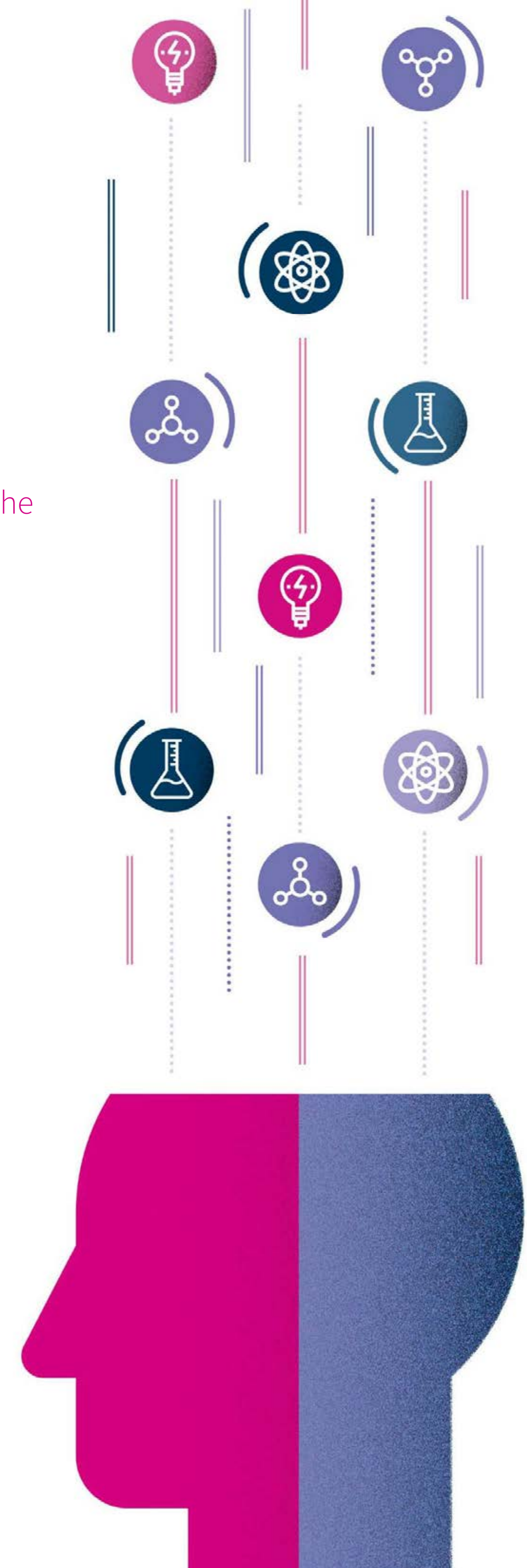
Scott-Moncrieff
business advisers and accountants

Glasgow Clyde 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

Financial statements audit

The report and financial statements for the year ended 31 July 2019 were approved by the Board of Management on 11 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.

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.

Wider scope audit

Financial sustainability

The College's 2019/20 budget and the 2018/19 to 2023/24 FFR include recurring operating deficits every year through-out the planning period.

The College has recognised that an organisational wide restructuring programme is required to help bridge significant funding gaps.

The medium-term financial sustainability of the College is recognised as a serious strategic risk in the corporate risk register.

Financial management

The College reports an operating deficit of £3.577million and adjusted underlying surplus of £0.107million for the year ended 31 July 2019.

The College has appropriate budget setting and monitoring procedures in place, with the promotion of appropriate challenge and scrutiny inbuilt.

Distinct improvements have been made in the College's engagement with NFI.

Governance and transparency

The College's overall governance Arrangements are current, transparent and promote scrutiny and challenge.

There is no evidence of other risk factors as identified by Audit Scotland in relation to openness and transparency, EU withdrawal and dependency on key suppliers having materialised in year.

Value for money

The College has an established an appropriate performance management framework which seeks to promote continuous improvement'

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

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 Glasgow Clyde 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 Glasgow Clyde 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 Glasgow Clyde 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 report and financial statements 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 a report and financial statements 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 report and financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. We discussed and agreed the content of this report with College management. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

5. 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.

6. We confirm that we complied with Financial Reporting Council'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.

7. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

8. 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

9. 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.

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

3. Report and financial statements

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

In this section we summarise the findings from our audit of the 2018/19 report and financial statements.

Report and financial statements

An unqualified audit opinion on the report and financial statements

The report and financial statements for the year ended 31 July 2019 were approved by the Board of Management on 11 December 2019. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited report and financial statements.

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

Overall conclusion

An unqualified audit opinion on the report and financial statements

11. The report and financial statements were considered by the Audit Committee on 27 November 2019 and approved by the Board on 11 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.

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

Good administrative processes for the audit

13. We received draft financial statements and supporting papers of a good standard and 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

14. 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 report and financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the report and 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 (*Excerpt from the 2018/19 External Audit Plan)*

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*.

15. 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.

16. During our prior year audit, we identified a sample of journals which had no description. During our 2018/19 we have considered whether action has been taken to address this control weakness. We are pleased to report no journals were identified during our 2018/19 audit testing which did not have a description.

2. Revenue recognition (*Excerpt from the 2018/19 External Audit Plan)*

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.

17. 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 (the 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.

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

3. Risk of fraud in the recognition of expenditure (*Excerpt from the 2018/19 External Audit Plan)*

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.

