



Scottish Funding Council
Comhairle Maoinachaidh na h-Alba

Accounts direction for Scotland's universities 2019-20

SFC Guidance

Issue Date: 17 July 2020

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Reference: SFC/GD/14/2020

Summary: To provide SFC's 2019-20 accounts direction for Scotland's universities

FAO: Principals / Finance Directors / Board Secretaries of Scotland's universities

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Accounts direction for Scotland's universities 2019-20

1. It is the Scottish Funding Council's (SFC's) direction that universities comply with the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts. The SORP is available at <https://www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/statement-of-recommended-practice-2019.aspx>.
2. Universities must comply with this accounts direction in the preparation of their annual report and accounts in accordance with the [Financial Memorandum](#) with the Scottish Funding Council (SFC).
3. The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body.

Scottish Funding Council
17 July 2020

Introduction and structure of accounts direction

Mandatory and corporate governance disclosures

1. We draw your attention to the specific mandatory disclosures for higher education institutions in Appendix 1. The corporate governance disclosures required are listed in Appendix 2.

Deadlines

2. We acknowledge the concerns of some institutions that the current environment may create challenges in terms of finalising their annual report and accounts (including the external audit opinion). In this context, we are prepared to allow an additional two months for the usual audited financial information to be submitted thereby extending the deadline to 28 February 2021. However, we would still encourage institutions to submit this information as early as possible but are providing this additional flexibility where it is not possible. If, due to the impact of COVID-19, universities consider they will be unable to meet the extended deadline they should contact the SFC. The annual report and accounts should be prepared with a 31 July year-end¹.

¹ SRUC prepares its annual report and accounts on a 31 March year-end basis

Mandatory disclosures

Listed below are disclosures which universities **must** include in the financial statements.

Strategic Report²

3. A list of members of the governing body and key committees. This should cover all those who served during the period and include any changes up to the date of signing the annual report and accounts. Attendance at Court meetings should also be included in the accounts or a link provided to where this information is held on the university website.
4. The SORP considers that disclosure of the following items in the Strategic Report is best practice for all institutions:
 - Objectives, and strategy for achieving those objectives.
 - A fair and balanced review of the institution's development and performance throughout the financial year and position at the end of the financial year. This should include a description of the challenges presented by COVID-19 and Brexit and the mitigating actions taken.
 - Future prospects.
 - A description of the principal risks and uncertainties being faced.
 - Key performance indicators.
5. A statement describing the payment practice code or policy adopted on payment of suppliers and performance achieved, together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998, or a statement that there were no matters to disclose.
6. A statement on the employment of disabled persons where the average number of all persons employed in the year exceeds 250.

Notes to the accounts

7. The audit fees and non-audit fees paid to external and internal auditors.

Corporate governance

8. We require universities to include in their annual report and accounts a statement covering the responsibilities of their governing body in relation to

² Further guidance on Strategic reports is given in the SORP (paragraphs 3.23 to 3.26)

corporate governance. This statement is required to indicate how the university has complied with good practice in this area.

9. It is a condition of the Financial Memorandum (FM) with SFC that governing bodies comply with the principles of good governance set out in the 2017 Scottish Code of Good HE Governance (“the Scottish Code”). Universities should have fully adopted the Scottish code from 1 August 2018. The Corporate Governance statement in the accounts should include a statement specifically confirming compliance with the Scottish Code. In line with the principle of comply or explain, an explanation should be provided in the event that the institution’s practices are not consistent with particular principles. Institutions should use the wording in the template in Appendix 3 for reporting compliance with the Code.
10. We recognise that each university will have its own system of corporate governance, reflecting its particular objectives and management processes. However, in preparing their governance statement, universities should give due regard to the guidance contained in Appendix 2. Universities should also indicate in the corporate governance statement any changes required to the governance framework as a result of COVID-19.
11. Universities should be aware that their external auditors will be reviewing the corporate governance statement as part of their audit and will be including a reference to this in their audit report.
12. The following paragraphs provide details of specific disclosures that must be included in the annual report and accounts.

