Scott-Moncrieff
business advisers and accountants

City of Glasgow College

Annual report on the 2014/15 audit
to the Board of Management and the Auditor General for Scotland

December 2015

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Executive summary

Annual report and accounts

The annual report and accounts for the period ended 31 July 2015 were approved by the College on 16 December 2015. Our independent auditor's report gives an unqualified opinion on the annual report and accounts, the regularity of transactions, and on other prescribed matters. We are also satisfied that there are no matters which we are required to report by exception.

The annual report and accounts and supporting schedules prepared by the College were of a good standard. Our thanks go out to all management and staff at the College for their co-operation and assistance during the audit process.

Financial management

The College has adequate arrangements in place for managing its financial position and its use of resources.

The College reported an operating deficit for the 16 month period to 31 July 2015 of £2.893million, after donations to arm's length foundations totaling £3.100million indicating a small underlying surplus for the year overall.

We have evaluated the College's key financial systems and determined whether these are adequate to prevent material misstatements in the financial statements. We have not identified any significant deficiencies in the operation or design of the key financial systems.

Arrangements for the prevention and detection of fraud and irregularity are operating effectively.

- **The College spent £47.368million on staff costs during the 16 month period ended 31 July 2015, which approximates to 68% of total expenditure for the same period.**
- **During the 16 month period ended 31 July 2015 the College donated £3.100million to arm's length foundations, compared to £21.702million for the 8 month period ended 31 March 2014.**
- **As at 31 July 2015 the College reported bank balances totalling £7.775million.**
- **The College's share of the Strathclyde Pension Fund liability increased from £6.112million as at 31 March 2014 to £9.580million as at 31 July 2015.**
- **During 2014/15 the College invested £8.830million in property, plant and equipment.**

Financial sustainability

The College's financial budget for 2015/16 forecasts a surplus of £386,000.

The College sets an annual budget and has medium-term financial planning arrangements in place covering the period to 31 July 2017.

Any longer-term financial planning is currently not performed, as funding allocations from the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available.

As at 31 July 2015, the College had reserves of £1.642million. The College's reserves have reduced by £6.262million since March 2014, due to the operating deficit recognised in the period and an increase in the pension liability. The College is reporting a balance of £16.237million in respect of deferred capital grants, resulting in net assets reported of £17.879million.

The College has continued to progress plans to relocate to new campuses at Riverside and Cathedral Street. Costs in relation to these campuses, which have been met directly by the College, have been included within the annual report and accounts as assets under construction. The Riverside Campus opened on 17 August 2015 and the City Campus is expected to be completed by 15 August 2016.

Both campus development projects remain on target, both in terms of the budget and timescales. These are a £228million capital investment projects, and completion is expected during Summer 2017.

Once both new campuses are operational, the College plans to dispose of the existing sites at Cathedral Street, North Hanover Street, Rogart Street, Dornoch

Street and Florence Street. These properties are currently marketed as part of the Property Disposal Programme. The overall project will be completed in summer 2017 following final demolitions and landscaping.

Governance and transparency

In our opinion, the College's corporate governance arrangements as they relate to standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate.

The governance arrangements in respect of a voluntary severance agreement which was concluded during the period, did not fully comply with best practice or Scottish Funding Council guidance issued to the sector. The amount involved was less than £16k and was subject to a business case and approval by a number of Board members prior to payment. We have raised an action plan point in respect of this governance issue within Appendix 2 of this report.

Conclusion

This report concludes our audit of City of Glasgow College for the 16 month period to 31 July 2015. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
December 2015

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Introduction

Introduction

1. This report summarises the findings from our 2014/15 audit of City of Glasgow College. The scope of the audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee at the outset of the audit.

2. The main elements of our work in 2014/15 have been:

- An audit of the annual report and accounts, including a review of the annual governance statement, the annual internal control statement and the remuneration report;
- A review of governance arrangements, internal controls and financial systems;
- High level review of overall performance arrangements; and
- Completion of a minimum dataset of information that is submitted to Audit Scotland.

3. As part of our audit, we have also relied on the work of the College's internal audit service and Audit Scotland where possible and appropriate.

