Scott-Moncrieff
business advisers and accountants

Glasgow Kelvin College

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

December 2018

Contents

Key Messages

Financial statements	The annual report and financial statements for the year ended 31 July 2018 were approved by the Board of Management on 3 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. 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. 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 adequate arrangements in place for financial management and use of resources. The college reported an accounting surplus of £0.313million for the year and an underlying deficit of £0.262million. 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 there is further work required to more firmly establish the nature of the relationship with Glasgow Colleges' Regional Board. 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 review of the value for money strategy. The College has an established and appropriate performance management framework in place.

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

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Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Glasgow Kelvin 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 Kelvin College, we have designated the Audit and Risk Committee as "those charged with governance".

Introduction

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

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

- an audit of the draft 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 corporation tax return compilation and filing; 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 and Risk committees;
- preparation and filing of a corporation tax return; and
- sharing changes technical and governance guidance 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 3 December 2018. We report an unqualified opinion 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 and Risk Committee on 15 November 2018 and approved by the meeting of the Board on 3 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 college 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

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

17. 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

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

period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

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

18. 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.
19. 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 recognize expenditure in a way that materially misstates the college's financial performance.

Excerpt from the 2017/18 External Audit Plan

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

Our application of materiality

21. 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.

22. Our initial assessment of materiality for the financial statements of the college was £600,000. We reviewed our assessment,

following receipt of the unaudited financial statements and concluded our initial assessment remained appropriate and remained at £600,000 throughout our audit.

23. 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

24. 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.

25. 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:

Area risk assessment	Weighting	Performance materiality
High	40%	£0.24million
Medium	55%	£0.30million
Low	75%	£0.45million

26. We agreed with the Audit and Risk Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £25,000, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Audit differences

27. We are pleased to report that there were no material adjustments to the draft financial statements. We also identified two potential adjustments which are not considered material to the financial statement. Full details are of both these errors are included in Appendix 3. Management has elected not to adjust for these errors on the grounds of materiality.

Deferred capital grant

28. Our audit work identified that a capital grant which was received by the former North Glasgow College had been allocated to land and accounted for incorrectly under the accruals method (Glasgow Kelvin College was formed from the merger of North Glasgow College, Stow College and John Wheatley College). The Statement of Recommended Practice for Further and Higher Education requires capital grants for land to be accounted for under the performance model.

29. The college investigated this issue and found that Springburn campus land was purchased using the proceeds from the sale of the old college building. The grant should have been applied to buildings. The result of this error is a £22,000 understatement of the release of deferred capital grants to the Statement of Comprehensive Income and Expenditure.

Unfunded pension provision

30. Our audit work also identified from our audit testing that the unfunded pension provision was understated by £30,000 due to a typing error within the actuary report.

Disclosure and presentational adjustments

31. 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

32. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk 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.

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

34. Our standard audit approach is based on performing a review of the key 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

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

Other information in the annual report and accounts

36. "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

37. 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.

38. 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.

39. From our review of the Annual Report we have identified of a small number of disclosure adjustments 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

40. 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.

Governance statement

41. 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.

42. 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 disclosure improvements to ensure full compliance with the SFC guidance.

43. The college has taken on board our comments and will update the Governance Statement in the revised annual report and financial statements.

Remuneration and staff report

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

45. We identified misstatements with regards the remuneration report. The issues have been adjusted in the revised annual report and financial statements. We have concluded that the disclosures are in line with underlying records and disclosure requirements.

Voluntary severance scheme

46. In 2016/17 the college operated a voluntary severance scheme and the budget allocated by the SFC was not all spent prior to March 2017. In 2017/18 SFC confirmed that the unspent funding of £79,958 was available for use by the end of March 2018 for voluntary severance scheme only.

47. The college received permission to re-open the 2016/17 scheme from GRCB and SFC with the following amendment: being that any member of staff being granted VS under the scheme is not eligible to be re-appointed to an employed

post at any of the three Glasgow Colleges for two years. Previously under the offer of VS, the college would not re-employ those accepted under the scheme for a minimum period of two years. The amendment extends the condition to include City of Glasgow College and Glasgow Clyde College.

48. The Board approved the re-launch of the voluntary severance scheme December 2017. Three individuals left the college whose applications me business case requirements of the scheme and were approved by the board on in March 2018 The cost of these voluntary severance payments were £67,730. This has been disclosed within the remuneration and staff report.

Pension Liability

49. As at 31 July 2018 the net LGPS pension liability was £1.092million, a decrease of £7.325milion in comparison to the net pension liability as at 31 July 2017 (£8.417million).

50. 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.

51. 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

52. 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.

