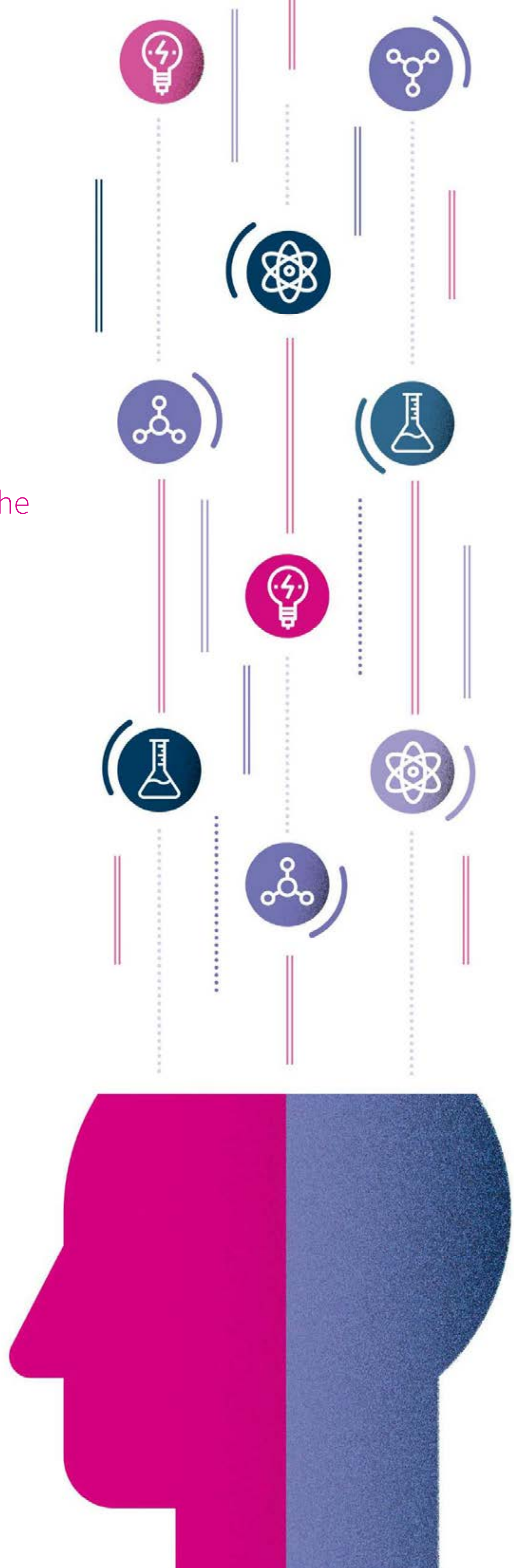
Scott-Moncrieff
business advisers and accountants

# City of Glasgow College

## 2018/19 Annual Audit Report to the Board of Management and the Auditor General for Scotland

December 2019



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# 1. Key messages

# Annual report and accounts audit

The annual report and accounts for the year ended 31 July 2019 were approved by the City of Glasgow College (the College) on 4 December 2019. 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.

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

# Wider scope audit

### Financial sustainability

The College is one of the few colleges in the sector forecasting a small operating surplus position in each of the next 5 years.

The current FFR assumes that the College's savings programme is implemented as planned. Any set-backs in the execution of this programme could have significant financial implications for the College in meeting financial targets.

### Financial management

The College reports an operating deficit of £6.6million for the year. The adjusted underlying operating surplus for the year was £1.2million.

The College held significant cash balances of £8.2million at the year end.

The College has identified a potential £600k (excl. VAT) fraud in its IT department. An internal audit review has highlighted significant control weaknesses which failed to prevent and detect this fraud.

### Governance and transparency

The College is considered well managed and well governed overall. However, delays in reporting an alleged fraud within the IT department to the Executive Leadership Team were recognised.

The College is generally transparent in its decision making but could do more to ensure publicly available governance documents are fully up to date.

### Value for money

The College has a framework in place to ensure value for money is achieved.

A total of 68 operational targets have been set by the College, for achievement by 2020. 40% of these targets currently carry green ratings, 34% are amber graded, 15% as red with the remaining 11%, categorised as either superseded or there is incomplete information to assess the outcome.

The College is currently not achieving its targets for student success rates across all categories.

# Conclusion

This report concludes our audit for 2018/19. 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 2019**

# 2. Introduction

**This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the College for 2018/19.**

**We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.**

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

# Introduction

1. This report summarises the findings from our 2018/19 audit of the City of Glasgow College ("the College").

2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee at the outset of our audit. The core elements of our work include:

- an audit of the 2018/19 annual report and accounts and related matters;
- consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
- monitoring the College's participation in the National Fraud Initiative (NFI); and
- any other work requested by Audit Scotland.

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


3. The College is responsible for preparing an annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions.

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 complied 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.

## Adding value through the audit

9. All of our clients 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.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX.

11. While this report is addressed to the College, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

# 3. Annual report and accounts

**The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.**

**In this section we summarise the findings from our audit of the 2018/19 annual report and accounts.**

# Annual report and accounts

## An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 July 2019 were approved by the Board on 4 December 2019. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

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

## Overall conclusion

### An unqualified audit opinion on the annual report and accounts

12. The annual report and accounts were considered by the Audit Committee on 13 November 2019 and approved by the Board on 4 December 2019. 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.

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

### Administrative processes for the audit

14. We received draft financial statements and supporting papers in line with our agreed audit timetable. However, the draft accounts received for audit were incomplete and required a number of changes during the audit process to be fully compliant. Some key working papers were not made available until late in audit process leading a delay in finalising the audit.

15. We note that the annual report section of the accounts now runs to some 120 pages, making the College's accounts amongst the longest in the sector. The College should review the content of the annual report section of its accounts for future years to ensure key messages are captured and communicated appropriately. Our thanks go to all staff at the College for their assistance throughout our audit.

*Refer to Action Plan Point 1*

## 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 annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts 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 2018/19 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 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 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 2018/19 External Audit Plan*

18. At the planning stage of our audit we considered the nature of the revenue streams at the College against the risk factors set out in ISA (UK) 240. We identified that for the Scottish Funding Council and Glasgow Colleges Regional Board (the SFC and GCRB) 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. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the College's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

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

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This 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.

*Excerpt from the 2018/19 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.

## 4. Risk of material misstatement of assets

The College identified an incident of fraud during the 2018/19 financial year. The incident was detected via an internal control mechanism, through the PECOS monthly purchase order reconciliation process. The alleged fraud involves the purchase of IT equipment, such as MacBook Pro laptops and iphones, which appear to have been subsequently removed from the College by a member of the IT department involved in the purchase and good received process. The alleged fraud is currently estimated to have resulted in a loss of c£500k to the College. Henderson Loggie, internal auditors, are engaged to conduct a forensic review of the incident.

The College has also commissioned an independent review of its asset register for IT equipment to confirm completeness. There is therefore a further risk that this process may identify variances between assets recorded in the ledger and in the fixed asset register.

*Excerpt from the 2018/19 External Audit Plan*

21. We have reviewed the report issued by Henderson Loggie and the independent review of the completeness of the fixed asset register conducted by the College to establish the scale of any potential fraud or error.

