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# FE & HE Digest

## Summer 2022

Latest news from the Further and Higher education sectors

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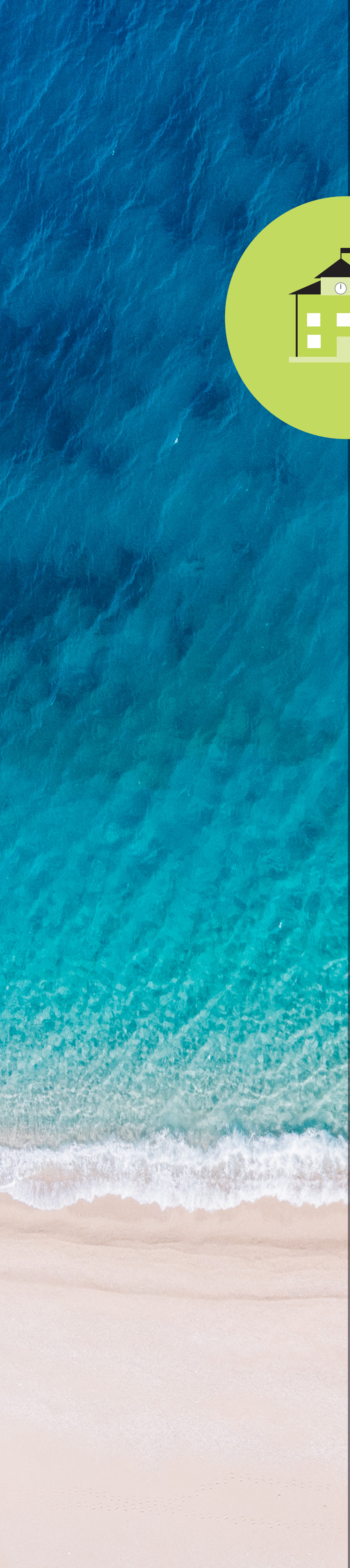


# Welcome to the summer 2022 edition of FE & HE Digest

**Welcome to the Summer edition of FE HE Digest. As external audit planning meetings will be in full swing for the FE sector we have taken this opportunity to provide a low-down on the changes to this years Accounts Direction and Audit Code of Practice, whilst there have not been any significant changes the devil is in the detail so good have a read – especially Governance professionals!**

This edition also has a celebrity guest! Adam Poulson from the pensions specialist firm Barnet Waddingham has included his thoughts on the triennial review of the Local Government Pension Scheme (LGPS) and even given some top tips on how to prepare your institution.

In preparation for the summer holidays we go international – we take a look at how the International Accounting Standard for Not for Profit Organisations is being formed and how this will trickle down into our own UK reporting over time.

As many institutions are facing huge financial pressures on expenditure we take a look at procurement best practice and finally we look at the rise of Environment, Social and Governance reporting is increasing and what you can do to get ahead of the curve and meet stakeholder expectations.

If you want to hear more on any of these topics do get in touch with a member of the team.

Best Wishes,
**Further & Higher Education sector teams**

# Accounts Direction 2022

**In March 2022 the 2021/22 College Accounts Direction (CAD) was released by the ESFA. In doing so the ESFA has confirmed that, it does not intend to issue a further supplementary bulletin this year.**

However the bulletins issued in 2020/21 still remains and corporations can use that bulletin to make any pandemic related disclosures or regularity issues that occurred during 21/22.

In issuing the 2022 CAD the ESFA have clarified that any reference to Office for Students (OfS) accounting and audit requirements set out in the CAD must not be taken as representing the entirety of OfS' requirements. Instead a full review of the OfS requirements is required for both the College and their Auditors. Unfortunately at the time of writing this briefing the 2022 OfS direction has not been published so this is something to keep an eye on.

Overall the changes to this year's Accounts Direction are relatively light which will be a welcome relief for most. A summary of the changes is detailed below:

- Institutes of Technology (IoT): These have come online this year so the Accounts Direction has clarified that IoT's on their own are not under the scope of the Accounts Direction. However consideration needs to be given if the IoT meets the requirements for consolidation under Section 4 of the FE/HE SORP and section 9.2 et seq of FRS102.
- There are two new requirements in the statement of corporate governance and internal control, these are:
  1. a report on activities undertaken over the year to develop governors and clerks/governance professionals
  2. a report on whether the corporation has conducted/commissioned an internal or external review of governance
- There has been a change to the Statement of regularity, propriety and compliance within the Annual Report, this statement has been revised to include the statement from the Chair of the corporation to sign the regularity compliance statement just below the accounting officers statement. This is laid out in Annex B of the CAD – however just be aware this statement does not include the OfS requirements.

