City of Glasgow College

2022/23 Annual Audit Report

AUDIT SCOTLAND

Prepared for the City of Glasgow College and the Auditor General for Scotland

December 2023

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Introduction

1. This report summarises the findings from the 2022/23 annual audit of City of Glasgow College (the College). The scope of the audit was set out in an annual audit plan presented to the 23 May 2023 meeting of the Audit & Assurance Committee (AAC). This Annual Audit Report comprises:

- significant matters arising from an audit of the College's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021:*
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the board of the College 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 from 2022/23

3. Mark Laird has been appointed by the Auditor General as auditor of the College for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of this five-year appointment. The appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022. Peter Lindsay has picked up responsibility for the College for 2022/23 to respond to a change in Mark's availability.

4. We would like to thank board members, AAC members, all management and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. The College has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Funding Council. The College is also responsible for establishing appropriate and effective arrangements 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.

7. Weaknesses or risks identified 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 of the College from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Communication of fraud or suspected fraud

9. In line with ISA 240, in presenting this report to the AAC we seek confirmation from members of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the AAC have any such knowledge or concerns relating to the risk of fraud within the college, we invite them to communicate this to the appointed auditor for consideration.

Auditor Independence

10. 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 2022/23 audit fee of £63,330 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. We add value to the College by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports 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 accounts are unmodified.

The unaudited accounts were received in line with the agreed audit timetable. The unaudited annual report was received later.

Audit opinions on the annual report and accounts are unmodified

12. The board approved the annual report and accounts for the College for the year ended 31 July 2023 on 14 December 2023. 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 college's affairs as at 31 July 2023 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, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Overall materiality was assessed as £2 million

13. 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.

14. 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 accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£2 million
Performance materiality	£1.3 million
Reporting threshold	£80,000

Source: Audit Scotland

15. 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.

16. 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 65% of overall materiality, reflecting the first year of this audit appointment and the risks noted during planning.

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

Significant findings and key audit matters

18. Under International Standard on Auditing (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.

19. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

20. The significant findings are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Pension asset ceiling In 2022/23 the College's actuary presented a report with a net pension asset, i.e. its share of assets was greater than forecast obligations. The draft annual report and accounts presented to audit disclosed a net asset of £36.9 million. Subsequently the actuary presented a second report exploring options regarding an asset ceiling. In doing so, the actuary followed the relevant standard (IFRIC 14) which is applicable under FRS 102. The pension asset ceiling approach compares the College's forecast pension contributions against the actuary's estimate of the cost of pensions earned in that year. This is then assessed over an appropriate time period (in this case 12 years 2022/23 and 13 years 2021/22). Where the College's forecast contributions total to less than the cost of pensions, it is appropriate to report the difference as an asset. In the College's case, the forecast contributions were greater than the cost of pensions. In these cases, the standard requires that organisations report a nil balance.	Through discussion with the College, it was agreed that an adjustment was required to the pension asset, in line with the actuary's advice. The asset ceiling adjustment reduced the asset to nil. During discussions, the College informed the auditor that the pension fund was planning a reduction in contributions which will impact on the pension asset ceiling adjustment. This was formally agreed on 21 November 2023. This revised the calculation resulting in a net asset position of £3.4 million. It was also agreed that the asset ceiling should be reflected in the balance for 2021/22. Therefore, a prior-period adjustment was posted to the prior-year net asset to reduce it from £21.4 million to £17.5 million. These changes are reflected in the audited annual report and accounts.
2. Prepayments Our testing of expenditure transactions identified some minor errors where prepayments had not been recognised with regard to goods/services received which covered two accounting periods. Further testing provided assurance that the full value of the errors was significantly below our reporting threshold.	The total value of the errors based on extrapolation of the sample was £105,000. This was not amended in the accounts. The impact of correcting this misstatement would be a decrease in expenditure and a corresponding increase in prepayments. **Recommendation 1** (Refer Appendix 1, action plan and Appendix 2, uncorrected misstatements)
3. Lease for St Luke's accommodation Our testing of leases identified a lease agreement that had previously been identified as a rental agreement rather than an operating lease. Under Financial Reporting Standard (FRS) 102, this should be disclosed separately in a note to the accounts, showing the value of current year and future payments.	Management have added a new note to the accounts detailing the current and future costs of the lease arrangement, in line with FRS 102.