19. 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. Estate valuation (*Excerpt from the 2018/19 External Audit Plan)*

The College's Cardonald campus requires significant investment in the forthcoming years to ensure the College remains fit for purpose. This is due to the age and condition of the tower block building. The College has commissioned an estates review of its three campuses by Gardiner and Theobald BDP, which will provide a range of options with supporting costings. This will be reported to the Board in June 2019.

This may provide an indication that the College's campus, in particular Cardonald may be impaired. The College should undertake an impairment review of its estate. This review should consider internal and external impairment indicators in accordance with Financial Reporting Standard (FRS) 102.

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

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

Our application of materiality

22. 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.

23. Our initial assessment of materiality for the financial statements of the college was £900,000. We reviewed our assessment, following receipt of the unaudited financial statements and our assessment of materiality for initial assessment remained at this level throughout our audit.

24. 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 of the College.

Performance materiality

25. 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.

26. 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 £000		
	High	Medium	Low
Performance materiality	360	495	675

27. We agreed with the Audit Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £45,000, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

Audit differences

28. We are pleased to report that there were no material adjustments to the draft financial statements. We identified one potential adjustment which was agreed to be adjusted. Full details are included in Appendix 3.

29. 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

30. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in May 2019. 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.

31. 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.

32. 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

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

Other information in the report and financial statements

34. “Other information” in the report and financial statements 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

35. 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.

36. 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.

37. From our review of the Annual Report are satisfied that the performance report has been appropriately prepared.

The accountability report

38. 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

39. The College’s Governance Statement explains that the College was compliant with the principles of the 2016 Code of Good Governance for Scotland’s Colleges. This is deemed to be in accordance with

the requirements outlined in the 2018/19 Accounts Direction, released by the SFC.

40. We are satisfied the content of the Governance Statement is consistent with information gathered during the course of our normal audit work and is an accurate reflection of governance arrangements in place throughout the period.

Remuneration and staff report

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

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

Regularity

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

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

Pension Liability

45. As at 31 July 2019 the net LGPS pension liability was £8.005million, an increase of £7.783milion in comparison to the net pension liability as at 31 July 2018 (£0.222million).

46. 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.

47. 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 2019 is the second year that the results of the triennial valuation are taken into account. In the interim years between triennial valuation, actuarial valuations are based on rolled forward data rather than a full valuation. An additional £0.82 million of liabilities have also been recognised in the year to 31 July 2019 as a result of the McCloud judgement. This is the first year the judgement has been taken into account.

Qualitative aspects of accounting practices and financial reporting

48. 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 report and financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We believe the accounting policies adopted by the College are appropriate and have been consistently applied.
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. Significant estimates have been made in relation to the valuation of property, plant and equipment. A valuation took place in 2019 and the valuations were 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 management's 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 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.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	There were no such disagreements.
Difficulties encountered in the audit.	There were no significant difficulties encountered during 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.

The College's 2019/20 budget and the 2018/19 to 2023/24 FFR include recurring operating deficits every year through-out the planning period.

The College has recognised that an organisational wide restructuring programme is required to help bridge significant funding gaps.

The medium-term financial sustainability of the College is recognised as a serious strategic risk in the corporate risk register.

Significant audit risk

49. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

Financial sustainability (*Excerpt from the 2018/19 External Audit Plan)*

The Scottish Funding Council (SFC) requires Colleges to prepare five year Financial Forecast Returns (FFRs). We reported in our 2017/18 Annual Audit Report that the College prepared a FFR, in line with SFC guidance, which forecast recurring underlying deficits rising from £0.052million in 2019/20 and £2.110million in 2022/23.

We reported in our 2017/18 Annual Audit Report that the College did not have formal cost reduction plans and income generation options in place, which addressed the forecast deficit position in the short and medium term. The College's financial position is not sustainable in the medium to long term and corrective action is required to bring forward appropriate measures which address this position.

The College's Board of Management tasked management with producing a more formal plan for addressing the College's medium term financial position. The College has now developed a Commercial Income and Contribution Five year Growth Plan. This plan details how the College aims to grow annual commercial income over the next five years (over 150% growth), with an annual target growth of 20% year on year and a margin expectation throughout the period of the plan. The scale of projected commercial income growth is ambitious and potentially represents a high risk strategy for the College.

Since the submission of the FFR in 2018, the College has updated the FFR to incorporate the Commercial Income and Contribution Five year Growth Plan as referred to above and other key changes (including updated national bargaining costs and short term funding). The revised forecast anticipates reduced underlying deficit position over the next five years. 2022/23 forecast position within the projected underlying deficit reducing from £2.110million to £1.262million. *(As at May 2019.)*

The College has informed Scott-Moncrieff that it is working on formal cost saving plans to address the remaining forecast underlying deficit position, in the context of an ambitious commercial income strategy. At present the College does not have contingency plans in place if the commercial income targets are not realised.

50. 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. SFC grants currently represent approximately 75% of the College's total income (excluding the release of non-cash deferred grants), and therefore any decrease to funding could have extremely serious consequences to the financial sustainability of the College.

