

“Policy Proposal: The Future of UK GAAP”, ASB August 2009

Consultation Response from the Further Education Colleges Finance Directors’ Group (‘CFDG’)

Further Education (‘FE’) Colleges in England are independent charitable corporations. Apart from special designated institutions, colleges were incorporated by the Further and Higher Education Act 1992. College governing bodies and their principals as accounting officers have a duty to ensure that financial statements are prepared in accordance with accounting standards. The Statement of Recommended Practice for Further and Higher Education (FE/HE SORP) explains how accounting standards apply to colleges.

The CFDG is a voluntary organisation representing finance directors of all FE colleges in England. It operates on a regional and national basis, organising meetings and dealing with technical issues facing college finance directors.

There are over 360 FE colleges in England. They are the largest providers of post-16 general and vocational education and training, serving over four million learners. The FE sector has an income of £7bn and staff costs of £4.5bn for over 143,000 full-time equivalent employees.

Question 1 – Which definition of Public Accountability do you prefer: the Board’s proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?

FE colleges, whilst operating in the public sector, are exempt charities and are ‘not for profit’ entities. Accordingly, CFDG find the definition of Public Accountability in the consultation confusing.

Using the meaning of ‘Public Accountability’ as set out in the consultation, we interpret a public benefit entity as ‘non-publicly accountable’. Therefore CFDG believe that Colleges are public benefit entities (PBE), which would be subject to the proposed Tier 2 regime.

We suggest that the terms ‘Public Accountability’ and ‘Non-public Accountability’ be dropped and instead the underlying definitions should be used in the 3-tier structure, as shown in the table below:

Accounting Regime	Nature of Entities	Type of Entities
Tier 1 EU adopted IFRS	Entities that issue debt or equity instruments that are traded in a public market and deposit-taking entities or entities that hold assets in a fiduciary capacity for a broad group of outsiders.	PLCs AIM listed entities Mutual financial institutions Investment banks Credit Unions
Tier 2 IFRS for SMEs	Entities that do not issue debt or equity in traded public markets or take deposits or hold assets in a fiduciary duty for a broad group of outsiders.	Non-public companies Partnerships Public benefit entities
Tier 3 FRSSE	Small entities	Turnover < £6.5m Balance Sheet <£3.26m Staff <50

Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

CFDG agrees that all publicly accountable entities (as in the above table) should be included in Tier 1.

Question 3 – Do you agree with the Board’s proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS? If not, why not?

The consultation does not address wholly owned subsidiaries of PBE. We propose that these subsidiaries should adopt either IFRS for SMEs or FRSSE, in line with the parent company reporting regime.

Question 5 – Do you agree with the Board’s proposal that the IFRS for SMEs should be used by ‘Tier 2’ entities?

CFDG agrees with this proposal, so long as the characteristics of PBE are reflected within Tier 2 arrangements. Please see our response to Questions 11 and 12 below, where we express a preference for an IFRS for PBE standard to be applicable to PBE.

Introducing a size qualification, with the potential for different accounting regimes applying to different sized entities in the same sector, could have an undesirable effect in the FE sector, reducing comparability and consistency of financial reporting. This would hinder readers of financial statements - funders, stakeholders and regulators.

Question 6 – Do you agree with the Board’s proposal that the IFRS for SMEs should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendments that should be made, as well as the reason for recommending these amendments.

CFDG support the proposal, but see our response to Questions 11 and 12 below, where we express a preference for an IFRS for PBE standard to be applicable to PBE.

Question 7 – Do you agree with the Board’s proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.

CFDG agree with this proposal but, for comparability reasons, wish to see the same reporting regime applied to all similarly constituted FE colleges, irrespective of size. For PBE would prefer this reporting regime to be determined through an IFRS for PBE standard.

Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

CFDG agree with this proposal but would wish to see all FE colleges reporting under the same regime, irrespective of size.

Question 9 – Do you agree that the FRSSE could be replaced by the IFRS for SMEs after an appropriate transition period, following the issuance of the IFRS for SMEs?

CFDG consider that for very small entities the FRSSE could be maintained unless there are comparability reasons for very small entities reporting under a different regime, as would be the case for very small FE colleges.

Question 10 – Do you agree with the Board’s current views on the future role of SORPs. If not, why not?

CFDG agree that there should be a clear and demonstrable need to justify industry specific SORPs. CFDG believe that such a need exists and will continue to exist for FE.

CFDG consider that it is unlikely that SORPs, or their equivalent, could disappear, given the unique characteristics of certain sectors and industries and the overriding need for financial information to be relevant, comparable and understandable.

Question 11 – Do you agree with the Board's proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?

CFDG strongly support the proposal to create a generic PBE standard, but supplemented by SORPs.