Issue	Resolution
The lease was agreed in September 2000 for a period of 35 years. There is a five year notice period to cancel it.	
4. Compulsory redundancies In October 2023, the college agreed the first in a programme of compulsory redundancies. Further detail on this is included in section 3 of this report. Due to the significance of this, it constitutes a non-adjusting post-balance sheet event under FRS 102.	Management have included the relevant disclosure in Note 28 to the accounts.
5. Non Profit Distributing (NPD) disclosure Our testing of service concession arrangements identified an error in the cost calculation model used by the college. The final year of the contract had been missed, impacting on the overall cost of the asset disclosed in the accounts. The impact was: • An increase in the capital repayment for the year of £0.6 million to £6.1 million. • An increase in the balance payable in one year of £0.1 million to £5.9 million. • A decrease in the long-term payable balance of £0.7 million to £117.3 million. • A decrease in the interest charge for the year of £0.2 million to £12.1 million. • A decrease in the other operating expenses of £0.4 million to £8.4m. The net impact of the above is a £0.6 million decrease in deficit and increase in net assets. Future payments in respect of the finance charge and service arrangements, as disclosed in Note 16, have increased by £5.4 million.	Management have updated the accounts to reflect the required adjustments.

Source: Audit Scotland

Our testing found some identified misstatements

21. In addition to the issues noted above, we identified an overstatement of £87,000 in our sample testing of income. We are satisfied that this was an isolated error but it exceeds our reporting threshold. This error was not corrected and relates to a prior period error which was also not corrected. The impact would have been to decrease 2022/23 income and a corresponding prior year adjustment to increase 2021/22 income and receivables. See appendix 2.

22. We identified through our testing of non-current assets that assets in the ‘other equipment’ category are not physically uniquely identified with a college asset tag. Only IT equipment is tagged.

Recommendation 2

The college should tag all equipment assets to ensure these can be traced to the asset register.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

23. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of management override of controls As stated in International Standard on Auditing (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 enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period.	Our testing of the controls around journals found that they operated as expected. We did not find any evidence of unusual activity through speaking to individuals and reviewing the processing of journal entries and other adjustments. Our testing of year-end journals found no issues. Through review of data extracted from the ledger, we did not find any significant transactions outside of the normal course of business. Our assessment of the adequacy of controls in place for identifying and disclosing

Audit risk	Assurance procedure	Results and conclusions
	• Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • 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.	related party transactions did not highlight any issues. We are satisfied that changes to accounting estimates were based on a change in information provided to the College. Our substantive testing of income and expenditure transactions did not find any issues and confirmed that items had been reported in the correct year. Our testing of accruals and prepayments identified minor issues in relation to year-end cut-off. Further testing provided assurance that these errors were collectively significantly below our performance materiality threshold.
2. Estimation in the valuation of land and buildings There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.	• Review the information provided from the college to the external valuer to assess for completeness. • Review detailed working papers to support asset reviews and impairments. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the valuation process and management's involvement in this to assess if appropriate oversight has occurred. • Critically assess the approach the college has	We ensured that the College had carried out an impairment review and shared the results with the valuer. We carried out a review of the valuer and confirmed that they were appropriately qualified and were objective. We confirmed that the valuer was independent of the College and that management appropriately considered the advice provided. We reviewed the disclosures in the accounts and confirmed that they were consistent with supporting

Audit risk	Assurance procedure	Results and conclusions
	adopted to assess the risk that assets not subject to valuation are materially misstated. Consider the robustness of that approach. • Critically assess the adequacy of the college's disclosures regarding the assumptions in relation to the valuation of land and buildings.	material, including the valuers report.
3. Estimation in the valuation of pension asset/liability The actuarial valuation depends on a range of financial and demography estimations about the future. The subjectivity around these estimates gives rise to a significant risk of material misstatement.	• Consider the accuracy of information provided to the actuary. • Evaluate the professional competence of the actuary. • Consider the reasonableness of the actuarial estimates on material elements of the valuation.	We confirmed that the College had provided the actuary with relevant and accurate information. We carried out a review of the actuary and confirmed that they were appropriately qualified and objective. We also used the work of an auditor's expert to support this assessment. We attended a meeting between the College and the actuary to confirm that management appropriately considered the advice provided and offered challenge where necessary. We also attended a meeting to discuss the implications of a further report from the actuary concerning the pension asset ceiling (see Exhibit 2, item 1). We confirmed that disclosures were consistent with supporting records, including advice from the actuary.

