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To: Vice Chancellors
Northern Ireland Universities

Principals
Northern Ireland University Colleges

24 August 2021

Dear Vice Chancellor / Principal

**ACCOUNTS DIRECTION TO HIGHER EDUCATION INSTITUTIONS FOR 2020-21 FINANCIAL STATEMENTS**

1. I am writing to inform you of the Department's Accounts direction to Northern Ireland higher education institutions (HEIs) on preparing financial statements for academic year 2020-21. This replaces any previous directions.

**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 2019 edition' (SORP), or any successor to the SORP, in preparing their financial statements for the year ended 31 July 2021. If there are any inconsistencies between the requirements of the SORP and this accounts direction then this accounts direction will prevail. The 2019 version of the SORP applies to the 2020-21 accounting period and is available from the Universities UK website;

   Statement of Recommended Practice: accounting for further and higher education

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 Higher Education Code of Governance, published by the Committee of University Chairs,

   https://www.universitychairs.ac.uk/wp-content/uploads/2018/06/HE-Code-of-Governance-Updated-2018.pdf

   recommends that HEIs confirm their adoption of the Code in publicly available reports on corporate governance, such as annual reports or audited financial statements. In order to report that an institution has applied the Code a governing body needs to:

   a. Be confident that it has in place all of the primary elements. In order to do so it will be necessary for a governing body to meet or exceed the requirements of the supporting 'must' statements that prescribe essential components within the element; or

   b. Explain where it considers a whole primary element or supporting 'must' statements inappropriate. In such cases the rationale should be clearly noted and the alternative arrangements summarised within an institution's report on its use of the Code.

6. Adopting the Code, with the principles of the Code adapted to each HEI's character, is an important factor in enabling the Department 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 (BUFDG). 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. The statement on internal control (corporate governance) must explicitly cover the period from 1 August 2020 to 31 July 2021, and up to the date of approval of the audited financial statements.

**Date of submission to the Department of audited financial statements**

11. The indicative date for submission of HEIs' audited financial statements for 2020-21 is **28 February 2022** at the latest, however HEI's are encouraged to submit within the normal deadlines where possible. Officials wills be in touch later in the year to confirm arrangements.

**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 the Department, where appropriate, in accordance with the Financial Memorandum, and whether funds from whatever source, including funding body grants, have been used for the purposes for which they were received. Guidance on wording is available in paragraph 68 of Annex B of the Financial Memorandum (universities) and paragraph 123 of the Audit & Accountability Code (university colleges).

## Disclosures about senior staff pay

13. In determining senior officer remuneration and severance payments, institutions should ensure that they follow good practice in their governance arrangements for determining the appropriate remuneration of senior officers. There is significant student and public interest in the remuneration of heads of higher education institutions and in the severance payments received by those vacating office. There can also be considerable press interest on an annual basis, posing questions over the proper use of funds and the reputation of the institution. Under the terms of the Financial Memorandum, governing bodies must use public funds for proper purposes and strive to achieve good value for money.

14. HEI's must have regard to the 'Higher Education Senior Staff Remuneration Code' published by the CUC.

15. HEIs are required to 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. HEI's 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 proportion paid by the institution must be disclosed. Institutions 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.

| Salary banding | Number of staff (2020-21) | Number of staff (2019-20) |
|---|---|---|
| £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. The actual total remuneration of the head of institution, and if more than one individual has held the post during the year, remuneration information should be provided for each individual, together with the dates to which the role or service relate, disclosing 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 Institution.

viii. Other taxable benefits. Institutions 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. Institutions must disclose the nature of each of the non-taxable benefits and the cost to the institution 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 institution. This may include contributions to relocation costs, living accommodation and any other tangible benefit to which the institution should be able to ascribe a cost of provision of the benefit. Institutions do not need to disclose non-taxable benefits that simply flow from being a member of the institution's staff and that are given to, or as a minimum are available to, all members of staff.

x. Other remuneration. Institutions must disclose the nature of any other types of remuneration and the cost to the Institution 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 institution), rather than to the institution, for work delivered using the institution's resources.

c. A justification for the total remuneration package for the head of the institution. The justification must include reference to the context in which the institution operates, and be linked to the value and performance delivered by the head of the institution. It should contain an explanation of the process adopted for judging their performance. The justification should explain both the processes and oversight arrangements involved in making remuneration decisions and why the level of remuneration awarded to the head of the institution is justified.

d. The relationship between the head of institution's remuneration and that for all other employees employed in the reporting year, 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 Institution's remuneration divided by the median pay at the Institution (also on a full time equivalent basis). This should be calculated across all staff pay, not just the academic staff. For example, the head of an Institution earns £250,000 per annum as their basic salary and receives a further £75,000 per annum in other remuneration (as set out in the paragraphs above) and the median salary at the institution 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 institution'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 institution to its staff.
ii. The head of the institution's total remuneration is 8.1 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 institution of its staff.