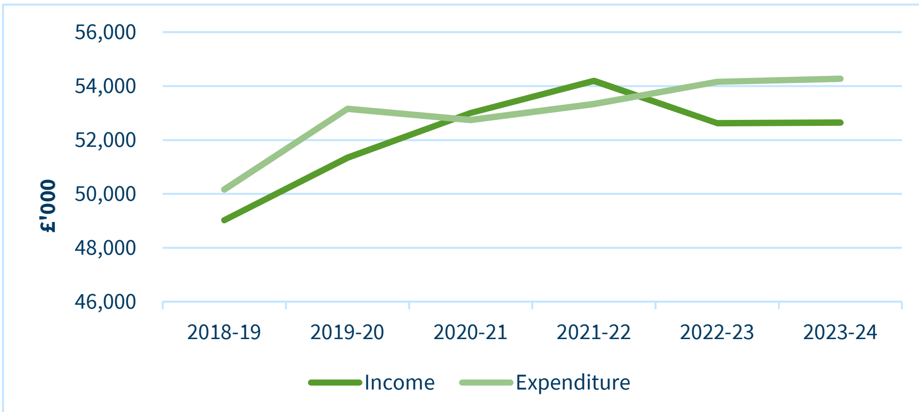
51. The College has developed a Commercial Growth Plan, which covers the period 2019/20 to 2022/23. It is deemed ambitious and delivery is expected to be challenging, particularly due to the current economic climate, uncertainties in relation to Brexit and the restrictions in retaining reserves for ongoing investment purposes. The College has taken a prudent approach in the preparation of their short and medium terms forecasts and has downgraded the original commercial growth forecasts. The targeted commercial growth included in forecasts will only partially offset the College's increasing cost base.

52. The FFR template and underpinning guidance from the SFC are clear that colleges are expected to achieve 3% efficiency savings annually to pay for inflationary pressures and remain sustainable. Staff costs currently represent approximately 70% of the College's spend (excluding childcare cost) and are forecast to increase as a result of the national changes to terms and conditions. By default, the majority of required savings will need to be funded through reductions in staffing numbers. Whilst it is inevitable that there will

be some reduction in staffing through natural wastage, the College has now recognised that an organisational wide restructuring programme is required to bridge the significant funding gaps.

53. The College's 2019/20 budget and the 2018/19 to 2023/24 FFR as submitted to the SFC in October 2019 include operating deficits (before adjustment) in 2019/20, 2022/23 and 2023/24. Surpluses are currently forecast in 2020/21 and 2021/22 as a result of anticipated capital funding from the Glasgow Clyde Education Foundation (GCEF). (See Exhibit 3 below.)

Exhibit 3: Income & expenditure forecast



Source: FFR

54. The College's adjusted operating position shows a forecast deficit of £0.563million in 2019/20, decreasing to £0.188million by 2021/22 and small surpluses in the following two years. The adjustments made to reach the adjusted operating position are intended to exclude those items which are exceptional, outwith the control of the institution or due to the specific impact of the institutions being part of government accounting e.g. non cash budget items such as depreciation.

55. The FFR has been prepared on the assumption that GCEF revenue grants will continue to 2020/21 and capital grants to 2021/22. GCEF has clarified that it will not fund any College applications to cover voluntary severance restructuring costs. As a result, the College has now sought alternative financial support from GCEF for developmental expenditure areas and it will approach SFC through GCRB, if necessary, in order to partially fund the costs associated with the organisational wide restructuring process. If no additional external funding is awarded, the College will be forced to consider alternative mechanisms for reducing staff costs in the short term.

56. We understand that the organisational wide restructure has commenced, the first phase consultation in respect of affected support staff was launched in May 2019 and the second stage in respect of academic management is underway now. The restructuring process is anticipated to run throughout the current planning period.

57. 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 a significant financial implication to the College.

58. The reduction in staffing levels required to manage budgets across the planning period increases the risk of the College failing to deliver planned credits whilst maintaining attainment levels and student satisfaction. Regular performance monitoring will be essential across the planning period to ensure the realisation of this risk is timeously and effectively managed.

Short term financial planning

59. The SFC published indicative funding allocations in February 2019 and final allocations in May. The Glasgow Colleges' Regional Board (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.

60. As a direct result of National Bargaining and changes to teaching terms and conditions giving rise to additional unfunded payroll costs, coupled with an increase in employer pension costs and the increase in the national living wage, Scotland's FE sector is currently facing an extremely challenging financial situation.

61. The College's 2019/20 budget was presented to the May 2019 Finance & Resources Committee for comment and subsequently to the June 2019 Board for approval. This followed on from presentations and extensive discussion at the March Finance and Resources Committee and also at the March Board meeting. At the June Board meeting, the members received a presentation of the budget and were informed of the steps the Executive were taking to balance the budget and potential applications to GCEF. The Board did not approve the budget in June and asked for it to be re-presented to the August Board meeting. As recognised in paragraphs 53 and 54 above, in order to achieve the College's credits target and taking into account all other factors as at August, the Board has been required to approve a deficit budget for 2019/20. Actions are being taken to increase commercial income, reduce costs and seek third party funding as far as possible during 2019/20 and future years.

Longer term financial strategy

62. Colleges now prepare six-year financial forecasts through the FFR process. The latest FFR, as submitted in October 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.

63. 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.

64. 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.

65. 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.

66. 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.

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

68. From review of the College's FFR and accompanying analysis presented to the Board, we are satisfied that the submissions present a fair snapshot of the current financial position. We recognise that the

College has not succeeded in deriving a balanced forecast across the duration of the planning period, however we are satisfied that it continues to seek alternative funding sources to bridge the deficits forecast. The Board paper submitted along with the FFR provides a comprehensive, honest and clear message to the users, adequately explaining the construction of the FFR, assumptions applied and scenario planning variations.