22. Whilst any fraud in a public body is serious, for the purposes of the annual accounts audit we note that the value of the identified fraud is not material in the year under audit or in total. We have confirmed that the College has made adequate disclosures within the annual report and accounts to ensure reporting of fraud issues are sufficiently transparent. As a result, we have not modified our audit report in respect of the matter.

## 5. Estate valuation

The College has invested significantly in its estate in recent years through PPP contracts for the City and Riverside campus developments. Funding for these developments is partly reliant on future asset sales and a one college site has recently been sold with a number of other sites currently held for sale. The carrying value of assets in the College's accounts are based on a range of estimates and small changes in estimate have the potential to result in a material change in asset valuation. In addition, we understand that the College will be directed by the SFC to transfer the proceeds from the sale of assets during the year to other Colleges within the sector. The accounting for this transaction has not yet been finalised.

*Excerpt from the 2018/19 External Audit Plan*

23. We have assessed the accounting impact of the College's estate valuation review of assets, included assets held for sale. We also considered the completeness of the College's own impairment review. We have ensured that the accounted arrangements for asset sales are compliant with SFC guidance, and in accordance with the College's accounting policies and the SORP.

## Our application of materiality

24. 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.

25. Our initial assessment of materiality for the financial statements was £1.662million. On receipt of the 2018/19 draft accounts, we reassessed materiality and reset it to £1.873million. We consider that our updated assessment has remained appropriate throughout our audit.

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

### Performance materiality

27. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.

28. 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 perform a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds are set out in the table below:

| | Area risk assessment £million | | |
|---|---|---|---|
| | High | Medium | Low |
| Performance materiality | 0.940 | 1.12 | 1.40 |

29. We agreed with the Audit Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £83,100, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

## Audit differences

30. We have identified one adjusting error relating to a reclassification of creditors which has had no impact on the financial position. We have also identified one unadjusted error which has no impact on the financial position. Full details are included in Appendix 3. Management has elected not to adjust for the error on the grounds of materiality.

31. In addition we identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual 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 Committee at the outset of our audit. 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 management team. 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 performance report we have identified a number of disclosure adjustments which require to be to meet the requirements of the SFC accounts direction. We raised the disclosure issues with management to be addressed in the revised annual report and accounts.

#### 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 2018/19 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 a number of disclosure improvements required, including recognition of the identified IT fraud in year, in order to ensure transparency and full compliance with the SFC guidance.

43. The College has taken on board our comments and updated the Governance Statement in the revised annual report and accounts.

#### 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.

### Regularity

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

46. We have noted that the College identified a potential fraud within its IT department which has involved the loss of assets with an estimated value of £600k (excluding VAT) over a 3 year period.

47. Whilst a fraud cannot be considered to be 'regular' expenditure, the value is not material in the year under audit or in total. The College has made full disclosure of the potential fraud within its annual accounts and has informed regulatory bodies including the Scottish Funding Council, Glasgow Colleges Regional Board, and the Office of the Scottish Charity Regulator. We also note that the potential fraud is the subject of an ongoing police investigation and the assets may be recoverable.

The losses are also insured and the College currently anticipates recovering a significant proportion of potential losses.

48. Other than the potential fraud issue noted above, we did not identify any instances of concern with regard to the legality of transactions or events.

### Pension Liability

49. As at 31 July 2019 the net LGPS pension liability was £6.830million (2018: asset of £1.391million).

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 at the College is in line with movements across the sector which are primarily as a result of changes in actuarial assumptions.

## Qualitative aspects of accounting practices and financial reporting

52. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual report and accounts. The following observations have been made:

| Qualitative aspect considered | Audit conclusion |
|---|---|
| The appropriateness of the accounting policies used. | We have reviewed the significant accounting policies, which are disclosed and are satisfied with the appropriateness of the accounting policies used. |
| 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.<br><br>Significant estimates have been made in relation to the valuation of property, plant and equipment. The last valuation took place as at 31 July 2019 and was informed by advice from qualified, independent experts. The valuation process is in line with the requirements of the FReM.<br><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. |
| The appropriateness of the going concern assumption | We have reviewed the financial forecasts for 2019/20. 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. |

| Qualitative aspect considered | Audit conclusion |
|---|---|
| The potential effect on the annual accounts 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 annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed. | During the year the College's building on North Hanover Street was sold for £10.4million, of this the £9.35million was transferred to Forth Valley College in line with a direction received from the SFC. |
| Apparent misstatements in the annual report or material inconsistencies with the financial statements. | The annual report contains no material misstatements or inconsistencies with the financial statements |
| Any significant annual accounts 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 annual accounts 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. We have noted that the draft accounts received for audit were incomplete and required a number of changes during the audit process to be fully compliant. Some key working papers were not made available until late in audit process leading a delay in finalising the audit. |

# 4. Financial sustainability

**Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services or the way in which they should be delivered.**

During 2017/18, the College took necessary action to restructure and reduce its operating cost base. The College is one of the few colleges in the sector forecasting a small operating surplus position in each of the next 5 years.

The current FFR assumes that the College's current savings programme is implemented as planned. Any set-backs in the execution of this programme could have significant financial implications for the College in meeting its financial targets.

# Financial sustainability

## Short term financial planning

53. As a direct result of National Bargaining and harmonisation giving rise to additional unfunded payroll costs, coupled with an unconfirmed increase in employer pension costs, Scotland's FE sector is currently facing an extremely challenging financial situation.

54. The SFC published indicative funding allocations in February 2019 and final allocations in May. The GCRB has subsequently provided a breakdown of allocations across the assigned colleges, including a top slice for the GCRB running costs and collaborative projects.

55. The College's 2019/20 budget has identified an operating deficit of £208k, arising from budgeted income of £93,232k (1.7% greater than 2018/19 actual income) and total budgeted expenditure of £93,440k (1.3% less than 2018/19 actual expenditure, excluding exceptional items). Once adjusted for non-cash and exceptional items, the College has budgeted an underlying operating surplus of £17k.

56. The College's budget was presented to the May 2019 Finance Committee for comment and subsequently to the June 2019 Board for approval.

## Longer term financial strategy

57. Colleges now prepare six-year financial forecasts through the Financial Forecasting Return (FFR) process. The latest FFR, as submitted in September 2019, requires colleges to report actual financial performance for the session 2017/18 (per the audited financial statements), an early estimate for the outturn for session 2018/19, the budget for 2019/20 and forward forecasts through to 2023/24.

58. Historically, differences in the assumptions colleges use for their forecasts have meant they do not provide a reliable picture of future financial sustainability for the sector.

59. It is important that colleges base their financial forecasts on realistic and consistent assumptions to help them make informed decisions about their operations. Reliable forecasts will also support effective SFC funding decisions.

60. In seeking to achieve the use of consistent assumptions across Scotland's further education sector, the SFC has inbuilt a set of common (indicative) assumptions that colleges were required to use in developing their FFR, as communicated through the "SFC Call For Information: Financial forecast return (FFR) for further education institutions 2018/19 to 2023/24" and information on financial planning assumptions issued in June 2019.