4. The College is responsible for preparing its annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. Each recommendation has been given a grading to help the College assess their significance and prioritise the actions required.

6. This report is addressed to both City of Glasgow College and the Auditor General for Scotland and will be published on Audit Scotland's website .

7. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

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Annual report and accounts

Annual report and accounts

8. The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the College and the auditor in relation to the financial statements are outlined in Appendix 1.

9. In this section we summarise the issues arising from our audit of the 2014/15 annual report and accounts.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

10. The annual report and accounts for the 16 month period ending 31 July 2015 are due to be approved by the College on 16 December 2015. Our independent auditor's report gives:

- an unqualified opinion on the annual report and accounts;
- an unqualified opinion on the regularity of transactions; and
- an unqualified opinion on other prescribed matters.

11. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

12. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to staff at the College for their assistance with our work.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.1 Voluntary severance scheme

From our discussions with the Executive Director - Finance and the Head of Finance, we understand that a voluntary severance scheme in relation to a senior staff member was concluded prior to the end of July 2015. As the governance arrangements and decision making time line in relation to such schemes has been a hot topic within the college sector in recent years, we will consider if best practice guidance and good governance arrangements have been adopted in relation to the approval of this scheme.

Guidance on severance arrangements to senior staff in Scottish further education colleges produced by the Scottish Funding Council provides guidance to Colleges on managing severance schemes. As part of our audit we will review the severance settlement for the senior staff member to ensure it conforms to the guidance.

We will also review the College's disclosure of the transaction within the financial statements.

Noted in 2014/15 External Audit Strategy & Plan

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

14. During the period a voluntary severance agreement with a senior staff member was concluded. The amount involved was less than £16k and was subject to a business case and approval by the Chair of the Board and the Chair of the Policy, Resources and Nominations Committee prior to any payment being made.

15. From our audit work we can also confirm that the agreement has been appropriately accounted for, and disclosed within the financial statements.

16. The governance processes for authorising the payment did not fully comply with good practice guidelines as SFC approval was not sought in advance as required by the Financial Memorandum (although retrospective approval was received) and the payment was not authorised by the full Board.

17. The Business Case prepared by the College in advance of the payment of voluntary severance provides strong evidence that the payment in this case was appropriate and represented value for money. However, the approval processes adopted by the College in finalising the payment decision did not fully comply with good practice. We have raised an action plan point in respect of this governance issue within Appendix 2 of this report.

Action plan point 1

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.2 Fixed assets

Given the significant investment in fixed assets anticipated to arise by 31 July 2015, a detailed review of expenditure will be undertaken to ensure the correct classification between revenue and capital. Furthermore, we understand that preferred bidders for the acquisition of the buildings currently marketed for sale are anticipated to be received by Summer 2015. We will monitor the position, with the assistance from senior finance personnel, in order to ascertain whether the offers received indicate an impairment in value in respect of these assets. Given the materiality of such transactions, this situation will require to be monitored up to the date the 2015 financial statements will be signed.

Noted in 2014/15 External Audit Strategy & Plan

18. The College has progressed plans to relocate to new campuses at Riverside and Cathedral Street. The Riverside campus was officially opened on 17 August 2015, with Cathedral Street campus expected to be completed by 15 August 2016. The new Riverside campus will be recognised as an operational fixed asset in the 2015/16 financial statements, whereas currently it is recognised as an asset under construction.

19. A Property Disposal Programme is currently ongoing to dispose of the existing sites at Cathedral Street, North Hanover Street, Rogart Street, Dornoch Street and Florence Street.

20. The College incurred asset additions of £8.830million in the year. £7.223million of the total related to the new campus development, and as such is recorded as assets under construction, with the remaining £1.597million being in respect of equipment.

21. We have reviewed the College's capitalisation policy in respect of expenditure relating to assets under construction and have found them to be reasonable and appropriate. In addition, we have reviewed information received from preferred bidders in relation to the buildings currently being marketed for sale and there is no indication of an impairment in value in respect of these assets.

1.3 Completeness and occurrence of income

Under International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements" there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the College could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported revenue position.

Whilst we do not suspect any incidences of fraud or error, we will evaluate each type of revenue transaction and document our conclusions.