A generic accounting standard will help to address common themes and issues where either IFRS is inappropriate or silent. However, what characterises the public benefit sector is its diversity of mission, structure and funding. The ASBs 'Statement of Principles: Interpretation for Public Benefit Entities', characterises PBE as "reporting entities whose primary objective is to provide goods or services to the general public or for social benefit and where any equity has been provided with a view to supporting that primary objective rather than with a view to providing a financial return to equity shareholders". This characterisation accommodates the complexity and diversity of PBE across differing sectors.

A significant issue in accounting for charities is fund accounting - the application and stewardship of funds for particular purposes. FE operates with a mix of public and private funding, charitable and non-charitable activity, delivering education, training and community cohesion as a public service whilst also meeting developmental needs in the private sector. Social landlords enjoy relatively simple recurrent funding but complex accounting for asset funding. These unique distinctions will require separate SORPs for PBE. A single PBE standard will be insufficient to capture the diversity of PBE without substantially compromising the key principles of financial information – relevance, reliability, comparability and understanding.

CFDG's preferred approach is to develop a common standard for PBE supplemented by specific SORPs. A generic standard will enable a common approach to be developed to deal with many shared issues across the public benefit sector, while individual SORPs will deal with the elements of uniqueness in individual sectors so that financial reporting adheres to the Statement of Principles.

Question 12 – If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?

CFDG support the 'stand alone' approach with a standard covering all requirements, perhaps using IFRS for SMEs as the starting point and developing an IFRS for PBE as a sister standard, with equal status.

The advantage of an IFRS for PBE is that it could be a single authoritative standard, making the application and interpretation of IFRS more practical to implement and more accessible to preparers and users of financial statements. A 'two document' approach (IFRS and a PBE standard) could lead to misinterpretations and would be more cumbersome to use.

CFDG believe that a single IFRS for PBE standard will result in a more straight-forward change regime when new IFRSs are introduced or amendments to IFRS are made. Updating a single all inclusive IFRS for PBE standard will help to ensure that changes to IFRS are implemented properly and in a considered fashion, reducing the potential for conflicts that might arise if there are two documents governing how IFRS for PBE should be applied. Conceivably, the two document approach might require changes to both documents at the same time, further complicating the change process.

Question 13 – Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?

CFDG support the proposal that a common standard should address the issues identified in the consultation, which, so far as we are aware, identifies all of the distinctive issues facing PBE.

The ASB's review of PBE SORPs identified the need to consider different practises across PBE SORPs in relation to accounting for capital grants. The proposed PBE standard would be an appropriate medium to address this type of difference.

In relation to issues under the 'identifying the reporting entity' heading, it would help if attention could be given to subsidiary, associate and joint venture undertakings that are companies limited by guarantee, a common legal form within FE and HE and the charity sector. Such entities can be subject to consolidation yet the controlling parent may have no right to the economic benefits of those companies other than on their winding-up.

Question 14 – The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?

CFDG strongly believe that there will need to be continuing guidance to supplement the proposed PBE standard, reflecting the particular needs of the FE sector. If this guidance is to be accepted by users of financial statements and by auditors then it needs authoritative endorsement by the Board or an equivalent body.

Question 15 – If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

CFDG believes that the cost of implementing a new set of accounting standards could be high. In April 2009 PriceWaterhouseCoopers published a report on the potential impact of implementing IFRS, comparing IFRS with the current FE/HE SORP. The report identified 14 areas of significant difference, 18 areas of some difference and 13 areas of minor or no differences.

There is concern within the FE sector that the change could result in a substantial increase in complexity and in the length of financial statements, diminishing readability and comprehension. The gulf between internal management reporting and external financial reporting may increase under IFRS.

The global accounting regime appears to be moving to a single and common IFRS approach to financial reporting, which should aid comparability and benefit readers of financial statements. CFDG support the concept of the FE sector adopting IFRS, so long as this is in an appropriate form.

Question 16 – What are your views on the proposed adoption dates?

CFDG considers the proposed adoption date to be very ambitious. After considering responses to this consultation the Board will presumably then need to issue Exposure Drafts (ED) for the IFRS for PBE standard. This ED will no doubt be subject to consultation before the publication of a new standard. When the ED is published work can start on a new SORP. However, the SORP cannot be finalised until the new standard is ready and if the ED includes contentious issues then the SORP may not be completed until the standard is published. SORPs are also subject to a period of consultation. Aside from the time for 'due process', if FE institutions are to plan to implement IFRS they will need some certainty of how they are going to apply. Allowance for training and planning must be included in the timetable.

CFDG feel that it would be more realistic for the timetable to be set back at least two years, particularly as the FE sector is going through a period of significant change and could be facing the prospect of significant challenges as public sector funding becomes more constrained. However, CFDG recognises that as more sectors move to reporting under IFRS the case for the FE sector similarly changing will become increasingly compelling.