Source: Audit Scotland

The unaudited accounts were received in line with the agreed audit timetable. The unaudited annual report was received later.

24. The unaudited annual accounts were received in line with our agreed audit timetable on 2 October 2023. However, it was agreed that the annual report element would not be received until 11 October due to resourcing issues at the college, caused partly by organisational change and the industrial action taken during this time.

Progress was made on prior year recommendations

25. The College has made progress in implementing the audit recommendations identified by Azets, the College's previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Conclusion

The college reported an operating deficit of £3.2 million and an underlying operating deficit of £2.8 million for the year to 31 July 2023

The College has appropriate financial arrangements in place with controls operating as expected

Internal audit has investigated breaches of the Financial Memorandum

The college reported an operating deficit of £3.2 million and an underlying operating deficit of £2.8 million for the year to 31 July 2023

26. As shown in Exhibit 4, the college reported an operating deficit for the year to 31 July 2023 of £3.2 million (£4.2 million in 2021/22) in its Statement of Comprehensive Income (SoCI). The deficit decreased by £1 million from 2021/22.

Exhibit 4
Financial performance in 2022/23

Financial performance	2022/23 (£m)	2021/22 (£m)	Difference (£m)
Income	97	94.9	2.1
Expenditure	(100.2)	(99.1)	(1.1)
Surplus/(Deficit)	**(3.2)**	**(4.2)**	**1.0**

Source: City of Glasgow College annual report and accounts 2022/23

27. The position reported in the SoCI includes the impact of non-cash charges such as depreciation and pension adjustments, and capital grants recognised as income. It also excludes other commitments funded from revenue including the allocation of revenue funding for loan repayments. To enable an assessment of the underlying financial strength of an institution, and allow comparison across institutions, the 2022/23 accounts direction from the Scottish Funding Council requires colleges to also report the adjusted operating position for the year by adjusting for these items and any one-off exceptional items impacting on the annual position reported in the SoCI.

28. The adjusted operating position of the college, reported within the performance report, shows an underlying operating deficit of £2.8 million for the year to 31 July 2023 (£0.5 million in 2021/22), as shown in Exhibit 5.

Exhibit 5
Adjusted operating position in 2022/23

Adjusted operating position	2022/23 (£m)	2021/22 (£m)	Movement (£m)
Surplus / (Deficit) before other gains and losses	(3.2)	(4.2)	1.0
Depreciation (net of deferred capital grant release)	6.0	5.0	1.0
Non-cash pension adjustments	0.5	5.1	(4.6)
Non-Governmental capital grants	0	(1.1)	1.1
NPD income applied to reduce NPD balance sheet debt	(6.1)	(5.3)	(0.8)
Adjusted Operating Surplus/(Deficit)	**(2.8)**	**(0.5)**	**(2.3)**

Source: City of Glasgow Council annual report and accounts 2022/23

Budget processes were appropriate and are well established

29. Both the Finance Committee (formerly Finance and Physical Resource Committee) and the Board of Management regularly inspect management information and compare forecasts to understand the current projected outturn.

30. The initial budget was presented to the Board in June 2022 setting out an underlying deficit position of £2 million, including unidentified efficiency savings of £1.25 million. In September 2022, a revised budget deficit position was agreed at £3.4 million, requiring £4 million of in-year improvements against the baseline cost and income assumptions. This provided some detail on the plan to improve the projected budget position, through reducing staff costs, reducing non-staff expenditure (including property and utilities) and sustainably growing income. Plans included reviewing all operational structures, maximising teaching staff utilization, reducing absence rates across the college.

31. The updated financial plan presented in March 2023 showed an increased underlying deficit as at end of January of £5.6 million, and in May 2023 the financial reforecast position was a deficit of £6.2 million. The main reasons for the adverse position were:

- Young Person's Guarantee (YPG) funding was confirmed as £0.3 - £0.4 million, as opposed to £2 million in budgeted position.
- College-funded investment in Voluntary Severance (VS) of £0.7 million.
- £1 million provision required for compulsory redundancy scheme.

32. However, this was recovered to the underlying operating deficit of £2.8 million at the year-end, with the main drivers being:

- maintenance/capital grant released to I&E (£0.8 million)
- lower than expected utility costs (£0.5 million)
- increased SFC NPD income (£0.5 million)
- reduced employed National Insurance contributions (£0.5 million).