Noted in 2014/15 External Audit Strategy & Plan

22. We have performed sufficient testing to provide assurance on the completeness and occurrence of income and we are satisfied that income is correctly stated in the financial statements.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.4 Management override

In any organisation, there is a risk that management have the ability to process transactions or make adjustments to the financial records outside of the normal financial control processes. Such transactions could lead to a material misstatement in the financial statements. We treat this as a presumed risk area in accordance with International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".

Whilst we do not suspect any incidences of management override, we will review the accounting records for significant transactions that are outside the normal course of business and obtain evidence to ensure that these are valid and accounted for correctly.

Noted in 2014/15 External Audit Strategy & Plan

23. Our audit work included a review of journal entries processed in the period and around the year end. We are satisfied that there are no indications of management override in the year.

Our application of materiality

24. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual report and accounts.

25. Our initial assessment of materiality for the annual report and accounts was £1.088million and it remained at this level throughout our audit. Our assessment of materiality is set with reference to a range of benchmarks (including total income and gross assets). We consider these to be the principal considerations for the users of the accounts when assessing the performance of the College.

26. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We then perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	50%	£544,000
Medium	60%	£652,800
Low	75%	£816,000

27. We report to the Audit Committee all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Audit differences

28. We are pleased to report that there were no material adjustments to the draft annual report and accounts. The College did however adjust for the following:

	DR £	CR £
Bad debt provision (I&E)	172,000	
Trade debtors (Balance Sheet)		172,000
Being increase in bad debt provision based on review of overdue debts		

29. The adjustment made to the annual report and accounts reflects an increase in the bad debt provision based on levels of post period end cash received identified during our audit testing.

30. We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

Management representations

31. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the annual report and accounts.

An overview of the scope of our audit

32. The scope of our audit was detailed in our External Audit Strategy & Plan, which was presented to the Audit Committee in May 2015. The external audit strategy & plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

33. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

34. Our standard audit approach is based on performing a review of the key accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Regularity

35. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the College's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

36. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

37. During the course of our audit we noted the following:

Annual governance statement

38. The annual report and accounts must include a statement covering the responsibilities of the governing body in relation to corporate governance. The statement is required to indicate how the College has complied with good practice in this area, including the 2014 Code of Good Governance for Scotland's Colleges.

39. The College's Governance Statement explains that the College was compliant with the principles of the 2014 Code of Good Governance for Scotland's Colleges. This is consistent with the requirements outlined in the 2014/15 Accounts Direction, released by the SFC.

40. We reviewed the Governance Statement by:

- checking the statement against SFC and Audit Scotland guidance;
- considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

41. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Governance arrangements in relation to special severance payments as defined by the SFC

42. As noted within paragraphs 14 to 17 of this report, the governance arrangements in respect of a voluntary severance agreement concluded during the period, were not conducted in the correct order as outlined within best practice guidance, issued to the sector.

43. We have raised an action plan point in respect of this issue within Appendix 2 of this report.

Action plan point 1

Remuneration report

44. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared. We have found that the Remuneration Report includes all relevant disclosures and is in agreement with the accounting records.

Succession planning

45. During the 2013/14 audit we commented within our action plan that although the College had made arrangements across its various committees to promote succession planning, for example by introducing Conveners and Vice Conveners into committees, we did not identify any evidence to illustrate that succession planning has been considered across the College, in particular at the senior management level.

46. In particular within the Finance team the resource levels have reduced significantly post-merger, and with additional reporting and analysis linked to the ONS reclassification, it would appear that additional staff resource is required.

47. An assistant accountant post was created in 2014-15 to provide additional finance resource. Limited further progress has been made in respect of other issues during 2014/15.

