Scott-Moncrieff
business advisers and accountants

City of Glasgow College

Annual report on the 2015/16 audit
to the Board of Management and the Auditor General for Scotland

December 2016

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Executive summary

Annual report and accounts

The annual report and accounts for the year ended 31 July 2016 were approved by the City of Glasgow College ("the College") on 7 December 2016. 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.

Whilst a first draft of the accounts was provided for audit in accordance with the agreed timetable, a complete draft of the annual report was not provided for review until 17 November 2016, six weeks after the commencement of the audit.

Our thanks go out to all management and staff at the College for their co-operation and assistance during the duration of the audit process.

Financial management

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

The College has reported an operating surplus for the period to 31 July 2016 of £2.631million, following receipts from the arm's length foundation of £6.515million.

As at 31 July 2016, the College had total reserves of £10.534million, which included £10.489million within its revaluation reserve. There is a deficit of £0.465million on the College's Income and Expenditure reserve as at 31 July 2016, a reduction of £1.016million to the deficit position (restated) as at 31 July 2015.

The College's net asset position is strong, principally supported by the recognition of the Riverside campus in year. The net book value of fixed assets as at 31 July 2015 was £30.97million, and this has risen to £71.44million as at 31 July 2016.

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.

- **The College spent £41.517million on staff costs during the year ended 31 July 2016, which approximates to 64% of total expenditure for the same period.**
- **During the year ended 31 July 2016 the College did not make any transfers to the arm's length foundation, compared with £3.1million donated in the 16 month period ended 31 July 2015. £6.515million was received from the foundation in year, compared with £7.233million during 2014/15.**
- **As at 31 July 2016 the College reported £71.4million of tangible assets compared with £30.97million as at 31 July 2015. The significant increase was in respect of the Riverside campus which became operational during 2015/16.**
- **The College's share of the Strathclyde Pension Fund liability increased from £9.58million as at 31 July 2015 to £12.47million as at 31 July 2016.**

Financial sustainability

The College's revenue budget forecasts a small adjusted deficit of £0.053million for 2016/17. The Scottish Funding Council (SFC) has confirmed funding for 2016/17 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.

The College sets an annual budget and has medium-term financial planning arrangements in place covering the period to 31 July 2018.

Any longer-term financial planning, including comprehensive workforce 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.

Governance and transparency

We have found that the College has operated with reasonable governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:

- systems of internal control;
- risk management;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and the prevention and detection of bribery.

Value for money

The College has functioned with satisfactory arrangements for ensuring the attainment of value for money and continuous improvement in performance. Whilst the College does not have a documented strategy which sets out how the Board of Management ("the Board") assures themselves that value for money has been achieved, the College continues to successfully deliver against its performance targets.

Conclusion

This report concludes our audit of the College for the year to 31 July 2016. 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 2016

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Introduction

Introduction

1. This report summarises the findings from our 2015/16 audit of City of Glasgow College ("the College"). The scope of the audit was set out in our External Audit Plan which was presented to the Audit Committee in May 2016.

2. The main elements of our work in 2015/16 have been:

   - An interim audit of the College's key financial systems and aspects of its corporate governance arrangements;
   - An audit of the draft annual 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 made use of the work of other inspection bodies, including the College's internal audit service and Audit Scotland where possible and appropriate.

Responsibilities & reporting to those charged with governance

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.

5. Our procedures are carried out solely for the purposes of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) (ISAs).

6. This report contains an action plan with specific recommendations, responsible officers and dates for implementation (see Appendix 1). Recommendations been given a grading to help the College assess their significance and prioritise the actions required. The College has assessed these recommendations and concluded on appropriate actions.

7. 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 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.

8. This report is addressed to both the College's Board of Management ("the Board") and the Auditor General for Scotland and is published on Audit Scotland's website www.audit-scotland.gov.uk.

9. We would like to thank all members of the College's management and staff for their co-operation and assistance during our audit work.

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Annual accounts

Annual accounts

Introduction

10. 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 3.

11. In this section we summarise the issues arising from our audit of the 2015/16 annual report and accounts.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

12. The annual report and accounts for the year ended 31 July 2016 were approved by the College on 7 December 2016. Our independent auditor's report gives:

- an unqualified opinion on the financial statements;
- an unqualified opinion on the regularity of transactions; and
- an unqualified opinion on other prescribed matters.

