

ICAS consultation response to The Further and Higher Education SORP Board  
Accounting for Further and Higher Education Statement of Recommended Practice  
Exposure Draft (SORP2015 ED)

15 November 2013

**Q1 Do you have any general comments, specific issues or remarks  
you would like to make on the SORP2015 ED?**

**Operating and Financial Review**

We suggest that the Operating and Financial Review includes a clear statement on the business model. Our understanding is that universities are creating more distinct strategies and models to attract students in response to market pressures. Over time this could create greater variety and specialisms. It would therefore be helpful to have a statement that explains the business model and how it supports the organisation's strategy. This is also consistent with the latest changes replacing the Operating and Financial Review with a strategic report for listed companies in [The Companies Act 2006 \(Strategic Report and Directors' Report\) Regulations 2013](#) and the guidance being developed on this by the FRC.

Various educational institutions use group structures. For transparency and accountability, it would be useful to explain within the Operating and Financial Review why group structures are used and how these support the business model and delivery of objectives. Appropriate disclosures should also be made on group relationships, financial guarantees and commitments which would help users of the accounts to make more informed judgements about risk and performance.

**Alignment with FRS 102**

ICAS supports the approach to align the SORP with FRS 102, limiting divergences only to areas where it can be justified that there is a materially different way in which the education sector operates that necessitates a difference in accounting to better represent the substance of a transaction.

We believe it would be helpful to publish a map of where the SORP aligns and diverges from FRS 102, attached to the final SORP.

**Q2 Do you agree with the SORP Board's proposal to adopt a single  
"Statement of Comprehensive Income"?**

We are not convinced there is sufficient evidence for the SORP to remove the option of choice and would prefer that this choice is left open so that organisations can identify their preferred norm, unless additional compelling evidence arises through the consultation process to support the limitation of choices. The combination of the two statements on one means that surplus/deficit is not the final line which could potentially be more confusing for non-accountants. Surplus / deficit is the key figure in the accounts so it must be easily identifiable.

**Q3 Do you agree with the SORP Board's proposal of having a sub-total showing total income  
before grants and donations on the face of the income statement?**

Yes.

**Q4 Do you agree with the SORP Board's proposal that the primary  
statements should be based on a single column presentation?**

Yes.

**Q5 Do you agree with the SORP Board's proposal that student accommodation should be classed as property, plant and equipment rather than investment property in group financial statements?**

Yes.

**Q6 Do you agree with the SORP Board's proposal to show gains and losses on the disposal of property, plant and equipment after total expenditure but before the net surplus for the year?**

Yes.

**Q7 Do you agree with the SORP Board's proposal to not permit the accrual model for Government grants or would you prefer the SORP to not restrict any FRS102-permitted accounting policy choices and leave it to individual regulators to come to their own view on whether or not they wished to restrict accounting policy choices via their Accounts Directions ?**

This is a significant departure from FRS 102. Our view is that the accrual method of releasing capital grants better reflects the substance of the transaction. There is a risk that the volatility in results which could arise from not applying the accruals model, could create misleading results, particularly where the level of grant is material and there is a significant impact, for example, changing a surplus to a deficit. This would create a need for further explanations and an additional layer of complexity, which would need to be followed through to understand the substance of the transaction and financial position. This does not support transparency, particularly for non-accountants. It also reduces cross sector comparisons, for example in discussions with banks and other lenders.

**Q8 Do you agree with the SORP Board's proposal that a time condition stipulated by grantors and donors is a performance condition?**

We agree.

**Q9 Do you agree with the SORP Board's proposal to show two lines on the face of the balance sheet, one capturing provision for pension liabilities, the other showing all other provisions for liabilities?**

Yes.

**Q10 Do you agree with the SORP Board's proposal that the key management personnel compensation disclosure be defined as an institution's senior management team?**

We agree that 'key management personnel' can be defined as the senior management team.

To align with good practice remuneration disclosures across the public and private sectors, as well as the senior management team, disclosures should also include the highest paid i.e. any other staff (who may not be an executive) who are paid over a certain threshold.

Remuneration of group bodies such as subsidiary chief officers are not included yet some universities operate group companies and provide group accounts. This would provide a more complete picture, consistent with the scope of group accounts. A comparative is that Scottish local authority remuneration disclosures also apply to group entities so subsidiary company chief officer remuneration is reported. This disclosure recognises that accountability for delivering a service is equal whatever the delivery model chosen by the main body receiving the public funds.

Please see our response to question 11 for further comment.

**Q11 Would you support adopting a more comprehensive remuneration disclosure regime for higher paid staff, and for trustees, in the SORP? If so, what disclosures should be made?**

Yes, ICAS firmly supports improving the transparency of remuneration disclosures within this sector. Enhanced remuneration disclosures are a recognition that bodies receiving significant levels of public funds have an additional duty to demonstrate proper stewardship of those funds. This is a matter of public interest which we believe is of higher priority than sector interest.

Educational institutions receive significant amounts of public funds for example, around £4.5 billion from the Higher Education Funding Council for England (HEFCE) or £1.6 billion from the Scottish Funding Council or as well as other government grants. We do not believe it is adequate for organisations such as educational institutions that receive significant amounts of public funds to only disclose only an aggregate of key management compensation. This compares poorly with good practice across both the public and private sector who provide a break down within a more detailed Remuneration Report.

Other publicly funded organisations have significantly updated and extended their disclosures on executive pay. Providing a remuneration report is now the norm in both the public and private sectors (quoted companies). The education sector has not kept pace with these developments. We would encourage the SORP Board to take the initiative to make the step change necessary to improve the transparency of remuneration and align with good practice by introducing a Remuneration Report and providing a consistent and complete definition of remuneration.

The size and complexity of education bodies varies significantly. To ensure a proportionate response, we suggest that the smallest organisations would not be required to publish a full remuneration report. We suggest that exemptions are applied according to size of organisation, rather than a simple split of HE/FE.

**Q12 Do you agree with the SORP Board's interpretation of FRS102 with respect to how service concession arrangements should be accounted for?**

We agree.

Contact: [accountingauditing@icas.org.uk](mailto:accountingauditing@icas.org.uk)