69. 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 to be sufficiently aligned to those issued by the SFC. As recognised above, any set-backs in the delivery of the restructuring programme, the Commercial Growth Plan or any other actions built into the FFR, could have a significant financial implication to the College.

70. We note that the medium-term financial sustainability of the College, in terms of seeking additional funding sources and reducing the current cost base, have been appropriately recognised as high scoring strategic risks in the College Strategic risk register which is regularly reported upon to Board and Audit Committee.

71. However, following approval of the 2019/20 budget and 2019 FFR, the College has been able to secure additional GCEF Funding to support a significant ICT Project to implement a new and more cost efficient, sustainable and effective approach to ICT technology and infrastructure. As a result of this additional funding, the College has been able to reduce the forecast deficit for 2019/20 to £0.263million and is now forecasting very small deficits for 2020/21 and 2021/22 with small surpluses in the following two years.

72. The College is also currently in the process of finalising a further two GCEF funding applications which have been submitted to them and if GCEF agree to fund these, the College expects to be in a position to update its forecasts during 2019/20 to show an improved position through the life of the plan.

Capital investment programme

73. 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.

74. The Audit Scotland “Scotland’s Colleges 2019” report confirms that the Scottish Government provided £76.7million of capital funding for the sector in 2018/19, but for 2019/20 this figure will fall to £47.6million. Reduced capital availability creates a risk that the costs of urgent backlog maintenance rise further.

75. The GCRB capital allocations awarded the College with £1.652million for 2019/20. £1.023million of this is for very high priority maintenance, being 63% of the region’s total very high priority maintenance allocation and will be predominantly used on the Cardonald campus. The remainder of the College’s allocation is for general lifecycle maintenance.

76. The above allocations do not include ICT capital investment. The College therefore will continue to work closely with the GCEF to fund such development projects. However, whilst the College would like to continue necessary ICT investment, in particular to maintain the student experience, there is a risk that budgetary pressures may prevail and further cuts will be required.

Workforce planning

77. The College has a People Strategy in place and is continuing develop a Workforce Planning Framework to ensure staffing resources are effectively and efficiently managed. We understand that during 2018 the College appointed an external agency to undertake a benchmarking exercise and the outputs from this exercise are currently being used to inform the workforce plan which is due for delivery in 2020.

78. We will review the College’s Workforce Planning Framework once finalised as part of our 2019/20 audit and will ensure that the analysis conveyed within is appropriately reflected within 2020/21 – 2024/24 FFR preparations.

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 £3.577million and adjusted underlying surplus of £0.107million for the year ended 31 July 2019.

The College has appropriate budget setting and monitoring procedures in place, with the promotion of appropriate challenge and scrutiny inbuilt.

Distinct improvements have been made in the College's engagement with NFI.

Financial management

Financial performance

79. The College reports an operating deficit of £3.577million for the year ended 31 July 2019. 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 £0.107million.

80. 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			
Funding Council grants	37,355	37,600	245
SFC exceptional restructuring income	24	22	(2)
Tuition fees and education contracts	7,100	7,133	33
Other grant income	1,824	1,765	(59)
Other operating income	2,938	2,504	(434)
Investment income	1	1	-
	49,242	**49,025**	**(217)**
Expenditure			
Staff Costs	34,004	36,583	2,579
Exceptional restructuring costs	33	67	34
Other operating expenses	11,061	10,602	(459)
Depreciation	5,319	5,312	(7)
Donation to arm's length foundation	-	-	-
Interest payable	-	38	38
	50,417	**52,602**	**2,185**
Operating surplus / (deficit) for the year ended 31 July 2019	**(1,175)**	**(3,577)**	**(2,402)**

Performance against budget

81. The main variance between budgeted and actual income was in respect of receipts from the GCEF, the primary reason for the difference being due to timing. This variance in income was offset in full by a reduction to other operating expenses incurred which were 4% below budget, mirroring the reduction in GCEF funded activity.

82. Staff costs incurred were 7.6% greater than budgeted. This variance, experienced across the sector, was a direct result of National Bargaining and unfunded pay awards, coupled with FRS102 pension adjustments, (intentionally) not included within the College's original budget. The College also experienced levels of long-term absences in year which gave rise to additional temporary costs.

2018/19 Income and expenditure

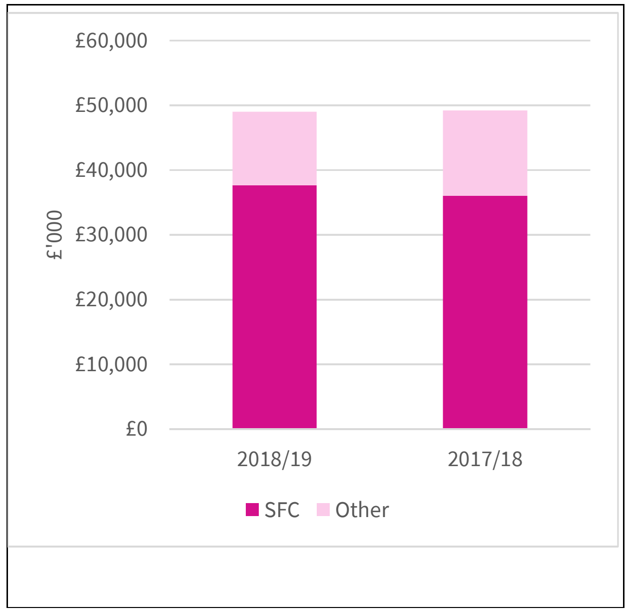
83. 2018/19 income is 0.35% lower than that reported in 2017/18, whilst there has been a 5.9% increase in expenditure in year. Colleges are operating within an extremely tight financial environment, with the gap between income and expenditure widening.