There are also changes regarding related party transactions – these are both musts so we have highlighted these separately:

- a corporation must disclose any related party transactions (RPTs) with wholly-owned subsidiaries or with any parent entity of which the corporation itself is a subsidiary
- where there have been no RPTs at all, a corporation must make a statement to this effect

The CAD has also been updated for some more administrative matters:

- The ESFA have updated the link which must be used to submit the Financial statements so please make sure you keep note of this.
- They have also clarified that the statements of any dormant subsidiaries do not need to be submitted
- When submitting the finance record to the ESFA by 31 December 2022 this record incorporates the financial outturn statement for just the year ended 21/22
- in relation to trustee expenses, the CAD clarifies that Charity Commission consent is not necessary for the routine reimbursement of expenses, and that this consent is only required when there is to be a remunerative element

# Post 16 Audit Code of Practice (ACoP) 2021/22

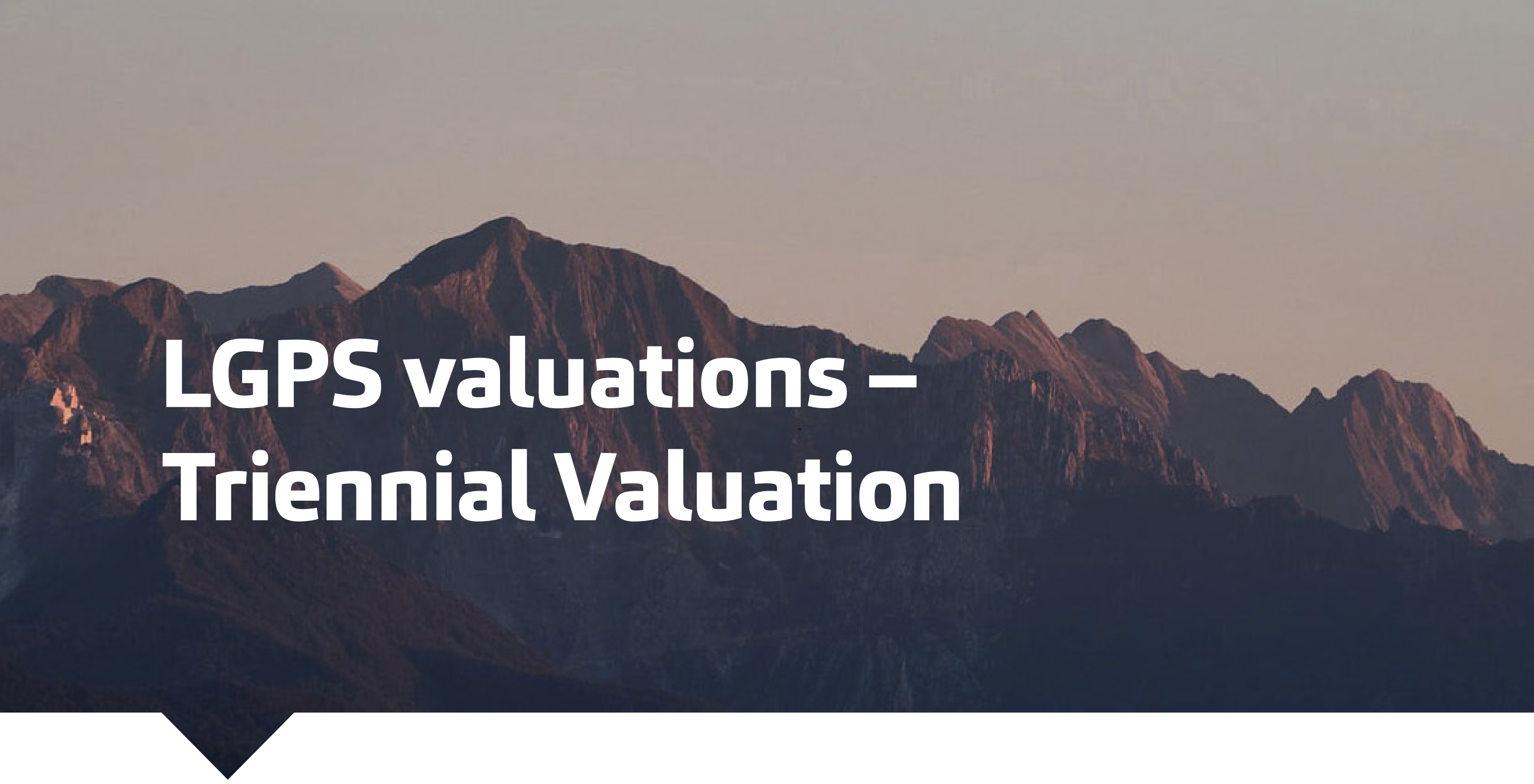
**The 21/22 ACoP was issued in April 2022 and in line with the Accounts Direction the ESFA has confirmed that, it does not intend to issue a further supplementary bulletin this year. However the bulletins issued in 2020/21 still remains in place.**

