Scott-Moncrieff
business advisers and accountants

Glasgow Clyde College

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

December 2017

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Key Messages

Annual report and financial statements

The annual report and financial statements for the year ended 31 July 2017 were approved by the College on 13 December 2017. We reported within our independent auditor's report an unqualified opinion on the financial statements, the regularity of expenditure and income and other prescribed matters. We are satisfied that there are no matters which we are required to report by exception and we have nothing to report in respect the use of the going concern basis of accounting in the preparation of the financial statements.

Wider scope

Financial sustainability

The College has sound arrangements in place for budget setting and has developed a medium term financial strategy.

The medium term financial forecast currently projects a deficit position of £1.782 million and an underlying operating deficit of £0.939million by 2021/22. The College is investigating cost reduction and income generation options to maintain financial sustainability over the medium term.

Financial management

The College has appropriate arrangements in place for financial management and the use of resources.

The College delivered a surplus for the year of £0.039million on an accounting basis and an underlying operating surplus of £0.200million.

The College has appropriate arrangements in place for the prevention and detection of fraud and irregularities.

Governance and Transparency

Appropriate governance arrangements are in place.

An external review found that the College meets its obligations under the Code of Good Governance and, in a number of areas, demonstrates high standards of governance.

The governance statement identified one potential risk for the year: the absence of the Principal from August 2016 until February 2017.

Value for money

The College has appropriate arrangements in place to promote and secure value for money.

The College has a four-year development plan which sets out strategic objectives. Each objective is supported by sub-objectives and measures.

The College plans to streamline its corporate planning approach to ensure clear alignment between strategic objectives and the departmental and operational plans.

Key facts

- Revenue expenditure was £47.964million in 2016/17 and there were capital additions of £4.421million.
- The College achieved a minor operating surplus of £0.039million.
- The College exceeded its credits target by 1.3%.

Conclusion

This report concludes our audit of Glasgow Clyde College for the year to 31 July 2017. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK) 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 Glasgow Clyde College ("the College").

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

    - an audit of the annual report and financial statements, including a review of the College's key financial systems;
    - a review of the arrangements as they relate to the four dimensions of wider scope public audit: financial management, financial sustainability, governance and transparency and value for money;
    - consideration of the College's arrangements for taking part in the National Fraud Initiative data-matching exercise;
    - consideration of the local impact of Audit Scotland's national performance report *The Role of Boards*; and
    - completion of a minimum dataset of information and an analysis of EU funding that has been agreed with the College and 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. We discussed and agreed the content of this report with the Vice Principal Resources and College Development and the Assistant Principal Finance & Infrastructure. We would like to thank all management and staff for their co-operation and assistance during our audit.

Management action plan

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

Follow up of prior year recommendations

6. As part of our audit, we have followed up on the recommendations raised by the College's previous external auditors. In 2015/16 the previous auditor reported one outstanding recommendation, which we consider is now complete.

Independence

7. 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.

8. The audit fee reported in our external audit plan was £26,660. No adjustment to the fee has been required during the course of our audit.

9. As disclosed within the financial statements, the college purchased non-audit services from Scott-Moncrieff totalling £500 during 2016/17. At the request of the college, Scott-Moncrieff assisted in due diligence work related to estates projects. This work did not involve management decision making and was undertaken by the Scott-Moncrieff Corporate Finance team, entirely separately from the Public Sector External Audit team.

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

Adding value through the audit

11. 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.

12. This report is addressed to both the Board of Management and the Auditor General for Scotland and will be published on Audit Scotland's website: *www.audit-scotland.gov.uk*.

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

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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 13 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.**

Introduction

14. 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. An outline of the respective responsibilities of the College and the auditor in relation to the financial statements is in Appendix 2.

15. In this section we summarise the issues arising from our audit of the 2016/17 annual report and financial statements.

Overall conclusion

An unqualified audit opinion on the financial statements

16. The College approved the annual report and financial statements at their Board meeting on 13 December 2017. We reported an unqualified opinion on:

- the financial statements;
- the regularity of expenditure and income; and
- other prescribed matters.

17. We are satisfied that there are no matters on which we are required to report by exception and we have nothing to report in respect the use of the going concern basis of accounting in the preparation of the financial statements.

Good administrative processes were in place

18. The draft annual report and financial statements were of a good standard as were the supporting papers. We received the drafts in line with our agreed audit timetable and our thanks go to all College staff for their assistance throughout our audit.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the 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 below.

Assessed risks of material misstatement and our audit response

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 annual accounts. This is treated as a presumed risk area in accordance with International Standard on Auditing 240 (ISA 240) - The auditor's responsibilities relating to fraud in an audit of financial statements.*

Assessed risks of material misstatement and our audit response

19. We reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. We performed a detailed review of the journals raised and posted throughout the year and at the year-end to identify any unusual transactions or activity. We also reviewed the controls in place over the journal process for any potential weaknesses that could give rise to management override.

