Scottish Funding Council
Promoting further and higher education

SFC/18/04
Agenda item 7
6 March 2018

Review of SFC accounting policies

Purpose

1. To update the Audit and Compliance Committee on the SFC's accounting policies to be applied in preparation of the 2017/18 Statement of Accounts.

Accounting Policies

2. It is a requirement of the Government Financial Reporting Manual FReM that the Statement of Accounts be produced in accordance with proper accounting practices. The SFC's accounting policies are the specific principles, conventions, rules and practices that are applied in preparing and presenting the annual accounts. Accounting policies need not be applied if the effect of applying them would be immaterial. These accounting policies have to be disclosed as a note to the annual accounts.

New and Amended Accounting Policies

3. The proposed accounting policies are in line with those used in the preparation of the 2016/17 accounts. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes is set out in the Annex.

4. The main changes are:

   New accounting policy: Financial transactions (page 6). We are discussing with the Scottish Government and Audit Scotland the appropriate accounting policy for financial transactions and will update the Committee in due course.

   Amended accounting policy: VAT (page 3). We have recently been advised by HMRC that we need to register for VAT given the level of our secondment income in recent years. We are working through the implications of this change and will update the Committee once these are known.

5. We are also reviewing whether an accruals policy should be used for ESF and ERDF income, instead of the current cash basis (page 4). However, a major consideration is the significant uncertainties associated with this income.

Risk assessment

6. This paper is designed to mitigate the risk of misstatement of our annual accounts.

Equality and diversity assessment

7. The information in the paper refers to administrative procedures and does not adversely impact on any groups with protected characteristics.

Recommendations

8. The Committee is invited to note this paper.

Financial implications

9. There are no direct financial implications from this report.

Publication

10. This paper will be published on the Council's website following the meeting.

Further information

11. Contact: Fiona O'Neill, Assistant Director of Finance (direct line: 0131 313 6525, email: foneill@sfc.ac.uk).

Annex

Accounting policies

1. Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adapted and interpreted by FReM. The accounts have been prepared under a direction issued by Scottish Ministers in accordance with paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005. The Accounts Direction given by Scottish Ministers is produced as an appendix to these accounts.

Property, plant and equipment

Additions to assets over £5,000 are capitalised. Using the straight-line method, depreciation is provided on all tangible non-current assets at rates calculated to write-off the cost, less estimated residual value, of each asset over its useful life. Given their low value, depreciated historic cost is used as a proxy for fair value. The useful lives are as follows:

Furniture and fittings	5 years
Information technology and other equipment	3 years

Intangible assets

Intangible assets are carried at fair value. They are amortised on a straight-line basis over estimated useful lives of three years.

Taxation

HM Revenue and Customs does not consider the activities of the Council to be a trade and the grant income received is not therefore liable to corporation tax.

[The Council is has not been VAT registered, therefore, irrecoverable VAT has been charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. We intend revising this policy to 'The Council is VAT registered. VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.]

IFRS issued but not effective

International Accounting Standard (IAS) 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. At 31 March 2018 the following IFRS, none of which will be material to SFC's annual accounts, have been issued but are not effective as they are not yet applied in the Government Financial Reporting Manual (FReM):

Amendment to IAS 7 Disclosure initiative

IFRS 9 – Financial instruments – effective date: periods beginning on or after 1 January 2018

IFRS 16 – Lease – effective date 1 January 2019

Significant judgements

In preparing these accounts the Council makes certain judgements on key areas of income, expenditure, assets and liabilities.

The Council's policy is to recognise funding adjustments as recoverable grants only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding.

The Council has powers under the Further and Higher Education (Scotland) Act 2005 to determine amounts of grant to recover from institutions where the terms and conditions of grant have not been met. In exercising these powers the Council Executive may in some cases decide not to seek recoveries from institutions for periods prior to a certain year. In such cases the decision is taken on an individual basis with due regard to the overall financial position of the institution and the circumstances giving rise to a potential recovery.

Grants and loans

Grants receivable

Grant-in-aid received for revenue, capital and running costs purposes and other Government grants are regarded as financing and are credited to the income and expenditure reserve. Grant-in-aid received is treated on a cash basis.

European Social Fund (ESF) and European Regional Development Fund (ERDF) income are treated on a cash basis in view of the uncertainty over the level of income SFC will receive.

Recoverable grants are recognised at the dates agreed with the organisations concerned.

Grants payable

The Council pays grants on the basis of: monthly instalments which take into account the pattern of the institution's receipts and payments; or on agreed profiles; or on receipt of claims from institutions. This largely reflects the pattern of need at institutions. Funds to institutions are distributed on an academic year basis as a result of which there may be prepayments at the end of the financial year.

Clawback and penalties are recognised when the amount of the funding adjustment has been established and approved by Council.

Recoverable grants are recognised at the dates agreed with the organisations concerned.

Loans

Interest free loans are payable to staff for the purchase of season travel tickets.

Any other loans are payable under the terms set out in the Further and Higher Education (Scotland) Act 2005.

Statement of comprehensive net expenditure

All operating costs relate to the Council's continuing activities. There have been no acquisitions or discontinued activities during the period.

Operating lease charges

Rentals payable under operating leases are charged to the Statement of Comprehensive Net Expenditure in the year to which they relate.

Pension costs and other post-retirement benefits

Past and present employees are covered by the provisions of the PCSPS, which is an unfunded multi-employer defined benefit scheme, but the Council is unable to identify its share of the underlying liabilities. The scheme is accounted for as a defined contribution scheme under the multi-employer exemption permitted in IAS 19 'Employee Benefits'. The expected costs are accounted for on a systematic and rational basis over the period during which the Council benefits from employees' services by payment to the PCSPS of an amount calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

Payments to the defined contribution schemes are expensed as they become payable. Early severance payment obligations are expensed in the year in which the employee leaves.

Short-term employee benefits

A liability and an expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits.

Financial guarantees

In accordance with IAS 39, financial guarantees are considered for recognition as liabilities. The likelihood of a liability occurring is considered to be remote therefore the financial guarantees have been treated as a contingent liability in line with IAS 37 and are not recorded on the balance sheet.

Financial transactions

[This policy will be finalised following feedback from the Scottish Government and Audit Scotland.]