Dumfries and Galloway College

2016/17 Annual Audit Report to the Board of Management and the Auditor General for Scotland

December 2017

Contents

Key messages

Financial statements

The annual report and accounts for the year ended 31 July 2017 were approved by the Board on 12 December 2017.

We reported within our independent auditor's report unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters and that there are no matters which we are required to report by exception.

Our thanks go to management and staff for their assistance with our work.

Wider scope

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions are set out below:

Financial sustainability

The College has arrangements in place for long term financial planning in line with SFC Guidance for compiling Financial Forecast Returns.

The College faces a recurring deficit position from 2018/19, with no clear plans on how to bridge the budget gap.

Governance statement

We are satisfied that the Governance Statement complies with the Scottish Funding Council guidance and that the content is consistent with the financial statements and the results of our audit work.

The College has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant issues which would require to be disclosed in the governance statement.

Key facts

- The College spent £13.430 million on the delivery of services in 2016/17, which resulted in an operating deficit of £0.996 million.
- The majority of income was received from the Scottish Funding Council through grant funding of £10.058 million, which was to 81% of total income.
- Staff costs continue to be the most significant area of expenditure accounting for 65% of spend. Staff costs in increased by 10% in year to £8.793 million, including £0.265million severance costs. In addition to the additional severance costs the actuarial adjustments increased by £0.184 million and wages and salaries increased by £0.232 million due to nationally negotiated salary increases.

Conclusion

This report concludes our audit for 2016/17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
December 2017

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Introduction

Introduction

1. This report summarises the findings from our 2016/17 audit of Dumfries and Galloway College (“the College”).

2. We outlined the scope of our audit in the external audit plan which we presented to the Audit Committee on 15 May 2017. The main elements of our work in 2016/17 have been:

   - an interim audit of the College’s key financial systems and aspects of its corporate governance arrangements;
   - an audit of the draft financial statements, including a review of the annual governance statement,
   - a review of the arrangements as they relate to financial sustainability; and
   - completion of a minimum dataset of information that is submitted to Audit Scotland.

3. The College is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report 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 financial statements 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.

4. 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. We give each recommendation a grading to help the College assess their significance and prioritise the actions required.

5. We discussed and agreed the content of this report with the Director of Organisational Development and Facilities. We would like to thank all management and staff for their co-operation and assistance during our audit.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision-making and more effective use of resources.

7. This report is addressed to both the College and the Auditor General for Scotland and will be published on Audit Scotland’s website. *www.audit-scotland.gov.uk*.

8. We welcome any comments you may have on the quality of our work and this report via: *www.surveymonkey.co.uk/r/S2SPZBX.*

Independence

9. We can confirm that we have complied with the Financial Reporting Council’s Ethical Standard. 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 College that may reasonably be thought to bear on our objectivity and independence.

10. The audit fee reported in our external audit plan was £16,800. No adjustment to the fee has been required during the course of our audit.

11. At the request of the College, Scott-Moncrieff provided VAT services during the year. This work did not involve management decision making and was undertaken by the Scott-Moncrieff VAT team, entirely separately from the Public Sector External Audit team.

12. In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing non-audit work.

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Annual report and financial statements

Annual report and financial statements

An unqualified audit opinion on the financial statements

The College approved the annual report and financial statements on 12 December 2017. We reported within our independent auditor's report:

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

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

13. The College's annual report and financial statements 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 2.

14. In this section we summarise the findings from our audit of the 2016/17 financial statements.

Good administrative processes were in place

15. We received draft annual report and financial statements and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to management and staff at the College for their assistance.

Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described in Exhibit 1 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 financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements 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. Management override

Excerpt from the 2016/17 External Audit Plan: In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

17. We have not identified any indications of management override in the year. We have reviewed the College's accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end and did not identify any issues.

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

2. Revenue Recognition

Excerpt from the 2016/17 External Audit Plan: Under ISA 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. Practice Note 10 (revised) highlights that in the public sector most entities are net spending bodies and there is a risk of fraud over expenditure.

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 financial position.

18. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the College's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and it was consistently applied throughout the year.

3. Voluntary severance scheme

Excerpt from the 2016/17 External Audit Plan: As part of the College's proposed organisational restructure, the College's Board of Management approved a voluntary severance scheme in 2016/17. There is a risk that the costs associated with voluntary severance agreements have not been correctly reflected in the financial statements and the appropriate disclosures are not included.

19. There were fourteen severance packages awarded in year totaling £0.265 million. We have reviewed each settlement agreement to ensure they are accounted for correctly with no issues arising.

20. The Scottish Funding Council (SFC) published guidance in 2016 on seeking approval for severance schemes and settlement agreements. We have reviewed the settlement agreements awarded by the College in 2016/17 against the requirements of this guidance and have noted that the scheme was approved by the Board and the SFC in line with the guidance.

21. The College has elected to use settlement agreements as standard for those leaving via the voluntary severance scheme. The SFC guidance notes that settlement agreements are legally binding contracts entered into by an employer and an employee to resolve an employer dispute. The SFC guidance states that settlement agreements should not be a standard feature of a voluntary severance scheme. The College is therefore not fully compliant with the SFC guidance.