20. We did not identify any evidence of management override through our audit testing. However, we noted that manual journals can be raised, authorised and posted by senior members of the finance team without secondary review. Where a clear segregation of duties is not in place there is increased risk that inappropriate or inaccurate journals are processed. This increases the risk that fraud or error may not be prevented or detected. The College should consider whether additional controls or processes can be implemented to ensure that all manual journals are subject to authorisation or review by appropriate staff.

Action plan point 1

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.*

21. At the outset of our audit we considered the nature of the revenue streams at the College against the risk factors set out in ISA 240. We considered that for Scottish Funding Council (SFC) grant funding the risk of revenue recognition could be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. However, we considered the risk of fraud in relation to revenue recognition remained present in all other income streams.

22. We evaluated each material revenue stream, considered the College's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied. We performed detailed testing of each material income stream. From all of the testing performed throughout our audit work, we did not identify any evidence of fraud in relation to revenue recognition.

3. Post-employment benefits

Excerpt from the 2016/17 External Audit Plan: *The principal pension schemes to which the College makes contributions are: the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF).*

The STSS is an unfunded multi-employer scheme and it is not possible to identify the College's share of the underlying assets and liabilities. As a result, the scheme is accounted for as a defined contribution scheme.

In the case of the SPF, the College's share of underlying assets and liabilities is identifiable and net liability is recognised in the accounts. The College reported a net liability of £9.479million as at 31 July 2016. Given the scale of the liability recognised in relation to the SPF a misstatement in the reported position could be material to the accounts

Assessed risks of material misstatement and our audit response

23. We reviewed the College's accounting for post-employment benefits and confirmed the College has accounted for both the SPF and STSS scheme in line with the requirements of the statement of recommended practice Accounting for further and higher education (SORP). We have confirmed the accounting for the SPF scheme is in line with the actuarial valuation and the actuarial assumptions underpinning the valuation are reasonable and reflective of the College's circumstances.

24. Accounting for the SPF has a significant impact on the College's financial statements. As at 31 July 2017 the actuary advised a net liability for the scheme of £9.764million (an increase in the previous year's position of £9.479million). The movement reflects an increase due to service costs and net interest as well as a reduction in the liability due to employer's contributions and a gain on valuation as assessed by the actuary.

Movement in the SPF liability (£m)	
Opening balance	**(9.479)**
Employer's contributions	1.359
Service costs	(2.479)
Net interest cost	(0.241)
Gain on valuation	1.076
Closing balance	**(9.764)**

25. We also confirmed that the liabilities to the STSS in respect of historic pension enhancements on terminations were valued appropriately. The College obtained an actuarial valuation of the unfunded pension liabilities in relation to the STSS scheme. The liability was estimated at £3.339million as at 31 July 2017, a decrease of £0.037million on the prior year value.

4. Asset Valuations and capital additions

Excerpt from the 2016/17 External Audit Plan: *The College holds a significant level of fixed assets (net book value of £142.466 million in 2015/2016). Additionally the College expects material capital additions during the year (contracted capital commitments of £1.478 million were disclosed in 2015/16) in part funded by applications to the Glasgow Clyde Education Foundation (GCEF), an arms-length charity.*

In line with the wider Scottish FE sector the College adopts a policy of revaluation, whereby land and buildings are measure at fair value. Under the SORP, revaluations must be sufficiently regular so that the carrying value of an asset at the reporting date is not materially different from its fair value. Additionally, the College must assess whether there are indications of impairment of assets at each reporting date.

The College's last formal, external valuation exercise took place in 2014. Given the level of fixed assets held, a misstatement in the reported valuation could be material to the College's annual accounts.

26. We reviewed the general accounting treatment adopted in relation to the College's land, buildings and other fixed assets as at 31 July 2017. The College commissioned independent surveyors to assess the value of land and buildings during the year. The independent valuation supported the valuation of land a buildings within the balance sheet of £157.721million as at 31 July 2017.

27. We found the College complied with the SORP. Fixed assets were recognised and measured appropriately and the College's capitalisation policies were applied consistently. Capital funding from the GCEF was treated in line with SORP and the College's accounting policies.

Audit differences

28. We identified a number of immaterial disclosure and presentational adjustments during our audit that have been reflected in the final set of financial statements. In addition, adjustments were made in respect of the following items:

- narrative disclosure of the change in presentation adopted over reserves from 2016/17;
- additional disclosures in relation to related party transactions;
- the disclosure of non-audit fees of £500; and
- various minor amendments made to the remuneration report to ensure full compliance with Government Financial Reporting Manual (FReM) requirements.