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

Fair administrative processes were in place in respect of the accounts

14. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. The first draft of the accounts did not include recognition of the Riverside NPD assets (and associated liability), however we understand that this was outwith the control of the College as information from the contractor was pending.

15. An incomplete first draft of the annual report was provided at the end of the third week of the onsite audit. Our initial review of the document confirmed that it had not been prepared in accordance with the requirements of the 2015/16 Accounts Direction, as issued by SFC. Specifically, an Accountability Report and a Performance Report had not been appropriately included. A revised and complete draft of the annual report was provided three weeks later.

16. The delays in providing complete information put significant pressure on both the College and ourselves to ensure timescales were sufficiently adhered to.

Action plan point 1

Our assessment of risks of material misstatement

17. The assessed risks of material misstatement were highlighted in our 2015/16 External Audit Plan previously presented to the Audit Committee. These risks 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 financial statements as a whole, and not to express an opinion on individual financial statements or disclosures.

18. We set out below the risks highlighted in our External Audit Plan together with a summary of our how our audit approach responded to these risks and the conclusions arising from our work.

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

1.1 Fixed assets

The College's estimated £228million campus project, acquired under the Scottish Government's Non-Profit Distributing procurement model, is nearing completion: the Riverside Campus opened in August 2015 and the Cathedral Street campus is anticipated to open in August 2016.

The new Riverside campus will be recognised as an operational fixed asset for the first time in the 2015/16 financial statements. As a component of a service concession arrangement, the Riverside campus infrastructure will be included as an asset on the College's balance sheet, together with a liability for its obligations under the service concession arrangement. This will be the first time that the College has had to account for such an arrangement and therefore care will be needed to ensure that it is correctly included within the 2015/16 financial statements, supported by a formal valuation.

As at the 2015/16 year end, the intention is that the new Cathedral Street premises will be fully fitted and ready to occupy, however will not be in use. The migration of College staff is planned to commence shortly after year end.

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. We understand that sales have been provisionally agreed in respect of all properties, however sale proceeds have not yet been exchanged and will not be prior to year end.

As included within the 2015/16 External Audit Plan

19. We have worked with the College to ensure that the accounting treatment for the Riverside campus is appropriate and in accordance with FRS 102 and the FE SORP requirements. We are satisfied that the accounting entries in the financial statements are underpinned by sufficient audit evidence, including the overall contract with Glasgow Learning Quarter (GLQ) and the supporting financial model provided by the contractor. We are satisfied that the disclosures within the financial statements in respect of the Riverside NPD arrangement are complete and in accordance with FE SORP requirements.

20. The College obtained a valuation of the Riverside assets as at year end and we are satisfied that this downward valuation has been appropriately reflected within the financial statements.

21. We have performed transaction testing on the fixed asset additions recognised in the financial statements in year and further have re-performed depreciation calculations to satisfy that depreciation has been accounted for correctly, in accordance with the College's accounting policies. This work did not identify any significant findings.

22. We are satisfied that NPD assets associated with the City campus have not been recognised in the 2015/16 financial statements as these will be brought on balance sheet in 2016/17.

23. The College did not sell any surplus sites during 2015/16 and all identified buildings within the property disposal programme remained in use during the year and have not been recognised as assets held for sales. The College has sold the Dornoch Street and Rogart Street buildings in November 2016 and these sales have been recognised as non-adjusting post balance sheet events.

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

1.2 FRS102 restatement

In March 2013, the Financial Reporting Council (FRC) issued FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". FRS102 is a single set of accounting standards, based on the International Financial Reporting Standard for Small and Medium-sized Entities, that replaces UK GAAP.

FE establishments are required to adopt this standard for accounting periods starting on or after 1 January 2015, with the comparative balance sheet and opening comparatives requiring restatement. For the College, this means a 1 April 2014 transition date (being the commencement of the 2014/15 reporting period), a 31 July 2015 comparative balance sheet and the first FRS102 compliant accounts being prepared for 31 July 2016.[1]

The transition to FRS102 brings with it potentially significant implications to the financial statements of bodies adopting the standard, although not all will be directly relevant to the College. The key areas of impact include, but are not necessarily limited to:

Area	Summary Implication
Government grants	FRS102 permits a choice in accounting for such grants: either the accruals model or the performance model may be adopted, although the policy choice must be consistently applied to each class of grant. Under the accruals model, grant revenue will be accounted for as deferred income and recognized on a systematic basis. Under the performance model, a grant is recognised as income when all conditions are met.
Service concession arrangements	Under UK GAAP, such arrangements were commonly accounted for off balance sheet as a result of the assessment of risks and rewards relating to the use of the asset. Under FRS102 the assessment criteria are different which is likely to result in most arrangements being brought onto the balance sheet.
Financial instruments	Under FRS102 there are two categories of instruments: basic and non-basic. Non-basic instruments, including all derivatives, are reported at fair value which may be significantly different to amortised cost, as reported under UK GAAP.
Short term employee benefits	Where the holiday year is not aligned to the financial year or it is but staff can carry holidays forward, then a holiday pay accrual should be recognised in respect of leave not taken as at the year end.
Operating leases	Under FRS 102, lease incentives are released over the lease term as opposed to the period up to the first rent review, as was the requirement of UK GAAP.
Financial statements presentation	There are a number of required key changes to the overall presentation of the primary statements, supporting notes and disclosures to ensure FRS 102 compliance.

[1] A new Statement of Recommended Practice: Accounting for Further and Higher Education 2015 has also been developed, published in March 2014, which supplements FRS102 and sets out further guidance for the sector.

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

As included within the 2015/16 External Audit Plan

24. We have reviewed the outcomes of the College's restatement exercise and have found that all material balances have been correctly restated and the exercise was complete, addressing all requirements of FRS102. We have reviewed the accounts to ensure that the restatements have been accurately and completely reflected within and that associated disclosures, including accounting policies, are transparent and compliant with FRS102 requirements. No matters of significance were identified.

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.

As included within the 2015/16 External Audit Plan

25. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions.

26. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the College's revenue recognition policy is appropriate and has been applied consistently.

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".

As included within the 2015/16 External Audit Plan

27. While we did not suspect any incidences of management override leading to financial reporting issues, we audited journal entries processed in the period and around the year end, including a review of accounting records for evidence of significant transactions outside the normal course of business. We are satisfied that there are no indications of management override in the year.

Audit differences

28. We are pleased to report that there were no material adjustments to the draft annual report and accounts (aside from the late inclusion of the Riverside NPD assets and finance liability as referred to above). Whist the first draft of the annual accounts did not include recognition of these assets (and associated liability) we understand that this was outwith the control of the College and information from the contractor was pending.

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

Management representations

30. 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.

Regularity

31. 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.

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

Going concern

33. ISA 570 - *Going Concern* requires us to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about the College's ability to continue as a going concern which need to be disclosed in the financial statements.

34. In order to gain assurance on these matters our work has included:

- review of bank facilities;
- review of budget, cash flow projections and FFR submitted to SFC;
- review of minutes of post balance sheet board meetings; and

- enquiries of senior management and the College's solicitors.

35. The Board considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate.

Corporate Governance

Annual governance statement

36. 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 adherence to the 2014 Code of Good Governance for Scotland's Colleges.

37. The College's Governance Statement explains that the College was compliant with the principles of the Code of Good Governance for Scotland's Colleges (2016 revised). This is deemed to be in accordance with the requirements outlined in the 2015/16 Accounts Direction, released by the SFC.

38. 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 to obtain assurances on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

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

Governance arrangements in relation to severance payments

40. Within our 2014/15 Annual Report we observed that there had been weaknesses in respect of the governance arrangements regarding voluntary severance.

41. We have identified four further voluntary severance agreements agreed during the course of 2015/16. We are satisfied that they have been approved in accordance with the College's Voluntary Severance Policy, however we have not been able to confirm that the Performance, Remuneration and Nominations Committee (PRN), the Finance and Physical Resources Committee (FPR) and the Board were provided with details of all severance packages approved, as this was not specifically minuted.

42. The College's overall governance arrangements have been considered more fully within the 'Governance and Transparency' section of this report.

Internal audit

43. The 2015/16 internal audit plan included a review of 'Overall Financial Controls'. We are satisfied that the outcomes of this work provided substantial assurance on both the design and effectiveness of key financial controls.

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.

Qualitative aspects of accounting practices and financial reporting

45. 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 that were not anticipated.
Apparent misstatements in the annual report or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies between the annual accounts and the annual report.
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. The NPD assets in respect of Riverside have been brought into use in year. We are satisfied that they have been appropriately disclosed. FRS102 restatements have been made and we consider the disclosures to be in accordance with requirements.
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 significant difficulties encountered in the audit other than timing, as identified above.

