Scott-Moncrieff
business advisers and accountants

# Glasgow Clyde College

2017/18 Annual Audit Report to the Board and the Auditor General for Scotland

December 2018

# Contents

# Key Messages

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|---|---|
| **Financial statements** | The annual report and financial statements for the year ended 31 July 2018 were approved by the Board of Management on 12 December 2018. We report within our independent auditor's report an unqualified opinion on the financial statements, the regularity of transactions and other prescribed matters. We are also satisfied that there are no matters which we are required to report by exception.<br>The financial statements and supporting schedules were of a good standard. Our thanks go to staff at the college for their assistance with our work. |
| **Financial Sustainability** | The college has arrangements in place for long term financial planning in line with SFC guidance for compiling Financial Forecast Returns.<br>However, the FFR process has identified a recurring deficit position over the medium to long term and further action is required to identify savings options. |
| **Financial Management** | The college has satisfactory arrangements in place for financial management and use of resources. The college reported an accounting deficit of £0.496million for the year and an adjusted operating surplus of £0.125million.<br>Our conclusion is based on a review of the College's financial performance against its annual budget and our review of the budget monitoring and control systems in place. |
| **Governance & Transparency** | Governance arrangements at the college are deemed to be appropriate, however we have noted that the governance role of Glasgow Colleges' Regional Board across the region is still developing and more work is needed to formalise its governance relationship with the assigned colleges.<br>Our assessment has been informed by a review of the corporate governance arrangements in place, the information provided to the Board and Committees as well as the risk management arrangements in place. |
| **Value for Money** | The college demonstrated commitment to achieving value for money through its annual value for money review process.<br>The college has an established four year development plan which its performance management framework supports. |

## Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Scott-Moncrieff**
**December 2018**

# 1

# Introduction

**This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Glasgow Clyde College for 2017/18.**

**We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.**

**At Glasgow Clyde College, we have designated the Audit Committee as "those charged with governance".**

# Introduction

1. This report summarises the findings from our 2017/18 audit of Glasgow Clyde College ("the College").

2. We outlined the scope of our audit in the external audit plan which we presented to the Audit Committee in June 2018. The main elements of our work in 2017/18 have been:

- an audit of the college's draft annual report and financial statements;
- consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
- any other work requested by Audit Scotland.

**Exhibit 1: Audit Dimensions within the Code of Audit Practice**


**Source: Audit Scotland Code of Audit Practice, May 2016**

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. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. 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 college management. We would like to thank all management and staff for their co-operation and assistance during our audit.

## Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we will comply with Financial Reporting College's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

8. We set out in Appendix 1 our assessment and confirmation of independence. Our assessment confirms our independence and includes consideration of:

- provision of non-audit services to the college for General Data Protection Services (GDPS) provision and associated services; and
- relationships between Scott-Moncrieff and the college, its members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Adding value through the audit

9. 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.

10. Examples of the way we have added value to the college in 2017/18 include:

- attendance at meetings of the Audit Committees;

  and;

- sharing technical and governance guidance updates with management.

11. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland's website.

    *www.audit-scotland.gov.uk*.

12. 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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# Financial statements

**The college's financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.**

**In this section we summarise the findings from our audit of the 2017/18 financial statements.**

# Annual financial statements

**The annual report and financial statements for the year ended 31 July 2018 were approved by the Board on 12 December 2018. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and financial statements.**

**The College has appropriate administrative processes in place to prepare the annual report and financial statements and the required supporting working papers.**

## Overall conclusion

### An unqualified audit opinion on the annual report and financial statements

13. The annual report and financial statements were considered by the Audit Committee on 28 November 2018 and approved by the meeting of the Board on 12 December 2018. We report within our independent auditor's report:

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

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

### Good administrative processes were in place

15. We received draft financial statements and supporting papers in line with our agreed audit timetable. Our thanks go to all staff at the Board for their assistance throughout our audit.

### Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described in Exhibit 2 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 financial statements or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described in Exhibit 2.

## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

**1. Management override**

17. In any organisation, there exists a risk that management has 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 (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

***Excerpt from the 2017/18 External Audit Plan***

18. We have not identified any indication of management override in the year. We have reviewed the college's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements

## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

made by management and judgements were consistent with prior years.

19. During our prior year audit, we noted that there was a lack of segregation of duties in respect of the posting of journals by senior finance staff. While we acknowledged that compensating controls were in place, for example, the preparation and presentation of financial monitoring reports to the Board, we recommended that arrangements were put in place to review and authorise manual journals. The college has implemented this control and introduced secondary review of journals over £50,000 for journals posted by senior finance staff. During 2017/18, our audit work identified eight journals which had no description. This increases the risk that inappropriate or inaccurate journals are processed in error.

***Action plan point 1***

### 2. Revenue recognition

Under ISA (UK) 240- The auditor's responsibilities relating to fraud in an audit of financial statements there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the College could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

***Excerpt from the 2017/18 External Audit Plan***

20. As part of our planning process we have considered the nature of the revenue streams at the college against the risk factors set out in ISA 240. We identified that for Scottish Funding Council (SFC) grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. We concluded, however, the risk of fraud in relation to revenue recognition is present in all other income streams.

21. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the college's revenue recognition policy is appropriate and has been applied reasonably.

### 3. Risk of fraud in the recognition of expenditure

The FRC has published a revised Practice Note 10 which applies to the audit of financial statements of public sector bodies in the UK, for periods commencing after June 2016. The practice note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

In line with the practice note, our presumption is that the College could adopt accounting policies or recognise expenditure in a way that materially misstates the College's financial performance.

***Excerpt from the 2017/18 External Audit Plan***

22. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion we carried out testing to confirm that the college's

## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

**4. Risk of fraud in the recognition of expenditure**

The College holds a significant level of fixed assets (net book value of £161.021million in 2016/17) and expects to make material capital additions during 2017/18 (contracted capital commitments of £3.756million were disclosed in 2016/17) in part funded by applications to the Glasgow Clyde Education Foundation, an arms-length charity.

In line with the wider Scottish FE sector the College adopts a policy of revaluation, whereby land and buildings are measured 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 2017. Given the level of fixed assets held, a misstatement in the reported valuation could be material to the College's annual accounts.

***Excerpt from the 2017/18 External Audit Plan***

23. We reviewed the valuation of land and buildings, including any building additions in the year, and ensured that the College has completed a recent assessment for impairment. We ensured fixed assets are recognised and measured in accordance with the SORP and the College's own accounting policies.

24. In year capital expenditure was reviewed to ensure that capitalisation policies have been applied appropriately and consistently and we assessed capital funding received from the Glasgow Clyde Education Foundation has been accounted for in line with the requirements of the SORP.

## Update to our initial risk assessment

25. ISA 300 highlights that: planning is not a discrete phase of an audit, but rather a continual and iterative process…and continues until the completion of the current audit (ISA 300, A2).

**New financial system**

In August 2017 the college transferred to a new finance system - TechOne. There is a risk that transactions and balances recorded in the previous financial system are not transferred across to the new system correctly. There is a risk that any error in the migration of data from old system to the new system could result in a material misstatement

26. Following receipt of the unaudited annual accounts we revisit our assessed initial risk assessment. We have identified one further risk which is detailed below. Our opinion on the annual accounts was not modified with respect to this risk.

27. We performed testing to ensure all balances from the old financial system were correctly transferred onto the new financial system.

## Our application of materiality

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

29. Our initial assessment of materiality for the financial statements of the college was £800,000. We reviewed our assessment,

following receipt of the unaudited financial statements to £850,000 and revised our assessment of materiality four initial assessment and remained at this level throughout our audit.

**30.** Our assessment of materiality is set with reference to expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance of the college.

### Performance materiality

**31.** Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.

| Area risk assessment | Weighting | Performance materiality |
|---|---|---|
| High | 40% | £340,000 |
| Medium | 55% | £468,000 |
| Low | 75% | £638,000 |

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

**33.** We agreed with the Audit Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £30,000, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## Audit differences

**34.** We are pleased to report that there were no material adjustments to the draft financial statements.

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

## An overview of the scope of our audit

**36.** The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in May 2018. 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.

**37.** 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.

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

## Other matters identified during our audit

**39.** During the course of our audit we noted the following:

### Other information in the annual report and accounts

**40.** “Other information” in the annual report and accounts comprises any information other than the financial statements and our independent auditor’s report. We do not express any form of assurance conclusion on the “other information” except as specifically stated below.

### The performance report

41. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

42. 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 and directions made by the SFC.

43. From our review of the Annual Report we have identified of disclosure adjustments which require to be made to the element of the annual report relating to performance to meet the requirements of the SFC accounts direction. We have raised the disclosure issues with management to be addressed in the revised financial statements.

### The accountability report

44. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report.

45. From 2017/18 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.

46. We have therefore requested that the accountability report is cross-referenced within the accounts to reflect the requirements of the SFC financial statements direction.

### Governance statement

47. 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 2017/18 Accounts Direction, released by the SFC.

48. While we are satisfied the content of the Governance Statement is not inconsistent with information gathered during the course of our normal audit work, we identified a small number of minor disclosure improvements required in order to ensure full compliance with the SFC guidance.

49. The College has taken on board our comments and has cross referenced the Governance Statement in the revised annual report and financial statements.

### Remuneration and staff report

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

51. We have concluded that the disclosures are in line with underlying records and disclosure requirements.

### Pension Liability

52. As at 31 July 2018 the net LGPS pension liability was £0.222million, a decrease of £9.542milion in comparison to the net pension liability as at 31 July 2017 (£9.764million).

53. Due to the significant movement in comparison with the prior year, we have conducted a more detailed analysis of the assumptions put in place by the actuary.

54. The movement is primarily as a result of the triennial valuation of the Strathclyde Pension Fund (carried out as at 31 March 2018). The actuarial valuation for the 31 July 2018 is the first year that the results of the triennial valuation are taken into account. In the interim years between triennial valuations, actuarial valuations are based on rolled forward data rather than a full valuation.