61. Assumptions include:

- Credits and teaching income (Core and European Social Fund activity): core funding and additional funding for ESF activity for 2019/20 should be based on the final funding allocations announced in May 2019. Funding has not been assumed to cover inflationary pressures as there is a continued expectation that colleges continue to deliver efficiency savings of at least 3% per annum.
- Student support funding: colleges should assume that all student support funding requirements will be fully met.
- Capital Maintenance: the SFC Capital Maintenance funding should be based on the final 2019/20 funding allocations announced in May 2019.
- Non-SFC income: assumptions for non-SFC income projections should be prepared taking account of local circumstances.
- Staff costs: the impact of National Bargaining harmonisation / job evaluation costs for all staff and any workforce planning requirements should be incorporated in the FFR. Cost of living pay award increases for lecturing and support staff should be factored in.
- Non-staff costs: assumptions for non-staff cost projections should be prepared taking account of local circumstances.
- Estates: assumptions for estates-related costs should be prepared taking account of local circumstances.

62. The latest FFR has been constructed using indicative funding allocations based on the current funding model in Glasgow. However, as communicated by SFC, there will be changes to the funding model going forward and it remains to be seen what implications this has for the College.

63. The College is currently heavily reliant upon EU funding and with the current uncertainty surrounding Brexit, there is little clarity as to what funding will be available going forward.

64. The FFR template and underpinning guidance from the SFC are clear that colleges should seek to achieve 3% efficiency savings annually to pay for inflationary pressures and remain sustainable. Following the leadership reorganisation in 2017/18, staff costs currently represent approximately 70% of the College's spend (excluding NPD costs). With ongoing pay rises and increases to employer pension contributions it is inevitable that this % increases, further restricting the College's ability to identify ongoing efficiency savings across other operating expenditure.

65. The College's five-year financial plan from which the latest FFR has been derived, sets out three distinct sets of assumptions: realistic, optimistic and pessimistic, along with accompanying income and expenditure accounts. The realistic assumptions have been based on those within the SFC FFR guidance and the FFR five year forecast template has been submitted on the basis of these.

66. The College is forecasting a small underlying operating surplus every year throughout the planning period, without assistance from the Arm's Length Foundation (ALF). Whilst the College has a long-term ambition to substantially increase non SFC income, other income forecasts as included within the FFR are prudent. Given the general decline of non-government income generated across the sector in recent years, we view this to be an appropriate decision.

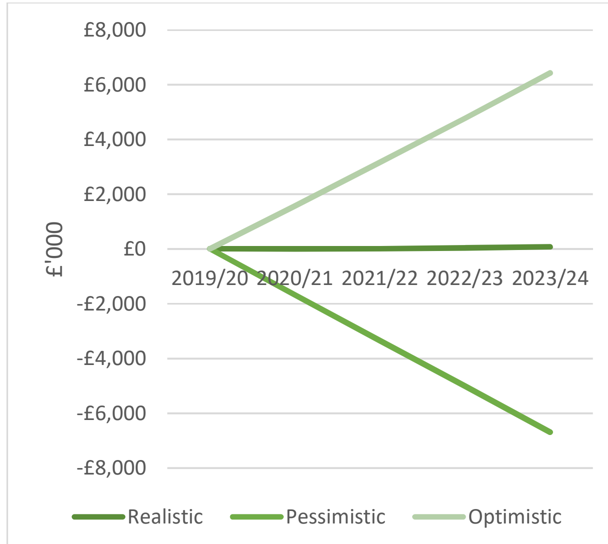
67. From review of the College's FFR and accompanying analysis presented to the Board, we are satisfied that the submissions present a reasonable and realistic snapshot of the current position. The Board paper submitted along with the FFR provides a reasonably comprehensive explanation over the development of the FFR.

68. We fully appreciate there will be movement in the current forecasts going forward as assumptions and proposals made within the FFR are realised. However, at this time, we consider the assumptions applied by the College in preparing the FFR to be sufficiently aligned to those issued by the SFC.

69. The FFR assumes that the current savings programme identified by the College is implemented as planned. Any set-backs in the execution of this programme could have significant financial implications for the College in meeting their targets.

70. Application of the pessimistic assumptions identified by the College, rather than the realistic assumptions used in the preparation of the FFR, would turn the small underlying operating surplus forecast across the planning period into underlying deficits, reaching £6.689million by 2023/24.

**Exhibit 3: Scenario planning - forecast underlying operating surplus / (deficit)**




**Source: Board**

71. The 2018/19 to 2023/24 FFR was presented to the Board and subsequently to the GCRB for approval in early October 2019.

## Capital investment programme

72. As set out within the Audit Scotland "Scotland's Colleges 2018" report, the SFC's 2017 estates condition survey indicated that college buildings require urgent and significant investment. The survey estimated a backlog of repairs and maintenance over the next five years of up to £360million.

73. However, as the College's new Riverside campus was opened in 2015 and City campus in 2016, both procured through the Scottish Government's NPD Programme, the College currently has little need for substantial capital investment, contrary to the situation across the wider sector. The GCRB 2019/20 capital and maintenance allocations will provide the College with £20.140million to fund the 2019/20 NPD finance and interest charges and a further £0.894million for lifecycle maintenance.

# 5. Financial management

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

The College reports an operating deficit of £6.6million for the year, largely as a result of the directed transfer of funds from the sale of North Hanover Street to Forth Valley College. The adjusted underlying operating surplus for the year was £1.2million.

The College held significant cash balances of £8.2million at the year end.

The College has identified a £600k (excluding VAT) fraud involving the purchase and removal of laptops and mobile phones within its IT department. An internal audit review has highlighted significant control weaknesses which failed to prevent and detect this fraud.

# Financial performance

74. The College reports an operating deficit of £6.576million for the year ended 31 July 2019, after recognition of a gain of £5.790million on the sale of the property on North Hanover Street. Adjusting the operating position for technical accounting factors that are outwith the control of the College, such as pensions and net depreciation, the College shows an "adjusted" underlying surplus of £1.201million.

75. Exhibit 4 below sets out the College's 2018/19 income and expenditure budget against results for the year as disclosed within the financial statements:

### Exhibit 4: 2018/19 Performance against budget

| | Budget £000 | Actual £000 | Variance £000 |
|---|---|---|---|
| **Income** | | | |
| SFC grants | 66,252 | 66,566 | 314 |
| Tuition fees and education contracts | 18,327 | 18,505 | 178 |
| Other income | 5,657 | 6,025 | 368 |
| Grant from Foundation | 1,577 | 563 | (1,014) |
| Investment income | 25 | 31 | 6 |
| | **91,838** | **91,690** | **(148)** |
| **Expenditure** | | | |
| Staff costs | 49,623 | 50,900 | 1,277 |
| Exceptional staff costs | 300 | 654 | 354 |
| Other operating expenses (including interest and other finance costs) | 32,340 | 33,069 | 729 |
| Exceptional costs | - | 9,350 | 9,350 |
| Depreciation | 10,018 | 9,960 | (58) |
| Impairment | - | 123 | 123 |
| | **92,281** | **104,056** | **11,775** |
| **Operating surplus / (deficit) for the year ended 31 July 2019** | **(443)** | **(12,366)** | **(11,923)** |

### Performance against budget

76. The primary variance between budget and actual income was in relation to grants from the foundation. The College did not make an application for capital funding prior to 31 July. The £563k income recognised in the financial statements is in respect of a previous request.

