. It must include an account of how the following principles of internal control have been applied:
- a. Identifying and managing risk should be an ongoing process linked to achieving the organisation's 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 risk as well as financial risk.
  - d. Risk assessment and internal control should be embedded in ongoing operations.
  - e. During the year the governing body or relevant committee should receive regular reports on internal control and risk.
  - f. The principal results of risk identification, risk evaluation and the management review of the effectiveness of the arrangements should be reported to, and reviewed by, the governing body.
  - g. The governing body should acknowledge that it is responsible for ensuring that a sound system of internal control is maintained, and that it has reviewed the effectiveness of these arrangements.
  - h. The statement of internal control must set out any significant internal control weaknesses or failures that have arisen during the financial year or after the year end but before the financial statements are signed. Where appropriate, information about actions taken or proposed to deal with significant internal control weakness or failure should be set out. The following questions will help to identify whether the provider has experienced a significant internal control weakness or failure:
    - i. Might the weakness or failure prevent achievement of a strategic objective or target?
    - ii. Could the weakness or failure have a material impact on the financial data reported in the financial statements?
    - iii. Could the weakness or failure result in a diversion of resources from another important aspect of the provider's business?
    - iv. Does the provider's audit committee advise in its annual report to the governing body that the weakness or failure is significant?
    - v. Do the internal or external auditors regard the weakness or failure as significant (e.g. is it a high priority recommendation or a qualification of the internal or external auditors' annual opinions)?

- vi. Could the weakness or failure, or its impact, attract significant public interest, or seriously damage the reputation of the provider and/or the sector?
23. The statement of internal control must explicitly relate to the period covered by the financial statements, and the period up to the date of approval of the audited financial statements.
24. A provider may combine the statement of internal control with the statement of corporate governance (see above) provided that all of the disclosures required are made.

## **Disclosures for an exempt charity**

25. The OfS's approach to regulation is set out in its regulatory framework (OfS 2018.01). Beyond those requirements that apply to all registered providers regardless of whether or not they are charities, the OfS will place minimal additional obligations on exempt charities. This is a different approach to that taken by the Higher Education Funding Council for England. The OfS's requirements reflect its general duties in section 2 of HERA to have regard to the need to use its resources in an efficient, effective and economic way and to be proportionate in its regulation, including targeting regulatory activities only at cases in which action is needed. This means that providers that are exempt charities are not required to make disclosures in their financial statements that are not required under charity law.
26. A provider that is an exempt charity is required to:
- a. Disclose its charitable status in its audited financial statements – this means that it must state that it is an exempt charity.
  - b. Produce financial statements in accordance with the OfS's requirements, as well as in accordance of any relevant Statement of Recommended Practice.
27. Further information about the OfS's approach to its role as principal regulator of those higher education institutions that are exempt charities is published in regulatory advice 5 (OfS 2018.23).

## **Report from the external auditor**

28. A provider's external auditor must report to the governing body on whether in all material respects:
- a. The financial statements give a true and fair view of the state of the provider's affairs, and of its income and expenditure, gains and losses, changes in reserves and cash flows for the year. They should take into account relevant statutory and other mandatory disclosure and accounting requirements, and the requirements of HEFCE, the OfS and (where applicable) of Research England.
  - b. The financial statements have been properly prepared in accordance with the financial reporting standards (FRS102) or, if applicable, the International Financial Reporting Standards.
  - c. Funds, from whatever source, administered by the provider for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation.

- d. Where applicable, funds provided by HEFCE, the OfS and Research England have been applied in accordance with the relevant terms and conditions and any other terms and conditions attached to them.
- e. The requirements of OfS's accounts direction have been met.

## **Signing and publishing audited financial statements**

- 29. A provider's financial statements must be signed by the accountable officer, and by the chair of the governing body or one other member appointed by that body. The governing body is as defined in the regulatory framework<sup>3</sup>. Where a governing body consists of one individual and this is the same person as the accountable officer, only the single signature of that person is required.
- 30. The external auditor must sign the report to the governing body that is included in the financial statements.
- 31. Providers must publish their audited financial statements on their website within two weeks of them being signed by the required individuals, and at the latest, four months after the end of the financial year to which they relate.

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<sup>3</sup> I.e. persons responsible for the management of the provider. As defined in section 85 of HERA, this will be any board of governors of the institution or any equivalent controlling body, for example the board of a company, the trustees of a charity, etc.

