

Chapter 2: The Development of Accounting Policies for the Further Education Sector

Contents

Paragraph number

Statement of Recommended Practice: Accounting for Further and Higher Education 2007	2.1
Articles of Government	2.5
Preparation of Financial Statements for Audit	2.6
Other	2.9
International Financial Reporting Standards	2.11

2007 Statement of Recommended Practice: Accounting for Further and Higher Education

- 2.1 For all accounting periods commencing on or after 1 August 1999 all further education (FE) institutions have had to prepare their financial statements in accordance with the requirements of the *Statement of Recommended Practice: Accounting for Further and Higher Education* (the SORP). In October 2003 the Higher Education/Further Education Board for the SORP (the HE/FE SORP Board) issued a revised SORP, which was effective for all accounting periods commencing on or after 1 August 2003. This version was revised in turn by the issue of an updated SORP in July 2007. **The revised SORP is the primary document to be followed by Colleges and that in accordance with FRS 18.58, any departure from the provisions of the SORP should be explained in the financial statements.** For ease of reference, a copy of the SORP is provided in this Handbook.
- 2.2 The SORP is intended to apply to all Colleges, including voluntary aided sixth-form colleges, voluntary controlled sixth-form colleges and specialist designated institutions. Where these bodies are constituted as companies limited by guarantee they should follow the SORP with any additional disclosures required to comply with the Companies Acts 1985 and 2006.
- 2.3 As the FE and higher education (HE) sectors have special financial and reporting issues that are different from other organisations that have charitable status, the Further and Higher Education SORP takes precedence over the Charities SORP. Where a College is a separate registered charity and seeks clarification on the basis on which to prepare its accounts, then it should discuss its position with its financial statements auditors **and the appropriate funding body.**
- 2.4 The Accounting Standards Board (ASB) wishes to see the continuance of a high-quality SORP for the further and higher education sectors. To meet this objective, the LSC agreed the following with the HE/FE SORP Board.
- The HE/FE SORP Board will issue an accounts direction on any necessary amendments to the SORP. The accounts direction for Colleges is published annually **by the LSC and its successor organisations** and ensures that all institutions in the further education sectors prepare financial statements on a comparable and consistent basis.
 - Additional disclosure requirements, such as corporate governance statements, are issued by individual funding councils.

Articles of Government

2.5 The **LSC and its successor organisations derived their** powers to set accounts direction to Colleges under paragraph 22 of Schedule 2 (Articles of Government) of the Further Education Corporations (former Further Education Colleges) (Replacement of Instruments and Articles of Government) Order 2007. This states the following:

22 (1) The Corporation shall –

(a) keep proper accounts and proper records in relation to the accounts; and

(b) prepare in respect of each financial year of the Corporation a statement of accounts.

(2) The statement shall –

(a) give a true and fair account of the state of the Corporation's affairs at the end of the financial year and of its income and expenditure in the financial year; and

(b) comply with any directions given by the LSC as to the information to be contained in it, the manner in which the information is to be presented, the methods and principles according to which it is to be prepared and the time and manner of publication.

Preparation of Financial Statements for Audit

2.6 It is a duty of the members of the Corporation to present audited financial statements to **the appropriate funding body** by the relevant date (for Colleges with a 31 July year or period end this will normally be 31 December). To meet this deadline, it will be necessary for the members of the Corporation to consider:

- the date upon which the financial statements will receive the approval of the members of the Corporation
- the availability of the Chair and Principal to sign the financial statements on behalf of members of the board
- the timing of the audit itself.

2.7 With regard to the timing of the audit, it will be dependent upon the following:

- the date upon which the draft financial statements (including lead schedules, supporting detail, and so on) are available to the auditors
- the time necessary to complete the audit
- the date that the audited individualised learner record (ILR) is available to the financial statements auditor (for Colleges outside plan-led funding)
- the target date for approval of the financial statements by the members of the Corporation.

2.8 Therefore, it will be necessary for the College to consult with its financial statements auditor and where applicable the funding auditor and plan resources to achieve the requisite timetable.

Other

- 2.9 This accounts direction for the sector is applicable to all Colleges, regardless of their size, constitution or complexity. It is not currently applicable to external institutions, private training providers or other public bodies in receipt of learning and skills sector funding.
- 2.10 The accounts direction does not need to be applied to immaterial items. Guidance for preparers of financial statements on the determination of what is material may be found in statement TECH 03/08 *Guidance on Materiality in Financial Reporting* issued by the Council of the Institute of Chartered Accountants in England and Wales and which superseded TECH 32/96 *The Interpretation of Materiality in Financial Reporting*.

International Financial Reporting Standards (IFRS)

2.11 The Accounting Standards Board issued a consultation paper 'Policy Proposal: the future of UK GAAP' in August 2009 which sets out its proposals for the future reporting requirements for UK and Irish entities. The ASB's proposals envisage a differential reporting regime based on public accountability, broadly in line with the IASB's definition in the IFRS for SMEs, which states that entities do have public accountability if they (a) trade their debt or equity instruments in a public market or (b) hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.

2.12 The ASB has in mind a three tier reporting structure for UK GAAP:

- Tier 1 – full IFRS for entities deemed to have public accountability;
- Tier 2 – IFRS for Private Entities (for the middle tier); and
- Tier 3 – the Board's Financial Reporting Standard for Smaller Entities.

In the consultation document, the ASB proposes that publicly accountable entities would apply IFRS as adopted by the EU ('EU-adopted' IFRS). However, as part of the consultation, the ASB is seeking views on whether converged UK GAAP needs to be supplemented if it is to provide an adequate and practicable accounting framework for the public benefit sector (the future role of SORPs). It should be noted that there is no equivalent to Statements of Recommended Practice (SORPs) under IFRS. The Board's preferred approach is to develop a public benefit standard setting out where different accounting is required for public benefit entities.

The consultation ended in January 2010, but the response of the ASB has not yet been published.

2.13 At present there is no change to the expectation that the FE sector will move to IFRS in line with the UK Accounting Standards Board's convergence programme for UK GAAP. This is not currently expected before 2012/13 and indeed, this timetable may be ambitious. The current 2007 SORP Accounting for Further and Higher Education (and therefore this Accounts Direction) requires compliance with UK GAAP. Consequently, IFRS will only become effective for the sector when UK GAAP converges with IFRS.