77. The increase in staff costs against budget is as a result of the Strathclyde Pension Fund adjustment of £2.725million, offset by savings realised in year as a result of the 2017/18 leadership reorganisation. Some savings have also been made in respect of vacant position following the restructure as well as teaching staff strike days that were taken in year.

78. The increase in operating expenditure against budget in year constituted a number of lower value variances, including increased marketing as well as additional overseas expenditure which mirrored the increase in overseas income in year.

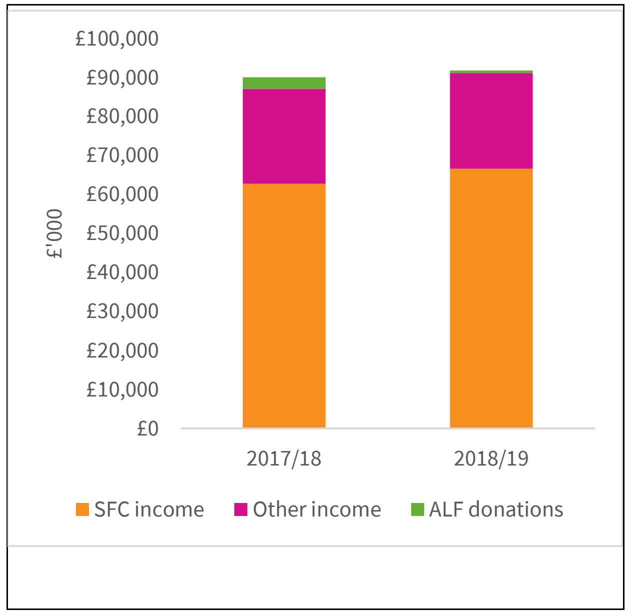
79. Exceptional costs of £9.350million incurred in year relate to the sale of the College's property in North Hanover Street in April 2019. From the proceeds of the sale the Scottish Funding Council directed the College to pay £9.350million to Forth Valley College to help fund their new Falkirk campus. These exceptional costs were not included in the client's budget at the outset of 2018/19.

## 2018/19 Income and expenditure

80. 2018/19 income is 1.8% higher than that reported in 2017/18, whilst there has been a 2.6% increase on expenditure in year (excluding the exceptional costs of £9.350million as referred to in paragraph 79 above). Colleges are operating within an extremely tight financial environment, with the gap between income and expenditure widening and the College's results for the year appear consistent with these national trends.

81. Across the sector, the proportion of non-government income that colleges generate has continues to decline. However, whilst the College saw a reduction of £2.159million in non-SFC income during 2018/19 compared with the prior year this can be largely explained by donations from the ALF, which totalled £0.563million in year compared with £2.911million in the prior year. Whilst the College has a long term ambition to substantially increase non-SFC income, they face competition from across the sector. Exhibit 5 sets out the income received by the College over the last two years.

**Exhibit 5: Analysis of income**

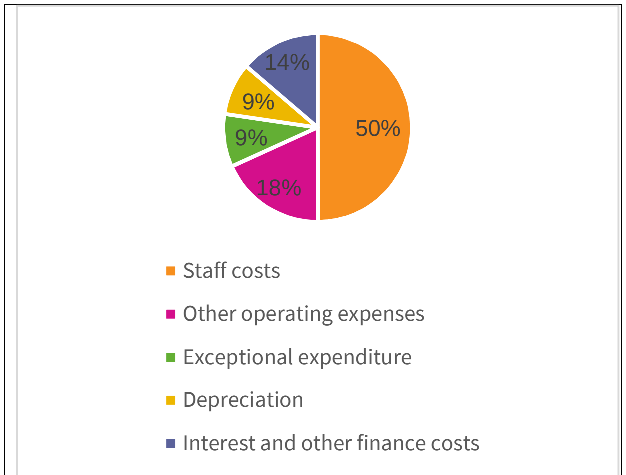



**Source: 2018/19 financial statements**

82. Staff costs remain the highest area of spend, constituting just under 70% of total spend in year (excluding the exceptional costs and NPD costs), and are forecast to increase. Implementing the new agreed rates of pay for teaching staff is now placing a significant additional financial pressure on the College and is making it increasingly challenging to maintain expenditure and investment levels in other areas of College activity which are essential to the quality of learning and teaching which it offers.

83. Exhibit 6 below identifies the profile of total spend during 2018/19.

**Exhibit 6: 2018/19 expenditure analysis**




**Source: 2018/19 financial statements**

**Balance sheet**

84. The balance sheet position has strengthened in year, primarily as a consequence of the recent buildings revaluation on both Riverside and City campuses which saw an upward revaluation in the region of £23million. This was offset by an in-year depreciation charge of approximately £10million and disposal of £4million NBV, giving rise to an overall £10million increase to PPE NBV at year end.

85. As at 31 July 2019, the College held £8.277million of cash and cash equivalents, a 17% increase on the cash balance as at 31 July 2018. This is considered reflective of the 32 cash days as referred within the College's annual report (2017/18: 31 days). No transfers have been made to the College's ALF during the last two years, despite the cash balances held.

## Budget setting

86. The Financial Memorandum between the GCRB and the assigned Glasgow colleges sets out the formal relationship between the GCRB and the College and the requirements with which the College must comply in return for payment of grant by the Regional Strategic Body.

87. The GCRB are responsible for leading the regional funding allocation process, however college input is necessary.

88. The Vice Principal Corporate Services is responsible for preparing an annual revenue and capital financial plan, aligned to the College's strategic and operational plan, for consideration by the Financial Planning & Resources Committee (FPRC) before submission to the Board.

89. The budget preparation process is built upon contributions from budget holders to ensure meaningful and achievable estimates are agreed.

## Budget monitoring and reporting

90. The control of income and expenditure within an agreed budget is the responsibility of the designated budget manager, who must ensure that day-today monitoring is undertaken effectively. The Head of Finance undertakes continuous monitoring to allow for forecasts to be updated accordingly.

91. The financial projection for the year and position to date is presented to the FPRC in September, November, February and May each year, with updates provided to the subsequent Board meeting. We are satisfied that the papers submitted are clear and allow for appropriate scrutiny and challenge.

## Systems of internal control

92. The College is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.

93. The College has comprehensive Financial Regulations and policies in place, which have been recently reviewed and updated (October 2019). 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 financial statements. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

94. During our consideration of the key internal financial controls we noted the following area with scope for improvement:

- **Employee starter forms:** During our sample testing of payroll procedures, we noted that one of the new employee's starter forms was not authorised by an appropriate member of staff.

***Refer to Action Plan Point 2***

95. The College has identified a fraud of £600k (excluding VAT) involving the purchase and removal of laptops and mobile phones within its IT department. An internal audit review has highlighted significant internal financial control weaknesses which failed to prevent and detect this

fraud. The College is working to address these weakness. (See paragraphs 100 to 103 below for further detail.)