84. Across the sector, the proportion of non-government income that colleges generate has continued to decline and this holds true for the College: total income has remained largely static over the last two years, however the ratio of government grant income: other income has increased as set out within Exhibit 5 below.

85. The increase in SFC grants in year has largely been due to additional funding provided in respect of National Bargaining pay migrations and terms and conditions, whilst the decrease in other income is primarily as a result of a reduction in funding received from Glasgow Clyde Education Foundation (GCEF) to support capital projects.

86. The College has developed a Commercial Growth Plan, which covers the period 2019/20 to 2022/23. It is deemed ambitious and delivery is expected to be challenging, particularly due to the current economic climate, uncertainties in relation to Brexit and the restrictions in retaining reserves for ongoing investment purposes. The College has taken a prudent approach in the preparation of their short and medium terms forecasts and has downgraded the commercial growth forecasts in light of recent framework agreement funding withdrawal.

Exhibit 5: Analysis of income

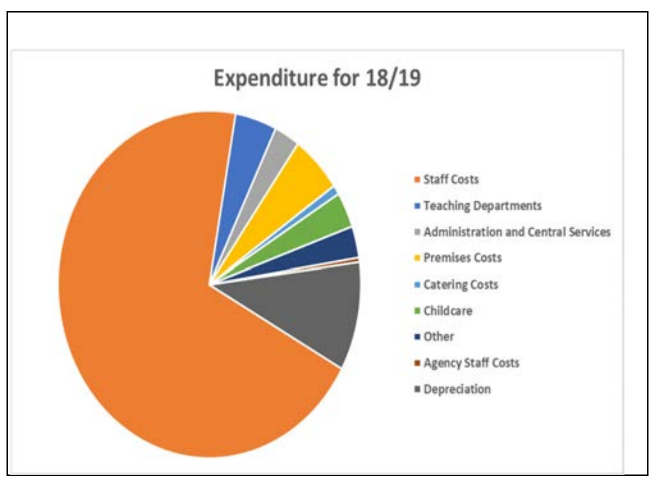


Source: 2018/19 financial statements

87. Staff costs remain the highest area of spend, constituting approximately 70% of total spend in year (excluding childcare costs), and are forecast to increase. National Bargaining and 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.

88. 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

89. The balance sheet position has strengthened in year, primarily as a consequence of the recent buildings revaluation across campuses which saw an upward revaluation in the region of £22.2million alongside additions of £2.7million. These were offset by an in-year depreciation charge of approximately £5.3million, giving rise to an overall £19.6million increase to PPE NBV at year end.

90. Pension provisions have increased by £7.8million in year due to non-cash FRS102 pension adjustments which are based on the related annual actuarial reports commissioned by the College.

Arm's Length Foundation: Glasgow Clyde Education Foundation

91. As set out within Exhibit 7 below, the College made no donations to the GCEF in year and received £0.266million of revenue funding and £0.298 million of capital funding. The College's current FFR includes no forecast donations to the GCEF over the current planning period and £6.129million of grant receipts are forecast over the same period (£0.996million for revenue purposes and £5.133million for capital projects). On the basis that these forecasts materialise, the foundation will hold £1.925million by 2023/24.

92. Across the sector, balances held by ALFs are reducing. We understand that the Scottish Government is considering how the sector might best continue to use ALFs to help with long-term financial planning and future investment decisions.

Exhibit 7: The college's transactions with GCEF

GFLF transaction £'000	2013/14*	2014/15**	2015/16	2016/17	2017/18	2018/19
Donation to GCEF	(14,400)	(600)	-	-	-	-
Grant funding from GCEF	-	191	912	2,573	2,706	564
Balance held by GCEF	**14,400**	**14,809**	**13,897**	**11,324**	**8,618**	**8,054**

**8 month period **16 month period*

Budget setting

93. 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.

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

95. The Vice Principal – Resources & College Development is responsible for preparing an annual financial plan for approval by the Board of Management on the recommendation of the Finance and Resources Committee.

96. The budget preparation process is built upon the input of Vice Principals and the Budget holders to ensure that meaningful and achievable estimates are developed.

97. We are satisfied that the Finance and Resources Committee appropriately scrutinised the 2018/19 revenue budget and 2019/20 revenue budgets in advance of Board approval.

Budget monitoring and reporting

98. The Board receives reports on performance against revenue budgets during the financial year. Reports presented are at a strategic level and include sufficient information and explanations for significant variances.

99. The Finance and Resources Committee also receives updates in respect of revenue and capital activity for scrutiny at each quarterly meeting.

100. We are satisfied that the College has reasonable budget setting and monitoring procedures in place,

with the promotion of appropriate challenge and scrutiny inbuilt. Internal Audit also conducted a review of Budgetary Control in year and a 'satisfactory' grading was awarded.

Systems of internal control

101. 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.

102. The College has comprehensive financial regulations and policies in place, most recently updated in November 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. We have not identified any significant weaknesses through this work.

Financial capacity

103. The College's finance team is led by the Assistant Principal of Finance and Infrastructure (CPFA, ACCA) who is supported by the College Accountant (CPFA, CA), Assistant Accountant (ACCA), Finance Manager, Finance Officer and administrators.