53. 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

54. 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 nor change in accounting policy disclosed for the change in de-minus for capitalisation of fixed assets from £5,000 to £10,000. This change was made to reflect harmonisation of accounting policies across Glasgow's colleges in preparation for Glasgow Colleges' Regional Board (GCRB) consolidation. 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. Where available, the college has utilised the work of independent experts or industry practice to support the estimate applied.

Qualitative aspect considered	Audit conclusion
	Significant estimates have been made in relation to the valuation of property, plant and equipment. The last valuation took place in 2017 and was informed by advice from qualified, independent experts. The valuation process is in line with the requirements of the FReM. 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. 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.
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.

3

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 adequate arrangements in place for financial management and use of resources. The college reported an accounting surplus of £0.313million for the year and an underlying deficit of £0.262million.

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

55. The college reports an accounting surplus of £0.313million, principally due to the donation of £1.510million received from the Glasgow Kelvin Learning Foundation (GKLF) and a decrease of £7.325milion the net pension liability (further details included paragraph 49). Exhibit 3 shows the 2017/18 outturn management accounts position of £1.412million operating surplus, reconciled to the accounting surplus of £0.313million.

Exhibit 3: The college's performance against budget

	Budget £000	Actual £000	Variance £000
Income			
Scottish Funding Council grants	20,527	20,909	382
Tuition fees and education contracts	3,795	3,553	(242)
Other income (includes project grants, investment income, sale of fixed asset and settlement for gymnasium)	1,600	2,800	1,200
Donation from GKLF	500	809	309
Release of deferred capital grants	1,550	3,021	1,471
	27,972	**31,092**	**3,120**
Expenditure			
Staff Costs	20,985	21,355	(370)
Other operating expenses (including foundation apprenticeship)	5,037	5,578	(541)
Donation to GKLF	0	300	(300)
Depreciation	1,950	2,447	(497)
	27,972	**29,680**	**(1,708)**
Operating surplus for the year	**0**	**1,412**	**1,412**

Operating surplus reconciled to Statement of Comprehensive Income and Expenditure's surplus before other gains and losses:	£'000
Operating surplus for the year	**1,412**
Less: net interest on pension assets and liabilities	(238)
Less: net current service cost	(861)
Surplus before other gains and losses	**313**

56. Staff costs accounted for 72% of overall expenditure of the college. The budget overspend of £0.382million on staff costs is largely due to higher than expected expenditure on temporary teaching staff. This has been caused by high absence rates for permanent teaching staff, particularly due to instances of long term absence.

57. The college actively monitors absence, which includes reporting absent rates to the Human Resources committee. In April 2018 the College established a Mental Health Work Group consisting of staff, managers, Trade Union representatives and students. The aim of the college is to take a proactive approach to health and well-being.

58. Income was in excess of budget predominately due to £1.471million above budget release of deferred capital grants. Other reasons for greater than budgeted income from the following sources: additional funding received from the SFC, further income from a foundation apprenticeship contract, and from settlement of a contractual claim during the year. The college donated £0.300million of the contract settlement (£0.400million) to GKLF.

Glasgow Kelvin Learning Foundation

59. The college donated cash back reserves to the GKLF in March 2014 of £3.2million 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.

60. GKLF is a registered with the Office of the Scottish Charity Regulator. Its purpose is the advancement of education in Glasgow.

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

62. The £0.3million donation to GKLF in 2017/18 was due to the treatment of the funds received for the contractual settlement for gym hall defects. In total £0.4million settlement was received. Of that total, £0.3million was donated to GKLF with a view to support future capital projects at the college.

Exhibit 4: The college's transactions with GKLF transactions

GFLF transaction £million	2013/14*	2014/15**	2015/16	2016/17	2017/18
Donation to GKLF	(3,221)	-	-	(2,800)	(300)
Donation from GKLF	-	-	500	277	2,010
Balance held by GKLF	**3,221**	**3,221**	**2,721**	**5,244**	**3,534**

**8 month period **16 month period*

63. GKLF received a donation of £2,010million from the college in 2017/18, of which £0.309million was used to support revenue expenditure and the remaining funds to support capital expenditure. Exhibit 4 includes a more detailed analysis of GKLF donations since its creation in 2014.

Budget monitoring

64. The college has an effective budgetary control system of its budgetary control system in communicating accurate and timely performance. We reviewed the college's budgetary processes and budget monitoring arrangements in 2017/18.

65. The Board approves the budgets on a timely basis in advance of the financial year. The Financial Control Committee receives financial monitoring reports at every meeting. Reports presented are at a strategic level and include sufficient explanations for variances.

