Committee(s): **Finance and Resources** **Audit Committee** **Board of Governors** **All for the Guildhall School.**	**Date(s):** 3 November 2014 4 November 2014 17 November 2014
Subject: HEFCE Accounts Direction for 2014/15	**Public**
Report of: The Principal of the Guildhall School of Music & Drama	**For Information**

Summary

As a designated HE institution, the School is required to produce a set of financial accounts for the year ended 31 July. HEFCE and its auditors rely heavily on these statements to satisfy themselves that its funds are being used for the purpose for which they were provided.

Each year HEFCE issues its ‘Accounts Direction’ to all HE institutions (HEIs) providing guidance on the issues that it would like to see covered in the accounts and the disclosures and statements that it would like to be included.

In August 2014 HEFCE published Accounts Direction for the year 2014-15. This document detailed requirements from HEIs for the 2014-15 accounts as a requirement of HEFCEs role as principal regulator of English HEIs that are exempt charities under the Charities Act 2006. The 2014-15 Accounts Direction will remain in force unless HEIs were notified otherwise.

HEFCE recommends that this Accounts Direction is placed before the Finance and/or Audit Committees of each institution for their information. Accordingly, the Accounts Direction for 2014-15 is attached.

Recommendation

I recommend that the Audit Committee receives this report and notes its contents.

Issues to note

1. In the case of the Guildhall School, HEFCE has accepted that flexibility will need to be exercised in how the Accounts Direction is implemented. In particular it has accepted that the financial accounts will consist of a statement of Income & Expenditure, but that its governance arrangements make it impossible and inappropriate to provide a Balance Sheet or statements relating to Cash Flow. It will not therefore be possible to comply in full with the 'Statement of Recommended Practice: Accounting for Further and Higher Education'.

2. The School will however be required to provide a statement on corporate governance, covering risk management in particular.

3. The City's external auditors will need to provide an Audit Opinion. Discussions have taken place between HEFCE, the School and the Chamberlain regarding the exact wording of this opinion. HEFCE accepts that it will not be possible for the auditors to provide a 'true and fair view' opinion, since there will be no Balance Sheet. Instead, the wording confirms that the Financial Statements have been correctly extracted from the Audited Accounts of the City of London Corporation for the period 1 August to 31 March (8 months) and from its unaudited accounts for the period 1 April to 31 July (4 months).

Consultees

4. The Head of Finance has been consulted in the preparation of this report.

Professor Barry Ife
Principal

Title	HEFCE's Accounts Direction to higher education institutions for 2014-15 financial statements
To	Heads of HEFCE-funded higher education institutions
Of interest to those responsible for	Governance, Finance, Audit, Management
Reference	Circular letter 25/2014
Publication date	11 August 2014
Enquiries to	HEFCE assurance consultant or assurance adviser (a searchable list of contacts can be found on our web-site)

Dear Vice-Chancellor or Principal

HEFCE's Accounts direction to higher education institutions for 2014-15 financial statements

1. I am writing to inform you of HEFCE's Accounts direction to higher education institutions (HEIs) on preparing financial statements for 2014-15.

Statement of recommended practice: Accounting for further and higher education

2. HEIs are required to follow the 'Statement of recommended practice: Accounting for further and higher education' (SORP), or any successor to the SORP, in preparing their financial statements. **The latest version of the SORP (2007)** is available from the Universities UK web-site.

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

4. The 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.

Corporate governance and internal control

5. The voluntary Governance Code of Practice contained in the Committee of University Chairs' 'Guide for Members of Higher Education Governing Bodies in the UK' (**HEFCE 2009/14**) recommends that HEIs report in the corporate governance statement of their annual audited financial statements that they have had regard to the code, and that where an HEI's practices are not consistent with particular provisions of the code an explanation should be published in that statement.

6. Adopting this code of practice, with the principles of the code adapted to each HEI's character, is an important factor in enabling HEFCE to rely on self-regulation within HEIs, and hence minimise the accountability burden.

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

- covers all risks – including those of governance, management, quality, reputation and finance – but focuses on the most important risks
- produces a balanced portfolio of risk exposure
- is based on a clearly articulated policy and approach
- requires regular monitoring and review, giving rise to action where appropriate
- needs to be managed by an identified individual and involve the demonstrable commitment of governors, academics and officers
- is integrated into normal business processes and aligned with the strategic objectives of the organisation.

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

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

a. Identifying and managing risk should be an ongoing process linked to achieving institutional objectives.
b. The approach to internal control should be risk-based, including an evaluation of the likelihood and impact of risks becoming a reality.
c. Review procedures must cover business, operational and compliance 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 their effectiveness 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 control is maintained, and that it has reviewed the effectiveness of the above process.
h. Where appropriate, details of actions taken or proposed to deal with significant internal control issues should be set out (see Annex A).

10. HEIs are required to make a statement on corporate governance covering the period from 1 August 2014 to 31 July 2015, and up to the date of approval of the audited financial statements.

Date of submission to HEFCE of audited financial statements

11. The latest date for submission of HEIs' audited financial statements for 2014-15 is **Tuesday 1 December 2015**. Earlier submission will be very welcome.

External audit requirements

12. HEIs are required to ensure that their contracts for external audit provide for an opinion on whether the HEI has applied funds provided by HEFCE, where appropriate, in accordance with the Memorandum of Assurance and Accountability, and whether funds from whatever source, including funding council grants, have been used for the purposes for which they were received. Guidance on wording is available in paragraph 23 of Annex A of the Memorandum of Assurance and Accountability (**HEFCE 2014/12**).