## Part B: Requirements for providers registered with the OfS during the transition period

32. The OfS's regulatory framework published in February 2018 (OfS 2018.01) will not come fully into force until 1 August 2019. This means that newly registered providers will be regulated on the basis of a subset of the OfS's new HERA powers and duties from the date a provider is registered until 31 July 2019. This is called the 'transition period'.
33. During the transition period all registered providers are required to comply with the ongoing conditions of registration that are imposed from the date of their registration. This includes condition E3:

### Condition E3: Accountability

Condition E3	The governing body of the provider must: <ul style="list-style-type: none"><li>i. Accept responsibility for the interactions between the provider and the OfS and its designated bodies.</li><li>ii. Ensure the provider's compliance with all of its conditions of registration and with the OfS's accounts direction.</li><li>iii. Nominate to the OfS a senior officer as the 'accountable officer' who has the responsibilities set out by the OfS for an accountable officer from time to time.</li></ul>
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34. Condition E3 requires a provider to comply with the OfS's accounts direction. During the transition period, compliance with the requirements set out in Part B of this document for financial years ending more than 12 months after the date of a provider's first registration with the OfS will satisfy this requirement. This allows providers that did not previously have to comply with an accounts direction a reasonable amount of time to put in place the arrangements necessary for compliance.
35. The OfS will publish a subsequent accounts direction in the spring of 2019 that sets out the requirements for financial years ending on or after 31 July 2019.
36. This phased approach will mean the following:
- a. If a provider's financial year end is 30 June and it is registered with the OfS on 15 May 2018, it will need to follow this accounts direction for its financial statements for the year ending 30 June 2019. It will need to follow the accounts direction published in the spring of 2019 for its financial statements for the year ending 30 June 2020.
  - b. If a provider's financial year end is 30 June and it is registered with the OfS on 30 September 2018, it will need to follow the accounts direction published in the spring of 2019 for its financial statements for the year ending 30 June 2020. This is because this is the first year end after registration that falls more than 12 months after registration – its

financial year end of 30 June 2019 would only be nine months after the provider's first registration.

37. Further education and sixth form colleges (FECs) are required to comply with the OfS's accounts direction, as set out in paragraphs 34-36 above. These providers are also subject to the accounts direction<sup>4</sup> published by their primary regulator, the Education and Skills Funding Agency. Where the requirements of the OfS's and the Education and Skills Funding Agency's accounts direction overlap, disclosure should be made only once for the purposes of both organisations. There are no requirements that conflict, although there are some areas where disclosures are required to differing levels of detail based on each regulator's requirements and regulatory context.

## Disclosures about senior staff pay

38. In the strategic guidance issued under section 77 of HERA, the Secretary of State has asked the OfS to:
- a. Drive better value for money and transparency in relation to senior staff pay.
  - b. Review and republish HEFCE's guidance on severance pay and the remuneration of senior staff in light of recent developments affecting senior staff pay, including the Committee of University Chairs' fair remuneration code.
  - c. Ask providers to publish their pay ratios, in order to aid transparency.
39. This accounts direction addresses the Secretary of State's guidance.
40. This accounts direction focuses primarily on the remuneration of heads of providers. The OfS will address issues of senior staff pay beyond that of the head of provider in 2019.

## Senior staff pay

41. Providers must have regard to the 'Higher education senior staff remuneration code'<sup>5</sup> published by the CUC, irrespective of whether the provider is a member of the CUC.
42. A provider must include the following disclosures in the 'staff costs' note to its financial statements:
- a. The number of staff with a basic salary of over £100,000 per annum, broken down into bands of £5,000. Providers do not need to include staff who joined or left part-way through a year but who would have received salary in these bands in a full year. Where a proportion of the salary is reimbursed by the NHS, only the portion paid by the institution must be disclosed. Providers must include this as a table in order to help users of the financial statements to be able to understand this information – see below for an example.

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<sup>4</sup> See [www.gov.uk/government/publications/college-accounts-direction](http://www.gov.uk/government/publications/college-accounts-direction).

<sup>5</sup> See [www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Remuneration-Code.pdf](http://www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Remuneration-Code.pdf).

Basic salary per annum	Number of staff (2016-17)	Number of staff (2017-18)
£100,000-£104,999	3	4
£105,000-£109,999	5	7
£110,000-£114,999	4	3
£115,000-£119,999	10	12
...	...	...