Financial capacity

66. Capacity within the finance team has been managed over the past five years through succession planning. In 2016 the Senior Management Accountant retired. However the college had appropriate plans in place to ensure continued financial capacity with a Trainee Accountant studying towards ACCA qualification.

67. The college currently has an experienced and skilled finance team to ensure that its financial capacity and skills are appropriate. The team is led with the Head of Finance (CA) and overseen by the Vice Principal – Finance and Corporate Services (CPFA). The team includes also two qualified ACCA accountants.

Prevention and detection of fraud and irregularity

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

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

National Fraud Initiative

70. 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.

71. 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.

72. The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored the council'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 7 were recommended for investigation. As at February 2018 the college had investigated 64% of the NFI matches. Overall we concluded that the college's level of participation has been mostly adequate, with some areas for improvement.

Standards of conduct

73. 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.

74. 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

75. 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.

76. 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

77. 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

4

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

78. 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 appropriate 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 projects a deficit position from 2018/19 onwards. The college recognises the importance of achieving efficiency savings in 2017/18, along with the need to consider options for service redesign to ensure a balanced budget over the medium term.

The college has a ten-year estates strategy in place which aims to ensure high quality facilities support the delivery of the college's services. The college considers its buildings to be in good condition. However, it also recognises that maintenance is required to keep buildings at a high standard.

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In October 2017, the Vice Principal - Human Resources and Organisational Development presented a five-year workforce plan to the Board. The Human Resources Committee had endorsed this document in September 2017 following consultation with SMT, staff, managers and trade union representatives.

Excerpt from the 2017/18 External Audit Plan

79. 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.

Financial planning

Financial projections 2018/19

80. In advance of each financial year, the finance team meet with budget holders. Budget holders are challenged on their expenditure to identify cost savings and staff vacancies are also discussed to plan for future budget requirements when those vacant posts are filled. The 2018/19 revenue budget was reviewed by the Financial Control Committee and was approved by the Board on 5 June 2018.

Medium term financial plans forecast deficits

81. 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.

82. 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.

83. Using the above assumptions the college has prepared a FFR which forecasts a deficit in a deficit of £0.231million in 2018/19 and recurring deficits rising to £2.562 million in 2022/23, as shown in exhibit 5.

84. The FFR was presented to the Board in September 2018 and the assumptions were subject to challenge and scrutiny.

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

- higher than anticipated pay settlement costs;
- the college is unable to make sufficient operational changes to manage operating deficits forecast;
- project funding due to end will not be renewed nor replaced; and
- additional funding in 2022/23 from GCRB may not be available due to changes in allocation.

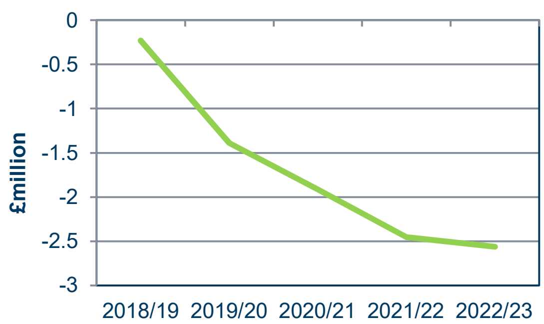
86. The FFR projections incorporate planned capital expenditure and revenue funding from the GKLF over the next five years The college is reliant on funding from GKLF to support revenue expenditure over the short term.

87. The college recognises this is not sustainable in the longer term and is exploring options for service redesign to ensure the college achieves a balanced budget 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.

Action plan point 2

88. The financial impact of National Bargaining has been considered by the College. With the submission of the 2017 FFR, The SFC requested additional details from the College concerning the financial impact of National Bargaining on the FRR forecasts. £0.593million is the forecast net cost of national bargaining over the next four years for the college.

Exhibit 5: Projected operating deficit position



Impact of EU withdrawal

89. Audit Scotland has identified European Union (EU) withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce;
- Funding; and
- Regulation.

90. The college has considered the impact across these areas and two papers have been scrutinised by the Board.

91. Reduction in EU funding is a key risk for the college with the withdrawal from the EU. The college accesses EU funding to support its curricular provision and has identified areas which are critically dependent on EU funding:

- European Social Funding;
- Foundation and Graduate Apprenticeship Programmes;
- Foundation and Graduate Apprenticeship Programmes; and
- Student and Staff Mobility Programmes.

