Glasgow Colleges' Regional Board

2023/24 Annual Audit Report

Prepared for the Glasgow Colleges' Regional Board and the Auditor General for Scotland

January 2025

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Introduction

1. This report summarises the findings from the 2023/24 annual audit of Glasgow Colleges' Regional Board (GCRB). The scope of the audit was set out in an Annual Audit Plan presented to the 28 May 2024 meeting of the Audit and Assurance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of GCRB's annual report and consolidated financial statements
- conclusions on financial sustainability as required by the *Code of Audit Practice 2021*.

2. This report is addressed to GCRB and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. Mark Laird has been appointed by the Auditor General as auditor of GCRB for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of this five-year appointment. However, responsibility for the audit was assigned to Lisa Duthie for 2022/23 only, due to a change in availability.

4. We would like to thank board members, audit and assurance committee members and executive team for their cooperation and assistance in this year and we look forward to working together constructively over the remainder of the appointment.

Responsibilities and reporting

5. GCRB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and consolidated financial statements that are in accordance with the accounts direction from the Scottish Funding Council (SFC). GCRB is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2021 and supplementary guidance and International Standards on Auditing in the UK (ISAs)

7. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

8. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £37,700 as set out in my 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

9. The annual audit adds value to GCRB by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations where appropriate
- sharing intelligence and good practice identified.

Part 1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and consolidated financial statements are unmodified.

The annual report and consolidated financial statements presented for audit were of a good standard.

Audit opinions on the annual report and consolidated financial statements are unmodified

10. The Board approved the annual report and consolidated financial statements for GCRB and its group for the year ended 31 July 2024 on 27 January 2025. As reported in the independent auditor’s report, in my opinion as the appointed auditor, the financial statements:

- give a true and fair view of the state of the affairs of the Glasgow Colleges Regional Board and its group as at 31 July 2024 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Overall materiality was assessed as £17,000 for GCRB and £3.6 million for the group

11. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor’s report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and consolidated financial statements and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	GCRB	Group
Overall materiality	£17,000	£3.63 million
Performance materiality	£13,000	£2.72 million
Reporting threshold	£1,000	£0.18 million

13. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting our understanding of the entity and the absence of any reported errors in the prior year.

15. It is our responsibility to request that all misstatements are corrected, other than those below our reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

16. Under ISA (UK) 260, we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the body's accounting practices.

17. The Code of Audit Practice also requires us to communicate key audit matters within the annual audit report under ISA (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

18. The significant findings and key audit matters are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual report and consolidated financial statements

Issue	Resolution
1. Event after the reporting period (GCRB) The Minister for Higher and Further Education announced in the Scottish Parliament on 16 May 2024 that he wished to reform GCRB with the preferred option being for dissolution. A consultation was subsequently held between 17 June and 20 September 2024. On 12 December 2024, the Minister for Higher and Further Education confirmed the intention to dissolve GCRB on 31 July 2025.This represents a non-adjusting event after the reporting period. Given that an announcement had not yet been made, the financial statements presented for audit on 29 October 2024 did not disclose any events after the reporting period.	A disclosure has been added to the Events after the reporting period note in the audited financial statements to refer to the announcement. The going concern disclosure has also been expanded to note the continued adoption of the going concern basis of accounting. We are content that it remains appropriate for the financial statements to be prepared on a going concern basis, given that the services provided by GCRB will remain in the public sector upon dissolution.

Audit work responded to the risks of material misstatement identified in the annual report and consolidated financial statements

19. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and consolidated financial statements. Exhibit 3 sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Identified significant risks of material misstatement in the annual report and consolidated financial statements

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	• Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals throughout the year and post-closing entries and focus on significant risk areas. • Evaluate any significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Review of accounting estimates for management bias. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.	We carried out the assurance procedures as planned and did not identify any instances of management override of control.
2. Estimation in the valuation of land and buildings (Group) There is a significant degree of subjectivity in the valuation of land and buildings held by the group's components. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations. This presents a significant risk of	We will evaluate and review the work performed by the component auditor in respect of the below procedures: • Review of the information provided to the external valuer to assess for completeness. • Review of detailed working papers to support asset reviews and impairments.	We obtained assurances from the component auditors on the audit work and judgements formed in this account area as planned. We have evaluated and reviewed the work of the component auditors in respect of the procedures listed. All matters identified by the