The good news this year is that the 2022 ACoP contains very few surprises which will be welcome news to many. A list of the key changes is set out below:

- In regard to adult education budget (AEB) funding that has been devolved to the Mayoral Combined Authorities and the Greater London Authority (GLA), it is the Department of Education that will provide an annual assurance statement not the ESFA.
- In the table of assurance obtained by other entites to the ESFA there has been an explanation that the ESFA will obtain assurance over funding it provides for programmes in higher education institutions by means of a programme of assurance reviews conducted on a sample basis. How and when this programme of reviews is due to take place remains unknown however it may well be included within the scope of standard funding audits going forward.
- The next two points are clarifications in relation to the regularity engagement such that:
  1. issues of propriety fall within the scope of the regularity engagement.
  2. the regularity engagement covers subsidiaries and joint ventures
- The next point arguably follows the big change to the 2021 ACoP following the clarification of scope – in relation to the ILR and external auditors. Accordingly, the ESFA have removed the exclusion of the regularity of the ILR return from the scope of the reporting accountant's regularity engagement. Accordingly this brings the findings from the external audit (as well as previously any funding audits or internal audit findings) into the scope of the regularity report. Whilst we are not expecting this to give rise to an increased number of qualified reports it is a consideration.

The ACoP has also been updated for some more administrative matters:

- Following the new subcontracting standard the ESFA have removed the text in relation to the 2020 ESFA review of subcontracted provision
- There is a new reference to the ESFA's guidance on the scope of work of audit committees and internal auditors in college corporations. This is a must read for Clerks and Governance professions – albeit it was updated in January 2022 and they probably know it verbatim!
- The ESFA have explained that any designated institutions that have the legal personality of a limited company will need to consider any audit requirement arising from company law in addition to those set out in the P16ACoP itself
- There is clarification that college corporations do not need to inform ESFA in instances where there has been a routine change of auditors.
- In relation to the reporting of fraud the ACoP contains a duty to report significant frauds to the ESFA and other relevant funding providers. The terms "significant fraud" has now been explained to include one or more of the following factors:
  1. the gross amount of the loss (i.e., before any insurance claim) is in excess of £10,000
  2. there is likely to be public interest because of the nature of the fraud or the people involved
  3. the particulars of the fraud are novel or complex
  4. the fraud is systematic or unusual in nature
- There are also a small number of amendments to the regularity assurance engagement terms of reference, the most significant of which is clarification that any limitation of liability on the part of the reporting accountant will apply only to the period covered by the financial statements themselves.



# LGPS valuations – Triennial Valuation

**31 March 2022 marked the valuation date for LGPS valuations in England & Wales. Initial results will be available by Autumn 2022 and new contributions need to be agreed by 31 March 2023.**

Most further and higher education institutions have some exposure to LGPS pension liabilities and for many the liabilities are material. So what can you expect? And what should you look out for? These are the questions we posed to Adam Poulson a Partner from pension specalists Barnet Waddingham, this is what he had to say:

We expect most LGPS funds will have had volatile but strong investment performance over the 3 years since the last valuation which should improve the funding position. Conversely higher price inflation expectations are likely to increase liabilities which may reduce the funding position.

