

Audit Committee Meeting

Date of Meeting	Monday 13 June 2016
Paper Title	Consolidation of accounts
Agenda Item	11
Paper Number	AC3-G
Responsible Officer	Stuart Thompson, Executive Director, City of Glasgow College
Status	Disclosable
Action	For agreement

1. Report Purpose

- 1.1. GCRB needs to decide whether or not to prepare consolidated accounts for the year to 31st July 2016.

2. Recommendations

- 2.1. The Committee is invited to:

- **note** that at its meeting on 31st August 2015, GCRB Audit Committee members agreed that GCRB did not exercise 'dominant influence' over the assigned colleges and therefore GCRB did not require to prepare consolidated accounts for the region;
- **note** that a critical factor in the decision of the GCRB Audit Committee not to consolidate accounts was that GCRB was not yet a fully fundable operational body and therefore it did not control the funding or grant conditions for the assigned colleges;
- **agree** that as GCRB will not achieve full fundable body status until after the 1st August 2016 which is outwith the 2015-16 college accounting period, consolidation is not required for the 2015-16 accounting period; and
- **request** the GCRB management to bring forward a paper to a future meeting of the Audit Committee to consider accounts consolidation for the 2016/17 accounts within the context of the SFC granting fully fundable operational body status to GCRB within that accounting period.

3. Background

- 3.1. The objective of consolidated accounts is to extend the reporting entity to embrace other entities which are subject to its control. They involve treating the net assets and activities of the other entities as if they were part of the main organisation's own net assets and activities. The overall aim is to present the results and state of affairs of all the organisations as if they were a single entity. The basic framework is found in the Companies Act 1985 as subsequently amended; and in Financial Reporting Standard (FRS) 2 – Accounting for subsidiary undertakings.

- 3.2.** A 'subsidiary undertaking' is one in which the main organisation (or 'parent'):
- has a majority of the voting rights; or
 - is a member and can appoint or remove the majority of the board; or
 - is a member and controls alone a majority of the voting rights by agreement with other members; or
 - has the right to exercise a dominant influence through the Memorandum and Articles or a control contract; or
 - has a participating interest and either; actually exercises a dominant influence over it, or both are managed on a unified basis.
- 3.3.** At its meeting on 31st August 2015, members of the GCRB Audit Committee agreed that GCRB and the assigned colleges did not fully meet the above criteria and therefore consolidated accounts were not required for the region for the 2014-15 accounting period.
- 3.4.** A critical factor in the consideration of whether GCRB currently exercised dominant influence over the assigned colleges was that whilst GCRB was not a fully fundable operational body, it did not control the funding or grant conditions for the assigned colleges and therefore the level of influence could not be categorised as 'dominant'.
- 3.5.** As GCRB will not achieve full fundable body status until after the 1st August 2016 which is outwith the 2015-16 college accounting period, consolidation is not required for the 2015-16 accounting period.
- 3.6.** It is expected that GCRB will gain fully fundable operational body status on August 1st 2016, and therefore further consideration of any potential necessity to consolidate the 2016/17 accounts will be required.

4. Risk Analysis

- 4.1.** The main risk is that GCRB's external auditors do not agree with the assessment of GCRB.

5. Legal Implications

- 5.1.** The legal aspects of this matter flow from the accounting requirements to which GCRB is subject.

6. Financial Implications

- 6.1.** 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.

7. Regional Outcome Agreement Implications

- 7.1.** 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.