Action plan point 2

Follow up of prior year audit recommendations

48. As part of our audit we have followed up on the recommendations raised in our 2013/14 Annual Report. The table below indicates the number of issues that have not been completed. Those actions which are yet to be completed relate to the following areas:

- Succession planning (paragraphs 45-47)

Total number of recommendations raised in our 2013/14 Annual Report	Complete	Not yet complete
6	5	1

Qualitative aspects of accounting practices and financial reporting

49. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual report and accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the annual report and accounts, and we consider these to be appropriate to the College.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate on the whole. Estimates and judgements have been adopted over fixed asset valuations, depreciation rates, pension liabilities and the valuation of provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied.
The potential effect on the annual report and accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual report and accounts.	All significant risks and uncertainties have been appropriately reflected in the annual report and accounts.
The extent to which the annual report and accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual report and accounts.	We did not identify any significant unusual transactions in the period.
Apparent misstatements in the Annual Review or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies between the annual accounts and the Annual Review.
Any significant financial statement disclosures to bring to your attention.	No significant financial statement disclosures were identified that we consider should be brought to your attention.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

Looking forward

FE College Statement of Recommended Practice (SORP) -readiness for FRS 102

50. Colleges are currently required to follow the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ('the SORP'). The SORP reflects UK Generally Accepted Accounting Practice (UK GAAP) and aims to combine the requirements of further and higher education institutions and key stakeholders into recommended accounting practice.

51. With effect from the year ending 31 July 2016, the College will be required to present its financial statements under FRS 102 (new UK GAAP), in line with all further education entities, reporting under the new Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP 2015). FRS 102 is a single set of accounting standards developed by the Financial Reporting Council (FRC) and replaces current UK GAAP.

52. The SORP represents a significant change in financial reporting across the college sector. This includes changes in disclosure and terminology within the accounts including the names of the primary financial statements. There are also some fundamental changes to accounting treatment e.g. income recognition, treatment of capital grants, and accounting for employee benefits.

53. For City of Glasgow College the transition date is 1 April 2014 with the first FRS 102 compliant accounts being prepared for year ended 31 July 2016. The comparative figures for the period ended 31 July 2015 will also require to be restated as part of the transition process.

54. The College volunteered to have its financial statements reviewed as part of an exercise funded by the Scottish Funding Council to determine the impact of FRS 102 on the accounts of further education colleges. This exercise included the involvement of an independent accountancy firm and the production of a detailed action plan to enable FRS102 compliance in advance of the deadline. This action plan is being used as guidance in advance of the preparation of the accounts for the year ended 31 July 2016.

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Financial management

Financial management

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

56. It is the College's responsibility to conduct its financial affairs in a proper manner.

Overall conclusion

57. Overall, we found that the College has adequate arrangements in place for financial management and the use of resources. Our conclusion has been based on a review of the College's financial performance, financial position and financial forecasts. Each of these elements is discussed in more detail below.

The College's financial performance in 2014/15

58. The College has reported an operating deficit for the period to 31 July 2015 of £2.893million, after donations to arm's length foundations totalling £3.100million.

City of Glasgow College	2014/15 £million	2013/14 £million	Movement £million
Income	66.892	37.636	29.256
Expenditure	(69.785)	(59.329)	(10.456)
(Deficit)	**(2.893)**	**(21.693)**	**18.800**

59. The College has seen an increase of £29.256million (77%) in income. This is mainly due to the following:

- The change in the year-end accounting date twice in the past two years has led to a significant proportion of this increase.
- Grant funding from the SFC of £37.664million received in the 16 month period to 31 July 2015, compared to £20.531million for the 8 month period ended 31 March 2014.
- Additional income sources in the year including Young Enterprise Bridge 2 Business, Commonwealth Games security training and income generated by the projects in Malta and Angola.

60. Expenditure was £69.785million for the 16 month period to 31 July 2015, an increase of £10.456million (17.6%) against the 8 month period to 31 March 2014. The variance is primarily due to:

- The change in the year end dates from an 8 month period in 2014 to a 16 month period in 2015.
- Donations totalling £21.702million being paid to arm's length foundations in the period to 31 March 2014 as a result of the ONS reclassification, compared to £3.100million during the period ending 31 July 2015.
- A voluntary severance scheme was undertaken during 2013/14 which resulted in one-off costs of £1.6million.

61. The budgeted deficit for the 16 month period was £2.424million. The actual performance of £2.893million is therefore in line with the budget.