Overall for many funds we expect an improved funding position, which may reduce secondary contributions (sometimes also referred to as deficit reduction payments). However, we expect primary contributions will increase for many employers especially those that have recently stopped accepting new entrants.

### Issues to watch out for;

1. **Data –** Is your data right? Check with your LGPS Fund. If your data is wrong then your costs will be wrong. For example a typo of 10 years on a date of birth could easily change the liability value by 10%
2. **McCloud –** Now that the implications are clearer LGPS Funds should be allowing for the impact.
3. **Longevity –** Covid has no clear long term impact. Life expectancy could decrease due to Long-covid or pressure on the NHS. Alternatively, it could increase due to improved health of post-covid population and medical advancements. At fund level, experience over the period is likely to only have a small impact on funding levels however, actual experience of your membership could be material.

For many employers the membership of the LGPS is a ring-fenced population. In this case the number of employed members will decrease over time as employees retire or leave employment. For ring-fenced populations many LGPS funds will target a higher funding target in order to ensure the section is better funded on an exit basis when the last member leaves. This increases cost of both primary and secondary contributions relative to open employers.

Budgeting for the impact of the exit debt is prudent and is likely to be reflected in the secondary contribution rate. However, should the exit debt due fall quicker than expected there are a few actions you can consider:

- Deferred debt arrangement - the employer remains in the Fund without active members and are deemed a deferred employer. The employer continues to pay secondary contributions for the term of the arrangement and may exit the Fund when they are fully funded on the cessation basis. Under this arrangement as the employer remains in the Fund they are still exposed to investment, longevity and inflation risk which could reduce or increase the final cessation debt
- Debt spreading arrangement - the exit debt is crystallised at the cessation date and the employer agrees with the administering authority a schedule to pay off the deficit over a period of time.
- Review the terms of the admission agreement when first joining the LGPS as it may require the administering authority to cover any exit debt.
- A new valuation is always a good time to review the pension funding plans and the options of your educational establishment.

Should you wish to discuss any of the points raised in this article please contact Adam Poulson, Partner Barnett Waddingham : **adam.poulson@barnett-waddingham.co.uk , 0113 394 3748**

# Will financial reporting adopt an international flavour?

**Whilst those interested in future financial reporting may be looking towards the triennial review of Financial Reporting Standard 102, and those institutions with charitable status will be aware of the current consultation for the Charities Statement of Recommended Practice (SORP), it is quite possible that it will be International Financial Reporting for Non-Profit Organisations (IFR4NPO) which will prove to be the key framework to influence sector reporting in the future.**

IFR4NPO is a major five-year consultation project which will develop internationally applicable financial reporting guidance for non-profit organisations. This will benefit a broad range of NPOs and their stakeholders by making NPO financial reports more transparent, more credible and easier to compare. Whilst there is no indication that UK financial reporting for further and higher education institutions, including future revisions of the Further and Higher Education Statement of Recommended Practice will necessarily follow this reporting framework, it is important for those in the sector to be aware of these developments.

The project has been progressing well after extensive worldwide consultations amongst key stakeholders. Currently it has been concluded that the model to be developed will be based on IFRS for SMEs plus relevant aspects of the full IFRS (International Financial Reporting Standards) and IPSAS (International Public Sector Accounting Standards), and where needed jurisdiction level standards, such as those that apply in the UK.

Key next steps include the publishing of three exposure drafts of the guidance – the first expected in Quarter 4 for 2022, followed by two further EDs in 2023. Based on initial findings it seems highly likely that there will be an increased focus on narrative reporting. This is not therefore just something to put aside as being a long time before being relevant as systems and data required for this type of reporting may take some time to develop. A good example of this is the topic of environmental reporting, which is gaining increased attention in the sector.

Whilst this is only at a rudimentary level at present in the sector, we are already seeing some institutions reporting on environmental matters with a few using the framework of the Companies Act requirement for Streamlined Energy and Carbon Reporting (SECR). For some institutions this may well be a good starting point which could be adopted even for 2022 year ends as suitable guidance does already exist.