### Regularity

55. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and financial statements.

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

## Qualitative aspects of accounting practices and financial reporting

57. 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, which are disclosed and noted that there was no accounting policy for events after the reporting date.<br>The financial statements 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.<br>Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied.<br>Significant estimates have been made in relation to the valuation of property, plant and equipment. A valuation took place in 2017 and was updated in May 2018 to reflect the new Horticulture Facility. The valuations were informed by advice from qualified, independent experts. The valuation process is in line with the requirements of the FReM.<br>Pension estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of managements' experts in line with the requirements of ISA (UK) 500.<br>We also evaluated the reasonableness of the estimates applied by the actuary and sought further clarification on the methods to derive estimated investment returns. |
| The appropriateness of the going concern assumption | We have reviewed the financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the college will continue to operate for at least 12 months from the signing date. |
| 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. |

| Qualitative aspect considered | Audit conclusion |
|---|---|
| Apparent misstatements in the management commentary or material inconsistencies with the accounts. | 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 management

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

# Financial management

**The college has satisfactory arrangements in place for financial management and use of resources. The college reported an accounting deficit of £0.496million for the year and an adjusted surplus of £0.125million.**

**Our conclusion is based on a review of the College's financial performance against its annual budget and our review of the budget monitoring and control systems in place.**

## Financial performance

58. The college reports an accounting deficit on operations of £0.496million. Colleges receive a non-cash budget to cover depreciation. After adjusting the college's operating deficit on operations for its non-cash allocation, the college reports an adjusted surplus of £0.125million.

59. Exhibit 3 shows the outturn management accounts outturn position for 2017/18. The College reported a deficit against its revenue allocation in 2017/18 of £3.012million. The reported deficit is non-cash in nature.

**Exhibit 3: The College performance against budget**

| | Budget £000 | Actual £000 | Variance £000 |
|---|---|---|---|
| **Income** | | | |
| Scottish Funding Council grants | 32,592 | 32,946 | 354 |
| Tuition fees and externally funded activity (including SAAS income) | 5,500 | 5,587 | 87 |
| Other income (including commercial/international income) | 4,823 | 4,467 | (356) |
| Glasgow Clyde Education Foundation revenue funding | 465 | 179 | (286) |
| Release of deferred capital grants | 3,413 | 3,490 | 77 |
| | **46,793** | **46,668** | **(125)** |
| **Expenditure** | | | |
| Staff Costs | 32,267 | 32,533 | (266) |
| Exceptional restructuring costs and FRS 102 pension adjustments | 125 | 1,442 | (1,317) |
| Other operating expenses (including estates maintenance costs and student funds – childcare expenditure) | 10,768 | 10,520 | 248 |
| Depreciation | 5,319 | 5,194 | 125 |
| | **48,479** | **49,690** | **(1,211)** |

**Exhibit 3: The College performance against budget**

| | Budget £000 | Actual £000 | Variance £000 |
|---|---|---|---|
| **Operating deficit for the year ended 31 July 2018** | **(1,686)** | **(3,021)** | **(1,336)** |

60. Staff costs accounted for 67% of overall expenditure of the college. FRS 102 pension adjustment of £1.442million was not originally budgeted for as it is based on figures provided by the actuary at the end of the financial year. This created a £1.442million variance against budget. However this adverse variance is reduced by £0.125million in budgeted voluntary severance expenditure which has been carried forward into 2018/19.

61. Other operating expenses were also higher than budget, particular in relation to premises, teaching, admin and central services expenditure. Additional expenditure on these line items were partially off-set by a budget contingency of £0.600million which was fully utilised within the last quarter.

62. Grant income received from the SFC was in excess of budget due to additional funding received (childcare funds and flexible workforce development fund). However other income was lower than budgeted (£0.356million) due to lower than budgeted commercial income in 2017/18 and SAAS income. Glasgow Clyde Education Foundation (GCEF) income was £0.286million lower than budget due to the timings of projects.

### Glasgow Clyde Education Foundation

63. The college donated cash back reserves to the GCEF in March 2014 of £14.4million following the reclassification of Scottish colleges as central government bodies by the Office of National Statistics (ONS) which prevented colleges from carrying forward cash reserve balances.

64. GCEF is a registered with the Office of the Scottish Charity Regulator. Its purpose is of making grants, donations or gifts to organisations for the advancement of education, citizenship or community development in Glasgow.

65. The college applies to the GCEF to support capital plans and to support revenue spending in the short term. All funding received from the GCEF is recognised as revenue income once performance-related conditions are met.