The College has maintained a net asset position due to substantial fixed assets

62. As at 31 July 2015, the College has reserves of £1.642million. The College's reserves have decreased by £6.262million since March 2014, due to the operating deficit recognised in the period and the increased pension liability reflected in the July 2015 actuarial valuation of the College's share of the Strathclyde Pension Fund. The College is reporting a balance of £16.237million in respect of deferred capital grants, resulting in net assets reported of £17.879million.

63. As at 31 July 2015 the College had a cash balance of £7.775million. This was £1.675million (27.5%) higher than the balance held as at 31 March 2014. This increase is principally due to a fall in debtors of £4.627million offset by a fall in creditors of £2.724million during the period.

64. The College's creditor balance has decreased by £2.724million (22.4%) to £9.432million as at 31 July 2015. This is principally due to a fall in deferred tuition income of £2.8million due to the change in the period end date from March 2014 (during term time) to July 2015 (outside term time).

Financial capacity in public bodies

65. The Auditor General for Scotland and the Accounts Commission are interested in the impact that reductions in staff numbers are having on back-office functions and specifically finance. As part of the 2014/15 audit we have collected baseline information on the finance function at the College. This information will be submitted to Audit Scotland who will be assessing the findings across a number of public sector organisations, to identify any common or emerging issues.

66. A summary of our findings are highlighted below:

Theme	Audit findings
Financial capacity	The finance function at the College is overseen by the Executive Director – Finance. Through his position within the organisation and his attendance at Executive Leadership Team (ELT) meetings, Audit committee meetings, Finance and Physical Resources committee meetings, the Executive Director - Finance has sufficient status to ensure financial performance is managed effectively at both a strategic and operational level. The Executive Director - Finance has responsibility for finance, payroll, procurement, student support, and student records and admissions. He is supported in this role by 24.7 full-time equivalent finance staff, three of which are professionally qualified posts. Within the 2013/14 External Audit Management Report Action Plan it was reported that there is no succession planning in place in particular at the senior management level. No such succession planning proposal has been presented to ELT in the period, and therefore this action plan point is once again raised within Appendix 2 to this report.
Financial strategy and sustainability	The College sets an annual budget and has medium-term financial planning arrangements in place. The medium-term financial budget covers the period to 31 July 2017. Financial strategies set out the College's commitments, strategic priorities, cost pressures as well as projected income over a period of time. Such budgets allow the College to identify the funding shortfalls that they face over time and to devise an appropriate course of action to address the funding gaps. Financial plans are updated on a regular basis. Any longer-term financial planning is currently not performed, as funding allocations from the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available. The College's Strategic Plan 2013-2017, Priority 7 is "Maintain our long-term financial stability" which further outlines seven aims. In order to show how the aims are being achieved key performance indicators and measures have been identified for each aim, including targets to be achieved in 2014/15 and 2015/16. This plan is revised each academic year, and it is the starting point for all other financial plans and projections prepared which set out the College's financial commitments.

Theme	Audit findings
Budget monitoring and control	The College has effective controls in place to ensure that spend against its revenue budget is appropriately monitored and controlled throughout the year. Budget updates contain commentary on the main revenue and expenditure streams that have had a significant impact, rather than on a line-by-line basis. The board can request additional breakdowns or commentary if required. The financial projections report, presented at each Finance and Physical Resources Committee meeting, shows the College's main funding categories for the financial year and how these have changed between the initial approved forecasts and the current position, and provides a narrative to explain each variance.

Systems of internal control

67. During our audit work we have considered the College's accounting systems and internal controls. We have found the College's systems of internal financial control to be adequate and operating effectively. Please refer to the action plan (appendix 2) for details of control improvements identified during audit fieldwork.

Internal audit

68. The internal audit service is a key component of the College's internal control framework. We have reviewed the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice. Our review was performed in accordance with the Code of Audit Practice and ISA 610: Considering the work of internal audit.

69. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. BDO LLP provided the internal audit service during the period to July 2015 and we have considered their findings within our audit process. BDO LLP has concluded in their annual report that the College operated adequate and effective internal control systems in the period.