92. The college is seeking to develop new partnerships with EU based educational institutions with the aim that these will continue post Brexit and enable the college and its learners to continue to benefit from participation in EU programmes. However unit Brexit negotiations are concluded the college cannot be sure of the true financial impact leaving the EU will have on them. With a number of income streams are under threat and this puts further risk on financial sustainability

93. The college is actively engaging with other colleges and public bodies to discuss or assess the potential impact of EU withdrawal. The college is a member of the Colleges Partnership (formerly the West of Scotland Colleges Partnership). This organisation was originally created to access European funding following the incorporation of colleges. The College Partnership, which is provides advice and support to member colleges in respect of European funding issues. The college is also planning to join Glasgow City Council's cross-Brexit forum.

94. We consider that the college has good arrangements for assessing the potential risks and impact associated with the UK's potential withdrawal from the EU and is taking appropriate action to address those risks where possible.

5

Governance and transparency

Governance and transparency

Governance arrangements at the college are deemed to be appropriate, however we have noted that there is further work required to firmly establish the nature of the relationship with Glasgow Colleges' Regional Board.

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

95. 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.

96. 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.

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

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

99. The Principal of the college announced his intention to retire at the meeting of the Board on 3 December 2018 in July 2019. The college is commencing the recruitment process to identify a successor.

Regional Governance Arrangements

100. 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.

101. 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.

102. 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.

103. The GCRB has an agreed financial memorandum with the assigned colleges. The financial memorandum ensures the terms and conditions of grant funding are clear and understood by all parties. The role of the GCRB across the region is still developing.

Openness and transparency

104. 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.

105. 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. The college's Board and Standing Committee Calendar is available on the College website to members of the public.

106. 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.

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

Risk Management

108. 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.

109. 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 and Risk Committee.

110. 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

111. 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'.

112. 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.

113. The college received Cyber Essentials Plus certification in August 2018 meeting Scottish Government's deadline.

General Data Protection Regulations

114. The General Data Protection Regulations 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.

115. At the March 2018 Audit Committee the risk around the General Data Protection Regulations was assessed as low and actions outstanding were outlined.

116. 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.

6

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 and appropriate performance management framework in place.

Value for Money Framework

117. 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.

118. Securing the economical and effective management of the college's resources and expenditure is the responsibility of the Board.

119. At the meeting of the Board in August 2018 with the college's refreshed value for money strategy for 2017/18, this sits alongside the financial strategy and procurement strategy.

Strategic plan

120. The college has a three year strategic plan 2018-21, which sets out its vision, mission, strategic priorities and strategic objectives. The college's four strategic objectives are:

- working to develop our students, communities and curriculum;
- working to develop our own skills;
- working in partnership; and
- working sustainably, transparently and collaboratively.

121. Underlying these objectives are performance measures, which are identified as part of the operational planning process. Performance against these operational measures is presented to the Board bi-annually for challenge and scrutiny.

122. The college's most recent value for money (VfM) strategy was approved by the Board in September 2018.

123. The strategy sets out identified financial pressures, savings targets, procurement savings for the year. Key assumptions made with the strategy are clearly detailed.

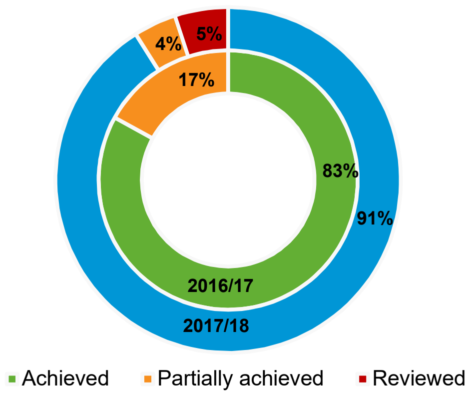
124. The VfM strategy also considers other areas for which savings can be achieved, including workforce and estates. VfM initiatives are built into annual budgets and monitored through the management accounts process.

Performance

Performance against strategic objectives

125. The college reported against 100 key performance indicators, which are aligned to strategic priorities in 2017/18.

Exhibit 6: Performance against target



126. We have analysed the performance against target as those which are:

- achieved;
- partially achieved; and

- target reviewed.

127. Those targets which were partially achieved will be revised and will be included within the college's operational plans for 2018/19. Five targets were not achieved as a result of external factors outwith the control of the college and there implementation date reviewed.

128. Our analysis in exhibit 6 shows a good performance in general with 91% of targets being achieved, 4% partially achieved and 5% reviewed. Performance in 2017/18 has increased compared to the prior year with a greater percentage of indicators being achieved.

Academic performance

129. The college delivered 81,729 credits in the year to July 2018 against target of 80,101. 1,628 credits (2%) over its target.