66. Funding from GCEF of £2.527million was used to support capital projects and £0.179million to support revenue projects in 2017/18. Exhibit 4 below includes a more detailed analysis of GCEF donations since its creation in 2014:

**Exhibit 4: The colleges transactions with GCEF transactions**

| GCEF transaction £million | 2013/14* £'000 | 2014/15** £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|---|---|---|
| Donation to GCEF | (14,400) | (600) | - | - | - |
| Grants from GCEF | - | 191 | 912 | 2,573 | 2,706 |
| **Balance held by GCEF*** ** | **14,400** | **14,809** | **13,894** | **11,321** | **8,615** |

**8 month period **16 month period***does not take account of ALF Grants issued to other bodies or investment income*

## Budget monitoring

67. We reviewed the college's budgetary processes

and budget monitoring arrangements in 2017/18.

68. The Finance and Resources committee scrutinised the 2018/19 revenue budget in advance of the financial year. The Board approved the revenue budget in advance of the financial year. We note however the Financial and Resources committee did not scrutinise the prior year revenue budget.

69. The Board also receives reports on performance against revenue budget during the financial year. Reports presented are at a strategic level and include sufficient explanations for variances.

70. The Finance and Resources committee which meets quarterly receives capital budget monitoring reports for scrutiny.

71. The college's Staffing Group is key to monitoring and managing staff costs which accounts for two-thirds of the college's expenditure base. This group is led by the college's Vice Principals provides challenge on staff costs.

***Action plan point 4***

## Financial capacity

72. The college currently has an experienced and skilled finance team to ensure that its financial capacity and skills are appropriate. The team is led by the Assistant Principal of Finance and Infrastructure (CPFA, ACA) who is supported by the College Accountant (CPFA, ICAS), the Finance Manager and Finance Officer. The finance team is also includes eight administrators.

## Prevention and detection of fraud and irregularity

73. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity.

74. Overall, we found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

### National Fraud Initiative

75. 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.

76. The NFI exercise produces data matches by comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

77. The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored the college's participation in NFI. We submitted an assessment of the college's participation in the exercise to Audit Scotland in February 2018. The NFI exercise identified 195 matches for potential investigation by the college, of which 1 were recommended for investigation. As at February 2018 the college had investigated 100% of the NFI matches. Overall we concluded that the college's level of participation was satisfactory.

## Standards of conduct

78. The college relies on maintaining a sound system of internal controls to detect fraud and corruption. The college has appropriate fraud and corruption policies and procedures designed to prevent, detect and reporting on fraud and corruption. These policies are available on the staff intranet.

79. In our opinion the college's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

## Internal audit

80. An effective internal audit service is an important element of the College's overall governance arrangements. Henderson Loggie provides the College's internal audit service. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Board's total audit resource.

81. In 2017/18 we did not place formal reliance on the work of internal audit. However, we have considered their findings in respect of our wider scope responsibilities and we are grateful to the internal audit team for their assistance during the course of our work.

## Systems of internal control

**82.** We have evaluated the college's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts.  Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

***Action plan point 1-3***

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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 further action is required to identify savings options.**

## Significant audit risk

83. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

**Long term financial strategy**

In 2016/17 we found that the college had sound arrangements in place for budget setting and had developed a medium term financial strategy. The college's 2017/18 revenue budget, as reported to the Board of Management in August 2017 forecasts a balanced underlying operating position

The medium term financial forecast projected 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.

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. There is a risk that the cost reduction and income generation options available to the College will not be sufficient to maintain financial balance in the long term.

***Excerpt from the 2017/18 External Audit Plan***

84. We reviewed and considered the college's financial standing. Our audit involved a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the college's operations and use of resources.

85. The college has achieved a balanced underlying operation position in the 2017/18 financial statements. The Board has discussed the five year forecast deficit for the college and has tasked management with producing a more formal plan for addressing this over the period including increasing its commercial income growth, seeking additional funding and considering cost reductions where possible.

## Financial planning

### Financial projections 2018/19

86. In advance of the financial year, the 2018/19 revenue budget was reviewed by the Financial and Resources Committee and was approved by the Board on 13 June 2018.

### Medium term financial plans forecast deficits

87. The SFC issued guidance on Financial Forecast Returns required for the period to 2022/23 in June 2018. The returns require standard information from all colleges and contribute to the SFC financial health monitoring framework. The FFR forecasts income and expenditure for the five year period to 2022/23.

88. 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 2018/19 should be based on the funding allocation announced in May 2018. Colleges should plan for 2019/20 to include pay harmonisation with the SFC providing estimated income for this year. In the years following, Colleges are to assume that activity levels remain the same until 2022/23.
- funding has not been assumed to cover inflationary pressures and therefore Colleges are expected to continue delivering efficiency savings of at least 3% per annum.
- capital maintenance will be held at 2017/18 levels
- non- SFC income and non-staff expenditure should be informed by local circumstance.
- staff costs should take account of national bargaining harmonisation/job evaluations costs for all staff. Cost of living pay award increases for lecturing staff and for support staff should also be included. An annual increase of 2% for each remaining year should also be included.

**89.** Using the above assumptions the college has prepared a FFR which forecasts a deficit in a deficit of £0.052million in 2019/20 and recurring deficits rising to £2.110million in 2022/23, as shown in exhibit 3.

**90.** The FFR was presented to the Finance and Resources Committee in September 2018 and the assumptions were subject to challenge and scrutiny.