104. The team has experienced resourcing constraints during the course of the year as a result of maternity leave absence and long term sickness absence, however whilst stretched, we have not identified a weakening of the internal control environment as a result. Further, we are satisfied that the skills and experience of the current team remain appropriate

Prevention and detection of fraud and irregularity

105. The College 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.

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

107. Overall, we found the College's arrangements for the prevention and detection of fraud and other irregularities to be reasonable, recognising that the College's Anti Bribery, Fraud and Corruption Policy has been refreshed in year.

National fraud initiative

108. 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.

109. 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.

110. 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.

111. In June 2019 we assessed the NFI match progress to date and submitted the output to Audit Scotland for review. This assessment concluded that distinct improvements had been made in the College's engagement with NFI since it started and the College was actively managing the NFI process, with good progress on data matches being 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's overall governance arrangements are current, transparent and promote scrutiny and challenge.

There is no evidence of other risk factors as identified by Audit Scotland in relation to openness and transparency, EU withdrawal and dependency on key suppliers having materialised in year.

Governance arrangements

Significant audit risk

112. Our audit plan identified a significant risk in relation to governance under our wider scope responsibilities.

Governance: Voluntary Severance Scheme (*Excerpt from the 2018/19 External Audit Plan)*

The College has established a voluntary severance scheme for specific staff in 2018/19. Exit packages are sensitive in nature and can lead to a risk of reputational damage to the College. There is a risk that the scheme is not subject to appropriate scrutiny and approval both internally and externally (from GCRB and the Scottish Funding Council).

113. We have verified that the associated scheme was reviewed and approved by the Board, the GCRB and the SFC. We are satisfied that all necessary approval channels have been sought by the College prior to the launch of the scheme.

114. The Board is responsible for ensuring the overall governance of the College. In driving forward the strategic direction of the College and ensuring the governance framework is operating as intended, the Board continues to be supported by six committees:

Exhibit 8: Board of Management Committee Structure

115. A revised approach to the Board's annual self-evaluation exercise has been adopted in year, consisting of one-to-one meetings between the Board Chair and Board members, followed by a Board workshop. The output from these sessions was the Board Development Plan (BDP) 2019/20. We have obtained and reviewed the BDP and noted that the actions set out within are clear, with realistic target dates and responsible individuals attached. Progress against the BDP will be subject to Board review at its March and October 2020 meetings.

116. Through regular attendance at the Audit & Risk 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.

117. 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. We are satisfied that the College has implemented appropriate revisions in year, including an update to its Assurance Framework, to ensure it remains compliant with the revised requirements of the Audit Committee handbook.

Regional Governance arrangements

118. 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.

119. 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.

120. 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.

Internal audit

121. 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.

122. During 2018/19 we did not place formal reliance on the work of internal audit. However, we considered their outputs, where relevant, to ensure consistent with our own understanding.

Openness and transparency

123. 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.

124. The College's current arrangements in respect of openness and transparency appear reasonable and comparable to other colleges within the Glasgow region. Whilst Board meetings are not open for public attendance, we are satisfied that minutes and papers from the Board and supporting committees are published on the College's website, where commercial interests allow. Papers for public access are clearly marked as ‘disclosable’.

125. At the time of writing this report, the latest available Board papers on the College website were dated June 2019. Similar was noted in respect of Audit Committee and Finance and Resources Committee papers which were not considered to be sufficiently up-to-date. However, the website is clear that going forward, the College aims to publish Board and Committee agendas and papers in advance of meetings and minutes of meetings will be published online once approved. We will ensure to follow this matter up as part of our 2019/20 audit.

Risk management

126. 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.

127. The Board is responsible for the overall review and effectiveness of the College’s risk management arrangements and the Audit Committee carries delegated responsibility for reviewing these arrangements including the Risk Management Policy on the annual basis and the Strategic Risk Register at least twice per year.

128. The College’s Risk Management Policy outlines how the College manages and considers risk, how it identifies internal/external or environmental risks that it faces, evaluates these risks and mitigates them as appropriate.

129. 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 adequate.

EU withdrawal

130. 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.

131. 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.

132. We are satisfied that during the academic year, the College has undertaken appropriate consideration on the potential impacts of Brexit and we have seen sufficient evidence to confirm that this assessment is continuing.

Dependency on key suppliers

133. 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.

134. 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.

135. 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.

136. 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 an established an appropriate performance management framework which seeks to promote continuous improvement.

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

Value for money

Value for money framework

137. 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.

138. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. The College is committed to ensuring value for money tis achieved through good procurement practice and optimal use of procurement collaboration opportunities.

Performance framework

139. The College has a 2016-20 Development Plan in place and is currently developing its successor, the 2019-24 plan. This plan sets out the vision, mission, strategic priorities and key goals of the College. For 2018/19, the College's overarching goals were:

- Delivering exceptional learning opportunities;
- Growing exceptional partnerships;
- Contributing to the local, regional and national economy; and
- Ensuring operational effectiveness and efficiency.

140. We are satisfied that the overarching goals set out within the 2016-20 Development Plan are fully aligned to reference and disclosures within the College's 2018/19 annual report and accounts.

141. This plan, aligned to the wider Glasgow Regional Curriculum and Estates Plan, the Regional Outcome Agreement is underpinned by nine College strategies which include: Learning & Teaching, Access and Inclusion, People, Financial Sustainability, Business Development, Procurement, Digital, Estates and Marketing. These strategies are aligned to the Development Plan period, 2016-20, and each strategy has a range of key themes for development attached.