22. While we have assurance that the figures in the accounts are correct and the approvals are in line with the SFC guidance, the College should consider their use of settlement agreements and confirm with the SFC that this is acceptable going forward.

Action plan point 1

Our application of materiality

23. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

24. Our initial assessment of materiality for the financial statements was £0.225 million and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 1.9% of the College's total budgeted income. We consider this to be a principal consideration for the users of the accounts when assessing the performance of the College.

25. We set a performance materiality for each area of work based on a risk assessment for the area and percentage application of overall materiality. We then perform audit procedures on all transactions, or groups of 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	45%	£101,000
Medium	55%	£124,000
Low	70%	£158,000

26. We agreed to report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements over £5,000; and
- Misstatements below £5,000 that we believe warrant reporting on qualitative grounds.

Audit differences

27. We are pleased to report that there were no material adjustments to the draft financial statements. We identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

28. We also identified two of potential adjustments, one of which was above our performance materiality. This related to the classification of costs in the Statement of Comprehensive Income. Management has considered the adjustment and elected to revise the accounts.

29. A further potential adjustment related to the overstatement of prior year creditors. This has been reported to the Director of Organisational Development and Facilities and is included as an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the financial statements.

30. Full details of the audit differences are outlined in Appendix 2.

An overview of the scope of our audit

31. The scope of our audit was detailed in our External Audit Plan, which was presented to the College in May 2017. 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.

32. 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.

33. Our standard audit approach is based on performing a review of the key financial 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 management team. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

Regularity

34. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Other matters identified during our audit

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

Performance and Accountability Report

36. We were provided with the Performance and Accountability report in the second week of our audit.

37. From 2016/17 our opinion on other prescribed matters includes a requirement to provide an opinion on whether the performance report is consistent with the financial statements and whether it has been properly prepared in accordance with applicable legal requirements.

38. From our review of the Performance and Accountability Report we have only identified minor disclosure adjustments which would not impact our opinion.

Governance statement

39. The College's Governance Statement explains that the College was compliant with the principles of the 2016 Code of Good Governance for Scotland's Colleges. This is deemed to be in accordance with the requirements outlined in the 2016/17 Accounts Direction, released by the SFC.

40. 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.

Remuneration report

41. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared.

42. We identified a misstatement with regards to 3 employees disclosed salary bandings within the remuneration report. This has been adjusted in the revised financial statements and we have concluded that the disclosures are in line with underlying records and disclosure requirements.

Accounting and internal control systems

43. The College has adequate systems in place to record, process, summarise and report financial and other relevant data. While we have not identified any significant weaknesses or governance issues in the accounting and internal control systems, we did identify two areas for improvement during our final audit. We outline the issues identified and our recommendations at Appendix 1.

Action plan points 2-3

Qualitative aspects of accounting practices and financial reporting

44. We have considered 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 financial statements. Our findings are summarised in the following table:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed and noted that there was no financial instruments policy in the draft accounts. The accounts have been updated to reflect appropriate accounting policies.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. Estimates have been made in relation to the valuation and depreciation of property, plant and equipment and pension 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 financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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Financial sustainability

Financial sustainability

The College has arrangements in place for long term financial planning in line with SFC guidance for compiling Financial Forecast Returns.

However, the FFR process has identified a deficit position over the medium to long term and there has been limited action to identify savings options.

The College's financial performance in 2016/17

45. The Statement of Comprehensive Income for 2016/17 recorded a deficit of £0.996 million, equating to 8% of the College's total income.

46. Exhibit 2 shows the actual income and expenditure compared to the revised budget approved by the Finance and General Purposes Committee in November 2016.

47. The expenditure budgets were exceeded in two areas: payroll costs and other costs. The key items which attributed to the variances were the adjustments relating to the pension valuation movement (£0.646 million), the voluntary severance packages (£0.265 million) and the national pay award impact of pay costs.

48. The increase in expenditure was partially offset by an increase in the SFC grant award and other income from residences and catering.

Exhibit 2: Revenue performance against budget

	Budget £'000	Actual £'000	Variance £'000
Grant Income	9,170	9,529	359
Release of deferred capital	759	671	(88)
Fee income	1,868	1,808	(60)
Other Income	64	426	362
Total Income	**11,861**	**12,434**	**573**
Pay costs	(7,959)	(8,528)	(569)
Depreciation	(1,197)	(1,195)	2
Other Costs* including depreciation cash expenditure	(3,060)	(3,707)	(647)
Total Expenditure	**(12,216)**	**(13,430)**	**(1,214)**
Total	**(355)**	**(996)**	**(641)**

Source: *Financial statements for the year ended 31 July 2017*

Budget Monitoring

49. The College's Finance and General Purpose Committee received quarterly budget monitoring reports throughout the financial year. The reports include details of any revisions to the budget, variances against the budget and year end forecast figures. Appropriate narrative is provided to Committee members to allow for scrutiny of the financial position.