Fraud and irregularity

70. The Board of Management is responsible for preventing and detecting fraud and other irregularities. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, our audit was planned and conducted so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

71. Our work has included a consideration of the College's arrangements for the prevention and detection of fraud and irregularity. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

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Financial sustainability

Financial sustainability

72. Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial forecasts

Budgets have been prepared for 2015/16 and a small surplus has been forecast

73. The College's revenue budget, as reported to the Finance & Physical Resources Committee in September 2015, forecasts a small surplus of £386,000 for 2015/16. The SFC has confirmed funding for 2015/16 that will be allocated on a regional basis through outcome agreements. City of Glasgow College is part of the Glasgow region, along with Glasgow Kelvin College and Glasgow Clyde College.

74. The budget for 2015/16 was based on the most reliable information available at the time. As a result it reflects, amongst other things, indicative funding allocations of capital/estates maintenance grant. The Glasgow region allocation is £1.3million less than the 2014/15 allocation and therefore the College in preparing the budgets have assumed that a fair proportion of this reduction will be reflected in the funding they are allocated.

75. The College are projecting WSUMs of 194,658 for 2015/16, an increase on the 177,500 WSUMs target for 2014/15.

76. The College will receive an additional £2.4million SFC teaching grant for the additional WSUMs delivery and an additional £1m SFC ESF grant income to deliver additional ESF eligible WSUMs. This funding will cover the teaching and support staff costs and resources required to deliver the additional WSUMs.

Capital projects

New Campus Project

77. Construction commenced on the £228million new campus project during Summer 2013; on 17 August 2015 the Riverside Campus was opened, and the City Centre Campus is anticipated to open in Summer 2016.

78. This project has been procured under the Scottish Government's Non-Profit Distributing (NPD) framework. The NPD procurement model uses a special purpose company, to design, build, finance and maintain the estate development. The College will repay the capital costs over a 25 year period, via a Unitary Charge, once the buildings are in use.

79. The overall project remains on target, both in terms of budget and timescales, with completion expected during Summer 2017, following final demolitions and landscaping.

5

Governance and transparency

Governance and transparency

Introduction

80. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the Designated Office Holder, the College is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Audit bodies usually involve those charged with governance in monitoring these arrangements.

Governance arrangements

81. During our audit we have reviewed the College's overall governance arrangements. This has included consideration of the College's arrangements as they relate to standards of conduct including the prevention and detection of bribery and corruption and risk management. Based on our review, overall governance arrangements are adequate and appropriate, with the exception of arrangements in respect of special voluntary severance payments.

82. The Glasgow Colleges Regional Board (GCRB) became operational on 1 August 2014 and takes on more formal powers in the strategic management and coordination of the provision of further education across the three Glasgow Colleges, including the City of Glasgow College. GCRB has not, however, yet been awarded 'operational fundable body' status by the SFC and is not yet able to fully exercise its powers under the Post-16 Education (Scotland) Act. As a result the College's governance arrangements have not altered significantly during the year and it continues to be funded directly by the SFC. Current expectations are that GCRB will receive operational fundable body status during the 2016-17 financial year.

83. As noted within paragraphs 14 to 17 of this report, the governance arrangements in respect of a voluntary severance agreement concluded during the period, were not fully compliant with best practice guidance issued to the sector in this area. The amount involved was below £16k and the payment was subject to a business case and Board member approval process. We have raised an action plan point in respect of this governance issue within Appendix 2 of this report.

New members were appointed to the Board of Management during the year

84. In June 2015, following a recruitment exercise, the Board approved the appointment of four new board members, as well as two co-opted board committee members.

85. Training was provided to the Board of Management on the new Code of Good Governance. The Code of Good Governance for Scotland's Colleges was formally presented to the Board of Management, and endorsed and adopted by the Board in April 2015. A briefing note was circulated to the Board on the Code, and it also featured as a topic for training at the Board's Development Day on 30 June 2015.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

86. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct.

Risk management

The College has risk management systems in place

87. Risk management is important to the establishment and regular review of systems of internal control. The College's financial statements outline the principal risks and uncertainties of the College and the College's response. We have found that the College has robust risk management arrangements in place to monitor and help mitigate key strategic risks to the College.

The risk management system complies with good practice

88. In March 2015, internal audit conducted a review of Risk Management and concluded that the College's risk management maturity was "managed", with elements of "enabled", which demonstrated high performance in comparison with comparative organisations. Some possible enhancements were also identified as part of the review and were considered beneficial by the Board, however it was agreed that implementation of a "5 x 5 risk model" should be deferred for further consideration following the move to the New Campus.