Written representations

29. As is standard practice, we requested the College present a signed representation letter, covering a number of issues, to us at the date of signing the annual report and financial statements.

Regularity

30. We planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and financial statements. We did not identify any instances of irregular activity. Our procedures included:

- 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.

Going concern and subsequent events

31. Auditing standards require 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.

32. The term "subsequent events" is used to refer to events occurring between the year-end date of the financial statements and the date of the auditor's report. ISA 560 - Subsequent events requires us to assess all such matters before signing our audit report.

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

- reviewing bank facilities;
- reviewing budget and cash flow projections;
- reviewing minutes of post balance sheet board meetings;
- enquiries of senior management and the College's solicitors;
- consideration of future SFC funding; and
- performing sample testing of post balance sheet transactions.

34. The Board of Management 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. We did not identify any subsequent events which require amendments or disclosures to be made in the financial statements.

Performance report

35. We have considered the information given in the performance report that forms part of the College's annual report and financial statements. We found that the information given in the performance report is consistent with the financial statements and that report had been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC.

Governance statement

36. The College's Governance Statement explains that there has been compliance with the 2016 Code of Good Governance for Scotland's Colleges during the 2016/17 financial period in all material respects.

37. We are satisfied that the information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC.

Remuneration report

38. Our independent auditor's report confirms that, in our opinion, the audited part of the remuneration and staff report has been properly prepared.

39. The Governance Statement discloses the absence of the Principal from August 2016 until February 2017 following which the Principal retired. The Principal's remuneration for 2017/18 consisted of salary payments, accrued holiday pay and payment in lieu of notice for her contractual 6 month notice period.

40. The Principal's total remuneration has been disclosed as well as the annual equivalent salary. In addition, appropriate disclosures have been made of the impact on the senior management teams' remuneration due to the additional responsibilities taken on during the year.

Qualitative aspects of accounting practices and financial reporting

41. 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 financial statements. 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 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 material concerns over the timing or the period in which they were recognised.
The appropriateness of accounting estimates and judgements used.	The accounting estimates and judgements used in the preparation of the financial statements. Significant estimates and judgements are required 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 financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed.	We have not identified any uncertainties including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions and the extent that these transactions are separately disclosed in the financial statements.	From the testing performed, we identified no unusual transactions in the period which were not adequately disclosed in the financial statement.
Apparent misstatements in the performance report or inconsistencies with the financial statements.	No material misstatements or inconsistencies with the financial statements were identified.
Any significant financial statement disclosures to	We did not identify any significant financial statement

Qualitative aspect considered	Audit conclusion
bring to your attention.	disclosures to bring to your attention.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered.

An overview of the scope of our audit

42. We detailed the scope of our audit in our external audit plan. Our 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.

43. 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.

44. At the planning stage, we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We did not identified any significant risks in relation to the wider scope audit dimensions in 2016/17 and we did not identify any additional significant risks, over and above those reported in our external audit plan, during our work.

45. Our standard audit approach is to perform a review of the key financial systems in place, substantive tests and detailed analytical review. We tailored audit procedures, including those designed to address significant risks, for the audit fieldwork team to complete and the results reviewed by the audit manager and audit partner. We have applied the concept of materiality throughout the audit.

Our application of materiality

46. 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.

47. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our initial assessment of materiality for the financial statements was £800,000, approximately 1.7% of the College's forecast expenditure. No change to the assessed level of materiality was required during our audit.

Area risk assessment	Weighting	Performance materiality
High	40%	£320,000
Medium	55%	£440,000
Low	75%	£600,000

48. We set a level of performance materiality for each area of work based on our risk assessment. We performed audit procedures on all transactions, or groups of transactions, and balances that exceed performance materiality.

49. 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 £25,000.
- Misstatements below £25,000 that we believe warrant reporting on qualitative grounds.

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Financial management

Financial management

The College has appropriate arrangements in place for financial management and the use of resources.

The College delivered a surplus for the year of £0.041million on an accounting basis and an underlying operating surplus of £0.201million.

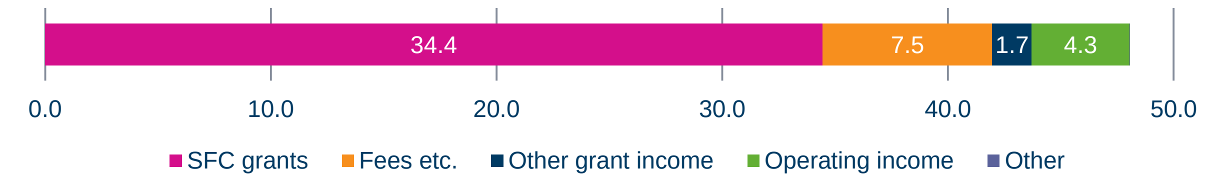
50. Financial management is concerned with the College's budgetary processes and control environment, to ensure these arrangements support the college in the efficient allocation and safeguarding of resources. The College is responsible for ensuring it conducts its financial affairs in a proper manner.