96. In 2017/18, we reported that management were taking appropriate steps to implement controls over the separation of the GCRB transactions within the College's ledger system. We are satisfied that our work on the nominal ledger has confirmed the appropriate segregation of the College and GCRB data.

## Prevention and detection of fraud and irregularity

97. The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place. Further, the Vice Principal Corporate Services is responsible for the Fraud Prevention Policy. The objective of this policy is to safeguard the proper use of the College's finances and resources.

98. During 2018/19 the College identified an alleged fraud, involving the fraudulent procurement and subsequent theft of IT equipment. The fraudulent activity, undertaken by an individual in the College's IT function in collusion with a College supplier, commenced in 2016/17 and continued until this year. The present value of IT equipment which cannot be accounted for is £600k (exclusive of VAT).

99. The College has notified relevant internal and external parties, including the SFC, Scottish Government, OSCR and the GCRB of this event. The College undertook an internal disciplinary exercise, a forensic examination has now been completed by the Internal Auditors and the police investigation is currently ongoing. The College has been advised that the losses are likely to be recovered.

100. From the forensic review undertaken, we note that lack of compliance with financial procedures directly weakened the control environment and allowed for the fraudulent purchases to be made. The report further highlights that the College's Financial Regulations and underpinning fraud prevention policy require urgent refresh to ensure that they are fit for purpose going forward and properly describe the responsibilities of key stakeholders. Certain updates to the College's Financial Regulations and fraud Prevention Policy have since been made and approved by the Board (in October 2019). We are satisfied that these findings, along with others referred to in the report, are consistent with the results of our own work on the College's systems of internal control.

101. We note that the fraud is the subject of an ongoing police investigation. The College is confident that the fraud is covered by current insurance and expects to recover any losses resulting from the fraud. The College is also working with the police to identify and recover missing IT assets.

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

103. Overall, we found the Board's arrangements for the prevention and detection of fraud and other irregularities require improvement in line with the findings from the internal audit forensic report. (Note that we have not included associated recommendations within this report which would duplicate those within Internal Audit's forensic report.)

### National fraud initiative

104. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

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

106. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Match investigation work was to be largely completed by 30 September 2019 and the results recorded on the NFI system.

107. In June 2019 we assessed the NFI match progress to date and submitted the output to Audit Scotland for review. This assessment concluded that the College was actively manging the NFI process and good progress had been made.

# 6. Governance and transparency

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

The College is considered well managed and well governed overall. However, delays in reporting an alleged fraud within the IT department to the Executive Leadership Team were recognised.

The College is generally transparent in its decision making but could do more to ensure publicly available governance documents are fully up to date.

# Governance arrangements

108. The Board is responsible for ensuring the overall governance of the College. In driving forwards the strategic direction of the College and ensuring the governance framework is operating as intended, the Board continues to be supported by seven committees, as set out in Exhibit 7 below:

**Exhibit 7: Board of Management Committee Structure**


*Note that the Arts Foundation is also reportable to the Board.*

109. Under the terms of the College's Financial Regulations, the Board is required to conduct an annual self-evaluation of the operation of its activities, its standing committees and of each individual Board member. We have obtained and reviewed the outcomes of the 2019 self-evaluation exercise and acknowledge the generally positive responses within, with slight improvements noted on prior year. We are satisfied that the actions identified from the exercise have been fed through to the Board's latest development plan.

110. Through regular attendance at the Audit Committee we can confirm that papers are complete, well collated and shared sufficiently in advance of meetings. The meetings provide an opportunity for members to actively challenge colleagues in attendance and ensure appropriate outcomes are achieved.

111. In May 2018, the Scottish Government updated its guidance for Audit Committees in the public sector through an update to the Audit Committee Handbook. The revised handbook sets out the fundamental principles relating to the role, membership and work of Audit Committees. The changes within mean that Audit Committees need to:

- Refresh their Terms of Reference to comply with the changes outlined in the new Handbook.
- Develop an assurance framework and consider whether there are gaps or duplication in the assurance that they are receiving.
- Consider training audit committee members on the new assurance framework and other changes to the Handbook.

112. The Audit Committee has received a copy of the revised handbook and the Committee Terms of Reference were reviewed in February 2019. However, we are not aware of any further amendments or updates that have been made as a result of the most recent revisions to the handbook.

*Refer to Action Plan Point 3*

## Regional Governance arrangements

113. The GCRB is making progress in coordinating collaborative regional activity and continues to work with the assigned colleges to deliver all of the intended benefits of regionalisation.

114. There is a financial memorandum in place between the GCRB and assigned colleges which ensures that the terms and conditions of grant funding are clear and understood.

115. Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between the GCRB and the Glasgow colleges. From review of available committee minutes and papers, we are satisfied that the College routinely considers reports on the development and implementation of the ROA. Additionally, we have seen evidence of the GCRB being represented at the Board during the course of the year.

## Internal audit

116. 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.

117. The Internal Audit report on the IT fraud issue identified during the year noted delays in reporting the fraud to the Executive Leadership Team, albeit the Principal reported these matters as soon as he became aware of them through the appropriate governance channels. Internal Audit has identified a need to revise the College's fraud response plan in light of this and other findings.

## Openness and transparency

118. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny.

119. The College's current arrangements in respect of openness and transparency appear adequate. Whilst minutes and papers (where appropriate) from the Board and supporting committees are published on the College's website, there appear to be a number that have been withheld, particularly when benchmarking against other Glasgow region bodies.

120. We have also reviewed the policies and plans available on the College's website and note instances of documents appearing out of date. In some cases we have seen evidence of the underlying policy having been reviewed more recently by the appropriate committee, however the website has not been updated accordingly.

***Refer to Action Plan Point 4***

## Risk management

121. 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.

122. The College's Risk Management Policy, reviewed in year, sets out the College's underlying approach to risk management, and documents the roles and responsibilities of the Board of Management and the Executive Leadership Team, in developing a culture of risk management throughout the College. The associated Risk Management Procedure document outlines the key aspects of the risk management process and identifies the main reporting procedures.

123. Strategic risk reports and updates are presented as standing items to both the Board and to the Audit Committee during the course of the year. We are satisfied that the College's risk management arrangements are satisfactory.

## EU withdrawal

124. Audit Scotland has identified EU withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce
- Funding
- Regulation.

125. The most significant risk to the College in respect of Brexit is the potential loss of EU funding. Whilst current funding is secured until 2021, there is little certainty thereafter. We are satisfied that this risk has been appropriately recognised within the College's strategic risk register.

126. The Depute Principal is leading the College's Brexit preparations and we have seen sufficient evidence to support the College's ongoing work to 31 March 2019 and beyond. The College is also represented on the Brexit Forum for Colleges.

127. At this time, the wider potential implications of EU withdrawal across the college sector remain uncertain. Whilst the direct impact on colleges is likely to be relatively small compared to some other parts of the public sector, colleges anticipate that the indirect effects would be much more significant in the medium and longer term.

## Dependency on key suppliers

128. One of the sector risks identified by Audit Scotland for 2018/19 relates to public sector organisations reliance on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where suppliers are experiencing difficult trading conditions.

