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Our reference: *GM 0835 2021*

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Dear Peter

FINANCIAL REPORTING BILL ADDITIONAL QUERIES

Thank you for your letter of 17 October 2021 seeking the Department's view on the response received from the Southern Regional College (SRC), in relation to additional costs which may be incurred as a result of the Financial Reporting (Departments and Public Bodies) Bill.

The SRC have highlighted the need for additional audit work to be carried out as a result of the Bill, which in turn will lead to additional audit costs. The need for additional audit work arises from the fact that the FE Colleges have a different year end to the department; colleges have a July year end, whilst the department has a March year end.

There are only a small number of bodies with non-coterminous year ends, primarily the North/South Bodies, and the FE Colleges themselves. Accounting standards require a body with a different year end to prepare additional financial information as of the same date as the parent for consolidation. However, where this is not practical, the Standards allow consolidation of the existing financial information with adjustments for significant transactions, provided that the difference in year ends is not more than 3 months; this is the treatment being applied to North/South Bodies. As the FE Colleges' year end is more than 3 months later than DfE's year end, additional financial information will be required, as at 31 March each year, to enable consolidation.

DoF and DfE also initially considered the possibility of changing the Colleges year end to align with the department's year end. However, it was concluded by DfE, in consultation with the FE Colleges, that this would not be feasible, as it would not be in line with the Colleges operating year.

DfE and the FE Colleges' preferred option was to use existing audited information from the most recent audited accounts for the April – July period (4 months), and use internal management reporting information for the August – March period (8 months) which was agreed with their auditors.

As the FE Colleges are material to the group, this internal management reporting information would require additional audit review, and there would likely be some additional cost associated with this. In addition, assurances would be needed on material items, with pensions and property valuations being key, so updated valuations may also be required, which may lead to additional costs.

Whilst the possibility of additional costs had been discussed with the department during the initial phase of the project, the value or materiality of those potential additional costs has not subsequently been raised. As such, at this stage we are not aware if these additional costs are likely to be significant. We are currently seeking an update from DfE and will advise the Committee of the outcome of this as soon as possible.

Accruing Resources Limit

In addition the Committee also sought clarity in respect of future Budget Bills and whether they would include a limit on accruing resources. Clarity was sought as to whether in the absence of an accruing resources limit, a further tidying up amendment might be needed to the GRAA NI Act in respect of Clause 8(1) in order to remove the reference to the limit on accruing resources in the Budget Act.

The new legislation will allow for voting net and so no limit on accruing resources will be set. GRAANI section 8(1) states that "The Department may, subject to any relevant limit set by a Budget Act, direct that resources accruing to a department or a relevant body or person (“accruing resources”) may be used for any purpose in any financial year in addition to resources authorised by Budget Act to be used for that purpose in that year".

The department consulted with DSO when considering amendments needed to GRAANI and DSO advice was that section 8 of GRAANI did not require to be amended, because it is “subject to any relevant limit set by a Budget Act”, allowing, therefore, for the absence of such limit.

I hope this is helpful in the Committee’s consideration of this Bill.

Yours sincerely

[redacted]

DEPARTMENTAL ASSEMBLY LIAISON OFFICER