Financial Planning

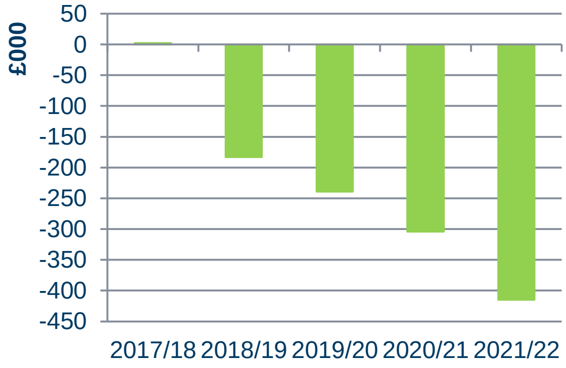
50. The Scottish Funding Council issued guidance on Financial Forecast Returns required for the period to 2021/22 in June 2017. The returns require standard information from all colleges and contribute to the SFC financial health monitoring framework.

51. As part of this guidance the SFC worked with sector representatives to provide guidance on key assumptions to be applied in the Financial Forecast Return as follows:

- Financial projections for 2017/18 should be based on the funding allocation announced in May 2017. Colleges should plan for a flat cash settlement in 2018/19 and 2019/20 and a 2% increase thereafter.
- The impact of national bargaining should be included with an additional specific grant to 2019/20 to reflect particular costs to the college.
- Capital maintenance will be held at 2017/18 levels.
- Non- SFC income and non-staff expenditure should be informed by local circumstance and 1.5% inflation applied.

52. Using the above assumptions the College has prepared a Financial Forecast Return which forecasts a deficit in each of the five years to 2021/22 as follows:

Exhibit 3: Projected underlying deficits



53. The Financial Forecast Returns were presented to the Board in August 2017 and the assumptions were subject to challenge and scrutiny.

54. The 2017/18 budget was initially set with an underlying operating deficit of £113,000. However, savings were identified and revisions were made in September 2017 and presented to the Finance and General Purpose Committee, which resulted in an underlying surplus of £0.002 million. The amendments made result in a forecast breakeven position for 2017/18.

55. The College has noted that the underlying deficit position represents a significant challenge going forward. Confirmation of SFC grant funding for 2018/19 is expected in December 2017 and following this the College will engage in curriculum planning. It is recognised that depending on the outcome of the grant funding there may be challenging decisions regarding service delivery which are required. Given the ongoing scrutiny and work being undertaken to analyse and respond to the financial challenges, we have not raised a formal recommendation in relation to this area. Instead, we will scrutinise this area in detail as part of ongoing audit work and report further as appropriate.

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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 Partnership 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. Settlement agreements used for severance packages **Rating** **Grade 4** **Paragraph ref** **19**	**Observation** SFC guidance states that settlement agreements should not be a standard feature of voluntary severance schemes. We noted in year that the College was consistently using settlement agreements when agreeing severance packages. **Recommendation** We recommend that for future severance schemes the College considers the form of the contract made between the college and the employee, mindful of SFC guidance..	The College will review the use of Settlement Agreements in line with the SFC Guidance. **Action owner:** Vice Principal Corporate Services **Due Date:** Complete

Action plan point	Issue & Recommendation	Management Comments
2. Registers of interest **Rating** **Grade 3** **Paragraph ref** **35**	**Observation** From our review of the Registers of Interests of members it was found that a number of the declarations forms had not been updated since June 2016. We have not identified any undisclosed related parties as a result of our audit work. **Recommendation** The College should ensure registers of interest are updated on at least an annual basis	**Action owner:** Secretary to the Board **Due Date:** Complete

Action plan point	Issue & Recommendation	Management Comments
3. Reconciliations between the payroll system and general ledger	**Observation** The College maintains separate systems for payroll and the general ledger. Payroll transactions are recorded on the general ledger by the way of an interfaced journal.. Although the payroll system is reconciled to the financial ledger on a regular basis there were instances where a review of the reconciliation had not been conducted in a timely manner. There is a risk that any errors in the reconciliation between payroll and the ledger are not discovered timeously. **Recommendation** The review of the reconciliation should be undertaken in a timely manner to reduce the risk of error.	**Action owner:** Finance Manager **Due Date:** Complete
Rating		
Grade 2		
Paragraph ref		
35		

Appendix 2: Audit differences

We have discussed this adjustment with management and have agreed that it should be incorporated into the financial statements:

Adjusted differences	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Staff costs	204			
Other expenditure		204		
Being the reclassification of other expenditure to staff costs				
Net impact on income / expenditure	**£nil**			

Board representations

We have requested that the signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified one unadjusted difference during our audit work. The difference is not considered to be material to the financial statements individually or in aggregate. The unadjusted items are included within the representation letter and shown below:

Unadjusted differences	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Creditors			74	
Income and Expenditure reserve brought forward				74
Being the reversal of creditors accumulated in error				

Appendix 2: Respective responsibilities of the College and the Auditor

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.