Audit risk	Assurance procedure	Results and conclusions
material misstatement for the consolidated financial statements.	• Evaluate the competence, capabilities, and objectivity of the professional valuer. • Understand management's involvement in the valuation process to assess if appropriate oversight has occurred. • Critical assessment of the approach adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Critical assessment of the adequacy of the disclosures regarding the assumptions in relation to the valuation of land and buildings.	component auditors were adjusted in the accounts prior to consolidation. We have concluded that the estimation in the valuation of land and buildings is appropriate.
3. Estimation in the valuations of pension balance (Single Entity and Group) The actuarial valuations depend on a range of financial and demographic estimations about the future. The subjectivity around these estimates gives rise to a significant risk of material misstatement within both the single entity and consolidated financial statements.	• Consider the accuracy and completeness of information provided to the actuary. • Evaluate the professional competence of the actuary. • Consider the appropriateness of assumptions used by the actuary. • Consider the reasonableness of actuarial estimates on material elements of the valuation. For the group, we will evaluate and review the work performed by the component auditor in these areas.	For the single entity, we carried out the assurance procedures as planned and did not identify any significant issues. For the group, we obtained assurances from the component auditors on the audit work and judgements formed in this account area as planned. We have evaluated and reviewed the work of the component auditors in respect of the procedures listed. All matters identified by the component auditors were adjusted in the accounts prior to consolidation. We concluded that the estimation in the

Audit risk	Assurance procedure	Results and conclusions
		valuation of the pension balance is appropriate.

There were a small number of non-material misstatements identified within the financial statements

20. The audit team identified a small number of misstatements which were corrected by management in the audited accounts. These included an overstatement of investment income and non-disclosure of an exit package in the remuneration report. We considered the size, nature and circumstances of corrected misstatements, individually and in aggregate, and concluded that these were not material. Audit procedures did not require revision due to these misstatements.

The unaudited annual report and accounts were received in line with the agreed timetable

21. The unaudited annual report and single entity financial statements were received in line with the agreed audit timetable on 30 October 2024. The consolidated financial statements were received on 11 December 2024.

22. The annual report and consolidated financial statements and accompanying working papers were of a good standard. Regular communication and support from the Finance and Resources Director helped the audit process run smoothly.

There are no actions outstanding from the prior year

23. We did not identify any actions during the 2022/23 audit. Therefore there are no actions outstanding from the prior year.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

GCRB reported an adjusted operating deficit of £0.19 million and an adjusted operating surplus of £0.33 million for the region.

The Board approved a balanced budget for GCRB in 2024/25 but an underlying deficit is forecast for the Glasgow region.

Governance arrangements remain appropriate.

Following consultation on reform of Regional Strategic Bodies, GCRB is expected to be dissolved on 31 July 2025.

Our wider dimension audit work has focussed on financial sustainability and the disclosures in the governance statement

24. The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body. Following our consideration of the quantitative and qualitative factors that apply to this assessment, we consider that the application of a full wider scope audit is not appropriate for GCRB. The focus of our wider dimension audit work therefore includes financial sustainability and governance arrangements.

GCRB reported an adjusted operating deficit of £0.19 million and an adjusted operating surplus of £0.33 million for the region

25. In 2023/24, GCRB reported an operating deficit before other gains and losses of £0.18 million, and an operating deficit of £10.46 million for the region as a whole. The financial position for the region includes GCRB, City of Glasgow College, Glasgow Kelvin College and Glasgow Clyde College.

26. The accounts direction issued by the Scottish Funding Council requires the disclosure of an adjusted operating position. This is intended to reflect the underlying operating performance after allowing for material one-off or non-cash items (e.g. depreciation, pension adjustments, exceptional income or expenditure).

27. As shown in Exhibit 4, GCRB's adjusted operating position in 2023/24 was a deficit of £0.19 million and a surplus of £0.33 million for the region. The surplus reflects the difficult decisions undertaken by the Glasgow colleges to transition towards a sustainable operating cost model. However, there is still some way to go in achieving this.

Exhibit 4
Financial Performance in 2023/24

Performance	2023/24 GCRB £m	2023/24 Group £m	2022/23 GCRB £m	2022/23 Restated Group £m
Income	0.691	170.814	0.915	180.343
Expenditure	(0.874)	(181.277)	(0.772)	(190.960)
Surplus/(deficit) before gains and losses	(0.183)	(10.457)	0.143	(10.617)
Adjusted operating surplus/(deficit)	(0.193)	0.328	0.172	(4.426)

Source: GCRB annual report and consolidated financial statements 2023/24

The Board approved a balanced budget for GCRB in 2024/25 but an underlying deficit is forecast for the Glasgow region

28. The 2024/25 budget for GCRB was considered by the Performance and Resources Committee in April 2024 and approved by the Board in June 2024. The budget consists of two parts:

- GCRB running costs of £0.508 million (23/24 original budget: £0.513 million), including staff and board costs and audit fees.
- GCRB programme costs of £0.221 million (23/24 original budget: £0.445 million). The Programme of Action relates to initiatives for the region.