Follow up of prior year audit recommendations

46. As part of our audit we have followed up on the recommendations raised in our 2014/15 Annual Report. The table below indicates progress with the issues previously identified. The remaining action to be completed is in respect of succession planning which we have addressed within paragraphs 84 to 86 of this report:

Total number of recommendations raised in our 2014/15 Annual Report	Complete	Not yet complete
2	1	1

Looking forward

Future accounting developments

47. At this time we are not aware of any anticipated changes to the Colleges' accounting framework for 2016/17. We will continue to monitor this and ensure to inform the College should we become aware of any developments.

48. 2016/17 will see the remainder of the NPD campus assets being brought onto the balance sheet. This recognition will have a material impact on the annual accounts.

49. It is currently anticipated that the Glasgow Colleges' Regional Board (GCRB) will be awarded fully operation fundable body status during the 2016/17 financial year. We understand that work is currently ongoing to determine whether the GCRB will be required to prepare consolidated annual accounts for the Glasgow region once they become a fundable body. We will continue to monitor developments and advise the College accordingly. If consolidation is required, this will have a direct impact on the College.

Future auditing developments

50. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. The new Code outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.

51. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all annual audit reports, annual audit plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

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Financial management

Financial management

Introduction

52. It is the College's responsibility to ensure that its financial affairs are conducted in a proper manner. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

53. This section of the report sets out the main findings from our review of how the College has managed its key resources in terms of financial performance.

Overall conclusion

54. 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 have been considered below.

The College's financial performance in 2015/16

55. The College has reported an operating surplus for the period to 31 July 2016 of £2.631million, following receipts from the arm's length foundation of £6.515million.

	2015/16 £million	2014/15 £million (restated)	Movement £million
Income	67.711	73.522	(5.811)
Expenditure	(65.080)	(70.159)	(5.079)
Surplus / (Deficit)	**2.631**	**3.363**	**(732)**

56. The College has seen reduction of £5.811million (7.9%) to income in year. This is mainly due to the following:

- The 2015/16 accounting period was the 12 months to 31 July 2016, whereas the 2014/15 annual accounts reflected the 16 month period from 1 April 2014 to 31 July 2015.
- Recurrent grants received from the SFC in 2015/16 totalled £29.797million compared with receipts of £34.060million during 2014/15.
- A grant of £4.951million was received from SFC during 2015/16 in respect of the new campus in Glasgow. Comparative receipts in 2014/15 totalled £0.630million. This grant is a contribution towards the payment of the unitary fee for the new campus.
- The treatment of capital grants under FRS102 has resulted in a release of deferred capital grants of £1.666million during 2015/16 in respect of the new campus, compared with £1.034million in 2014/15.
- Donations received from the College's arm's length foundation reduced from £7.233million in 2014/15 to £6.515million during 2015/16.

57. Expenditure totalled £65.080million for the 12 month period to 31 July 2016, a decrease of £5.079million (7.2%) against the 16 month period to 31 July 2015. The variance is primarily due to:

- The change in the year end dates from a 16 month period in 2014/15 to a 12 month period in 2015/16.
- Donations totalling £3.100million were paid to the arm's length foundation in the period ended 31 July 2015 however no payments were made by the College during 2015/16.
- An impairment of £1.837million has been recognised in the 2015/16 accounts in respect of the valuation of the Riverside campus brought into use in year. The building was valued as at 31 July 2016 (on a DRC basis as a proxy for fair value) which resulted in a write down of costs as included within the NPD arrangement.

58. Staff costs of £41.517million were under-budgeted in year by £1.272million (based on the 12 month forecast submitted to the September 2015 FPR Committee. This variance can be explained in full by FRS102 adjustments that were required in respect of pensions and short term employee benefits.

59. Other operating costs originally budgeted did not include £4.789million of unitary charge costs in respect of the new campus, which have been included within the annual accounts. We are satisfied that budget information made this clear to users.

60. Depreciation for the 2015/16 period was budgeted at £2.375million. Actual depreciation reflected in the accounts totalled £4.316million. This variance was in respect of the Riverside structure which was not included in original budgets.