The other area of narrative reporting that both institutions and their auditors are likely to be considering this year is that of going concern. Following the change to audit requirements introduced by International Auditing Standard 570 in the last couple of years, the current operating environment in the sector means financial sustainability is a real concern for some institutions. There are various factors that are contributing to this including significant cost inflation, frozen level of funding for some students, imperatives for digital investment for both back-office and blended learning delivery and cash flow challenges with the need to start repaying Coronavirus Business Interruption Loans. Institutions will need to ensure they have well developed multi-year financial models which adopt appropriate scenarios and stress testing.

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We shall keep you up to date on future financial reporting developments and if you wish to discuss matters for your 2022 financial statements please do contact us.

# Top tips for effective Procurement

**In these challenging financial times, there is increasing pressure to deliver value for money and achieve more for less through procurement and tendering exercises. We have set out below ten tips to consider as part of any procurement exercise to help ensure that value for money will be obtained through the selection process.**

1. **Have a clear policy & governance framework in place.** Such a policy should set out the overall framework and arrangements for conducting procurement and be in line with public contract regulations together with an ESFA / GLA guidance, be approved by the Corporation or Board and be available to the right members of staff. The policy needs to set out the process for undertaking procurement clearly, but in sufficient detail so that the anyone using the policy will be able to understand the steps for undertaking a procurement exercise from start to finish, and in particular the levels of approval that need to be obtained depending on the value of the exercise.

2. **Understand the costs.** It is important to have a realistic understanding of the market cost of the goods or services that you are trying to procure, how this fits in with your overall budget and whether any adjustments might need to be made. In considering costs, the whole life costs of what is being procured e.g. including license or maintenance costs should be factored into the budget and not just the costs of the initial procurement itself. Including such elements within the procurement itself means that these will not require separate approval each year.

3. **Set realistic timeframes for procurement.** Underestimating the time required to complete a procurement exercise from start to finish is one of the most common failing that we have noted in procurement processes, and it is therefore vital to plan such exercises sufficiently in advance to ensure that the process can be completed prior to the goods and services being required. As part of such planning, it is important to understand the market in which the services are being procured, and to set realistic expectations regarding how long such an exercise might take, including the communication and engagement that might be needed with potential bidders before a formal submission can be requested.

4. **Check notice periods.** This is particularly important for service contracts to understand when the contract for the current provider ends and when the new contract is due to start. Should there be a gap between the two then the risk of this should be assessed and where appropriate the contract period for the incumbent extended to cover this. In addition, as part of the procurement exercise it is important to gain assurance that any incoming provider can commence working in line with the proposed start date.

5. **Find the right way to buy e.g. via frameworks.** There are many procurement frameworks that can be utilised to facilitate procurement, and these often include a range of pre-vetted suppliers, therefore all suppliers on the framework should have been independently assessed as meeting an agreed quality level. In some circumstances e.g., small value procurement, the use of frameworks may not represent value for money and it may be better to procure directly.