Financial performance

The College reported a surplus of £0.041million

51. The College reported an operating surplus for the year to 31 July 2017 of £0.039million. The major income and expenditure streams for the year are outlined below:

Income of £48.003million during 2016/17



£47.964million expenditure in 2016/17

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52. The College's income has increased by £1.061million (2.2%) in the year to £48.003million. This is due to increased levels of income from the GCEF. There were no other material movements in income streams compared to the prior year.

53. Revenue expenditure remained consistent with that reported in the prior period. Expenditure totalled £47.964million for 2016/17, a reduction of £0.03m (0.06%) on 2015/16.

Glasgow Clyde Education Foundation

54. In March 2014 the College donated cash backed reserves of £14.4million to the GCEF. This approach was consistent with that adopted across the sector following the Office for National Statistics (ONS) reclassification of Scottish colleges as central government bodies.

55. The GCEF is registered with the Scottish Charity Regulator with the charitable purpose of making grants, donations or gifts to organisations for the advancement of education, citizenship or community development in Glasgow.

56. The College applies to the GCEF to support its capital plans and all funding received from the GCEF is recognised as revenue income once performance-related conditions are met. The table below shows donations to the GCEF and grant awards from the GCEF since 2014:

GCEF transactions £m	2013 / 14 *	2014 / 15**	2015 / 16	2016 / 17
Donation to GCEF	(14.4)	(0.6)	-	-
GCEF income for revenue projects	-	0.041	0.589	0.489
GCEF income for capital projects	-	0.15	0.323	2.084
GCEF income total	-	**0.191**	**0.912**	**2.573**

** 8 month period ** 16 month period*

Capital additions

57. There were capital additions of £4.421milion in 2016/17, funded through a mix of SFC and GCEF funding. Significant additions were made to ICT equipment, infrastructure improvements, a new landscape and horticulture facility and major plant upgrades that will support energy efficiency initiatives.

Underlying financial performance

An operating surplus reported

58. Following ONS reclassification, Scottish colleges have received additional non-cash budget to meet depreciation charges. However, this additional budget is not recognised under SORP accounting.

59. The College has reported a small operating surplus in the year of £0.039million. After taking in to account the non-cash budget the College has disclosed an operating surplus of £0.960million for the year.

An underlying operating surplus reported

60. In addition to the use of non-cash budgets, the SFC advises that a further range of adjustments are required to the accounting surplus to present the underlying operating position for the year, as presented in the table below:

Underlying operating position as per SFC guidance	2016/17 £m
Accounting surplus	**0.039**
Depreciation	0.921
Pension adjustments	1.324
GCEF capital funding	(2.084)
Underlying operating surplus	**0.200**

Budget monitoring and control

61. We found the College's budgetary control and financial management to be appropriate. Budgets are approved on a timely basis in advance of the financial year. Performance against budget is monitored and reported regularly through the year. Material variances against budget are investigated by the finance team in liaison with the relevant budget holders.

62. The College's Finance and Resources Committee reviews the most recent management accounts and cash flow forecasts at each meeting. Management accounts compare performance to date against budget and the committee is presented with a variance and risk analysis.

Performance against resource allocations

63. In addition to reporting financial statements to 31 July each year, the College is also required to comply with government accounting and budgeting rules to 31 March each year. To that end, the College reports its performance against the revenue resource budget and the capital resource budget for the year to 31 March within the performance report.

Performance against resource allocation to 31 March 2017	Resource £m	Capital £m
Resource budget	40.022	1.945
Expenditure	39.986	1.945
Underspend	**0.036**	**-**

64. The table above shows that there was a small underspend of £0.036million against the resource allocation for 2016/17.

Internal Audit

65. Henderson Loggie provides the College's internal audit service. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of all of the work of internal audit.

66. While we have not placed formal reliance on the work of internal audit in 2016/17 for our financial statements audit, we have taken account of internal audit's work in respect of our wider scope responsibilities. We are grateful to the internal audit team for their assistance during the course of our work.

Fraud and irregularity

67. We have reviewed the College's arrangements for the prevention and detection of fraud and irregularities. Overall, we found the arrangements to be sufficient and appropriate.

