

Audit Committee Meeting

Date of Meeting	Monday 20 February 2017
Paper Title	Consolidation of Accounts
Agenda Item	7
Paper Number	AC3-C
Responsible Officer	Robin Ashton, GCRB Executive Director
Status	Disclosable
Action	For Noting

1. Report Purpose

- 1.1. This paper asks members to consider and agree an approach to the consolidation of accounts for the Glasgow college region for the period to 31 July 2017.

2. Recommendations

- 2.1. The Committee is invited to:

- **note** that there has been further dialogue with Scott Moncrieff (GCRB’s external auditor), SFC and Audit Scotland with regards the consolidation of Glasgow Region accounts and that this has affirmed that the decision as to whether to consolidate rests exclusively with GCRB;
- **note** that on the basis that GCRB is granted fully-operational status within the 2016-17 period, it is the opinion of the external auditor that should GCRB decide not to consolidate the region’s accounts, it is likely this would lead to GCRB’s accounts being qualified;
- **note** that consolidation will involve additional work and cost to the region but will contribute to the process of standardising regional accounting policies and develop an increased understanding of regional finances, both of which will support longer term goals to enhance regional efficiency; and
- **agree to recommend** to the GCRB Board that the Glasgow College Region should consolidate its accounts for 2016-17; and
- **instruct**, subject to Board approval, that the GCRB Executive Director work with the assigned colleges to develop a consolidation implementation plan for consideration at the next meeting of the Committee.

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 (FReM) where applicable.

- 3.2.** The cover letter for GCRB's accounts direction from the Scottish Funding Council for 2015-16 stated that:

"Under the relevant accounting standards, and given the wide ranging powers enshrined in the legislation that RSBs have over assigned colleges, it would appear likely that consolidated financial statements may require to be prepared by GCRB. However, we fully recognise that the decision on whether consolidated financial statements will need to be prepared, based on a review of the specific arrangements which have been in place during the year, rests with GCRB and its auditors."

- 3.3.** As GCRB is not yet fully-operational, GCRB agreed with the external auditor agreed that consolidation was not required for the 2015-16 accounts.
- 3.4.** It is not expected that the SFC accounts direction for 2016-17 will differ significantly from the 2015-16 direction and therefore, GCRB requires to consider whether to consolidate the region's accounts for 2016-17.

4. Consolidation of 2016-17 Accounts

- 4.1.** The GCRB Audit Committee has discussed consolidation on a number of occasions. These discussions have recognised the work which would be involved in consolidating the region's accounts, both for GCRB and for the assigned colleges. However, members are also aware that consolidation would contribute to the process of standardising accounting policies across the assigned colleges and would also develop an increased understanding of regional finances, both of which would in turn support longer term goals to enhance regional efficiency.
- 4.2.** Looking forwards to the preparation of accounts for 2016-17, GCRB is aware that the external auditor is of the opinion that when fully-operational fundable body status is enacted, that should GCRB decide not to consolidate the region's accounts, then it is likely that the GCRB accounts would be qualified.
- 4.3.** At the previous meeting of the Committee, members agreed that they would not wish GCRB to be in a position where their accounts were qualified, particularly as this in turn would lead to a Section 22 report. On this basis, members asked that further consultation be undertaken with Audit Scotland and the SFC to assess whether either of these organisations would provide further clarification as to whether it was their view GCRB should consolidate its accounts, or if this requirement could be delayed until 2017-18. Following discussion with both the SFC and Audit Scotland it is now clear that any decision on consolidation rests exclusively with GCRB.
- 4.4.** Therefore, taking into consideration the points made above, it is recommended that the Committee agree to recommend to the GCRB Board that the Glasgow College Region should consolidate its accounts for 2016-17.
- 4.5.** Should the Board agree to consolidation for 2016-17, GCRB will work with the assigned colleges to develop a consolidation implementation plan for consideration at the next meeting of the Committee.

4.6. In addition, the Chair of the GCRB Audit Committee will write to the Chairs of the assigned college audit committees to ensure that these committees are made aware of the GCRB decision, its rationale and its commitment to working collaboratively to minimise additional or unnecessary work.

5. Risk Analysis

5.1. The main risk is that GCRB's accounts do not comply with accounting standards and are qualified by the external auditor. The recommendation to consolidate accounts in 2016-17 significantly reduces this risk.

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 doing so will 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. Consolidation is therefore necessary to ensure compliance.