142. The College takes a rounded view of its performance, it recognises the importance of managing performance across all aspects of its activity. It reports performance in numerical terms against a number of Key Performance Indicators (KPIs) and also uses a wide range of other information, reports and feedback to ensure it continues to develop and improve its services.

143. 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. Internal Audit conducted a review on Performance Reporting / KPIs in year and a 'satisfactory' grading was awarded.

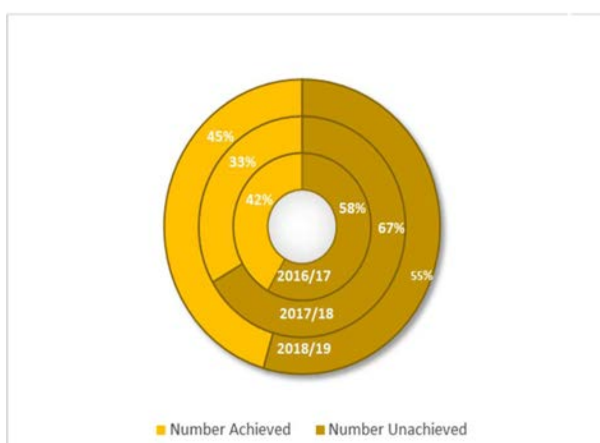
144. During 2018/19, the College continued to implement Education Scotland's quality framework "How good is our college?" In 2018, under this framework, the College undertook its first Evaluative Report and Enhancement Plan (EREP), which was subsequently endorsed by the SFC and Education Scotland during 2019. The College anticipates that they will receive a progress visit early in the new year which will provide an opportunity to update Education Scotland on progress against the actions set out in the enhancement plan.

Performance results

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

146. In respect of the key themes and performance indicators driven by the 2016-20 Development Plan, 55% were achieved, 39% were partially achieved and 6% were not achieved.

Exhibit 9: Performance against target



Source: 2018/19 annual report

147. The main goal which the College is currently behind target for is ensuring operational effectiveness and efficiency. This goal incorporates the overall financial position of the College, including financial sustainability. The significant financial constraints that the College is currently exposed to are set out within section 4: Financial Sustainability above and are impacting the College's ability to fully address the requirements of key themes.

Key performance indicators

148. As set out within the College's annual report, the College measures its performance against 12 key performance indicators (KPIs). These KPIs are classified into three categories:

- Effectiveness: measures are based on latest recommended methodology from SFC, which aims to measure the success of students enrolled at the College;
- Efficiency: measures consider the achievement of credits, staff required to deliver the credits and staff sickness and turnover; and
- Financial: measures include operating surpluses and reliance on SFC income.

149. Exhibit 9 above sets out the College's progress in meeting these KPIs over the last three years. For 2018/19, the College's success was spread evenly, with approximately 50% of targets met in each of the three categories. Overall achievement of KPIs is slightly below 2017/18 results, however consistent with results for the previous year.

2018/19 Regional Outcome Agreement

150. 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.

151. The 2018/19 ROA included targets for the region as a whole as well as individual targets for the three assigned colleges. Some of the targets set out within the ROA mirror the KPIs set by the College as outlined above. We have reviewed the College's outturn against the ROA targets and note the following:

- The College delivered 128,106 credits against a target of 127,286;
- The College delivered 30.4% of credits to learners in 10% SIMD against a target of 30.9%;
- Success rates for all FE students were above targets set, however for HE students, success rate targets were not met
- 95% if students were satisfied overall, against a target of 95.8%
- 98.7% of full-time students successfully progressed onto work or further study, compared with a target of 95.5%

152. 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.

153. 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 portfolio is broadly split into 65% of activity at FE level and 35% at HE level, but despite this, the gradual decline in the College's HE attainment over the last three years must continue to be closely monitored.

154. Whilst the student satisfaction target was narrowly missed, the College's % achievement is significantly above that of the region.

8. Appendices

Appendix 1: Respective responsibilities of the college and the Auditor

Responsibility for the preparation of the report and financial statements

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 report and financial statements, the Board is required to:

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

The Board is 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 report and financial statements and give an opinion on whether:

- they give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the body's affairs as at 31 July 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.

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: Follow up of prior year recommendations

Of the four recommendations raised within our 2017/18 annual audit report, we note that three have now been fully implemented and significant progress has been made in respect of the fourth. Details are given below.

Note that no further recommendations have been identified during our 2018/19 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.

2017/18 Audit Findings:

1. Journals with no description and controls

Initial rating	Issue & recommendation	Management comments as at November 2018
Grade 3	**Issue** During 2017/18, our audit work identified eight journals which had no description. We have not identified any indication of management override in the year. **Risk** There is an increased risk of inappropriate or inaccurate journals being processed that are not subject to review (due to being less than £50,000) or have no description. **Recommendation** To further enhance the controls in place we would encourage the college to implement processes to review and authorise journals which occur throughout the year. Consideration should be given to the following: • development of processes as part of the review/upgrade to the ledger; • review of the nature and frequency of ledger postings throughout the year with a view to developing a risk assessed approach to reviewing journals; and • development of exception reporting. We also recommend that all journals are posted with a description.	Journals processed by the finance team have always been subject to approval by a senior member of the finance team. Only senior finance staff can process adjusting journals independently and all such journals above £50k were subject to secondary review by another senior member of finance staff during 2017/18. This arrangement was discussed with the auditor early in 2017/18 and agreed as an appropriate action in response to the recommendation made in the 2016/17 audit report. The College has investigated the option of automated approvals for senior finance staff, however this would result in all such adjusting journals requiring secondary approval regardless of value which would result in delays in processing and reporting. In light of this the College considers the current arrangement to be an appropriate risk mitigation. The journals which were processed without a description were traceable to related source documents through the finance system. The College will however ensure that all adjusting journals also include a description in future. **Responsible officer:** Assistant Principal Finance and Infrastructure **Implementation date:** November 2018