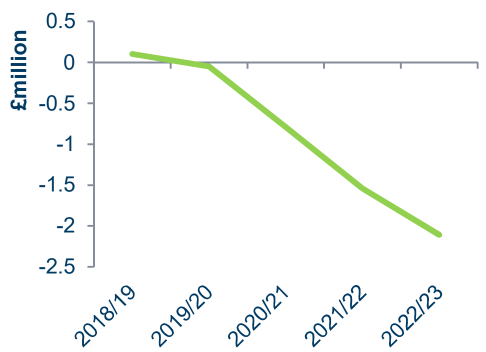
**91.** The FFR includes analysis of the material risks to income and expenditure. The key risks identified by the college are:

- adverse funding changes;
- failure to achieve contracted overall teaching delivery targets;
- failure to achieve surplus for commercial activity;
- negative impact on employee relations;
- failure to recruit and retain an appropriately skills and effective workforce;
- failure to achieve a sustainable fit for purpose college estate
- failure to take corrective action to offset the forecast deficits.

**92.** The college does not currently have formal cost reduction plans and income generation options in place, which address the forecast deficit position in the short and medium term. The college's financial position is not sustainable in the medium to long term and corrective action is required to bring forward appropriate measures which address this position.

***Action plan point 4***

**Exhibit 4: Projected operating deficit position**



5

# Governance and transparency

# Governance and transparency

**Governance arrangements at the college are deemed to be appropriate, however we have noted that the governance role of Glasgow Colleges' Regional Board across the region is still developing and more work is needed to formalise its governance relationship with the assigned colleges.**

**Our assessment has been informed by a review of the corporate governance arrangements in place, the information provided to the Board and Committees as well as the risk management arrangements in place.**

## Governance Arrangements

93. In 2017/18 we have reviewed the governance structures in place at the college. There were no significant changes in the financial year. The Board continues to operate with support from five committees.

94. In May 2018 the Scottish Government updated it's guidance for audit committees in the public sector through an update to its Audit Committee Handbook.

95. The revised handbook sets out the fundamental principles relating to the role, membership and work of the Audit and Assurance Committees.

96. We have summarised the changes to the Audit Committee Handbook and shared with the college management. The changes may require action from the Audit Committee to ensure it remains compliant. Our audit work in 2018/19 will include consideration of actions to align to the new handbook.

## Regional Governance Arrangements

97. The Glasgow Colleges Regional Board (GCRB) obtained fundable body status from 1 April 2017 and for the first time in 2017/18 the outcome agreement for the College was agreed solely with the GCRB.

98. The GCRB established a revised control framework for monthly returns which were fed to the SFC through GCRB. The College has been working with GCRB to deliver the required returns in line with guidance.

99. The transition of the funding mechanism from SFC to GCRB has not resulted in any significant issues for the College and business has continued as usual.

100. The GCRB has agreed a financial memorandum with the assigned colleges. The financial memorandum is key to ensuring the terms and conditions of grant funding are clear and understood by all parties.

## Openness and transparency

101. One of the sector risks identified by Audit Scotland for 2017/18 relates to public sector organisations keeping pace with public expectations relating to openness and transparency.

102. Audit Scotland's Role of Boards report, published in September 2010, found that there was wide variation in the openness and transparency of boards of public bodies. Further education organisations were below average in 2010, with 33% holding board meetings in public, against an average of 41% across the public sector. From our review of the college the Board meetings are not open to the public.

103. Transparency can also be achieved through giving the public access to information about how the Board is making decisions. We performed a review of college websites and found that 93% of college Board minutes and agendas were readily accessible. Furthermore we found that 85% of Audit Committee minutes were readily accessible via college websites.

104. The college publishes detailed board and committee minutes on its website. In addition to this papers are published, where commercial interests allow.

## Risk Management

105. Public sector bodies face increasing demand for quality service at a time of significant financial pressure. Well-developed risk

management arrangements help bodies to make effective decisions and secure better use of resources.

**106.** The college has an established risk management framework in place which sets out the risk management process and culture. Risk management reports are presented as a standing item to the Board and Audit Committee.

**107.** The college risk management arrangements are outlined in the annual report and accounts. We concluded that in 2017/18 the college has adequate risk management arrangements in place.

## Information Governance

### Cyber Security

**108.** In May 2017, a number of health boards across NHS Scotland were affected by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'.

**109.** The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve a Cyber Essentials Plus certification by the end of October 2018.

**110.** The college is Cyber Essentials certified and expects to receive Cyber Essentials Plus certification in November 2018.

### General Data Protection Regulations

**111.** The General Data Protection Regulations (GDPR) came into force in the UK on 25 May 2018. The regulations replace the Data Protection Act 1998 and, as well as strengthening existing regulations, the Act has brought in new legislative duties for the College. The regulations bring significant potential penalties for non-compliance.

**112.** The college developed a workplan to identify and monitor the progress of actions required to prepare for the implementation of GDPR. This was supported by a working group. The college as engaged with Scott-Moncrieff's Business Technology Team (BTC). In Appendix 1, we set out in Appendix 1 our assessment and confirmation of independence in respect of this non-audit service.