33. We observed that senior management and members receive regular and accurate financial information on the body's financial position. The college has appropriate budget setting and monitoring arrangements and has demonstrated good practice through their continued revision of financial outturn based on emerging information.

Capital expenditure was deferred in 2022/23 as the college did not identify any immediate priorities

34. In 22/23, the capital and maintenance grant funding of the College was £1.4 million. This is significantly below the £3 - 5 million required per annum, and as such, a phased and prioritised approach to allocation is used.

35. In January 2023, £0.3 million of the yet unallocated budget was redirected to support with the Voluntary Severance Scheme. As there were no urgent or emerging priorities, it was agreed to defer the £0.3 million of the in-year funding yet to be utilised or approved to be consolidated with future year allocations.

36. Indicative SFC Funding Allocation indicates a cash flat settlement capital grant during 2023/24 of £1.4 million. However, the college network will reach end of life in Summer 2024 and is forecast to require £3 million of expenditure over three years to replace.

37. Based on the above, no early commitments will be made to next year's allocation. This will assist in establishing how the upgrade can be implemented.

The College has appropriate financial control arrangements in place

38. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach. We concluded that the controls generally operated as expected.

39. During the course of the audit, we identified some improvements that could be made to the systems of internal control in relation to payroll validation, evidence of exception report review and documentation of accounts receivable authorisation procedures. These have been recommended to management.

40. Through our substantive testing of staff costs and receivables transactions we did not identify any significant issues.

Internal audit has investigated breaches of the Financial Memorandum

41. In March 2023 the college received a letter from the Scottish Funding Council regarding a breach of the Financial Memorandum. Following this, internal audit (provided by Henderson Loggie) was instructed to undertake an investigation into the matter and the findings were reported to the Audit and Assurance Committee in June 2023. Their report concluded that three breaches of the FM and a breach of the Public Contract (Scotland) Regulations 2015 had occurred in the process of awarding a contract to an international body.

42. Five recommendations were made in relation to the breaches identified and all were accepted by management. Subsequent activity indicates that lessons have been learned and practice improvements implemented.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

43. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

44. The College has adequate arrangements in place to prevent and detect fraud or other irregularities.

The college did not submit National Fraud Initiative datasets

45. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Audited bodies are asked to submit data and a central data-matching exercise is carried out to highlight matches for further investigation by each body.

46. For the current exercise, City of Glasgow College did not submit any data. The college should have submitted payroll and creditors datasets with a view to identification of duplicate creditor payments, undeclared interests (through matching of payroll to creditors and to Companies House), and instances where staff may have jobs with other public sector bodies.

47. Even where submission of datasets and follow-up of matches does not identify any instances of fraud, the exercise does provide assurance that there are no issues for the participating body.

Recommendation 3

The college should submit the necessary data for each NFI exercise to ensure potential frauds can be identified and investigated.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The 2023/24 budget forecasts a deficit for the third successive year

Despite the transformation undertaken by the college, schemes of both voluntary and compulsory redundancy have been implemented which the college must balance against continuing to meet learning targets

The College's medium-term financial plans are reflected in its Financial Forecast Returns

Scotland's Colleges 2023 identified the significant financial challenges facing the sector

48. Audit Scotland's, *Scotland's Colleges 2023*, report recognised that risks to the college sector's financial sustainability have increased since reporting in 2022. Rising staffing costs are colleges' biggest financial pressure.

49. The Scottish Government's funding for the sector has reduced by 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.

50. In light of this risk, we reviewed the college's 2023/24 budget and financial plans, including in the medium to long-term. We also considered the measures the college has taken and has planned to respond to these significant challenges.

The 2023/24 budget forecasts a deficit for the third successive year

51. The 2023/24 budget was agreed in June 2023 at a deficit of £2 million. This indicates an £8 million potential deficit and a projected negative year-end cash balance of £5.5 million. The budget requires efficiency savings of £6 million to be achieved, otherwise there is a risk that the college would enter a negative cash position and be required to draw down SFC funding from future years in advance.

52. The budget assumes a cumulative ten per cent pay award with effect from 1 September 2022 (i.e. 2 years of five per cent with 2023/24 being the second year). This has yet to be agreed. It also incorporates the removal of 100 FTE vacancies and voluntary severance already approved (£5.6 million), as well as non-staff efficiency savings (£0.4 million) in the base budget.