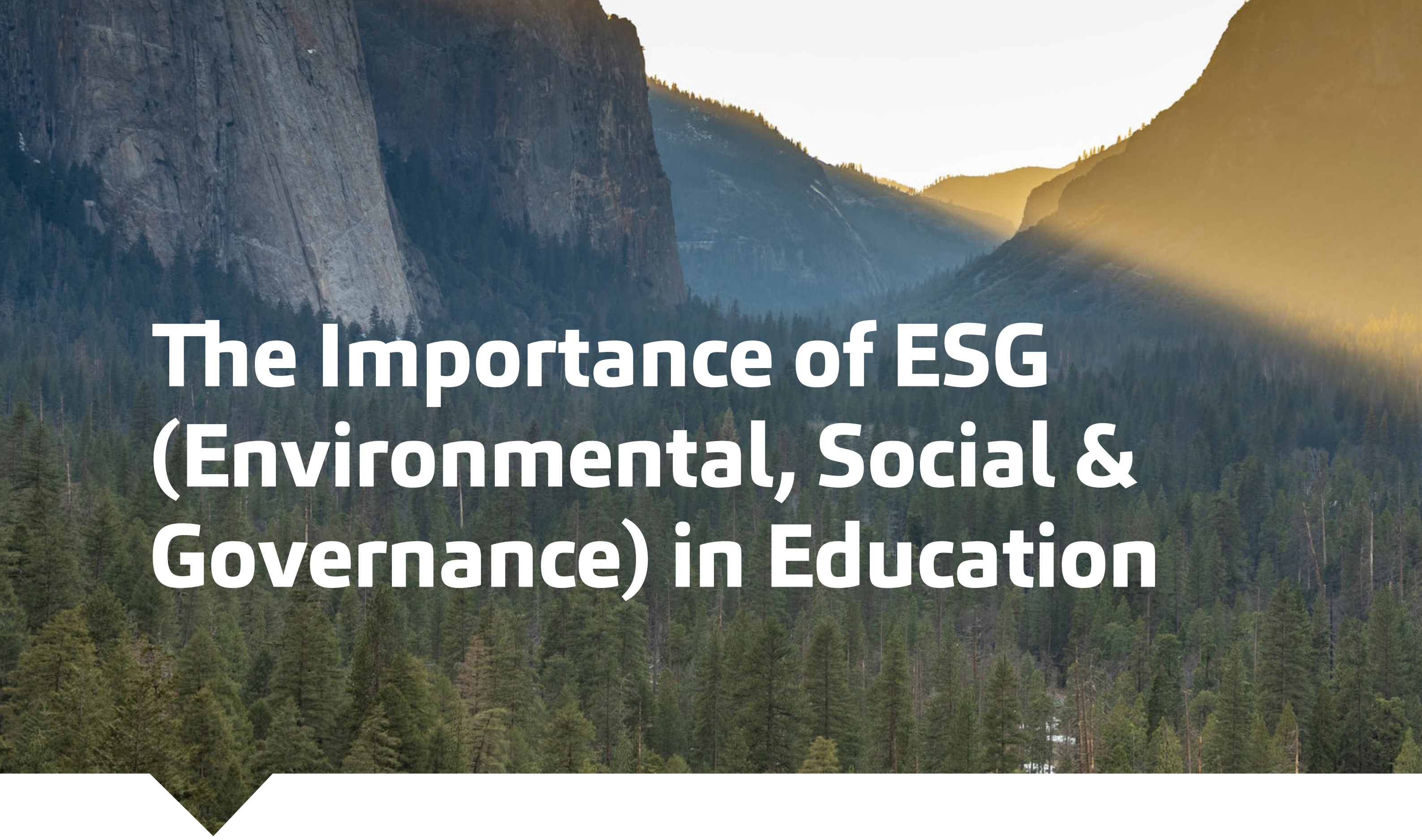
6. **Have clear processes in place for supplier selection.** Setting out the process and most important criteria for supplier selection it not only important in ensuring decisions are made against clear factors, but this can also assist bidders in producing submission documents that set out the things which are most important to you and will be key factors in the decision-making process.

7. **Involve the right people in the process.** Whilst procurement or finance representatives are important components of any selection process to ensure that this has been carried out in line with procurement rules, it is important that those people using and managing the goods or service are central to the decision-making process and are included in any evaluation panel.

8. **Gain approval.** Such approval does not only relate to the sign off of the procurement itself, but at each stage of the process from the initial intention to procure, through to sign off of the procurement documents, and the final approval of the preferred bidder.

9. **Agree the contract / terms of engagement that you plan to have in place prior to conducting the exercise.** If a written contract is required, then arrange for this to be produced in advance and signed off by the appropriate legal representatives, using standard contracts as far as possible. In some cases, it may be appropriate to utilise a form of engagement letter between you and the supplier, although such letter would require the appropriate review and sign off e.g. by legal prior to being agreed.

10. **Set performance standards and have effective means for contractor management.** It is important to set out in any procurement exercise what standards of service are expected, how the provider would be required to demonstrate these and how delivery against these will be monitored. Such indicators should be formally agreed with the supplier soon after appointment and the framework by which the contract will be managed agreed.



# The Importance of ESG (Environmental, Social & Governance) in Education

**In their role as exemplars, educational establishments must lead the way in ESG best practice. More than that, it is in their own economic, social and environmental (ESG) interests to do so.**

There are best practice standards where there is a joint commitment to ensuring all staff, students and partners regardless of course, role, discipline and responsibility learn about climate change, social justice, and sustainability as part of their studies, work and relationships within an institution. The role of ESG is simply more than ensuring you have a 'green roof' or a solar panel. It is about a forward vision and framework. CSR this is not.