61. There were no other significant variances to note between the 2015/16 budget and actual outturn.

Financial position

62. As at 31 July 2016, the College had total reserves of £10.534million, which included £10.489million within its revaluation reserve. There is a deficit of £0.465million on the College's Income and Expenditure reserve as at 31 July 2016, a reduction of £1.016million to the deficit position (restated) as at 31 July 2015.

63. The College's net asset position is strong, principally supported by the recognition of the Riverside campus in year. The net book value of fixed assets as at 31 July 2015 was £30.969million, and this has risen to £71.440million as at 31 July 2016.

64. As at 31 July 2016 the College had debtors of £5.746million compared with £2.952million as at 31 July 2015. Contributing to this variance was £1.200million of accrued income due from the arm's length foundation at year end. This increase to net assets in year was offset by a £2.934million reduction to the cash balance held at year end compared with the prior year.

65. A finance liability of £35.404million has been recognised in the accounts as at 31 July 2016 in respect of the Riverside campus NPD assets which have been brought on balance sheet in year.

66. The FRS102 restatement has resulted in the recognition of deferred income in respect of government capital grants (in both 2014/15 and 2015/16) which was not previously accounted for in creditors under the 2007 SORP.

67. The College has a provision, as valued by a qualified actuary, for anticipated future pension costs arising from previous early retirements. The valuation of the provision has remained relatively unchanged year on year, with a 1.9% increase from 2014/15.

68. There has been an increase in the actuarial valuation of the Strathclyde Pension Fund liability increased by £2.894million from the previous year. This pension liability has also been assessed by a qualified actuary.

Review of key financial systems and budgetary control

69. 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, including responsibilities of the FPR Committee and the Board to be adequate and operating effectively.

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Financial sustainability

Financial sustainability

Introduction

70. 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.

Overall conclusion

71. The College's processes over budget management appear to be robust and well embedded. Whilst the financial outlook for the College, and FE sector more generally, continues to be extremely challenging, the College is considered to be financially resilient and in a reasonably strong position.

Short term financial forecasts

Budgets have been prepared for 2016/17 and a small adjusted deficit has currently been forecast

72. The College's revenue budget, as reported to the FPR Committee in September 2016 and endorsed by the Board, forecasts a small adjusted deficit of £0.053million for 2016/17. The SFC has confirmed funding for 2016/17 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.

73. The budget for 2016/17 was based on the most reliable information available at the time of preparation. Assumptions made by the College have included:

- All the SFC grant figures are based on the Regional Board split between the Colleges.
- The 2016/17 SFC core funding for the College has been budgeted at £32.322million with an additional £1.9m SFC ESF grant income to deliver additional ESF eligible credits.
- £22.000million estimated proceeds for the surplus buildings have been incorporated which is matched by equal expenditure as the proceeds are planned to be paid directly on to SFC.
- £0.419million additional staff costs have been included to deliver the increased HE full time activity planned.
- Unitary charge costs of £20.8million, covering the full campus, have been included.
- No transfer to the arm's length foundation has been budgeted for 2016/17.
- £10.977million capital funding in 2016/17 has been identified to complete of the new Glasgow campus.

74. The College are budgeting 177,474credits for 2015/16, an increase of 12,096 credits on the 165,378 target for 2015/16. We have been advised that the 2016/17 budget fully incorporates the impact on this increased planned activity resulting from the implementation of the Curriculum for Glasgow plan.

Medium and long term financial planning

Financial Forecast Return to July 2018 prepared

75. The College produces a Financial Forecast Return (FFR) for the SFC every year. The current FFR considers the period 1 August 2015 to 31 July 2018, however does not incorporate FRS102 accounting principles.

76. The 12 month figures to July 2018 are estimates based on a flat cash settlement from the SFC for the existing academic provision and additional income and expenditure for the planned growth in academic session 2017/18.

77. The unitary charge and associated assets under the NPD arrangement have been reflected, however they were incorporated on information available to the College at the time of preparation of the FFR. This was prior to our review of the accounting treatment applied in recognising the arrangement in the 2016/17 annual accounts.

78. Whilst the return has identified a budgeted deficit for both 2016/17 and 2017/18, the Board has asked that the Executive addresses this position and endeavours to achieve a balanced budget.