The college undertook Financial Challenges and Solutions (Mitigations and Interventions) assessment to help address financial challenges

53. The assessment was initially presented to the FPRC for discussion in September 2022 and identified that to ensure long-term sustainability, a reduction of ten per cent of staff headcount would be required. A number of cost saving measures implemented (and target savings) were also outlined:

- Review and redefining of operation structures (£2.25m)
- Optimisation of full and part-time staffing (£0.6m)
- Freeze on all non-business critical recruitment (£0.5m)
- Freeze on issuing of additional contracts/hours (TBC)
- Reduction in overtime (TBC)
- Early retirement and voluntary severance schemes (£0.9m).

54. Alongside this, the college approved further organisational change in May 2023 with a management restructure. In April 2023, the Board agreed to disperse the duties of the Vice Principal of Corporate Services. Following the resignation of the Director of Finance, the Board then agreed to create a Chief Finance Officer post at Vice Principal level to oversee the finance function.

Despite the transformation undertaken by the college, schemes of both voluntary and compulsory redundancy have been implemented which the college must balance against continuing to meet learning targets

55. The voluntary severance scheme was opened for applications in November 2022, with a closing date of 6 January 2023. This resulted in 75 individuals accepted equating to roughly 60 FTE. Overall, the scheme cost the college £1.8 million but is expected to provide an annualised saving of £3.7 million from 23/24.

56. At this point, the College projected having to make a further reduction of 80 – 100 FTE in academic year 2023/24. Each Dean and Director provided a detailed Business Case including structural proposals that maintained a level of service provision and delivery, while at the same time delivering real term cuts in budget and reduced staffing costs. Following detailed consultation, the cumulative reduction in FTE from those business cases was 75 providing forecasted savings of £5.1 million. This saving consisted of £4.6 million from compulsory redundancies, plus £0.5 million from a reduction in temporary / bank staff usage.

57. As colleges are funded through achievement of credit targets (based on hours of learning activity), the college will need to carefully manage its redundancies to ensure credit targets can be achieved. The SFC has reduced credit targets by 10% which will help ease this process to some extent, but it will remain a challenge.

The College's medium-term financial plans are reflected in its Financial Forecast Returns

58. Financial Forecast Returns (FFR) allow the SFC to monitor and assess the medium-term financial planning and health of colleges. The June 2023 return required the college to include financial projections for 2022/23 to 2025/26.

59. Exhibit 6 shows a projected underlying deficit for 2023/24, with an underlying surplus being achieved by 2024/25. The underlying operating and closing cash positions for 2023/24 - 2025/26 remain static.

Exhibit 6
FFR projected underlying operating and closing cash balance positions

Description	2023/24 £'million	2024/25 £'million	2025/26 £'million
Underlying operating surplus / (deficit)	(£1.984)	£0.085	£0.066
Closing cash position	£0.514	£0.514	£0.514

Source: City of Glasgow College 2022/23 Financial Forecast Return

60. Based on the returns made to the SFC, it is anticipated that the cash position for the college will reduce from £15 million at 31 July 2022, to £0.5 million by 31 July 2024. The reduction is reflective of the significant financial pressures which are current being placed on the sector within Scotland.

61. Overall, the college is planning effectively so that it can continue to deliver services in the medium-term. However, although the college reflect their medium-term financial plans with FFR's, they do not currently have a formal medium or long-term financial plan in place.

Recommendation 4

The college should develop a formal medium and long-term financial plan to make clear their plans to respond to the challenging financial outlook.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

The College has a clear vision and strategy and has appropriate arrangements in place to monitor progress

Governance arrangements are appropriate and there is a good range of information on the College website

The college undertook a review of its committee structure during 2022/23

The College has a clear vision and strategy and has appropriate arrangements in place to monitor progress

62. The college has a strategic plan which covers the period from 2021-2030. This sets out the strategic priorities and supporting strategies. All documents are available on the College website.

63. Progress is measured and tracked through the college's Balanced Scorecard. These annually outline progress against strategic priorities, as per the strategic plan. It provides an update using a RAG (red, amber, green) status style of reporting as well as giving more detail behind each priority. This allows members to challenge and scrutinise progress made against the objectives.

64. It is evident that the College has a clear vision supported by effective monitoring.

Governance arrangements are appropriate and there is a range of information on the college website

65. The College's governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

66. The College makes a selection of Board and committee papers and minutes available on its website. There is scope to further improve the college's approach to openness and transparency by making some financial reports available on the website. Currently these papers are not made available.