130. Attainment rates measure how many students successfully completed their course and gained the appropriate qualification. The college's attainment rates have remained broadly consistent over the past five years. In 2017/18 74.5% (75.1% in 2016/17) of the college's students successfully completed their course. This is higher than Scotland's average reported by SFC in 2016/17 (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.

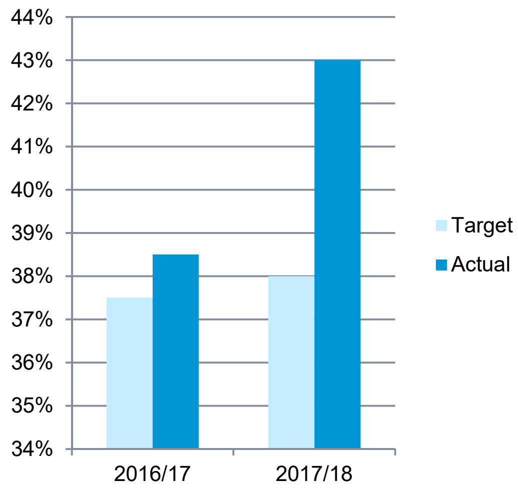
131. The college also monitors withdrawal rates which measure how many students withdrew from their studies before the programme ended. The college's withdrawal rate of 15.8% (15.9% in 2016/17) has also remained relatively unchanged from the prior year.

132. Student retention remains a challenge for the college. The college continues to focus on reducing the withdrawal rate through increasing its reach into local communities recognising that success rates for students from deprived areas is lower.

133. Audit Scotland's *Scotland's colleges report 2018* highlights that despite the increasing number of credits delivered to students from deprived areas increasing the gap in attainment between students from the least and most deprived areas is growing. The report recognises the new approaches the college has taken to reduce these barriers.

134. The Scottish Index of Multiple Deprivation (SIMD) is a measure of area deprivation. It ranks areas based on their relative levels of deprivation. The SIMD 10 represents the 10% most deprived areas in Scotland.

Exhibit 7: Percentage of credits delivered to students from SIMD 10 areas



135. As part of the college's regional outcome agreement, the college has a target to deliver 38% of student credits to students from SIMD 10 areas. The college performed well against its SIMD 10 in 2017/18, achieving 43% of delivery of credits to students from SIMD 10 areas, 5% above target and 4.5% in excess of 2017/16 delivery.

7

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: corporation tax return compilation and filing. All tax services are provided by independent partners and staff who have no involvement in the audit of those financial statements. The total value of taxation services provided is approximately £750 (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 council, 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. Annual interest returns **Rating** **Grade 2** **Paragraph ref** **77**	**Issue** 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: A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity). (a) a person or a close member of that person's family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. **Risk** 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. **Recommendation** Declarations of interest forms should be updated annually to include consideration of interests of persons and close members of that person's family.	Recommendation accepted and this will be linked in with the 6 monthly Register of Interest update process. **Responsible officer:** Director of Corporate Services **Implementation date:** 31 July 2019

Action plan point	Issue, Risk & Recommendation	Management Comments
2. Long Term Financial Sustainability **Rating**	**Issue** The college is reliant on funding from GKLF to support revenue expenditure over the short term. The college recognises this is not sustainable in the longer term and is exploring	The College recognises that work is required to ensure it remains sustainable in the longer term and will continue to forward plan in a way which will seek to address the issues highlighted in the Financial Forecast

Action plan point	Issue, Risk & Recommendation	Management Comments
Grade 3 **Paragraph ref** **87**	options for service redesign to ensure the college achieves a balanced budget over the medium term. **Risk** 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. **Recommendation** We recommend that the college undertakes scenario planning exercises and develop service re-design options to enable it to remain financially sustainable. The college must establish a long term sustainable financial model which addresses the current future deficit forecast position.	Return. **Responsible officer**: Principal & Vice Principal – Finance & Corporate Services **Implementation date:** May 2019

Appendix 3: Audit differences

Unadjusted differences

We identified the following adjustment during the audit. We have discussed this adjustment with management and have agreed that these will not be adjusted in the financial statements:

Unadjusted differences	Statement of Comprehensive Income and Expenditure		Balance Sheet	
	DR £000	CR £000	DR £000	CR £000
Release of deferred capital grant	-	22	-	-
Deferred capital grant	-	-	111	-
Income and expenditure reserve	-	-	-	89
Being the release of deferred capital grant associated with the correction of application of capital grant applied to buildings.				
Interest payable	30	-	-	-
Unfunded pension provision	-	-	-	30
Being the correction for the difference in value of unfunded pension provision from the actuary Hyman Robertson.				

Scott-Moncrieff
business advisers and accountants