29. The forecast financial position for the Glasgow region as a whole for 2024/25 is shown in Exhibit 5 and described in more detail below.

Medium term financial plans are set out in Financial Forecast Returns to the Scottish Funding Council

30. The Financial Forecast Return (FFR) is an annual return that regions, and colleges, are required to submit to the Scottish Funding Council (SFC). These enable the SFC to monitor and assess the medium-term financial planning and health of the sector.

31. The June 2024 return required GCRB and the three colleges in the Glasgow region to include financial projections for 2023/24 to 2026/27. However, at the time of submission, the consultation on plans for the dissolution of GCRB was ongoing and therefore GCRB's submission included projections for 2023/24 to 2024/25. The FFR for GCRB shows a projected underlying deficit of £38k in 2024/25.

32. As shown in Exhibit 5, the consolidated position projects an increasing deficit from 2024/25 through to 2026/27. Although income is projected to remain steady, expenditure is projected to increase by £7.1 million, or 4 per cent, over the three-year period to 2026/27.

Exhibit 5
Consolidated Financial Forecast Return projections 2024/25 to 2026/27

Medium term financial projections	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Income	170.924	180.537	178.911	180.920
Expenditure	(181.381)	(182.532)	(184.213)	(188.514)
Surplus/(deficit) before gains and losses	(10.457)	(1.995)	(5.302)	(7.594)
Adjusted operating surplus/(deficit)	0.328	(2.813)	(3.915)	(6.307)

Source: GCRB annual report and consolidated Financial Forecast Return 2024/25

33. Audit Scotland's, Scotland's Colleges 2024, briefing paper highlighted that risks to the college sector's financial sustainability have increased again since reporting in 2023. Once again, staffing is a key focus area of cost reduction as this makes up around 70% of college expenditure across the sector.

Governance arrangements remain appropriate

34. GCRB's governance arrangements have been set out in the Governance Statement that forms part of the annual report and consolidated financial statements. We have reviewed these arrangements and concluded that they are appropriate, although members' overall attendance at Committee and Board meetings has decreased compared to previous years.

35. The Code of Good Governance for Scotland's Colleges (the Code) requires GCRB to keep its effectiveness under annual review, with an externally facilitated review completed at least every five years. GCRB remains compliant with the requirements. In 2023/24, the Board undertook a self-evaluation and considered the results at its meeting in April 2024. A paper outlining compliance with the Code was also taken to the Audit and Assurance Committee in May 2024 to support the disclosures in the Governance Statement. No significant areas of non-compliance were identified.

36. Internal Audit did not provide an audit opinion or annual report for 2023/24 due to the limited work undertaken. The plan was revised in October 2024 in light of the uncertainty around the future of GCRB. This has been acknowledged in the Governance Statement.

37. We have concluded that the information given in the Governance Statement for the year to 31 July 2024 is consistent with the financial statements and complies with the Government Financial Reporting Manual 23-24 and the Accounts Direction issued by the Scottish Funding Council.

Following consultation on reform of Regional Strategic Bodies, GCRB is expected to be dissolved on 31 July 2025

38. As reported in the prior year, GCRB has been operating in an uncertain environment as a result of the review process which originated from the Scottish Funding Council's 2020 review of GCRB as Regional Strategic Body.

39. In May 2024, the Scottish Minister for Higher and Further Education wrote to update the Convener of the Education, Children and Young People Committee on plans to reform Regional Strategic Bodies within the college sector. The first stage in the process was the launch of a consultation on plans to dissolve GCRB and to establish different regional collaboration mechanisms.

40. The consultation ended on 20 September 2024. On 12 December 2024 the Minister wrote to the GCRB and College Chairs to confirm the intention to dissolve GCRB from 31 July 2025. The letter confirmed the Scottish Government will be proceeding with plans to bring forward subordinate legislation to dissolve the GCRB and designate each of the Glasgow colleges as "regional colleges".

41. The Minister also stated that the Scottish Government and the SFC will work with GCRB to develop transition arrangements and ensure the board has appropriate support in place for any affected staff.

42. During this transitional period, and until the required legislation passes through the Scottish Parliament, it is expected that the role and functions of the GCRB and its Chair will remain unchanged.

Glasgow Colleges' Regional Board

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