National fraud initiative

68. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

69. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

70. The NFI exercise identified 187 matches for potential investigation by the College, of which one was recommended for investigation. We are pleased to report that by the completion of our audit the College had investigated 130 matches and had plans in place to investigate the remaining matches.

71. We consider that, given the relative number of recommended matches and this being the College's first year participating in the NFI, the College's level of participation has been mostly adequate, with some areas for improvement. We will liaise with management over the minor potential improvements that could be made to the College's NFI approach.

72. We are due to complete one further assessment of the College's participation in the NFI by 28 February 2018. That assessment will inform Audit Scotland's national NFI report to be published in June 2018.

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Financial sustainability

Financial sustainability

The College has sound arrangements in place for budget setting and has developed a medium term financial strategy.

The medium term financial forecast currently projects a deficit position of £1.782 million and an underlying operating deficit of £0.939million by 2021/22. The College is investigating cost reduction and income generation options to maintain financial sustainability over the medium term.

73. Financial sustainability looks forward to the medium and longer term to consider whether the College's planning processes support the future delivery of services.

Financial Planning

A balanced underlying operating position forecast for 2017/18

74. The College's 2017/18 revenue budget, as reported to the Board of Management in August 2017 forecasts a balanced underlying operating position. The underlying operating position forecast excludes the impact of two factors:

- The funding of pay awards from £0.3million of the cash budget for priorities (previously earmarked for depreciation); and
- additional depreciation charges of £1.386million due to the 2016/17 asset revaluation.

Assumptions for the 2017/18 budget appear reasonable

75. The College based the budget for 2017/18 on the most reliable information available at the time of preparation. Key assumptions have included:

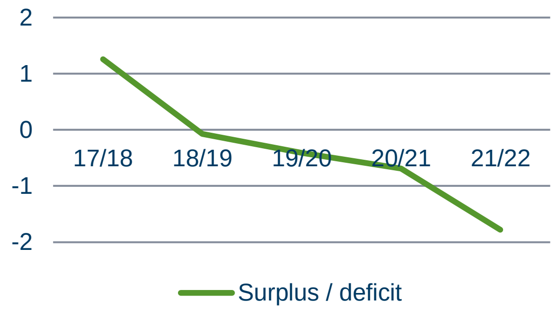
- SFC core funding of £31.003million.
- Increased staff costs of £1.095million (though the actual pay award for support staff has not yet been agreed).
- No donations are expected to the GCEF.
- Income from GCEF towards capital projects to increase to £2.941million based on capital plans and correspondence to date.
- SFC capital grants to fall to £1.175million.

Medium term financial plans forecast deficits

76. The College produces a Financial Forecast Return (FFR) for the SFC each year. As requested by the SFC, the 2017/18 FFR forecasts income and expenditure for the five year period to 2021/22, supported by a sensitivity analysis. The projections incorporate planned capital expenditure and expected funding from the GCEF.

77. The chart below shows that by 2021/22 the College is forecasting a deficit position of £1.782million. At that time the underlying operating deficit is forecast to be £0.939million.

Projected outturn positions to 2021/22 (£m)



78. As required, the FFR was prepared using significant assumptions advised by the SFC:

- Core funding on flat cash settlements until 2020/21, thereafter 2% increase.
- Increase of 1% per annum in support staff costs for all years and teaching staff costs from 2020/21 onwards.
- Increase of 1.5% per annum in non-staff costs.
- Funding to support national bargaining to fall to 67% in 2020/21 and 33% in 2021/22.
- No changes in student support funding.

- Stable student numbers.
- Commercial and non-SFC funding to reduce for known changes.

Scenario planning and risk analysis

79. As part of the planning process, the College challenged the assumptions set out by the SFC and highlighted other risks and uncertainties that it considers likely to affect the projections. The College considers any adverse allocations of funding from the Glasgow Colleges Regional Board would pose a significant risk to the College.

80. The projections estimate that SFC credit funding and student support funding for the current ESF programme is to reduce by approximately £0.97million and £0.56million respectively in 2018/20 and 2019/20 at which time the current ESF programme comes to an end. If alternative funding is not available from the SFC to offset the reduction, the College considers that SFC income forecasts would have to be revised downwards and costs would have to be reduced accordingly thus resulting in a reduction of wards to students that it expects would have an adverse impact on student recruitment, retention and attainment.

81. The Chair of the Board of Management has requested the executive management team clearly set out the options available to it in order to demonstrate financial sustainability over the medium term.

Estates strategy

82. The College has a four-year estates strategy and action plan which aims to ensure facilities support the delivery of the College's services. The strategy highlights life cycle maintenance for the Cardonald campus to be the most significant and immediate cost pressure. The strategy also identifies the need for further capital refurbishments and maintenance over the next four years.