- b. Full details of the total remuneration package for the head of provider. Providers must disclose separate values for:
- i. Basic salary.
  - ii. Payment of dividends (including, but not limited to, dividends paid in lieu of salary).
  - iii. Performance-related pay and other bonuses awarded during the financial year, including any deferred payment arrangements and separate disclosure of any amounts waived.
  - iv. Pension contributions and payments in lieu of pension contributions.
  - v. Salary sacrifice arrangements.
  - vi. Compensation for loss of office.
  - vii. Any sums paid under any pension scheme in relation to employment with the provider.
  - viii. Other taxable benefits. Providers must state the nature of each of the taxable benefits and the estimated money value of each of the benefits (in particular company cars, subsidised loans including mortgage subsidies, and subsidised accommodation).
  - ix. Non-taxable benefits. Providers must disclose the nature of each of the non-taxable benefits and the cost to the provider of providing each of them. The non-taxable benefits that must be disclosed are those that are available only to senior members of staff or are only available to the head of the provider. This may include contributions to relocation costs, living accommodation and any other tangible benefit to which the provider should be able to ascribe a cost of provision of the benefit. Providers do not need to disclose non-taxable benefits that simply flow from being a member of the provider's staff and that are given to, or as a minimum are available to, all members of staff.

- x. Other remuneration. Providers must disclose the nature of any other types of remuneration and the cost to the provider of providing each type of remuneration. The types of remuneration may include compensation for loss of benefits, ex-gratia and remuneration payments while on sabbatical, and payments for consultancy work that are made to the individual (via the provider), rather than to the provider, for work delivered using the provider's resources.
- c. A justification for the total remuneration package for the head of the provider. The justification must include reference to the context in which the provider operates, and be linked to the value and performance delivered by the head of the provider. It should contain an explanation of the process adopted for judging their performance.
  - d. The relationship between the head of provider's remuneration and that for all other employees, expressed as a pay multiple. All other employees includes academic and non-academic staff. The pay multiple must be expressed as the head of the provider's remuneration divided by the median pay at the provider (on a full-time equivalent basis). This should be calculated across all staff pay, not just the academic staff. For example, the head of a provider earns £250,000 per annum as their basic salary and receives a further £75,000 per annum in other remuneration (as set out in paragraph 42b above) and the median salary at the provider is £35,000 per annum (on a full-time equivalent basis) and staff receive a further median of £5,000 in other remuneration (such as overtime, bonuses). In this example, the pay ratios that need to be disclosed are as follows:
    - i. The head of the provider's basic salary is 7.1 times the median pay of staff, where the median pay is calculated on a full-time equivalent basis for the salaries paid by the provider to its staff.
    - ii. The head of the provider's total remuneration is 7.5 times the median total remuneration of staff, where the median total remuneration is calculated on a full-time equivalent basis for the total remuneration by the provider of its staff.
43. Where there is a change in the head of the provider (including the appointment of an acting head) either between years or during a year, providers must make the disclosures set out separately for each individual, and provide the start and end dates of appointments for both the current financial year and previous financial year. Where a previous head of provider continues to receive remuneration in an employed or consultancy role after they cease to be the head of the provider, such as in an advisory or sabbatical role, this should be included in the total with an explanation.

### **Severance payments**

44. Providers must have regard to 'Guidance on decisions taken about severance payments in HEIs'<sup>6</sup> published by the CUC, irrespective of whether the provider is a member of the CUC.

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<sup>6</sup> See [www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Remuneration-Code-Severance.pdf](http://www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Remuneration-Code-Severance.pdf).

45. A provider must include the following disclosures in the 'staff costs' note to its financial statements:
- a. The total amount of any compensation for loss of office paid across the whole provider (irrespective of the basic salary of an individual), and the number of people to whom this was payable for either of the following occurrences:
    - i. Loss of office.
    - ii. Loss of any other office connected with the provider's affairs.
    - iii. Loss of any other office connected with the affairs of a parent or subsidiary undertaking of the provider.
  - b. The amount of compensation for loss of office paid to the head of the provider. The disclosure should also state separately the amount of compensation paid for loss of office at the provider as one figure and, as a separate figure, the total compensation paid for loss of office at any of the provider's parent or subsidiary undertakings or any other office(s) connected to the provider's affairs.
  - c. Where the compensation paid to the head of the provider includes benefits other than cash, the provider must disclose the nature of the benefit in detail and the estimated money value of the benefit. The source of funding for any compensation paid or benefits given must be disclosed.
  - d. Where the compensation paid to the head of the provider includes additional pension contributions relating to the employment with the provider (whether these are voluntary contributions or otherwise), the amount of the pension contribution must be disclosed.