129. The College, along with all colleges in the Glasgow region, is a member of Advanced Procurement for Universities and Colleges (APUC) Ltd which is the Procurement Centre of Expertise for 62 Universities and Colleges. APUC Ltd works collaboratively with Universities and Colleges in setting up contracts on behalf of the Higher and Further Education Sectors in Scotland.

130. The College is not directly involved in the assessment of risk for suppliers: this assessment rests with APUC. APUC is responsible for the monitoring of procurement which is reviewed and reported on annually. At the time of this report, the 2019 monitoring report not currently available.

131. Due to the use of this centralised approach, we do not consider there to be a significant risk to the College in respect of dependency on key suppliers.

# 7. Value for money

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

The College has a framework in place to ensure value for money is achieved.

A total of 68 operational targets have been set by the College, for achievement by 2020. 40% of these targets currently carry green ratings, 34% are amber graded, 15% as red with the remaining 11%, categorised as either superseded or there is incomplete information to assess the outcome.

The College is currently not achieving its targets for student success rates across all categories.

# Value for money

## Value for money framework

132. The Financial Memorandum between the 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 (VfM); and
- as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

133. As included within the College's Financial Regulations, securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board.

134. The College has VfM objectives and targets in place, which sit within the College's sustainability strategy. The sustainability strategy, which aligns to the College's overall Strategic Plan 2017-25, focuses on three key themes: financial, social and environmental.

## Performance framework

135. The College's Strategic Plan 2017-2025 is underpinned by five delivery strategies:

- Student Experience;
- People and Culture;
- Corporate Development;
- Systems Integration; and
- Sustainability.

136. This plan sets out the vision, mission, strategic priorities and strategic objectives of the College. For 2018/19, the College's strategic objectives were:

- To be an inspirational place of learning;
- To enable individuals to excel and realise their full potential;
- To live our values, value our people, and innovate in partnership;
- To be a valued partner of the city region, supporting the national economy, and the international learning community;
- To deliver excellence in performance;
- To be efficient, effective, innovating, and vigilant;
- To maintain our long-term financial stability; and
- To secure diversity of income and sustainable development.

137. We are satisfied that the strategic objectives set out within the Strategic Plan 2017-25 are fully aligned to reference and disclosures within the College's 2018/19 annual report and accounts.

138. Underpinning these strategic objectives are operational performance measures, which are identified as part of the operational planning process in accordance with the College's Planning Framework.

139. The College takes a rounded view of its performance, it recognises the importance of managing performance across all aspects of its activity. During 2017/18, the College identified a range of performance measures and targets which are aligned to the above referred strategic objectives and designed to drive improvement across the College. These indicators focus on achievement of targets to 2020.

140. Performance is monitored routinely throughout the year by committees as appropriate and progress against performance measures is presented to the Board annually for challenge and scrutiny.

141. During the year, the College continued to implement the Education Scotland quality framework 'How Good is Our College'. In 2018, under this quality framework, the College undertook its first Evaluative Report and Enhancement Plan (EREP), which was subsequently endorsed by the SFC and Education Scotland in February 2019. The embedded enhancement plan covers the period 2018-21.

## Performance results

142. Both financial and academic performance has been reasonable during 2018/19, recognising the current financial constraints faced across the sector.

143. A total of 68 operational targets were set by the College, for achievement by 2020. The College has RAG rated performance based on the current position on the pathway to achieving the 2020 targets.

144. 40% of these targets carry green ratings, 34% have been graded as amber, 15% as red and for the remaining 11%, the target has either been superseded or there is incomplete information at the time of review.

145. The main area where the College is currently behind target is in respect of the City Learning 4.0 initiative under the 'Student Experience' strategy, however the Board is confident that these targets will be met by 2020.

146. Under the 'People and Culture' strategy, the College set two targets in respect of staff engagement: both of which are currently graded red. Current figures are not available for either of these targets, however we note that 2018 results are substantially below the intended target levels:

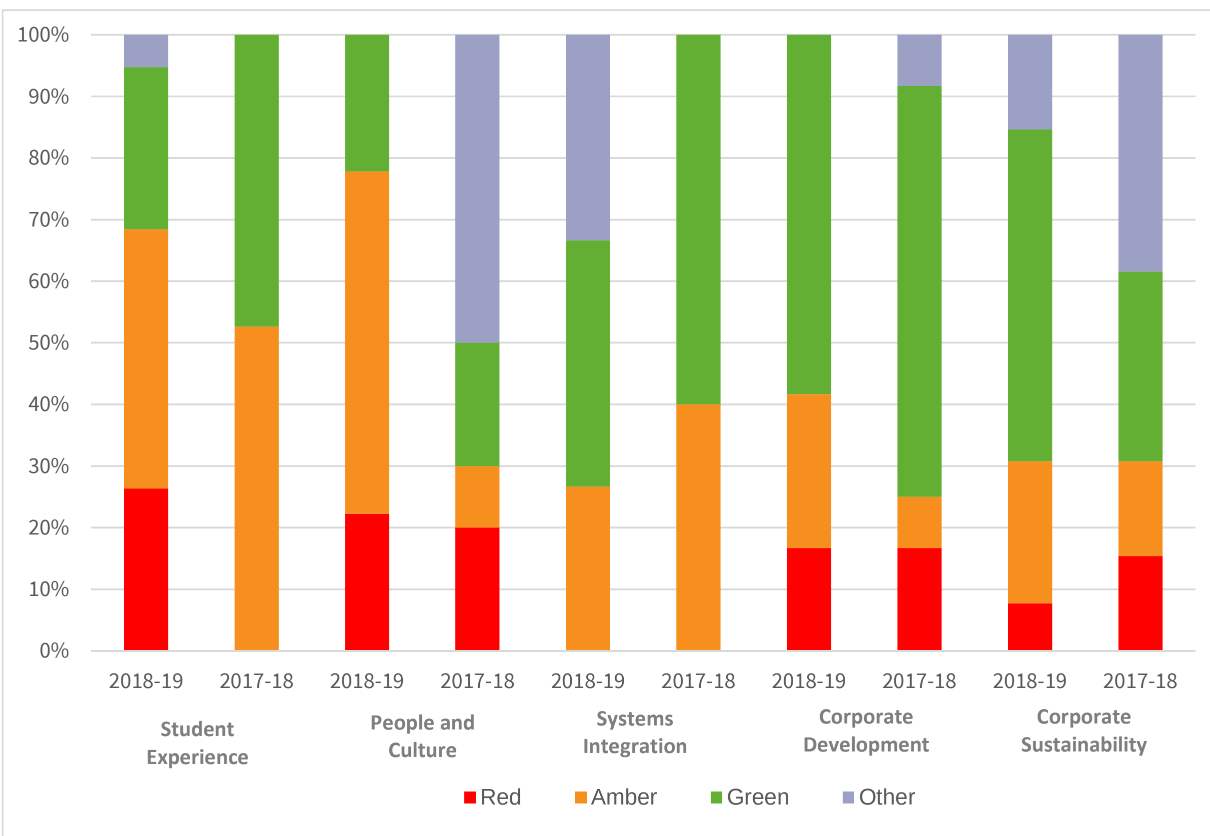
- Increase satisfaction percentage for wellbeing in annual staff survey; Target – 70%, 2018 actual – 40%
- Increase satisfaction percentage in annual staff survey: Target - 80%, 2018 actual – 57%

147. We understand that a full review of the 'People and Culture' strategy is currently underway.

148. Within our 2017/18 annual report, we noted that the College did not have complete information to support 13% of the targets set. During our review of 2018/19 outturns, we have again identified instances where up-to-date data is not currently available. However, we consider the College's reporting to be transparent and makes clear when the information will become available.