Absence of long term financial planning

79. Ongoing budget pressures within the sector mean that it is vital that the College plans sufficiently to ensure it is financially sustainable in the longer term. Going forward there is likely to be further significant pressures on colleges to cuts costs and generate new revenue streams.

80. Audit Scotland's report 'Scotland's Colleges 2016' recommends that colleges prepare long term financial strategies (a minimum five years). The College currently does not prepare a long term financial plan.

81. Audit Scotland's report suggests plans should be supported by medium term financial plans and workforce plans. These plans will enable colleges to plan for and take action to address future financial pressures. This includes enabling national collective bargaining, estate maintenance and student support funding.

82. We understand that the College has the long term ambition to substantially increase the non SFC income and achieve a total of 50% of the College income. In the short term the College will continue to receive increasing SFC income therefore achieving a 50% target is becoming more challenging. Despite these aspirations, the College does not appear to have a fully documented plan as to how this, and other strategies, will be achieved.

83. Whilst it is recognised that funding allocations from the Scottish Government typically cover one to three-year spending review periods, the College would benefit from developing a long-term financial strategy that includes a clear understanding of its costs, scenario planning, savings options and demonstrate how it will meet demand and deliver services.

Action plan point 2

Workforce planning

84. In November 2013, the Accounts Commission and the Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

85. As part of our 2015/16 audits, Audit Scotland asked us to undertake a follow-up review to help understand the extent to which public sector bodies, including colleges, are implementing the recommendations and help identify common and emerging issues.

86. We sought to commence this work during our interim audit in April 2016 to ensure that responses could be provided to Audit Scotland in accordance with their 1 June 2016 deadline. Despite this, we have not been provided with sufficient responses from the College to inform Audit Scotland's review.

Action plan point 3

5

Governance and transparency

Governance and transparency

Introduction

87. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

88. 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.

Overall conclusion

89. We have found that the College has operated with reasonable governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:

- systems of internal control;
- risk management;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and the prevention and detection of bribery and corruption.

Governance arrangements

90. The 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. 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.

New members were appointed to the Board during the year

91. A recruitment and selection process between November 2015 and March 2016, overseen by the GCRB, approved the (re) appointment of nine Board members, including the Chair, restoring the Board to its full complement at 1 August 2016.

92. In March 2016, the "Good College Governance - The Report of the Education Secretary's Task Group" was issued. There are a number of high level recommendations within regarding Board recruitment, training and assessment which the College has implemented or is making good progress towards full implementation.

Internal audit

93. 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.

94. 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 2016 which was delivered in accordance with the original plan and we have taken cognisance of this internal audit work where appropriate.

95. BDO LLP has concluded that the College operated sufficiently effective internal control systems in the period.

Risk management

The College has risk management systems in place

96. 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.

The risk management system complies with good practice

97. The College has both a defined risk management policy and strategy in place, the maintenance of which has been delegated to the Board Secretary. The Board holds ultimate responsibility for the management of risk and conducts a review of top level risks at every meeting in addition to a detailed annual review.

98. The Risk Register(s) is prepared on a Balanced Scorecard basis where risks are grouped into the following four categories:

- Commercial;
- Delivery;
- Operational; and
- Technical.

Fraud and irregularity

99. The Board 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.

100. 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.

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

101. 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.

6

Value for money

Value for money

Introduction

102. Value for money is concerned with the appropriate use of resources and ensuring continuous improvement of services delivered.

103. In this section we report on our audit work as it relates to the College's own reporting of performance.

Overall conclusion

104. We have found that the College has operated with satisfactory arrangements for ensuring the attainment of value for money and continuous improvement in performance.

Arrangements are in place to promote and secure value for money

105. The Financial Memorandum between SFC and fundable bodies in the college sector requires the College to:

- Have a strategy for reviewing systematically management's arrangements for securing value for money; and
- As part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

106. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. Discussions with the College have not identified any documented strategy which sets out the College's overarching arrangements for securing value for money.

Action plan point 4

107. Whilst no standalone review of value for money has been conducted by internal audit in year, we understand that value for money is considered within each individual audit. We have not been aware of any significant findings within internal audit's 2015/16 outputs which cast significant doubt over the College's ability to operate with due consideration to value for money.

Ensuring the College is in compliance with procurement requirements

108. The 2014/15 exercise identified a number of instances where procurement arrangements had been entered into in the absence of competitive tendering. To reduce any future non-compliant spend, the Procurement Service delivered a number of presentations and training course to college staff.