**113.** BTC supported management by completing a GDPR gap analysis to assess the readiness of the college to comply with GDPR. 19 key actions were identified.

**114.** Compliance with the Regulations is an ongoing process, which we will continue to monitor as part of our annual audit procedures in the future. We have not identified any significant risks to compliance with the regulations at this stage.

## Governance review

**115.** Internal Audit raised a recommendation in the year that the college should ensure that there is a clear and documented process for setting and agreeing personal performance measures for the Principal which has been reviewed and approved by the Board.

**116.** As the Principal has a key role in ensuring the success of the college we would expect their performance to be closely monitored. Performance measures of the principle have not yet been formally set. The college has reported that there has been progress in setting the objectives, these require finalising.

**117.** The college also received an independent governance review in 2017/18, which identified areas where the Board could improve on their performance including:

- working with senior members of staff to ensure continuity from the existing strategy;
- remaining focused on Board member development;
- the amount of discussion time to aid member understanding and not member debate should shift;
- ensuring mechanisms to listen to the student voice more; and
- increasing board development activity.

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# Value for money

# Value for money

**The college demonstrated commitment to achieving value for money through its annual review of the value for money strategy.**

**The college has an established four year development plan which its performance management framework supports.**

## Value for Money Framework

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

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

119. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board.

### Development plan

120. The college has a four year development plan 2016-20, which sets out its vision, mission, values and strategic objectives with underlying performance measures and objectives. The college's four strategic objectives are:

- delivering exceptional learning opportunities;
- contributing to the local, regional and national economy;
- growing exceptional partnerships; and
- ensuring operational effectiveness and efficiency.

121. The development plan is supported by nine strategies: learning and teaching; access and inclusion; people; financial sustainability; business development; procurement; digital; estates; and marketing. Each department also has operational plans. Following a corporate planning internal audit report the college are working on streamlining their development plan with departmental strategies, operational planning process and performance management arrangements.

## Performance

### Academic performance

122. The college delivered 130,030 credits in the year to July 2018 against target of 128,683. 1,347 credits (1.0%) over its target.

### Performance operation performance measures

123. The college measures its performance against 13 key performance indicators (KPIs). These KPIs are classified into three categories:

- 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; and
- financial: measures include measures on the level of operating surplus and reliance on SFC income.

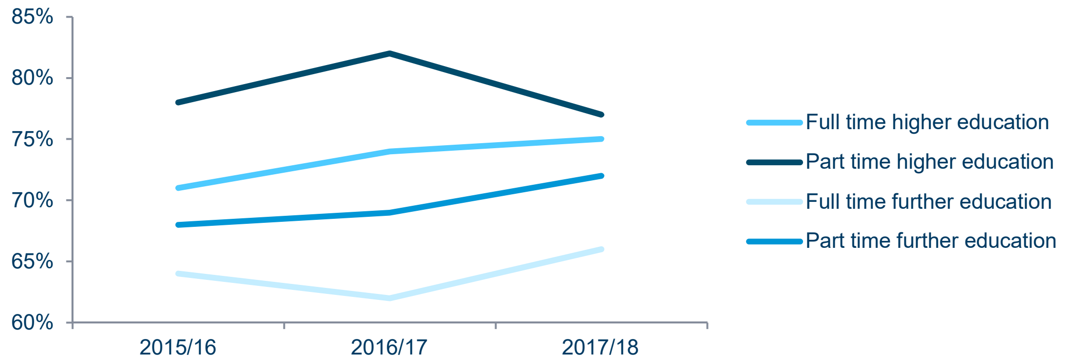
124. The college achieved 10 out of 13 KPIs in 2017/18 (77%). This performance is consistent with 2017/16. All three targets not achieved relate to effectiveness.

### Effectiveness

**125.** Attainment rates measure how many students successfully completed their course and gained the appropriate qualification. The college's attainment rates for have positively increased over the past three years, as shown in exhibit 9:

- part time further education (72% in 2017/18);
- full time higher education (75% in 2017/18); and
- full time higher education (66% in 2017/18).

