Skills Funding Agency Accounts 2010-11

Report of the Comptroller and Auditor General to the Houses of Parliament

Introduction

1. The Chief Executive of Skills Funding is a corporation sole established under the Apprenticeship, Skills, Children and Learning Act 2009 (ASCL Act, 2009). The Chief Executive is head of and supported by the Skills Funding Agency (the Agency), which is a partner organisation of the Department for Business, Innovation and Skills (the Department).

2. The Chief Executive was established on 1 April 2010 as one of two successor bodies to the Learning and Skills Council which was abolished on 31 March 2010. The Chief Executive's role is to fund and regulate adult further education and skills training in England. Its funding strategy is informed by policy set by the Department and by the needs of businesses, communities and regions, and sector and industry bodies. The Agency supports him in this task. Their mission is to ensure that people and businesses can access the skills training they need to succeed in playing their part in society and in growing the economy. As part of its role the Agency provided funding of some £5 billion in 2010-11 to Further Education colleges (FE colleges) and other skills and training organisations, to fund training for adults in England.

3. The ASCL Act 2009 grants the Chief Executive of Skills Funding certain powers over Further Education colleges. These include the power to change all the Board members and give the body direction on the exercise of their powers and duties. Legislation also requires FE colleges to seek the consent of the Chief Executive before borrowing.

Accounts

4. The Agency is required to prepare its first set of financial statements in accordance with the Accounts Direction issued by the Secretary of State under the ASCL Act. This requires compliance with the Government Financial Reporting Manual (FReM). Under the FReM, a corporation sole, as an non departmental government body, is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

5. The financial statements on the following pages represent the results of the Skills Funding Agency for the period from 1 April 2010 to 31 March 2011.

My obligations as auditor

6. Under the ASCL Act, 2009 I am required to examine, certify and report on the financial statements of the Chief Executive of Skills Funding. To comply with International Standards on Auditing (UK and Ireland) I obtain evidence to give reasonable assurance that the financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing the statements.

7. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed. I am required to satisfy myself that, in all material respects, the expenditure and income of the Skills Funding Agency have been applied to the purposes intended by Parliament and conform to the authorities that govern them.

Audit opinion

8. Under International Accounting Standard 27 (IAS 27), *Consolidated and Separate Financial Statements*, I consider that FE colleges should be viewed as subsidiaries of the Chief Executive of Skills Funding and be consolidated into the 2010-11 financial statements of the Agency. This is because the Chief Executive has controls in place that provide the power to govern the financial and operating activities of FE colleges so as to obtain benefit from their activities. The financial statements presented are those of the Skills Funding Agency only and have not been presented to include the consolidated results of the group which, in order to comply with IFRS would need to include the financial results of FE colleges, consolidated within each line heading of the accounts as appropriate.

9. I have therefore concluded that, due to the non consolidation of FE Colleges in the accounts, they do not represent a true and fair view.

Background

Consideration of Control Framework against International Financial Reporting Standards

10. Since 2009-10 central government bodies, except charities, have been required to adopt IFRS. One of these standards, IAS 27, requires parent bodies to consolidate into their accounts the results of bodies they control.

11. Initially the Agency did not interpret this standard as meaning the Agency had to consolidate into its accounts the results of FE colleges, and this was the case for the 2009-10 Learning and Skills Council account where the oversight arrangements in place were broadly the same. However, at that time, the Office of National Statistics (ONS) had classified FE colleges as private sector bodies for National accounts purposes.

12. In October 2010, the ONS announced a reclassification of the FE colleges sector to the central government sector. This engendered a reconsideration of the appropriate accounting treatment by the Agency and the Department. Following review of the controls the Chief Executive of Skills Funding has over FE colleges, triggered by this reclassification, I have also concluded on the appropriate accounting treatment.

13. I have considered the arrangements that the Agency has over colleges in the context of IAS 27. This accounting standard sets out the factors that might indicate control. The circumstances where control exists include when there is power to appoint or remove the majority of the members of the board of directors or equivalent governing body. As set out at paragraph 3, the Chief Executive of Skills Funding has this power and other controls under Statute. My conclusion is that, taking the various powers into account, the Chief Executive does have control over FE colleges under the standard, and should therefore consolidate their results into the Agency's accounts if they are to meet the applicable reporting requirements.

Challenges facing the Agency if consolidation is to be achieved

14. Whilst the Agency and its sponsor Department accept this interpretation of IAS 27 the Agency considered it could not feasibly prepare a robust consolidation for 2010-11 in order to meet the statutory deadline under the ASCL Act 2009 for the presentation of final accounts to me by the end of August 2011. The Agency also considers that it would not be cost effective to seek to consolidate the bodies as costs would be incurred by both itself and the FE sector in doing so. This takes into account the accounting and auditing complexities mentioned below.

15. There are 258 FE colleges in England. Further Education bodies in general are independent incorporated bodies with charitable status. The accounts are prepared on an academic year basis covering 1 August to 31 July in accordance with the SORP applicable to Higher and Further Education Institutions[1]. This SORP is not consistent with the IFRS basis which the Agency is required to apply. The latest audited accounts now available are therefore for the year ended 31 July 2010.

16. The Agency routinely collects financial information, including the audited FE college accounts, but there are a number of accounting issues with consolidating the results of these bodies. The most significant are that the FE college accounts and those of the Agency have a non coterminous year end (31 July compared with 31 March) so consolidation schedules at 31 March would be required. In addition, the FE College accounts are UKGAAP based so consolidation schedules would need to be prepared on an IFRS basis. In the first

[1] Statement of Recommended Practice for the Higher and Further Education Sectors 1 August 2007.

year of consolidation, the Agency would need to present prior year comparative figures for the group.

17. The current audit assurances in place for college accounts would also need to be extended. Some 18 private sector auditing firms provide the external audit function for FE colleges, although 76 per cent of the 258 colleges are covered by five firms. In order to compile the group accounts, the arrangements for audit of the individual colleges would need to be designed to support both the preparation and audit of the group financial statements.

Impact of Non-Compliance on the Presentation of the Financial Statements

18. According to their 2009-10 audited accounts[2], FE colleges record non-current assets of some £8bn, and income and expenditure balances each just less than £7bn. Net assets total some £5.6bn. The total net results for the year for FE colleges as a whole compare with the net assets shown in the 2010-11 financial statements of the Agency of £120m. If FE colleges were to be accounted for as subsidiaries, the Agency would need to prepare Group accounts which presented the accounts of the Group as those of a single entity.

19. These figures are an indicative estimate of the overall impact on the Agency's accounts. In practice, the Agency would need to make a number of adjustments to these numbers having first obtained that information as at 31 March and on an IFRS basis. This would include any other changes to make the accounting policies consistent across the Group and eliminate the inter-entity balances.

20. In auditing the accounts of the Agency, my staff conducted a full audit of the Agency accounts in accordance with International Standards on Auditing (UK and Ireland) and identified no other issues that materially impacted on the truth and fairness of the Agency's accounts as presented for my audit. Apart from this issue, there are no other matters that would have caused me to modify my audit opinion.

Action being taken

21. The Department is seeking to remove some of the powers over FE colleges and this may have the impact of removing the accounting requirement for the Agency to consolidate the bodies in the future.

[2] Taken from the Summary record of audited FE college accounts collated by the Agency.