Conclusion

89. Overall, we found that the College had operated with generally good governance arrangements during the year. The College has acknowledged that it needs to revise its governance processes in relation to the approval of severance payments to staff and this is being addressed in the current financial year.

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Appendices

Appendix 1: Respective responsibilities of the College's Board of Management and the Auditor

Responsibility for the preparation of the annual report and accounts

Within the terms and conditions of the financial memorandum between the Scottish Funding Council (SFC) and the Board of Management of the College, the Board, through the Principal, is required to prepare the annual report and accounts for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year.

In preparing the annual report and accounts, the Board is responsible for:
• selecting suitable accounting policies and applying them consistently; • making judgements and estimates that are reasonable and prudent; and • stating whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and • preparing financial statements on the going concern basis unless it is inappropriate to assume that the College with continue in operation.

The Board is also responsible for:
• keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the annual report and accounts comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC. • taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:
• give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2015 and of its deficit for the period 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). • in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. • the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and that the information in the Operating and Financial Review is consistent with the financial statements.

We are also required to report, if in our opinion:
• proper accounting records have not been kept; or • the financial statements are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • the Statement of Corporate Governance and Internal Control does not comply with SFC requirements.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

In particular, there have been no relationships between Scott-Moncrieff and the Board of Management or senior management that may reasonably be thought to bear on our objectivity and independence. In addition to the audit of the financial statements, Scott-Moncrieff has performed audit work in respect of student funds. The scope of this work is such that our independence and objectivity has not been compromised.

Appendix 2: Action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. We identified one new recommendation in 2014/15. One recommendation raised in 2013/14 remains outstanding and is included in the action plan below.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The 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. Communication of the matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1 **Rating** **Grade 3** **Paragraph ref** **14 - 17**	**Timeline for approval of special voluntary severance agreements** During the period a voluntary severance agreement with a senior staff member was concluded. From our audit work we identified that best practice governance guidance, issued to the sector in this area, has not been applied in the correct order. There is a risk that the College has not complied fully with the "*Severance Arrangements to Senior Staff in Scottish Further Education Colleges*", guidance issued by the Scottish Funding Council, nor the Financial Memorandum with the SFC, by not obtaining SFC prior approval for the transaction or formally documenting approval of the transaction. We recommend that the Board of Management are reminded of the governance arrangements required in such a situation, the order in which such steps should be completed and the need to thoroughly document the decision making process.	Agreed. With immediate effect the Executive Leadership team (ELT) will ensure that all future severance payments will be fully compliant with best practice governance guidance. **Responsible officer :** ELT

Action plan point	Issue & Recommendation	Management Comments
2 **Rating** **Grade 2** **Paragraph ref** **45 - 47**	**Succession planning and resources** In 2013/14 we noted that the College had made arrangements across its various committees to promote succession planning, for example by introducing Conveners and Vice Conveners into committees. We did not however identify any evidence to illustrate that succession planning had been considered across the College, in particular at the senior management level. Particularly within the Finance team, we noted that the resource levels had reduced significantly post-merger, and with additional reporting and analysis linked to the ONS reclassification, it would appear that additional staff resource was required.	Agreed. A plan will be considered by ELT by 31 March 2016. **Responsible Officer:** ELT.

Action plan point	Issue & Recommendation	Management Comments
	There is a risk that insufficient plans are in place, were a key member of staff or member of senior management absent for a pro-longed period of time. We recommended that the College implement a formal succession plan, which details how the College will ensure that it meets its responsibilities in the absence of key members of staff. Additionally we recommended that consideration is given to the staff resource levels within the Finance team, as recent staff illness has resulted in significant pressures upon the team to ensure key reporting milestones are achieved. **2013/14 management comments** Agreed, a proposal will be presented to ELT. **Responsible officer** : ELT **2014/15 audit observation** No formal proposal presented to date to ELT. *Scott-Moncrieff Conclusion: Point retained for the period ended 31 July 2015.*	

Scott-Moncrieff
business advisers and accountants