67. While it is accepted some information is confidential, reports concerning the College's financial position would be beneficial. It would also be consistent with the Scottish Government's 'On Board' guidance which refers to openness and transparency in its decision-making.

The college undertook a review of its committee structure during 2022/23

68. In response to changes in both operating environment and board membership, a revised committee structure was approved in April 2023. This aimed to ensure sufficient scrutiny and deliberation could be provided to all areas of the college's operations.

69. The primary effect of the restructure was to reduce the number of committees operating to six (previously eight), which involved a merger of the Performance and Nominations Committee with the Remuneration Committee, alongside the removal of the Art Foundation.

70. From attendance, observation and review of committee agendas and minutes during the year, we are satisfied that the amended structure discussed above has not had any negative impact on the governance arrangements in place within the college. Committee members deliver effective scrutiny of management reports.

Climate change arrangements

71. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

72. The college has a Sustainability Strategy 2021-2023 which sets out that the College will seek to be a net zero sustainable organisation by 2040. The college also maintain an Environmental Tracker/Plan which details various interim targets in advance of the 2040 deadline. These include:

- Achieving sustainable management and efficient use of resources by 2030; and
- Substantially reduced waste generation through prevention, reduction, recycling and reuse by 2030.

73. The plan is monitored by the Environmental Sustainability Working Group (ESWG) which meets quarterly.

74. The annual report and accounts confirm that the College complied with its duties under the Climate Change (Scotland) Act 2009 to report on sustainability to the Scottish Government in 2022-23. These actions provide evidence that the college demonstrates an awareness of its climate change responsibilities. It also confirms that it is taking active steps to further reduce its carbon emissions to meet its stated targets.

75. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The college should further develop its approach to demonstrating Best Value

The college has developed an appropriate performance management framework which links to its Strategic Plan

The college should further develop its approach to demonstrating Best Value

76. Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the Board of Management's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

77. We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We may also, in conjunction with the college, agree to undertake local work in this area. We did not undertake any specific work in 2022/23, however we confirmed that the college does not have a formally agreed document that details the arrangements in place to support the best value characteristics.

78. The best value process could be further enhanced by producing a document that is updated annually detailing the arrangements that support the characteristics. The annual update should be presented and approved by the Board or appropriate committee.

Recommendation 5

Management should produce a formally agreed document for 2023-24 which details how it meets the best value characteristics as set out in the SPFM.

The College has developed an appropriate performance management framework which links to its Strategic Plan

79. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. The Financial Memorandum between the SFC and the College requires the college:

- to have a strategy for reviewing management's arrangements for achieving value for money
- as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

80. The College's Strategic Plan (as set out in paragraph 62) sets out how it will achieve value for money. It identifies eight strategic priorities, under four themes, and five supporting strategies to deliver.

81. Annual monitoring reports submitted to the Board provide members with a balanced scorecard showing progress against each Key Performance Indicator (KPI) under the eight priorities using RAG status. In the most recent report in November 2023, 19 of the KPIs were rated green, one amber and three were rated as red. Six indicators did not have data available as this was either not collected for the year or was yet to be determined.

82. Overall, the college rated the scorecard as green, identifying that "the college remains on track with its adjusted position but note the significant external challenges the college will continue to face, especially the contraction of the college sector".

83. Much of this data is represented in the annual report and accounts, within the performance report section. The level of coverage varies and while some are presented in tabular form, others are presented in narrative. From review, the level of reporting appears reasonable and appropriate and provide readers with a sense of the College's overall performance.

Student attainment levels show improvement on the previous year

84. The performance indicators described previously include those measuring academic attainment. These are measured against each of the four modes of education, along with previous years' data to allow for trend analysis. Exhibit 7 summarises this data.

Exhibit 7

Successful outcomes for Further Education (FE) and Higher Education (HE) on Recognised Qualifications – trend analysis

Successful outcomes	2022/23	2021/22	2020/21	2019/20	2018/19

Full-time FE	62%	52%	62%	69%	66%
Full-time HE	72%	63%	77%	77%	72%
Part-time FE	88%	84%	84%	83%	86%
Part-time HE	81%	80%	82%	82%	82%

Source: City of Glasgow College annual report and accounts 2022/23

85. The data shows that successful outcomes have increased from the prior year, returning to a level closer to the years previous.

86. During the pandemic, limited physical attendance impacted the student experience and learner withdrawal increased. Although withdrawal was lower in 2022/23, it was higher than the college expected. Local and national industrial action undertaken by lecturers at the end of the academic year may have also impacted upon the completion of assessments.