Remuneration

13. The new Code notes that “the remuneration committee is expected to represent the public interest and avoid any inappropriate use of public funds”. To ensure greater transparency over decisions on remuneration, institutions are required to outline within their annual report details of the operation of the remuneration committee and the policy adopted for senior pay, including that of the Principal.
14. The actual total remuneration of the head of institution which must disclose separately salary, bonus, employer pension contribution and taxable and non-taxable benefits in kind. Where there is a change of head of institution during the year, details should be given separately for each person, noting the dates each was in post and giving comparative information.
15. Institutions should also disclose the relationship between the Principal’s remuneration and that of all other employees, expressed as a multiple of the median pay across all staff. The median is based on the annualised, full-time

equivalent remuneration of all staff at the reporting date. Explanations should be provided for any significant change in the median compared with prior year.

16. The total number of higher paid staff, including senior post-holders, in bands of £10,000, above a threshold of total emoluments (excluding pension contributions and compensation for loss of office) of £100,000. Payments funded from external sources, including the NHS, should be included in emoluments. The number of senior post-holders within each band should be separately identified.
17. The aggregate amount of any compensation for loss of office payable to the head of institution and any staff member earning in excess of £100,000 per annum, or where the costs of all elements of a proposed arrangement amount to more than £100,000, together with the number of people to whom this was payable.

Sustainability

18. Main principle 1, provision 4 of the 2017 Scottish Code of Good HE Governance states that “the governing body must be attentive to risks which could threaten the sustainability of the institution, including the risk of inaction in the face of threat or opportunity , and ensure that the institution has appropriate procedures to identify and actively manage risk”. In this context, universities are required to include within their annual report and accounts a description of the sustainability framework within the institution.
19. Universities should outline the challenges presented by both COVID-19 and Brexit to the ongoing sustainability of the institution and the steps taken by the Institution to mitigate these challenges.
20. Universities should outline the process by which the University Court monitors the overall sustainability of the institution, including the key sustainability measures used.

Corporate Governance Statement Guidance for Universities

22. Universities are required to include in their annual report and accounts a statement covering the responsibilities of their governing body in relation to corporate governance. This statement is required to indicate how the university has complied with good practice in this area.
23. It is a condition of the Financial Memorandum with SFC that governing bodies meet the principles of good governance, set out in the Scottish Code.
24. Universities should include a specific statement in the corporate governance statement to confirm compliance with the Scottish Code. In line with the principle of comply or explain, an explanation should be provided in the event that the institution's practices are not consistent with particular principles. The wording which institutions should use to confirm compliance is included at Appendix 3.
25. Universities are required to demonstrate robust governance, maintain a sound system of internal control and 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 risk appetite, 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 the governing body and the executive leadership.
 - Is embedded into normal business processes and aligned to the strategic objectives of the organisation.
26. Universities are required to review at least annually the effectiveness of their system of internal control. Universities must include in their financial statements a statement on internal control. In formulating their statements, universities should refer to best practice guidance, including guidance from the British Universities Finance Directors Group.

Format of corporate governance statement

27. We recognise that each university will have its own system of corporate governance, reflecting its particular objectives and management processes, and

the corporate governance disclosures in the annual report will differ accordingly. It is expected that each university will tailor its corporate governance statement to reflect its own individual circumstances. However, good practice suggests that a corporate governance statement should include the following sections:

- **Introduction**, which shows the context and purpose of the corporate governance statement.
- **Governing body**, outlining the governance structure and the role of university committees, and their effectiveness, noting any impacts from COVID-19.
- **Corporate strategy**, outlining the arrangements for strategic development.
- **Risk management and internal control**, setting out the arrangements for identifying, evaluating and managing risks and the arrangements for monitoring internal controls. Universities should highlight the challenges arising from COVID-19 and Brexit.
- **Going concern**, confirming that the university is a going concern, with supporting assumptions and qualifications as necessary. This disclosure provides support for the use of the going concern accounting policy and should not be inconsistent with the disclosures regarding going concern either in the annual report and accounts or the auditors' report thereon.
- **Conclusion**, providing any concluding observations or messages.

Template for the statement of compliance with the Scottish Code of Good Higher Education Governance

In the opinion of the Governing Body, the University/institution complied with all the principles and provisions of the 2017 Scottish Code of Good Higher Education Governance through the year

Or

In the opinion of the Governing Body, the University/institution complied with all the principles and provisions of the 2017 Scottish Code of Good Higher Education Governance with the exception of

[List areas of non-compliance]

The University/institution is taking action to address this by xxxx and xxxx and expects to be fully compliant by xxxx.