## **Disclosures about management and governance**

46. If a provider is in receipt of public funding, it must include a 'statement of internal control' in its financial statements. This applies to financial statements for the financial year end that falls immediately after the provider begins to receive funding from the OfS or from Research England on behalf of UK Research and Innovation. The statement of internal control relates to a provider's arrangements for the prevention and detection of corruption, fraud, bribery and other irregularities.
47. A provider's arrangements for internal control will depend on its size and complexity. A provider should determine the most appropriate way to ensure that appropriate arrangements are in place. These are likely to be the same arrangements that the provider would want in place to give it and its shareholders, trustees and/or members assurance that it is able to prevent and detect fraud and other irregularities.
48. The statement of internal control must include an account of how the following principles of internal control have been applied:
- a. Identifying and managing risk should be an ongoing process linked to achieving the organisation's 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 risk as well as financial risk.
  - d. Risk assessment and internal control should be embedded in ongoing operations.
  - e. During the year the governing body or relevant committee should receive regular reports on internal control and risk.
  - f. The principal results of risk identification, risk evaluation and the management review of the effectiveness of the arrangements should be reported to, and reviewed by, the governing body.
  - g. The governing body should acknowledge that it is responsible for ensuring that a sound system of internal control is maintained, and that it has reviewed the effectiveness of these arrangements.
  - h. The statement of internal control must set out any significant internal control weaknesses or failures that have arisen during the financial year or after the year end but before the financial statements are signed. Where appropriate, information about actions taken or proposed to deal with significant internal control weaknesses or failures should be set out: The following questions will help to identify whether the provider has experienced a significant internal control weakness or failure:
    - i. Might the weakness or failure prevent achievement of a strategic objective or target?
    - ii. Could the weakness or failure have a material impact on the financial data reported in the financial statements?
    - iii. Could the weakness or failure result in a diversion of resources from another important aspect of the provider's business?
    - iv. Does the provider's audit committee advise in its annual report to the governing body that the weakness or failure is significant?
    - v. Do the internal or external auditors regard the weakness or failure as significant (e.g. is it a high priority recommendation or a qualification of the internal or external auditors' annual opinions)?
    - vi. Could the weakness or failure, or its impact, attract significant public interest, or seriously damage the reputation of the provider and/or the sector?
49. The statement of internal control must explicitly relate to the period covered by the financial statements, and the period up to the date of approval of the audited financial statements.

## **Report from the external auditor**

50. A provider's external auditor must report to the governing body on whether in all material respects:
- a. The financial statements give a true and fair view of the state of the provider's affairs, and of its income and expenditure, gains and losses, changes in reserves and cash flows for the year. They should take into account relevant statutory and other mandatory disclosure and accounting requirements, and the requirements of HEFCE, the OfS and (where applicable) of Research England.

- b. The financial statements have been properly prepared in accordance with the financial reporting standards (FRS102) or, if applicable, the International Financial Reporting Standards.
- c. Where applicable, funds from whatever source administered by the provider for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation.
- d. Where applicable, funds provided by HEFCE, the OfS and by Research England have been applied in accordance with the relevant terms and conditions.
- e. The requirements of OfS's accounts direction have been met.

## **Signing and publishing audited financial statements**

- 51. A provider's financial statements must be signed by the accountable officer, and by the chair of the governing body or one other member appointed by that body. The governing body is as defined in the regulatory framework<sup>7</sup>. Where a governing body consists of one individual and this is the same person as the accountable officer, only the single signature of that person is required.
- 52. The external auditor must sign the report to the governing body that is included in the financial statements.
- 53. Providers must publish their audited financial statements on their website within two weeks of them being signed by the required individuals, and at the latest, four months after the end of the financial year to which they relate.

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<sup>7</sup> I.e. persons responsible for the management of the provider. As defined in section 85 of HERA, this will be any board of governors of the institution or any equivalent controlling body, for example the board of a company, the trustees of a charity, etc.





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