16. Where there is a change in the head of the Institution (including the appointment of an acting head) either between years or during a year, institutions 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 institution continues to receive remuneration in an employed or consultancy role after they cease to be the head of the institution, such as in an advisory or sabbatical role, this should be included in the total with an explanation.

17. Disclosures relating to severance payments are detailed at **Annex B**.

**Signing and publishing audited financial statements**

18. HEI'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. In signing the audited financial statements, the individual is confirming that the financial statements are not materially misstated and that the requirements of the DfE accounts direction and applicable statutory requirements have been met.

19. HEI's 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.

20. HEIs are reminded of any separate accounting and reporting obligations they may have to the Charity Commissioner for Northern Ireland.

21. The accounts direction is reviewed annually. The 2020-21 accounts direction will remain in force unless HEIs are notified otherwise. The Department recommends that you provide a copy of this letter and the annexes to your finance and audit committees and external auditor.

22. Any matters arising from this letter should be forwarded to:

he.qualityandgovernance@economy-ni.gov.uk

Yours sincerely

**DAVID ROONEY**

## Annex A: Significant internal control issues

1. The Statement on Internal Control must set out any 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. This is to deliver assurance that significant internal control issues are being addressed.

2. The following questions will help identify whether the institution 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 HEI's business?
   iv. Does the HEI'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 HEI and/or the sector?

**Annex B: Severance payments**

HEI's must have regard to the 'guidance on decisions taken about severance payments in HEIs' published by the CUC.

Compensation for loss of office refers to circumstances in which an individual has left the institution's employment and this has associated with it some form of compensation, whether this is a cash payment (or equivalent) or non-cash benefit. This may be associated with a settlement agreement, but not necessarily in all cases. This applies to all instances of loss of office, including where it occurs at the end of a fixed-term contract. Financial employment arrangements in relation to settlements are a matter for the institution and DfE will not provide advice or comment on these.

An HEI must include the following disclosures in the 'staff costs' note to its financial statements:

a. **Disclosures about all staff:**

The total amount of any compensation for loss of office paid across the whole institution (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 institution's affairs.
iii. Loss of any other office connected with the affairs of a parent or subsidiary undertaking of the institution.

This disclosure should include the head of the institution and all other staff and should not be limited to senior staff or key management personnel only. Where the institution has not paid any compensation for loss of office to any staff member, this should be stated to ensure clarity for users of the financial statements.

b. **Disclosures about the Head of the Institution**

i. The amount of compensation for loss of office paid to the head of the institution. The disclosure should also state separately the amount of compensation paid for loss of office at the institution as one figure and, as a separate figure, the total compensation paid for loss of office at any of the institution's parent or subsidiary undertakings or any other office(s) connected to the institution's affairs.
ii. Where the compensation paid to the head of the institution includes benefits other than cash, the institution must disclose the nature of the benefit in detail and the estimated money value of the benefit. Such benefits may include, but are not limited to: the continued provision of accommodation, the continued use of a vehicle, provision of careers guidance services up to a specified amount or provision or independent legal advice (such as in relation to severance agreements). The source of funding for any compensation paid or benefits given must be disclosed.
iii. Where the compensation paid to the head of the institution includes additional pension contributions relating to the employment with the institution (whether these are voluntary contributions or otherwise), the

amount of the pension contribution must be disclosed. The institution should identify the cost of any additional payments made into pension schemes as part of the package given to the head of the institution as compensation for loss of office, including, but not limited, to institution-funded pension top-ups. This should also include the cost to the institution, if any, of putting a pension into payment charged to the institution by the pension scheme in which the head of the institution was a member prior to leaving office.

Severance payment disclosures should be made on the same basis as the accounts are prepared, i.e. on an accruals basis. HEI's should use their discretion to add a note to explain to users of the accounts what has happened and why, if they feel that any disclosures would benefit from further explanation to assist users of the accounts.