Remuneration of higher-paid staff

13. HEIs are required to disclose the following.

a. The actual total remuneration of the head of institution, disclosing separately:
   - salary
   - performance-related and other bonuses awarded for the financial year, including any deferred payment arrangements and separate disclosure of amounts waived
   - any sums paid by way of expenses allowances (in so far as those sums are charged to UK income tax)
   - the estimated money value of any other taxable benefits received by the head of institution, other than in cash (in particular company cars, subsidised loans including mortgage subsidies, and subsidised accommodation)
   - contributions to relocation costs
   - any sums paid in respect of the head of institution under any pension scheme.

   The HEI must show a sub-total excluding pension contributions and a total including them. Salary sacrifice arrangements should be described.

   Where there is a change of head of institution (including an acting head of institution) either between years or during a year, details are to be shown separately for each person, and relevant start and finish dates given.

   Pensions paid or receivable under an adequately funded pension scheme do not require disclosure.

b. The number of higher-paid staff other than the head of institution whose emoluments received in the year (including taxable benefits in kind, but excluding compensation for loss of office and employer pension costs) fall in bands of £10,000 from a starting point of £100,000. Payments funded from external sources, including the NHS, should be included in emoluments. Royalties or other payments that are outside the affairs of the HEI do not count as emoluments for this purpose.

Disclosure is not required for staff who joined or left part-way through a year but who would have received emoluments in these bands in a full year.

c. Details (see Annex B) of any compensation for loss of office paid or payable to the head of institution or to staff earning in excess of £100,000 per year.

14. The following information should be included in the HEI's audited financial statements and related reports.

a. The charitable status of the HEI.
b. The trustees who served at any time during the financial year, and until the date the financial statements were formally approved.
c. A statement that the charity has had regard to the Charity Commission's guidance on public benefit. Note that **the Charity Commission updated its guidance in late 2011**.
d. A report on how the HEI has delivered its charitable purposes for the public benefit.
e. Information about payments to or on behalf of trustees, including: the aggregate of expenses paid to trustees for their duties as trustees; payments to trustees for serving as trustees (and waivers of such payments); and related party transactions involving trustees. **Additional guidance** is available on the HEFCE web-site.
f. For each paragraph 28 (connected) charity that has income in the year of £100,000 or more, the following:
    i. Its name and charitable purpose.
    ii. The opening balance, income and expenditure for the year, and closing balance.
g. For all other paragraph 28 charities, the following:
    i. An analysis into appropriate groups (for example prize funds, bursary or scholarship funds, research support funds) stating the number of entities in each group.
    ii. For each group: the aggregate opening balances, income and expenditure for the year, and closing balances.

(Note: the terms 'opening balance' and 'closing balance' in paragraphs 14f and 14g should be interpreted as total reserves where the paragraph 28 charity is an operating charity.)

15. The Accounts direction is reviewed annually. The 2014-15 Accounts direction will remain in force unless HEIs are notified otherwise. We recommend providing copies of this letter and the annexes to the HEI's finance and audit committees.

16. Any matters arising from this letter should be referred to **the relevant HEFCE assurance consultant or assurance adviser**. A searchable list of contacts can be found on our web-site.

Yours sincerely

Professor Madeleine Atkins

Chief Executive

Annex A: Significant internal control issues

Note: This annex is derived from guidance produced by the Auditing Practices Board (now the Audit and Assurance Council of the Financial Reporting Council).

1. Where appropriate, the governing body should set out in the statement of internal control the details of any actions taken or proposed to deal with significant internal control issues. This is to deliver assurance that significant internal control issues are being addressed.

2. Although it is not possible to provide a definition to suit all contexts, because the significance may change depending upon the circumstances, the following indicators of a significant internal control issue should be considered.

    a. The issue seriously prejudices or prevents achievement of a principal objective of the higher education institution (HEI).

    b. The issue resulted in the need to seek additional funding to resolve it, or resulted in significant diversion of resources from other parts of the HEI.

    c. The issue has led to a material impact on the financial statements.

    d. The audit committee advises that it is significant in this context.

    e. The head of internal audit reports it as significant for this purpose in their annual opinion.

    f. The issue or its impact has attracted significant public interest or has seriously damaged the reputation of the HEI.

Annex B: Compensation for loss of office – disclosure requirements

1. Higher education institutions (HEIs) must have regard to 'Severance payments to senior staff in higher education institutions' (HEFCE Circular letter 06/2009, **www.hefce.ac.uk/pubs/year/2009/cl062009/**).

2. The disclosure requirements are analogous to those set out in the Companies Act. These are set out below and cover the head of institution and staff earning in excess of £100,000 per year.

3. HEIs must show the aggregate amount of any compensation for loss of office payable to the head of institution and to staff earning in excess of £100,000 per year, and the number of people to whom this was payable.

4. This amount includes compensation received or receivable by a head of institution and any staff earning in excess of £100,000 per year for either of the following.

   a. Loss of office as a head of institution or staff member earning in excess of £100,000 per year.

   b. While a head of institution or staff member earning in excess of £100,000 per year, or on or in connection with ceasing to hold such a position, loss of either of the following.

      i. Any other office connected with the management of the HEI's affairs.

      ii. Any office as a head of institution or staff earning in excess of £100,000 per year, or otherwise connected with the management of the affairs of a subsidiary undertaking of the HEI.

5. The amount shall distinguish between compensation in respect of the offices of head of institution and staff earning in excess of £100,000 per year, whether of the HEI or any of its subsidiary undertakings, and compensation in respect of other offices.

6. References to compensation include benefits other than cash, and references to the amount of such compensation are to the estimated money value of the benefit. The nature of such compensation shall be disclosed in detail. HEIs shall describe the source of funding for any compensation award.

7. References to compensation for loss of office include compensation in consideration for, or in connection with, the retirement from office of any head of institution or staff member earning in excess of £100,000 per year.