83. The SFC is currently carrying out a condition survey of all of Scotland's colleges, to prioritise the allocation of funding between regions. The College has faced a reduction in SFC's capital funding over the last few years. This reduction has been somewhat offset by successful applications to the GCEF Foundation to cover capital expenditure and life cycle maintenance costs. However, the College's estates strategy highlights that the remaining balance in the GCEF is less than the College's life cycle maintenance requirements.

Workforce planning

84. The College recognises that staff costs form the majority of recurring expenditure. The College plans to further its workforce planning activity to ensure it can demonstrate financial sustainability. The College currently has a People Strategy and is completing workforce planning in the near future in order to assess the potential changes in the workforce over the next five years.

5

Governance and transparency

Governance and transparency

The College has appropriate overarching governance arrangements in place.

An external review of Board effectiveness found that the College meets its obligations under the Code of Good Governance for Scotland's Colleges and, in a number of areas, demonstrates high standards of governance.

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

Governance arrangements

Governance structure

86. Five standing committees support the Board of Management: the Remuneration Committee, the Audit Committee, the Finance and Resources Committee, the Learning and Teaching Committee, and the Organisational Development Committee. In addition, the College is in the process of creating a Nominations Committee with a remit over succession planning and board member recruitment.

87. Board membership during 2016/17 has remained relatively stable, following significant changes in recent years. At the beginning of the year, three Board members came to the end of their terms of appointment and one new member was appointed during 2016/17.

The governance statement

88. The College's governance statement reports there has been compliance with the 2016 Code of Good Governance for Scotland's Colleges during the 2016/17 financial period in all material respects. The statement identifies one area of potential risk for the year: the absence of the Principal from August 2016 until February 2017 following which the Principal retired:

"The potential risk was managed by ensuring sufficient cover was in place and the then Depute Principal, Mrs Harris, undertook the role of Acting Principal from September 2016 until she left the College through a previously agreed voluntary severance arrangement in March 2017. From April 2017 the Depute Principal, Mr Hughes, undertook the role of Acting Principal until the appointment of the new Principal, Mr Vincent, in late September 2017."

89. We are satisfied that the information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC. We are also satisfied that the related remuneration report disclosures have been properly presented in accordance with the FReM.

90. The College reported no other significant issues and the reported position is consistent with the internal audit opinion that the College has adequate and effective arrangements for risk management, control and governance.

Role of boards and the external review of effectiveness

91. In September 2010, the Auditor General for Scotland published a report aiming to assess the role and work of boards across 67 public bodies and 39 colleges. The report made the following eight recommendations:

All non-executives should receive a formal induction	Boards should review the skills and expertise required on the Board and attract people to plug the gaps
Performance of non-executives should be assessed on a regular basis	Scrutiny efforts should be focused on organisational performance, fianancial and risk management

Performance information provided to the board could be improved

Boards should aim to maximise openness and accessibility of papers

Declarations of interests should be considered at every meeting

Boards should review the use of committees and ensure delegation levels are appropriate

92. As part of our work in 2016/17, we followed up on the issues highlighted by Audit Scotland. We have shared our findings with Audit Scotland and summarised below.

Arrangements for scrutiny and decision-making are appropriate

93. In our opinion, the overarching arrangements for scrutiny and decision-making at the College are appropriate.

94. The Board conducts a self-evaluation on an annual basis and there is an external review of effectiveness every three years. The most recent external review found the College has a committed and conscientious Board that works well with its senior management team and board secretary. Collectively they are putting considerable and thoughtful effort into building the effectiveness of the Board.

95. The external effectiveness review found the College meets its obligations under the Code of Good Governance for Scotland's Colleges and, in a number of areas, demonstrates high standards of governance. Board members expressed their wish to maintain that momentum and to focus over the next 12 months on actions which will continue to build the effectiveness of this new governance team

96. Through our attendance at the Audit Committee and our review of Board and committee minutes, we are satisfied that there is appropriate scrutiny and challenge from members. Published minutes demonstrate that policy decisions, service performance and programme management have been subject to scrutiny and formal approval.

97. Each committee is required to submit its minutes and annual assessment to the Board. This allows the Board to assess the effectiveness of the committee during the year.

Board and committee papers are publically available

98. The College publishes Board and committee papers and minutes online. While Board meetings are not generally held in public, members of the public can request to attend as an observer.