**Exhibit 9: The college's attainment rates from 2015/16 to 2017/18**

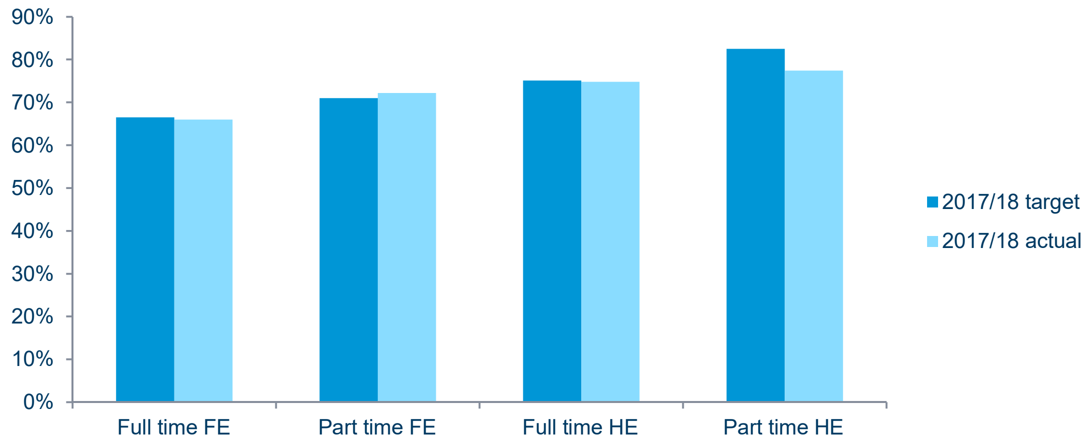



**126.** The college's attainment rates for part time higher education have decreased by 5% in 2017/18, from 82% in 2016/17 to 77% in 2017/18.

**127.** The college has not met its three of its targets for 2017/18, which are derived from Glasgow's Regional Outcome Agreement, as shown in exhibit 10 below. These are:

- full time further education (0.5% below target);
- full time higher education (1.2% below target; and
- part time higher education (5.2% below target).

**Exhibit 10: Successful outcome for enrolments on recognised qualifications**



128. The target for part time further education was exceeded by 1.2%. The college actively monitors performance against these targets and through an initial review the reason for the fall in part time higher education completion is due to a small number of course.

129. The college is introducing evaluation validation meetings where each curriculum area will be challenged on their results and improvement plans to drive up improvements and achievement rates.

130. The SFC reports annually on average college performance indicators. The latest report available is SFC Statistical Publication: College Performance Indicators 2016/17. The SFC reported 65.3% full time further education students and 71.6% full time higher education students enrolled on recognised qualifications successfully completed their course.

131. The college is performing well against the Scottish average reported in this publication. In 2017/18 the college achieved 66.0% for full time further education and 74.8% in respect of full time higher education

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# Appendices

# Appendix 1: Respective responsibilities of the College and the Auditor

## Responsibility for the preparation of the annual accounts

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 annual report and accounts, the College and the Principal, as Accountable Officer are required to:**

- select suitable accounting policies and apply them consistently;
- make judgements and estimates on a reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
- ensure the regularity of expenditure and income.

**Board members are also responsible for:**

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

**We audit the annual report and accounts and give an opinion on whether:**

- 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 2018 and of its surplus for the year then ended;
- they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- they have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended);
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable 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

**We audit the annual report and accounts and give an opinion on whether:**

Council; and

- 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.

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

- adequate accounting records have not been kept; or
- the annual accounts 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
- there has been a failure to achieve a prescribed financial objective.

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

## Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Non-audit services

Scott-Moncrieff provided the following non-audit services to the college in 2017/18: provision of GDPR and associated services. All GDPR services are provided by independent partners and staff who have no involvement in the audit of those financial statements. The total value of the services provided is approximately £17,540 (excluding VAT).

### Confirmation of independence

We confirm that we will comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the college, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 2: Action plan

Our action plan details the 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 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 | Explanation |
|---|---|
| **Grade 5** | Very high risk exposure - Major concerns requiring immediate attention. |
| **Grade 4** | High risk exposure - Material observations requiring 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, Risk & Recommendation | Management Comments |
|---|---|---|
| **1. Journals with no description and controls**<br><br>**Rating**<br><br>**Grade 3**<br><br>**Paragraph ref**<br><br>**19 and 82** | **Issue**<br><br>During our prior year audit, we noted that there was a lack of segregation of duties in respect of the posting of journals by senior finance staff. While we acknowledged that compensating controls were in place, for example, the preparation and presentation of financial monitoring reports to the Board we recommended that arrangements were put in place to review and authorise manual journals. The college introduced secondary review of journals over £50,000 for journals posted by senior finance staff. During 2017/18, our audit work identified eight journals which had no description.<br><br>We have not identified any indication of management override in the year.<br><br>**Risk**<br><br>There is an increased risk of inappropriate or inaccurate journals being processed that are not subject to review (due to being less than £50,000) or have no description.<br><br>**Recommendation**<br><br>To further enhance the controls in place we would encourage the college to implement processes to review and authorise journals which occur throughout the year.<br><br>Consideration should be given to the following:<br><br>• development of processes as part of the review/upgrade to the ledger;<br><br>• review of the nature and frequency of ledger postings throughout the year with a view to developing a risk assessed approach to reviewing journals; and<br><br>• development of exception reporting.<br><br>We also recommend that all journals are posted with a description. | Journals processed by the finance team have always been subject to approval by a senior member of the finance team. Only senior finance staff can process adjusting journals independently and all such journals above £50k were subject to secondary review by another senior member of finance staff during 2017/18. This arrangement was discussed with the auditor early in 2017/18 and agreed as an appropriate action in response to the recommendation made in the 2016/17 audit report. The College has investigated the option of automated approvals for senior finance staff, however this would result in all such adjusting journals requiring secondary approval regardless of value which would result in delays in processing and reporting. In light of this the College considers the current arrangement to be an appropriate risk mitigation.<br><br>The journals which were processed without a description were traceable to related source documents through the finance system. The College will however ensure that all adjusting journals also include a description in future.<br><br>**Responsible officer:** to Assistant Principal Finance and Infrastructure<br><br>**Implementation date:** November 2018 |