Put simply, ESG is not a fad. It is a set of principles that enables organisations to optimise their primary activities within a sustainable framework. Further and to a less extent, Higher Education has an opportunity to educate the next generation, whilst adopting the highest levels of best practise. There is a shortage of skills at a senior level, and sectors need to be mindful of both green wishing and green washing.

At one level, ESG may be represented by a carbon desktop (evaluating carbon emissions and putting in place mitigating actions - Scope 1 emissions). At another it is the way that staff are valued, treated and supported. These are not mutual exclusive, rather inclusive and integral.

In this short piece, we wish to raise the awareness and importance of sustainability and ESG. There are numerous approaches however considering all institutional operations is key. These may include assessing the institution's performance against basic metrics; reviewing current standards and best-practices in what social and governance affairs are currently happening and developing an updated set of objectives to include renewed environment, social and governance goals that align with the strategic directions and strengths of the organisation. Meeting environmental obligations is one of the most urgent challenges facing communities worldwide and public sector colleges and universities should be making similar contributions in positive social transformations relevant to global Sustainable Development Goals (SDGs), including those relevant to gender and social equality.

To manage those transformations successfully, you must ensure you have the right governance settings in place. Essentially, this requires an ESG framework that touches every aspect of the way an organisation is operated and optimised for a sustainable future - economic as well as environmentally, socially and in terms of its governance.

At MHA we place equal emphasis on the 'E', the 'S' and the 'G' because our experience has demonstrated that the three elements are highly interconnected and mutually beneficial to each other's objective gains.

Has your organisation created a basic framework that captures all your ESG work you think you do? We call this an Integrated External Engagement Framework (IEEF); which in turn evaluates performance to create an ESG Plan (ESGP); Does the organisation have a robust model for implementing IEEF and ESGP solutions with an effective ROI and communications frameworks? If the answer to any of these questions is 'no' then it is most likely that you are neither optimising your organisations' ESG potential nor realising fully the benefits, including fiscal benefits, that a planned ESG programme can deliver.

> **Take your establishment's curriculum for example. What is its carbon footprint? Does it optimise energy usage? Does it involve travel? If so, by what means? Are resources on line? What equipment is required? Where is that equipment sourced? How are you recording innovation?**

Of course, that is only part of your ESG story. What promises are you making and keeping around inclusiveness, gender equality, fair and equal pay, minority groups, interaction with the local community, recognition and reward, whistle-blowing, personal development and the like? Again, how are you generating, applying and recording innovation? Your ESGP will place a framework around all of these components, ensuring that the organisation, framed through an ESGP, is simply a better place.

Although for many organisations, ESG will not yet be mandated, that is no reason for not following an ESG programme. In time, every commercial and non-commercial enterprise in the UK will be ESG mandated. Getting ahead now means ESG becomes your organisation's norm before it becomes an organisational issue.

The starting point for ESG-compliant organisations is to establish a clear ESG vision with equally clear SMART ESG metrics and mile stones.

At MHA we term our Sustainability and ESG suite of services 'Dynamic ESG'. Why? Because ESG is a journey, not simply a single point achievement. As your organisation changes through its ESG commitments, so too will its ability to leverage its ESG programme further for the benefit of the organisation, its staff, its stakeholders, its supply chain and its users.

# Meet our Further & Higher Education sector experts

**Rakesh Shaunak**
Managing Partner & Group Chairman

**Stuart McKay**
Partner

**Sudhir Singh**
Partner, Head of Not for Profit

**Andrew Matthews**
Partner

**Chris Rising**
Internal Audit Director

**Rajeev Shaunak**
Partner

**Mark Eagle**
Audit & Outsource Director

Adam is a Partner at Barnett Waddingham and heads up the corporate consulting practice in the North.  He advises a range of UK businesses on DB pension issues including risk reduction exercises, scheme funding, pension benefit design and accounting disclosures. He also works with charities and further education institutions in developing strategies to manage their LGPS pension liabilities.

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