87. Overall, the college is delivering service levels consistent with its strategic objectives. However, improvements where performance has declined should be prioritised.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. **Prepayments** Our testing of expenditure transactions identified some minor errors where prepayments had not been recognised with regard to goods/services received which covered two accounting periods. *Risk – expenditure and receivables are not reflected accurately in the financial statements.*	Management should consider their process around identification and recording of prepayments in the financial ledger. Exhibit 2 (Issue 2)	Prepayments will be reviewed by the management accountant quarterly. *Head of Finance* *January 2024*
2. Asset tagging We identified through our testing of non-current assets that assets in the ‘other equipment’ category are not physically uniquely identified with a college asset tag. Only IT equipment is tagged. *Risk – the completeness of the asset register cannot be confirmed as physical assets cannot be uniquely identified.*	The college should consider tagging all equipment assets to ensure each can be uniquely identified. Paragraph 22.	Once the asset manager is hired a system for tagging equipment assets will be put in place. *Head of Procurement* *March 2024*
3. NFI data submission For the current exercise, City of Glasgow College did not submit any data. The college should have submitted payroll and creditors datasets with a view to identification of	The college should submit the necessary data for each NFI exercise to ensure potential frauds can be identified and investigated. This would provide further assurance over fraud risk.	The College will submit payroll and creditor datasets data for the next NFI return. *Chief Financial Officer* *As per NFI Timetable once issued*

Issue/risk	Recommendation	Agreed management action/timing
duplicate creditor payments, undeclared interests (through matching of payroll to creditors and to Companies House), and instances where staff may have jobs with other public sector bodies. *Risk – the college do not identify and investigate potential frauds that could be flagged through the NFI exercise.*	Paragraph 47.	
4. Medium to long-term financial planning Although the college reflect their medium-term financial plans within the FFR's, they do not currently have a formal medium or long-term financial plan in place. *Risk – Financial plans are not sufficient to support financial sustainability in the long-term.*	The college should develop a formal medium and long-term financial plan to make clear their plans to respond to the challenging financial outlook. Paragraph 61.	A five-year financial plan has been tabled at Finance Committee and will be annually in conjunction with budget approval in June going forward. *Chief Financial Officer* *November 2023*
5. Best Value framework Our review confirmed that the college does not have a formally agreed document that details the arrangements in place to support the best value characteristics. The best value process could be further enhanced by producing a document that is updated annually detailing the arrangements that support the characteristics. The annual update should be presented and approved by the Board or appropriate committee. *Risk – the college is unable to demonstrate compliance with the duty of best value*	Management should produce a formally agreed document for 2023-24 which details how it meets the best value characteristics as set out in the SPFM. Paragraph 78.	A formal document will be produced and tabled at the Finance Committee *Chief Financial Officer* *May 2024*

Issue/risk	Recommendation	Agreed management action/timing
per the characteristics set out in the SPFM.		

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. Opening Balances Report **2021/22 AAR** It was noted as part of journals testing that the client was unable to run an opening balances report as at 01/08/2021. We were therefore unable to obtain complete comfort over the opening I&E balances. Risk – As the I&E codes are manually reconciled at the start of the new accounting period, there is potential for an error resulting in a brought forward balance not being identified.	We suggest reviewing year-end processes to incorporate the use of system reports where possible.	**Complete** An opening balance report was received and reviewed as part of our planning procedures. No issues were noted.
b/f 2. Finance System Access **2021/22 AAR** It was noted as part of review of IT general controls that there is no account lockout in place with regards to failed login attempts on the Finance System. Risk – Without an account lockout control, there is an increased risk of an unauthorised user gaining access to the system	We suggest implementing an account lockout control	**Complete** The system provider was unable to implement a lockout control. However, a Multi-Factor Authentication was implemented in October 2023. This significantly reduces the risk of unauthorised system access.