| Action plan point | Issue, Risk & Recommendation | Management Comments |
|---|---|---|
| **2. Annual interest returns** | **Issue**<br>Annual declarations of interests are made by key management and members on their interests, which includes consideration of close family interests. This consideration should be extended beyond close family members to meet the following requirement of FRS 102, paragraph 33.2:<br>A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).<br>(a) a person or a close member of that person's family is related to a reporting entity if that person:<br>(i) has control or joint control over the reporting entity;<br>(ii) has significant influence over the reporting entity; or<br>(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.<br>**Risk**<br>There is a risk that the college does not identify all potential interests and therefore related party transactions disclosed within the financial statements are incomplete.<br>**Recommendation**<br>Declarations of interest forms should be updated annually to include consideration of interests of persons and close members of that person's family. | This recommendation is accepted.<br>**Responsible officer:** Clerk to the Board<br>**Implementation date:** November 2018 |
| **Rating** | | |
| **Grade 2** | | |
| **Paragraph ref** | | |
| **82** | | |

| Action plan point | Issue, Risk & Recommendation | Management Comments |
|---|---|---|
| **3. Employee contracts and document retention policy**<br>**Rating**<br>**Grade 3**<br>**Paragraph ref**<br>**82** | **Issue**<br>During our testing of employee remuneration we identified twelve contracts which had not been signed by the employee.<br>From our testing we also identified that HR staff understand the college's policy in relation to employee contract retention for leavers. We were informed that it was current policy to shred employee records after three months of the employee vacating their position. We noted that this policy was not included within the document retention schedule use to advise staff of individual document retention periods.<br>We have since clarified the retention period for leavers contracts is three years.<br>**Risk**<br>There is a risk that staff are not aware of the current retention periods for specific documents and therefore insufficient records held for current and previous employees.<br>**Recommendation**<br>We recommend that the college holds a signed contract for every employee and the document retention schedule is revised to ensure adequate information is maintained for current and former employees in line with General Data Protection Regulations. | The College requests of all staff that they sign their contract of employment which is sent to them however they are under the instruction of the union not to sign them therefore some remain unsigned and we cannot force staff to sign them. It is an implicit contract however as we have presented it to them.<br>It was one member of HR staff who was spoken to on the retention period for leavers information and she gave an incorrect response. We will ensure that the data retention schedule is checked and staff are made clear of what the retention period is for this information. Employee records are held for much longer than three months so there is no risk in this point.<br>**Responsible officer:** Head of Human Resources<br>**Implementation date:** November 2018 |

| Action plan point | Issue, Risk & Recommendation | Management Comments |
|---|---|---|
| **4. Long Term Financial Sustainability**<br><br>**Rating**<br><br>**Grade 3**<br><br>**Paragraph ref**<br><br>**71 and 92** | **Issue**<br><br>The college has prepared a FFR which forecasts a deficit in a deficit of £0.052million in 2019/20 and recurring deficits rising to £2.110million in 2022/23. The college does not currently have formal cost reduction plans and income generation options in place, which address the forecast deficit position in the short and medium term.<br><br>**Risk**<br><br>The college's financial position is not sustainable and corrective action is required in the short and medium term is required to ensure this.<br><br>**Recommendation**<br><br>We recommend that the college use zero based budgeting to identify further savings to support their medium term financial position. The college should formally develop saving options for service redesign and income generation to ensure the college achieves a balanced budget over the short and medium term.<br><br>The college must establish a long term sustainable financial model which addresses the current future deficit forecast position. | The College and the Board of Management are very much aware of the future deficits within the five year financial forecast and this has been discussed at the Board to consider possible actions. The Board had already requested that the College bring further information to them on this and we have highlighted it will need a three pronged approach to address it which are increase income through commercial activity (which the Board have already discussed the plans), reductions in costs although these are very substantially staffing and have already been significantly reduced through and since merger, and increased funding to meet the increased unit costs as a result of national bargaining and to deliver a fair and transparent funding model across the sector and to Glasgow.<br><br>Staff costs represent the majority of College expenditure and all staff vacancies are reviewed by the College Staffing Group which is led by the Vice Principals. All costs are reviewed regularly through budget monitoring discussions and there is an annual review with each Assistant Principal and their team to discuss potential savings through the annual Planning Cycle in November/ December.<br><br>The FFR commentary has explained this however a further paper will be prepared to summarise this to the Finance and Resources Committee following discussion at the Senior Leadership Team.<br><br>**Responsible officer**: Vice Principal Resources and College Development and the Senior Leadership Team<br><br>**Implementation date: June 2019** |

Scott-Moncrieff
business advisers and accountants