149. These targets, running to 2020, are due to be reset within the 2019/20 academic year. It is therefore essential that by the end of the present review period, the College has obtained complete and current data.

**Exhibit 8: Performance against target**




**Source: Board outturns (2018/19 and 2017/18)**

151. The above exhibit provides a summary of progress against targets for both 2018/19 and the prior year, 2017/18, recognising that the targets across the two years remain unchanged.

152. ‘Student Experience’ has seen a decline in performance in year. In 2018/19, 26% of these targets carried red gradings compared with 0% in the prior year. Additionally, this strategic area saw a 44% reduction in the number of green gradings during the year. As identified within paragraph 145 above, the Board remains optimistic that all targets will be achieved by 2020.

153. Conversely, ‘Corporate Sustainability’, has seen steady improvements in year, with 54% of targets being graded green in 2018/19 compared with 31% in the previous year and 50% reduction in the number red rated targets in year.

## 2018/19 Regional Outcome Agreement

154. The 2018/19 ROA for the Glasgow Region committed GCRB and the Glasgow colleges to increase collaboration to collectively deliver a curriculum which widened access to high quality and efficient learning and played a significant role in the development of the regional and national workforce.

155. The 2018/19 ROA included targets for the region as a whole as well as individual targets for the three assigned colleges. We have reviewed the College’s outturn against the ROA targets and note the following:

- The College delivered 180,690 credits against a target of 180,643;
- The College delivered 23.7% of credits to learners in 10% SIMD against a target of 24.7%;
- Success rates for all students (FE, FE, full-time and part-time) were below targets set;
- 80.4% if students were satisfied overall, against a target of 86.4%;
- 96.3% of full-time students successfully progressed onto work or further study, compared with a target of 95.5%

156. Whilst the College did not meet its 10% SIMD target, it appears to be meeting the SFC’s overall target of delivering 20% of credits from the 10% most deprived areas by 2020/21, but it must ensure that this delivery continues. The GCRB set a target of 30.4% for the region as a whole and fell slightly short of this with 29.5% of credits being delivered to 10% SIMD. It is imperative that the College seeks to meet or exceed its own individual ROA targets to ensure the region-wide targets are not threatened.

157. The ever-increasing focus on colleges to produce high student attainment results, whilst balancing with other performance targets with continuing budgetary pressures, means colleges’ current resources are extremely stretched. The College’s attainment results for the year, falling below target, are not significantly outside the results of other Glasgow colleges, however should continue to be closely monitored.

158. The College has recognised that the 2018/19 “My Student Experience” survey yielded improved results compared with prior year, however with results 6.4% lower than the overall regional results, continued focus is required by the College to ensure its strategic objectives are satisfactorily met.

# 8. Appendices

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

## Responsibility for the preparation of the annual report and 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 Board is required to:**

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

**The Board is also responsible for:**

- keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

## Auditor responsibilities

**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 SFC of the state of the body's affairs as at 31 July 2019 and of its surplus/deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006;
- 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 part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

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

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the governance statement does not comply with Scottish Funding Council requirements.

## Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; 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.

Scott-Moncrieff provides taxation services to the College. All taxation services are provided by independent partners and staff who have no involvement in the audit of the annual report and accounts. The total value of the taxation services provided in 2018/19 is anticipated to be approximately £2,500 (excluding VAT).

### Confirmation of independence

We confirm that we complied 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 Board 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.

## 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. |

## Current year action plan

| Action plan point | Issue & Recommendation | Management Comments |
|---|---|---|
| 1. Annual report<br>Rating<br>2<br>Paragraph Ref<br>15 | **Issue**<br>We note that the annual report section of the accounts now runs to some 120 pages with instances of duplication within, making the College's annual report and accounts amongst the longest in the sector.<br>**Risk**<br>There is a risk that key messages are not sufficiently brought to the readers' attention. Further, there is a risk that the specific disclosure requirements of the FReM and associated are not adequately addressed.<br>**Recommendation**<br>The College should review the content of the annual report section of its accounts for future years to ensure key messages are captured and communicated appropriately. | Agreed, the annual report will be shorter and more concise for 2019/20.<br>**Responsible officer:**<br>College Secretary<br>**Implementation date:**<br>August 2020 |

| Action plan point | Issue & Recommendation | Management Comments |
|---|---|---|
| 2. New employee starter forms not authorised<br>Rating<br>2<br>Paragraph Ref<br>94 | **Issue**<br>During our sample testing of payroll procedures, we noted that one of the new employee's starter forms was not authorised by an appropriate member of staff.<br>**Risk**<br>There is a risk that payroll processors could create fictitious employees and add them onto the payroll.<br>**Recommendation**<br>We recommend that the College ensure all new employee starter forms are authorised by an appropriate member of staff. | Agreed, we will ensure all new employee documentation is fully authorised.<br>**Responsible officer:**<br>HR Director<br>**Implementation date:**<br>December 2019 |

| Action plan point | Issue & Recommendation | Management Comments |
| --- | --- | --- |
| 3. Absence of assurance framework<br><br>Rating<br><br>3<br><br>Paragraph Ref<br><br>112 | **Issue**<br><br>The Scottish Government issued a revised Audit and Assurance Committee Handbook in April 2018. Changes within meant that Audit Committees had to:<br><br>• Refresh their Terms of Reference to comply with the changes outlined in the new Handbook.<br>• Develop an assurance framework and consider whether there are gaps or duplication in the assurance that they are receiving.<br>• Consider training audit committee members on the new assurance framework and other changes to the Handbook.<br><br>The Audit Committee received a copy of the revised handbook and the Committee Terms of Reference were reviewed in February 2019. However, we are not aware of any further amendments or updates that have been made as a result of the most recent revisions to the handbook.<br><br>**Risk**<br><br>The absence of a documented assurance framework, and necessary reference to within the Committee's Terms of Reference, creates a risk of insufficient assurance setting, monitoring and reporting and by default underlying issues being undetected.<br><br>**Recommendation**<br><br>An assurance framework, addressing all requirements of the Audit Committee Handbook 2018, should be drafted and approved by the Audit Committee and Board. | Agreed, an assurance framework will be drafted and approved by the Audit Committee and Board.<br><br>**Responsible officer:**<br><br>College Secretary<br><br>**Implementation date:**<br><br>March 2020 |

| Action plan point | Issue & Recommendation | Management Comments |
| --- | --- | --- |
| 4. Publicly available policies and procedures<br>Rating<br>2<br>Paragraph Ref<br>120 | **Issue**<br>Review of policies and procedures publicly available on the College's website has identified instances of documents, while valid, being passed their stated review date.<br>**Risk**<br>There is a risk that the public are reliant on out of date information and make incorrect or uniformed judgements as a result.<br>**Recommendation**<br>A review of policies and procedures available on the College's website should be undertaken to ensure that all documents are up-to-date. The College may also wish to consider version control arrangements going forward. | Agreed, all policies and procedures will be reviewed and updated where appropriate.<br>**Responsible officer:**<br>Vice Principal Corporate Services<br>**Implementation date:**<br>January 2020 |

## Follow up of prior year recommendations

Of the five recommendations raised within our prior year annual audit reports and which were outstanding/yet to be fully implemented at the commencement of our 2018/19 annual audit, we note that two have now been implemented, one has been partially implemented and two have yet to be implemented. Details are given below.

