

Skills Funding Agency Accounts 2011-12

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.
2. The Chief Executive's role is to fund and regulate adult further education and skills training in England. The Agency supports him in this task. The Agency provided funding of £4.6 billion in 2011-12 to Further Education colleges (FE colleges) and other skills and training organisations, to fund training for adults in England.
3. The Agency is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FRoM). Under the FRoM, the Agency is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Purpose of Report

4. In my report (HC 1393/11) on the Agency's 2010-11 financial statements, I reported that the accounts of the Agency did not give a 'true and fair' view because they did not consolidate the financial results and financial position of FE colleges. In my opinion the Chief Executive of Skills Funding was able to control these entities and therefore the Agency was required to consolidate them to comply with the requirements of the financial reporting framework. On 15 November 2011 the Education Act 2011 gained Royal Assent. The Act removed certain powers from the Chief Executive of Skills Funding and, as a result, it is my view that the Agency is no longer able to control these bodies.
5. However, Financial Reporting Standards require the financial transactions of FE colleges to be consolidated up to the point that the Act removed the powers of the Chief Executive to control these bodies. The financial statements on pages 56 to 92 do not include these transactions and so I have qualified my audit opinion on the Agency's statements in this respect. I have also modified my opinion to reflect my view that the comparative information relating to 2010-11 does not present a true and fair view. This report provides further details of the reasons for qualification.

Explanation for Qualified Audit Opinion

6. 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.
7. IAS 27 sets out the factors that indicate control. The circumstances where control exists include when there is the power to appoint or remove the majority of the members of the board of directors or equivalent governing body. Under the ASCL Act 2009, the Chief Executive of Skills Funding had these powers and other controls over FE colleges.
8. The Agency did not consider it feasible to prepare a robust consolidation of the financial accounts of the 258 FE colleges for 2010-11 to meet the statutory deadline under the ASCL Act 2009 for the presentation of group financial statements to me by the end of August 2011. This took into account the complexities of consolidating the financial results of these bodies given their number and their different accounting and reporting requirements. The Agency's view took into account that the powers of the Chief Executive of Skills Funding were in the process of being changed.
9. Since 2010, Ministers have been reviewing the regulation and controls over the governance and operation of FE colleges. The relevant provisions of the Education Act 2011 removed many of the powers previously held by the Chief Executive of Skills Funding. Specifically the power to remove the majority of members of FE colleges' board of directors transferred from the Chief Executive to the Secretary of State and the power to appoint governors to the board of directors transferred from the Chief Executive to colleges themselves.
10. The Education Act received Royal Assent on 15 November 2011 and the relevant provisions commenced on 1 April 2012. From the date of Royal Assent, the Chief Executive required the Secretary of State's approval to exercise his powers to remove or appoint members to the Board of FE colleges under the ASCL Act. My conclusion is that the Chief Executive no longer had the ability to control FE colleges under IAS 27 after the Act received Royal Assent.
11. The financial statements exclude the financial results of colleges until 15 November and the entries which would have been required to account for the loss of control on 15 November 2011. According to their 2010-11 financial statements, FE colleges record both income and expenditure of some £6.8 billionⁱ compared with total expenditure in the 2011-12 financial statements of the Agency of £4.6 billion. Although a number of consolidation adjustments to FE colleges' income and expenditure would be needed, the figures are an indication of the overall material impact on the Agency's accounts. I have, therefore, modified my audit opinion on the 2011-12 statements to reflect the material impact of non-consolidation on the truth and fairness of the account.
12. I am satisfied, however, that the Agency was no longer required to consolidate colleges by 31 March 2012, and that it has correctly presented a statement of financial position that does not include the assets and liabilities of colleges.
13. In auditing the accounts of the Agency, my staff identified no other issues that materially impacted on the truth and fairness of the Agency's accounts as

presented for my audit. There are no other matters that would have caused me to modify my audit opinion

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ⁱ Taken from the Summary record (dated 30 May 2012) of audited FE college accounts collated by the Agency (reflecting the 1 August 2010 to 31 July 2011 academic year).