- An 'EU Procurement Directives and Procurement Reform (Scotland) Act 2014' presentation was delivered to the Senior Management Team and Budget Holders on 16th March 2016.
- Procurement Awareness training was delivered to all College buyers after PECOS (ePurchasing System) Training in April and May 2016. This Procurement Awareness training is covered in staff inductions for relevant staff and is available for all staff to download and reference on Connected (the College's intranet).

109. Procurement staff are currently drafting a Procurement Strategy which will ensure that legislative compliance with the Procurement Reform (Scotland) Act 2014 and other relevant legislation and is aligned with the College's and the SFC's key strategic outcomes. Within this strategy there are a number of Objectives/ Actions to ensure future compliance with the Procurement Reform (Scotland) Act 2014. This Strategy is due for approval by the Senior Management Team by the end of November 2016.

Performance

Strategic Plan Performance

110. The College has a current Strategic Plan (2013-2017) which provides a framework for the direction of the College and its operational planning process.

111. The plan sets out the College's seven strategic priorities which are aligned to the wider Glasgow regional strategic plan. A range of performance measures have set by the College linked to each of the seven priorities.

112. As funding is linked to performance, specifically student success, performance continues to be a primary focus for the Board and supporting committees. Following publication of the national college performance indicators, the College had moved into 2nd place nationally, having been in 3rd place in last year's reported results.

The College achieved its Credits target in year

113. The College achieved its targets for Credits in 2015/16. The College delivered above target achieving 165,889 Credits against a target of 164,595 Credits.

7

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit.

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 of Management 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. Delivery timetable **Rating** **3** **Paragraph ref** **16**	**Observation** We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Whilst the first draft of the accounts did not include recognition of the Riverside NPD assets (and associated liability), we understand that this was outwith the control of the College as information from the contractor was pending. An incomplete first draft of the annual report was provided at the end of the third week of the onsite audit. Our initial review of the document confirmed that it had not been prepared in accordance with the requirements of the 2015/16 Accounts Direction, as issued by SFC. Specifically, an Accountability Report and a Performance Report had not been appropriately included. A revised and complete draft of the annual report was provided three weeks later. The delays in providing complete information put significant pressure on both the College and the audit team to ensure timescales were sufficiently adhered to. **Recommendation** The College should ensure that the timetable for the production of the annual report is adequately considered and target dates set are realistic. We will work with the College to ensure that the 2016/17 audit timetable is concurrent with the production of the annual report and we ask that if there is any slippage in the production of the annual report, the College advises us of this in a timely manner. The College must ensure that the annual report is fully compliant with the requirements of the SFC Accounts Direction.	The College recognises that there were delays impacting on the completion of the audit. This year was an unprecedented period of change with new accounting standards, NPD contract and physically moving campus. The College experience delays in receiving information from several external organisation crucial to the audit process. The College will ensure that a full annual report & accounts is provided at the start of the 2016-17 audit. **Responsible officer: Vice Principal Finance & HR** **Due date: September 2017**

Action plan point	Issue & Recommendation	Management Comments
2. Long term financial strategy **Rating** **3** **Paragraph ref** **83**	**Observation** Ongoing budget pressures within the sector mean that it is vital that the College sufficiently plans to ensure it is financially sustainable in the longer term. These ongoing budgetary pressures are likely to place further significant emphasis on colleges to cut costs and generate new revenue streams. Audit Scotland's report 'Scotland's Colleges 2016' recommended that colleges prepare long term financial strategies (a minimum five years). The College currently does not prepare a long term financial plan. **Recommendation** The College should consider developing a long-term financial strategy, underpinned by a medium term financial plan and workforce plan, that includes a clear understanding of its costs, scenario planning, savings options and demonstrate how it will meet demand and deliver services.	The College Board was presented with a 5 year summary Income & Expenditure at their October 2016 planning day. A more comprehensive 5 year plan will be developed and reported to SFC in June 2017 as part of the annual future financial planning reporting. **Responsible officer: Vice Principal Finance & HR** **Due date: June 2017**