## 1. Achievement of Cyber essentials accreditation

| Initial rating | Issue & recommendation | Management comments |
|---|---|---|
| **Grade 3** | **Issue**<br>In May 2017, a number of public sector bodies across 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'.<br>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. The College are aware of the work but will not meet the 31 October 2018 deadline. Risk<br>There is a risk that the College are the victim of a Cyber-attack, due to inadequate controls being in place.<br>**Recommendation**<br>We recommend that the College make arrangements to ensure Cyber Essentials certification is achieved as soon as possible. | **Action owner:**<br>Vice Principal Corporate Services<br>**Due date:** December 2018 |

| Current status | Audit update | Management response |
|---|---|---|
| **Complete** | The College have now completed the appropriate and are now Cyber Essentials certified. | N/A |

## 2. Key performance measures

| Initial rating | Issue & recommendation | Management comments |
|---|---|---|
| **Grade 3** | **Issue**<br>The College has developed a revised suite of KPI's in 2017/18. As at 31 July 2018 the College did not have complete information to report against 13% of the KPI's.<br>**Risk**<br>There is a risk that performance in the unreported areas is behind target and appropriate mitigating action is not taken.<br>**Recommendation**<br>We recommend the College ensures sufficient data is collected to allow effective monitoring of performance against all targets. | |
| **Current status** | **Audit update** | **Management response** |
| **Complete** | During our review of 2018/19 outturns, we have again identified instances where up-to-date data is not currently available. However, we consider the College's internal reporting to be transparent and makes clear when the information will become available. | N/A |

## 3. Delivery timetable

| Initial rating | Issue & recommendation | Management comments |
|---|---|---|
| **Grade 3** | **Issue identified**<br><br>An incomplete first draft of the annual report was provided at the end of the third week of the onsite audit. Our initial review of the document confirmed that it had not been prepared in accordance with the requirements of the 2016/17 Accounts Direction, as issued by SFC. Specifically, an Accountability Report and a Performance Report had not been appropriately included. A revised and complete draft of the annual report was provided three weeks later. The delays in providing complete information put significant pressure on both the College and the audit team to ensure timescales were sufficiently adhered to.<br><br>**Recommendation**<br><br>The College should ensure that the timetable for the production of the annual report is adequately considered and target dates set are realistic. The College must ensure that the annual report is fully compliant with the requirements of the SFC Accounts Direction.. | The College must ensure that the annual report is fully compliant with the requirements of the SFC Accounts Direction.<br><br>**Action owner:** Vice Principal Finance & HR<br><br>**Due Date:** September 2017<br><br>**2016/17 update**<br><br>The College will ensure that the annual report is fully compliant with the requirements of the SFC Accounts Direction and is presented within the audit timescales.<br><br>**Action owner:** Vice Principal Finance & HR<br><br>**Due Date:** September 2018<br><br>**2017/18 update**<br><br>In 2017/18 the audit team received the narrative element of the financial statements in the second week of the audit which was a significant improvement in comparison to prior years. While there were some disclosure issues identified there was sufficient time to address key issues. |

| Current status | Audit update | Management response |
|---|---|---|
| **Partially complete** | In 2018/19 we received the narrative element of the financial statements in the second week of our audit however there were significant sections of the report that were not provided until the following week. | **Action owner:** Vice Principal Corporate Service<br><br>**Due Date:** August 2020 |

## 4. Fixed asset register

| Initial rating | Issue & recommendation | Management comments |
|---|---|---|
| **Grade 3** | **Issue identified**<br><br>Asset tag numbers are currently not included within the fixed asset register. The College completed an asset verification in 2016/17 through the use of room data sheets provided by the NPD contractor. The NPD contractor also provided a listing of values which was used to populate the asset register. There was no reconciliation between this asset register and the room data sheets this increasing the risk the information on the asset register is incomplete or inaccurate.<br><br>**Recommendation**<br><br>It is recommended the College reconciles the fixed asset register to the room data sheets and ensure the fixed asset register reflects the asset tag numbers. | **2016/17 update**<br><br>**Action owner:** Vice Principal Finance & HR<br><br>**Due date:** March 2018<br><br>**2017/18 update**<br><br>In 2017/18 external audit found that while IT assets were all appropriately tagged there was still some discrepancy over other assets.<br><br>**Action owner:** Vice Principal Corporate Services<br><br>**Due date:** March 2019 |
| **Current status** | **Audit update** | **Management response** |
| **Complete** | Our review in 2018/19 found that the College have followed the instruction of Turner Townsend and have tagged all high risk and high value items which in turn has been reflected on the fixed asset register. | **Action owner:**<br><br>**Due Date:** |

## 5. Register of interests

| Initial rating | Issue & recommendation | Management comments |
|---|---|---|
| **Grade 3** | **Issue identified**<br><br>The College maintains a register of interests for all Board Members, however, we identified three individuals who had interests in organisations which were undisclosed on their register of interests. It is the responsibility of Board Members to update their register of interests to ensure that it is accurate and up to date.<br><br>**Recommendation:**<br><br>The College should ensure all Board members are aware of the process for updating their register of interests. | **2016/17 update**<br><br>**Action owner**: College Secretary<br><br>**Due date:** March 2018<br><br>**2017/18 update**<br><br>External audit review the register of interests for all Board Members in 2017/18 and identified one instance where the register of interests had not been updated since 2016 and 5 instances where there were related entities which had not been disclosed on the register of interest forms.<br><br>**Action owner:** College Secretary<br><br>**Due date:** December 2018 |

| Current status | Audit update | Management response |
|---|---|---|
| **Outstanding** | We reviewed the register of interests for all Board Members in 2017/18 and identified one instance where the register of interests had not been updated since 2016 and 5 instances where there were related entities which had not been disclosed on the register of interest forms. | **Action owner:** College Secretary<br><br>**Due Date:** March 2020 |

# Appendix 3: Audit differences

We identified the following potential adjustment to the financial statements during our audit. We have discussed these with management and have agreed that they will not be reflected in the financial statements on the basis of immaterial impact.

| Unadjusted difference | SoCNE | | Balance Sheet | |
|---|---|---|---|---|
| | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Accruals | | | 343,756 | |
| Income | | 1,053,323 | | |
| Expenditure | 709,567 | | | |
| *Being reallocation of remaining funds from sale of building from accruals to income and expenditure* | | | | |