

Audit Committee Meeting

Date of Meeting	Monday 13 June 2016
Paper Title	Accounting Policies
Agenda Item	12
Paper Number	AC3-H
Responsible Officer	Stuart Thompson, Executive Director, City of Glasgow College
Status	Disclosable
Action	For Noting

1. Report Purpose

- 1.1.** To consider potential changes to GCRB accounting policies for the accounts for year to 31st July 2016 in response to changes by the Financial Reporting Council (FRC) to financial reporting standards.

2. Recommendations

- 2.1.** The Committee is invited to:

- **note** that GCRB may be required to present its financial statements under FRS 102, in line with all further education entities, dependent on the outcome of discussions with the Scottish Government;
- **note** the changes by the Financial Reporting Council (FRC) to financial reporting standards and the new Statement of Recommended Practice (SORP) for Further and Higher Education; and
- **note** that if FRS 102 is required for 2015/16, it is not expected to have a material impact on GCRB accounts.

3. Background

- 3.1.** The Scottish Funding Council is currently discussing with the Scottish Government whether the Accounts Direction should be replaced by one which requires GCRB to adopt the same accounting arrangements as the colleges, which encompasses FRS (Financial Reporting Standards) and SORP (Statement of Recommended Practice) pronouncements.
- 3.2.** During 2012 and 2013, the Financial Reporting Council (FRC) revised and reformed financial reporting standards in the United Kingdom and Republic of Ireland. The result was the replacement of existing standards with three new standards, one of which is FRS 102.
- 3.3.** The FRC has replaced current UK GAAP with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland with effect from periods beginning on or after 1 January 2015. FRS 102 is based on the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), amended for use in the UK.

- 3.4.** The FRC's primary objective in setting reporting standards is to provide high quality and useable reports for financial users. FRS 102 supports this objective by:
- providing a consistent approach to accounting in line with international standards;
 - reflecting a modern approach to the way entities report their financial transactions; and
 - providing practical solutions for entities depending on their size, complexity and the requirements of their end users.
- 3.5.** With effect from the year ending 31 July 2016, the GCRB may be required to present its financial statements under FRS 102, in line with all further education entities, reporting under the new Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP 2015).
- 3.6.** The SORP represents a significant change in financial reporting across the college sector. This includes changes in disclosure and terminology within the accounts including the names of the primary financial statements. There are also some fundamental changes to accounting treatment e.g. income recognition, treatment of capital grants, and accounting for employee benefits.
- 3.7.** FRS 102 comes into effect from 1st January 2015, meaning that 2015-16 would be the first financial year that the Board will report under the new standard. 2014-15 accounts which were reported and published as normal, before 31st July 2016, will need to be restated under the new FRS 102 standard to allow a direct comparison with the 2015-16 accounts to give an accurate picture of the Board's financial performance.
- 3.8.** Government grants may be accounted for using the accrual model or the performance model. Under the accrual model income is matched to the benefit to which the grant relates. Under the performance model income is recorded as the performance related conditions to which the income relates are met.

4. Conclusion

- 4.1.** GCRB may be required to set revised accounting policies and prepare accounts for 2015-16 compliant with the new standards. This will be dependent on the Scottish Government updating the Accounts Direction to include GCRB on the same basis of accounting as the Colleges.
- 4.2.** The GCRB executive is currently in discussion with the auditors about the implementation of FRS 102 in the 2015-16 annual accounts.
- 4.3.** If implemented, the GCRB executive do not expect any negative financial impact on the 2015-16 GCRB accounts, although presentational changes may be required and this will be worked through with the auditors. Once fundable body status is achieved the financial implications of implementation will be reviewed and may change.

5. Risk Analysis

- 5.1.** The main risk is that GCRB and College accounts will now have increased annual volatility due to the new income recognition.

6. Legal Implications

- 6.1.** Should it be decided that these accounting policy changes apply to GCRB, GCRB will have a duty to produce accounts compliant with these standards.

7. Financial Implications

- 7.1.** Implementing the updated accounting policies compliant with the new accounting standards will have no financial impact on the GCRB accounts as the running costs are mainly staff costs (£200k) and other costs (£40k) and no capital funding. The main financial impact will be on the assigned Colleges with the main areas of change being Government (SFC) capital grants, other capital grants and leasing.
- 7.2.** Aligning the accounting policies during 2016-17 will enable more straight forward consolidation of the accounts if this is required at any point in the future.

8. Regional Outcome Agreement Implications

- 8.1.** Through the conditions of grant associated with the Regional Outcome Agreement, GCRB and the assigned colleges are required to conduct their affairs in accordance with the expected standards of good governance, which includes preparing accounts in accordance with the relevant requirements.