Action plan point	Issue & Recommendation	Management Comments
3. Workforce planning **Rating** **3** **Paragraph ref** **86**	**Observation** In November 2013, the Accounts Commission and the Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities. As part of our 2015/16 audits, Audit Scotland asked us to undertake a follow-up review to help understand the extent to which public sector bodies, including colleges, are implementing the recommendations and help identify common and emerging issues. We sought to commence this work during our interim audit in April 2016 to ensure that responses could be provided to Audit Scotland in accordance with their 1 June 2016 deadline. Despite this, we have not been provided with sufficient responses from the College to inform Audit Scotland's review. **Recommendation** The College should ensure that they actively partake in any follow-up reviews being undertaken by Audit Scotland, or other inspection bodies. This is particularly important for benchmarking purposes where other colleges are actively contributing to such reviews. Additionally, and in accordance with recommendation number 2 above, we recommend that the College develops and actively monitors robust workforce plans, to inform their medium and long term financial planning.	The College does actively monitor and manage the College workforce achieving low staff turnover, low staff absence rates and very efficient utilisation of teaching staff. At a recent Senior Management Team planning event we confirmed the need to develop a People & Culture Strategy. This strategy will be compliant with the Audit Scotland recommendations. **Responsible officer: Vice Principal Finance & HR** **Due date: April 2017**

Action plan point	Issue & Recommendation	Management Comments
4. Value for money strategy	**Observation** The Financial Memorandum between SFC and fundable bodies in the college sector requires the College to have a strategy for reviewing systematically management's arrangements for securing value for money. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. Discussions with the College have not identified any documented strategy which sets out the College's overarching arrangements for securing value for money **Recommendation** The College should consider documenting a strategy which sets out how the Board assures themselves that value for money has been achieved on an annual basis. This document will help form the basis of the Board's assessment of value for money and will further feed into the Board's annual assessment of their effectiveness.	The College does actively monitor and manage the value for money achieved. The College has by far the lowest grant per Credit in the sector and the highest efficiency target and has delivered against these targets while achieving a financial surplus, among the highest student success rates and contributed £19.1m to the new campus development. The College is also achieving low staff turnover, low staff absence rates and very efficient utilisation of teaching staff. At a recent Senior Management Team planning event we confirmed the need to develop a Sustainability Strategy. This strategy will include value for money, financial planning and wider sustainability issues. **Responsible officer: Vice Principal Finance & HR** **Due date: April 2017**
Rating		
3		
Paragraph ref		
106		

Appendix 2: Scope of the audit

An overview of the scope of our audit

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs).

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in May 2016. The 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.

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.

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 below.

Our application of materiality

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.

Our initial assessment of materiality for the annual report and accounts during our planning work was £1.08million. On receipt of the draft 2015/16 accounts, we revised this assessment to £1.132million. Our assessment of materiality is set with reference to a range of benchmarks (including total income, expenditure and gross assets). We consider these to be the principal consideration for the users of the accounts when assessing the performance of the College.

Performance materiality

We set a performance materiality for each area of work which was based on a risk assessment for the area and percentage application of overall materiality. The performance testing thresholds, as set at the planning stage of the audit, are set out in the table below:

Area risk assessment	Weighting	Performance materiality (£'000)
High	50%	566
Medium	60%	679
Low	75%	849

Reporting

We have reported all misstatements identified through our audit that fell within one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 5% of the overall materiality figure; and
- Other misstatements below the 5% threshold that we believe warrant reporting on qualitative grounds.

We also report to the Audit Committee on significant disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Appendix 3: Respective responsibilities

Management responsibilities

Within the terms and conditions of the financial memorandum between the SFC and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements 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 financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

The Board is 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 financial statements 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.

Auditor responsibilities

Public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the financial statements and associated documents such as the governance statement, but also providing a view, where appropriate, on matters such as propriety, performance and the use of resources.

Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with ISAs and to give: an opinion on the financial statements, an opinion on regularity and an opinion on other prescribed matters. We are also required to report certain matters by exception. Each of these responsibilities is described below

Opinion on financial statement

We audit the financial statements and give an opinion on whether they:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the body's affairs as at 31 July 2016 and of its surplus 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, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on regularity

We confirm whether, in our opinion 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.

Opinion on other prescribed matters

We express an opinion on whether:

- 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
- the information given in the Performance Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

- We are also required to report if, in our opinion: proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited 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 governance statement does not comply with Scottish Funding Council requirements.

Confirmation of auditor independence

Ethical Standard 1: Integrity, objectivity and independence, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Board.

Scott-Moncrieff
business advisers and accountants

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