

## Audit Committee Meeting

Date of Meeting	Monday 12 December 2016
Paper Title	Update on Consolidation of Accounts
Agenda Item	10
Paper Number	AC2-F
Responsible Officer	Robin Ashton, Executive Director
Status	Disclosable
Action	For Noting

### 1. Report Purpose

- 1.1. This paper provides members with an update on considerations as to whether GCRB needs to consider whether or not the Glasgow college region should prepare consolidated accounts for the period to 31 July 2017.

### 2. Recommendations

- 2.1. The Committee is invited to:

- **note** the current evaluation as to the extent to which the Glasgow college region meets the criteria which would require it to prepare consolidated accounts for 2016-17;
- **note** the update on the two other multi-college regions as to how they have approached the consolidation issue;
- **note** that management is in active discussion with the external auditors and the Scottish Funding Council about the correct approach; and
- **agree** that a final position for 2016-17 is decided at the next meeting of the GCRB Audit Committee due to be held on 20 February, 2017.

### 3. Background

- 3.1. GCRB's accounts direction requires GCRB to comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts. The direction also requires GCRB to comply with the Government Financial Reporting Manual 2015-16 (FRoM) where applicable.
- 3.2. At the last meeting of the Committee members considered the criteria for consolidation of accounts as set out in the SORP and FRoM. The analysis provided suggested that of the tests for consolidation to be a requirement set out in within the excerpt from the FRS102 guidance, GCRB seems to meet only one of these; that is that GCRB has the, *"power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body."*

- 3.3.** It was noted however, whilst this statement may reflect the legislative powers of GCRB, it does not accurately describe the process currently used within the Glasgow college region for the appointment of assigned college board members.

#### **4. Update on Consolidation Considerations**

- 4.1.** Following discussion of consolidation, members requested that the GCRB Executive Director consult with college colleagues working in the two other multi-college regions (Lanarkshire and UHI) to gather information as to how they have approached the consolidation issue.

- 4.2.** The following information is now provided on the two other multi-college regions:

- Lanarkshire did not consolidate accounts for 2015-16 but intends to do so for 2016-17. The Lanarkshire region is formed of a host college which acts as the Regional Strategic Body and which has one other college assigned to it. SFC granted Lanarkshire fully operational status in August 2016 and as part of preparations for this, the two colleges undertook a range of work to align their practices, including work to consolidate approaches to accounting, risk management and internal audit. They therefore took the view that the element of dominant influence and control was such that consolidation was required.
- UHI did not consolidate accounts for 2015-16 and intends to make the case not to do so for 2016-17. The UHI region is formed of 13 colleges of which 5 are incorporated and who could be required to consolidate accounts. The regional strategic body made a case to the auditor similar to that made by GCRB for its 2014-15 accounting period, highlighting the role of the Scottish Government and national guidance in determining the composition of the board and asserting that the level of influence should not be categorised as “dominant influence” because College Board Members are responsible for the operation and the financial sustainability of their own college.

- 4.3.** The GCRB Executive Director has also had further discussion of accounts consolidation with the external auditor. During this, they have informed GCRB that they will contact Audit Scotland to further discuss whether accounting guidance suggests that GCRB should consolidate accounts.

- 4.4.** It is suggested to members that following further consideration of views on consolidation, including those of the Audit Scotland, that the Committee seek to agree a final position for 2016-17 with the external auditor at the next meeting of the GCRB Audit Committee due to be held on 20 February, 2017.

#### **5. Risk Analysis**

- 5.1.** The main risk is that GCRB’s external auditors do not agree with their assessment as to whether the Glasgow college region should prepare consolidated accounts. GCRB management has therefore shared this assessment with the external auditors and is in discussion with them.

#### **6. Legal Implications**

- 6.1.** The legal aspects of this matter flow from the accounting requirements to which GCRB is subject, which are addressed in the body of the paper.

**7. Financial Implications**

- 7.1. Although it is not a valid consideration in determining whether or not to prepare consolidated accounts, it is the case that having to do so would incur additional cost.

**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.