Issue/risk	Recommendation	Agreed management action/timing
b/f 3. Journal Authorisation **2021/22 AAR** It was noted as part of testing that one journal was created and approved by the same user. Risk – There is an increased risk of fraudulent journals being posted to the system if an individual can post without review by a second individual.	We suggest contacting the software provider to rectify this issue.	**Ongoing** Our review and testing of journals posted to the ledger in 22/23 found examples of journals that were created and approved by the same user. Revised action: Symmetry will be contacted to provide a solution. *Head of Finance* *January 2024*
b/f 4. Capital Planning **2021/22 AAR** The College has budgeted for capital expenditure of £1.350million, however, College has not yet approved a 2022/23 capital plan. The College has recognised in their approved 2022/23 budget that there is a high demand for capital project expenditure across the College for both replacement and new technology and teaching facilities. Risk – Without a capital plan in place, the College will not be able to identify and appropriately plan for the priority areas where capital investment is required and demonstrate how they will deliver the aims and objectives contained within their Digital Strategy 2021-2030.	We recommend that the College further develops its multi-year capital plan and bring forward for approval the activities which they are planning to spend their 2022/23 capital budget as a matter of urgency. In addition, we encourage management to review the visibility of the capital plan within the integrated annual operational planning process to ensure alignment of the College's revenue and capital budget setting process.	**Ongoing** From review of papers submitted to Finance Committee in the period to September 2023, the only capital plans submitted were for a single year. Revised action: A plan will be produced and submitted to the next Finance Committee for 23/24 expenditure – A three-year plan will be submitted in line with budget approval at the June 2024 Finance Committee meeting. *Chief Financial Officer* *February 2024*
b/f 5. Cash Management **2021/22 AAR** From audit work it was identified that the cash	We recommend that the College reviews it's cash management controls to ensure that funds are only	**Complete** The cash balance held by the college at 31 July 2023 is £10.6 million which represents a reduction of

Issue/risk	Recommendation	Agreed management action/timing
balance at 31 July 2022 was significantly high at £14.987million. Risk – There is a risk that funds are drawn down in advance of need which may result in the College breaching the terms of the SFC grant funding.	drawn down as they are needed going forward.	£4.4 million (30%) year-on-year. The present year cash balance is closer to the pre-pandemic cash position of the college of £8.2 million and £9 million for 18/19 and 19/20 respectively. We are satisfied that the high 22/23 balance was a timing issue.
b/f 6. Asset Register **2020/21 AAR** Asset registers would benefit from the inclusion of additional detail such as useful life (currently embedded in the depreciation calculation), the date of last buildings revaluation and balance on the revaluation reserve (where appropriate). Risk – As identified in 2020/21, one asset was not subject to regular professional revaluation as the date of the last exercise was not visibly recorded. Clear and complete information within the fixed asset registers is key to supporting the appropriate and accurate accounting treatment.	Management should review their fixed asset register and ensure all necessary information is clearly recorded. This should include, for example, date of last revaluation, location and useful life.	**Ongoing** The college is reviewing how best to manage the College assets going forward looking at other institutions for best practice. They are in the process of hiring an asset manager and aim to have the system go live shortly after the asset manager is in place. <u>Revised action:</u> Once the asset manager is hired a system for tagging equipment assets will be put in place. In addition, they will review and update asset information held. *Head of Procurement* *March 2024*
b/f 7. Performance Management Framework **2020/21 AAR** No new key performance indicators have been identified within the Strategic Plan 2021-30 or supporting strategies. Until the new strategies are fully approved the College has continued to monitor a total of 68 operational targets which we	The College should develop a suite of strategic and operational performance indicators as an area of priority. We encourage the College to reflect on whether performance reporting arrangements, especially reporting to the Board, remains fit for purpose, and whether this can be streamlined or enhanced to support more focused and	**Complete** As outlined at paragraph 81, management report to the Board annually using a balanced scorecard approach at a strategic level, supported by key performance indicators mapped to each strategic priority.

Issue/risk	Recommendation	Agreed management action/timing
deem to be too high; the College should ensure the new suite of performance indicators is sufficiently broad whilst remaining focussed and targeted. Risk – The College cannot robustly assess performance or delivery of strategic priorities without a robust suite of targeted indicators. This is of particular importance in the context of the operational and financial challenges faced across the sector.	targeted performance monitoring.	

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £80,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. This shows the impact of correcting those misstatements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 1. We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Year	Account areas	Statement of Comprehensive Income		Balance Sheet	
Accounting Misstatements			**Dr £000**	**Cr £000**	**Dr £000**	**Cr £000**
1. Expenditure not recognised in correct period	2022/23	Prepayments			105	
		Expenditure		105		
2. Overstatement of 2022/23 income	2021/22	Accrued income			87	
		Income		87		
	2022/23	Accrued Income				87
		Income	87			

City of Glasgow College

2022/23 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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