Appropriate induction and training takes place for Board members

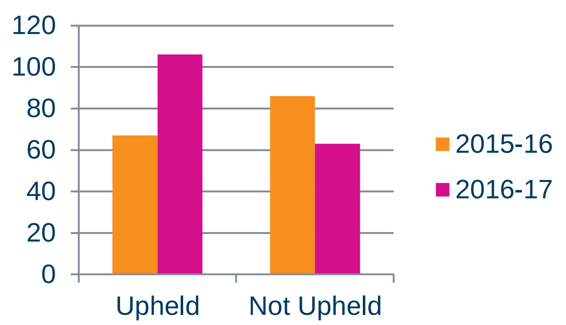
99. An induction process for new members is in place that covers their respective role and responsibility as a member of the board of Management. The induction process is supplemented by the following guides which are included in the member Handbook:

- the Guide for College Board Members,
- the Guide to Key Functions,
- constitution and proceedings of incorporated college boards,
- the Guidance and Good Practice for Charity Trustees; and
- the Code of Good Governance for Scotland's Colleges.

Appropriate arrangements in place to handle complaints

100. The College has a complaints handling policy in place that is in line with model guidance published by the Scottish Public Services Ombudsman.

Complaints upheld and not upheld



101. Complaints upheld in the year increase from 67 to 106 in 2016/17. This was largely due to 36 complaints relating to industrial action taken by teaching staff.

Systems of internal control

102. The College has appropriate systems in place to record, process, summarise and report financial and other relevant data. We did not identify any material weaknesses or governance issues in the accounting and internal control systems during our audit.

Risk management

103. The College has adequate arrangements in place for risk management. There is a defined risk management policy in place and the Senior Management Team (SMT) supports, advises on, and implements the policy.

104. The Board holds ultimate responsibility for the management of risk and conducts a review of the College's risk register on a quarterly basis. During 2016/17 the Board agreed the College's risk appetite with the overall appetite assessment being 'cautious'.

105. The strategic risk register includes 12 key risks ranked based on the Board's assessment of impact and probability. Each risk is owned by a member of the SMT. The five highest assessed risks were:

- Adverse funding changes.
- Failure to achieve contracted overall teaching delivery targets for any key partner.
- Failure to achieve surplus targets for non-SFC/ commercial activity.
- Negative impact on employee relations (e.g. national bargaining, industrial action, local consultation).
- Failure of College operational processes/ systems /ICT infrastructure.

Standards of conduct

106. 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. We have reviewed 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

The College has proper arrangements in place to promote and secure value for money.

The College plans to streamline its corporate planning processes with a view to ensuring clear alignment between the strategic objectives set out in the development plan and the departmental strategy and operation plans.

107. Value for money is concerned with using resources effectively and continually improving services. In this section, we report on our audit work as it relates to the College's reported performance.

Value for money framework

108. The College is committed to achieving public value from its available resources and this commitment underpins its ongoing decision-making. The terms of reference for the Audit Committee include the following responsibilities in relation to value for money:

- Establishing and overseeing a review process for evaluating the effectiveness of the College's arrangements for securing the economical, efficient and effective management of the College's resources and the promotion of best practice and protocols, and reporting to the Board of Management thereon.
- Advising the Board of Management on potential topics for inclusion in a programme of value for money reviews.
- Advising the Board of Management of action that it may wish to consider in the light of national value for money studies in the further education sector.

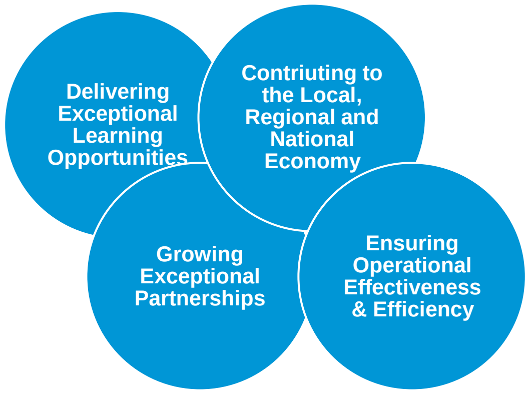
109. The Audit Committee liaises with the College's internal auditor to ensure that a suitable level of value for money review activity takes place.

Internal audit opinion on value for money

110. Henderson Loggie concluded in the internal audit annual report that the College has proper arrangements in place to promote and secure value for money.

Strategic Planning

111. The College has a four-year development plan 2016-2020, which sets out the College's four strategic objectives. Each strategic objective is supported by a number of sub-objectives and performance measures:



112. Internal audit reviewed the College's corporate management arrangements during 2016/17 to ensure that the College's planning process accorded with good practice. As part of their work, internal audit considered the linkages between the regional outcome agreement, the development plan, the underpinning strategies and the detailed faculty and unit operational plans.

113. The review identified a number of areas of good practice in the College's planning arrangements as well as some areas for improvement. Overall internal audit considered the systems in place met control objectives with some weaknesses present. Four management recommendations were raised, two 'priority three' (the lowest rating afforded) and two 'priority two' (issues subjecting the College to significant risk and which should be addressed by management).