Current status	Audit update	Management comments as at November 2019
Complete	We are satisfied that this recommendation has been implemented. There were no further issues identified in the 2018/19 audit testing of journals.	N/A

2. Annual interest returns

Initial rating	Issue & recommendation	Management comments as at November 2018
Grade 2	**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.	This recommendation is accepted. **Responsible officer:** Clerk to the Board **Implementation date:** November 2018

Current status	Audit update	Management comments as at November 2019
Complete	We are satisfied that this recommendation has been taken on board.	N/A

3. Employee contracts and document retention policy

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

Current status	Audit update	Management comments as at November 2019
Complete	There were no new issues noted during the 2018/19 testing.	N/A

4. Long term financial sustainability

Initial rating	Issue & recommendation	Management comments as at November 2018
Grade 3	**Issue** The college has prepared a FFR which forecasts a deficit of £0.052million in 2019/20 and recurring deficits rising to £2.110million in 2022/23. The college does not currently have formal cost reduction plans and income generation options in place, which address the forecast deficit position in the short and medium term. **Risk** The college's financial position is not sustainable and corrective action in the short and medium term is required to ensure this. **Recommendation** We recommend that the college use zero based budgeting to identify further savings to support their medium term financial position. The college should formally develop saving options for service redesign and income generation to ensure the college achieves a balanced budget over the short and medium term. The college must establish a long term sustainable financial model which addresses the current future deficit forecast position.	The College and the Board of Management are very much aware of the future deficits within the five year financial forecast and this has been discussed at the Board to consider possible actions. The Board had already requested that the College bring further information to them on this and we have highlighted it will need a three pronged approach to address it which are increase income through commercial activity (which the Board have already discussed the plans), reductions in costs although these are very substantially staffing and have already been significantly reduced through and since merger, and increased funding to meet the increased unit costs as a result of national bargaining and to deliver a fair and transparent funding model across the sector and to Glasgow. Staff costs represent the majority of College expenditure and all staff vacancies are reviewed by the College Staffing Group which is led by the Vice Principals. All costs are reviewed regularly through budget monitoring discussions and there is an annual review with each Assistant Principal and their team to discuss potential savings through the annual Planning Cycle in November/ December. The FFR commentary has explained this however a further paper will be prepared to summarise this to the Finance and Resources Committee following discussion at the Senior Leadership Team. **Responsible officer:** Vice Principal Resources and College Development and the Senior Leadership Team **Implementation date:** June 2019

Current status	Audit update	Management comments as at November 2019
Partially complete	The College has made good progress during 2018/19 in establishing a long term sustainable financial model which seeks to address the future deficit forecast position. The latest FFR and budget position have been developed on the principles set out within the 2016-20 College Development Plan along with underpinning strategies and are aligned to the indicative forecast assumptions set out by the SFC. The College has recognised that an organisational wide restructuring programme is required to address the significant funding gaps and consultation commenced in year. The College continues to develop their workforce	The College has undertaken a significant exercise during 2018/19 and into the first months of 2019/20 on its financial forecasts and financial sustainability. There has been a significant amount of activity in this area during this period both in terms of College Senior Management and in reporting through Committees and the Board of Management. There was discussion at the early stages and at the conclusion of the external audit with the external auditor on the long-term financial sustainability of the College, which is based on the five-year forecast in the Financial Forecast Return (FFR) and the future deficit position. It was emphasised that this has been discussed extensively during the year and

Current status	Audit update	Management comments as at November 2019
	plans which are expected to be finalised in early 2020. The College has taken a prudent approach in the preparation of their short and medium terms forecasts and has slightly downgraded the original commercial growth forecasts, in light of a recent contractual change. At this time, the College continues to forecast deficits during the planning period, however, we are satisfied that these have been substantially reduced in year and the College is continuing to pursue solutions to bridge the remaining funding gaps.	the Board tasked the College's management with preparing a detailed five year financial plan to address this through a combination of seeking additional funding, income growth, and planned cost reductions, although this will be very challenging particularly given that the vast majority of the College cost base is staff costs. These plans have been scrutinised by the Board and regular reporting of income and savings will be ongoing. There have been two restructures to date one of which is the administration restructure and the second which has just launched is the academic management restructure – both of these should achieve significant savings. **Timescale**: June 2020 with ongoing quarterly reporting to Finance and Resources Committee and the Board of Management

Appendix 3: Audit differences

During our audit we identified the following potential adjustment to the financial statements. On discussion with management it was noted that they were aware of this adjustment and it was agreed that this would be included in the accounts. The detail is included here for reference.

Audit difference	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Fixed asset (land and buildings)			90	
Revaluation		90		
Being adjustment to correct fixed assets for difference between fixed asset register and valuation (arising from a transposition error in the journal)				