114. Following the internal audit review the College has begun to streamline its corporate planning processes with a view to ensuring clear alignment between the strategic objectives set out in the development plan and the departmental strategy and operation plans. The Board is due to consider the updated approach and the related performance arrangements at an upcoming strategy day.

Performance

College achieved credits target for the year

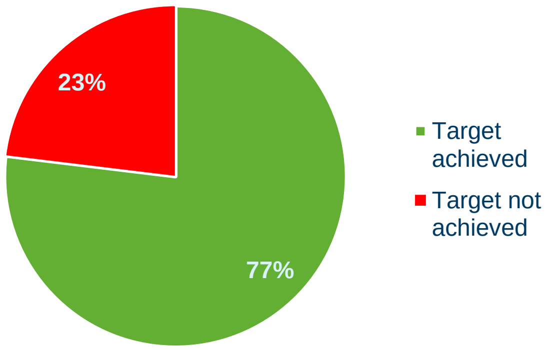
115. The College delivered 128,696 credits in the year to July 2017, 1,605 credits (1.3%) over its target. The SFC has set a target of 128,683 credits for 2017/18.

Operational performance measures

116. The Senior Management Team regularly review 13 key performance indicators. These KPI's fall into three categories: effectiveness, efficiency and financial:

- 'Effectiveness' measures are based on the latest methodology from SFC which aims to measure the success of students that enrol at the College.
- 'Efficiency' measures consider achievement of Credits, staff required to deliver credits and staff sickness and turnover.
- 'Financial' measures include measures on the level of operating surplus and reliance on SFC income.

Summary of performance measures in 2016/17



117. The chart above shows that the College met most of the targets it set for 2016/17. Only three targets were not met in the year. The table below shows further information on the three targets which have not been achieved. All three targets related to 'effectiveness'.

Priority	Measure	16/17 Actual	16/17 Target	College commentary on indicators not achieved in the year
Full time FE enrolments completing course on recognised qualifications	Measures student retention to end of course	**73%**	78%	*The KPI was affected by a slight increase in early withdrawal of students during 2016/17. FE retention is also affected by a significant proportion of learners undertaking full time Highers programmes and retention on these programmes is low. All programmes with low retention have clear targets for improvements and a strong focus has been put on this for 2017/18.*
Successful outcome for FE enrolments on recognised qualifications	Measures student success	**62%**	66%	*The KPI was particularly low in several curriculum areas with large numbers of learners, and these larger areas therefore have a disproportionate impact on overall success levels. These curriculum areas are being targeted for improvement for 2017/18.*
Successful outcome for HE enrolments on recognised qualifications	Measures student success	74%	75%	*Although the KPI is are slightly below target there has been a 2% increase between 2015/16 and 2016/17. Specific curriculum areas which are not performing well are being targeted for improvement.*

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. The action plan details the officer responsible for implementing each recommendation and an implementation date. The College should assess each recommendation for wider implications before approving the action plan.

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 and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may 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

No.	Issue & recommendation	Management comments
1. **Rating** **Grade 3** **Para** **20**	**Journal authorisation** Manual journals can be raised, authorised and posted by senior members of the finance team without secondary review. Where a clear segregation of duties is not in place there is increased risk that inappropriate or inaccurate journals are processed. This increases the risk that fraud or error may not be prevented or detected. The College should consider whether additional controls or processes can be implemented to ensure that all manual journals are subject to authorisation or review by appropriate staff	**Response:** The College has now put measures in place to ensure that material manual journals processed by senior members of the finance team are subject to secondary review. **Action owner:** Assistant Principal Finance and Infrastructure. **Due Date:** October 2017.

Appendix 2: Respective responsibilities

Management responsibilities

In accordance with the College's Constitution, the Board of Management of Glasgow Clyde College is responsible for the administration and management of the affairs of the College, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial period.

It is the duty of the Board of Management, through its designated office holder, to prepare financial statements for each financial period which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period.

The Board of Management is responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Constitution, the SORP, the (FReM) where applicable, and other relevant accounting standards.

In causing the financial statements to be prepared, the Board of Management ensures that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the College will continue in operation.

The Board of Management has a responsibility to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Further and Higher Education (Scotland) Act 1992, the College's Financial Memorandum with the Funding Council, and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and hence to take reasonable steps to prevent and detect fraud;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure; and
- ensure sound corporate governance and the proper conduct of the College's operations.

Auditor responsibilities

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.

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 Scottish Funding Council of the state of the college's affairs as at 31 July 2017 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Conclusions relating to going concern

We are required to report to you if we consider:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

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 audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council;
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council

Matters on which we are required to report by exception

We are also required to report if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that 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, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.