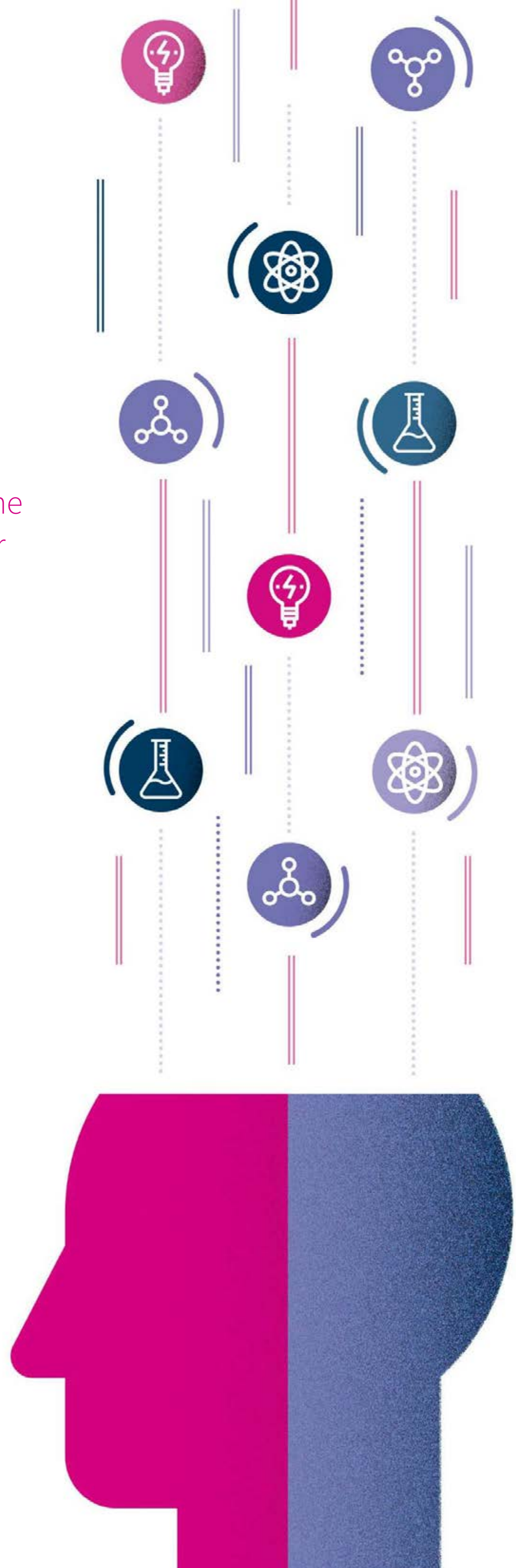
Scott-Moncrieff
business advisers and accountants

Glasgow Kelvin College

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

December 2019



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1. Key messages

Annual accounts audit

The annual report and financial statements for the year ended 31 July 2019 were approved by the Board of Management (the "Board") on 9 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 of the planning period.

The College's five-year business plan, currently under development and due later this year, will make firm proposals as to how the College plans to achieve the required efficiency savings and staffing reductions.

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

Financial management

The College reports an operating deficit of £2.121 million and "adjusted" underlying deficit of £0.333million for the year ended 31 July 2019.

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

The Finance Team is currently operating under full complement, however we have not identified any weakening of the internal control environment.

Governance and transparency

The College's overall governance arrangements appear robust: they 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 current and embedded value for money strategy in place, written in the context of the severe budgetary pressures currently faced.

The College has an established and appropriate performance management framework in place which promotes continuous improvement.

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 Kelvin 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 Kelvin College, we have designated the Audit and Risk Committee as "those charged with governance".

Introduction

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

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

- an audit of the 2018/19 annual 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 an annual 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 annual 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 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.

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. Annual report and financial statements

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

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

Annual report and financial statements

An unqualified audit opinion on the annual report and financial statements

The annual report and financial statements for the year ended 31 July 2019 were approved by the Board on 9 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 financial statements.

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

Overall conclusion

An unqualified audit opinion on the annual report and financial statements

11. The annual report and financial statements were considered by the Audit and Risk Committee on 19 November 2019 and approved by the Board on 9 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.

Administrative processes for the audit

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

Our assessment of risks of material misstatement

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 annual report and financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual 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

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

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.

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

16. 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.

17. 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

18. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion we carried out testing to confirm that the College's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Our application of materiality

19. 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.

20. Our initial assessment of materiality for the financial statements was £600,000. On receipt of the 2018/19 draft accounts, we reassessed materiality and reset it to £670,000. We consider that our updated assessment has remained appropriate throughout our audit.

21. 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

22. 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.

23. 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	270	370	500

24. We agreed with the Audit and Risk Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £25,000, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

Audit differences

25. We are pleased to report that there were no material adjustments to the draft financial statements. We also identified one potential adjustment which is not considered material to the financial statements. Full details are included in Appendix 3. Management has elected not to adjust for the error on the grounds of materiality.

26. 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

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

28. 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.

29. 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

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

Other information in the annual report and financial statements

31. "Other information" in the annual 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

32. 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.

33. 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.

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

The accountability report

35. 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.

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.

37. We have therefore requested accountability report be adjusted to reflect the requirements of the SFC financial statements direction.

Governance statement

38. 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.

39. 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 in order to ensure full compliance with the SFC guidance.

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

Remuneration and staff report

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

Regularity

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

43. 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

44. As at 31 July 2019 the net LGPS pension liability was £6.063million, an increase of £4.971million in comparison to the net pension liability as at 31 July 2018 of £1.092million.

45. 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.

46. 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 valuations, actuarial valuations are based on rolled forward data rather than a full valuation. An additional £0.5 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 in which the judgement has been taken into account.

Qualitative aspects of accounting practices and financial reporting

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

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed and 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. Significant estimates have been made in relation to the valuation of property, plant and equipment. A valuation of 4 sites took place in 2019 and was informed by advice from qualified, independent experts. The valuation process is in line with the requirements of the FReM. Pension estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of managements' experts in line with the requirements of ISA (UK) 500.
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 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	From the testing performed, we identified no significant unusual transactions in the period.

Qualitative aspect considered	Audit conclusion
and the extent that these transactions are separately disclosed.	
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.

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 of the planning period

The College's five-year business plan, currently under development and due later this year, will make firm proposals as to how the College plans to achieve the required efficiency savings and staffing reductions

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

Significant audit risk

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

Financial sustainability: increasing financial pressures

The SFC requires colleges to prepare five-year Financial Forecast Returns (FFRs). We reported in our 2017/18 Annual Audit Report that the College prepared an FFR, in line with SFC guidance, which forecast recurring underlying deficits rising from £0.760million in 2019/20 and £1.782million in 2022/23.

We also highlighted that the College is reliant on funding from Glasgow Kelvin Learning Foundation (GKLF) to support revenue expenditure over the next five years. The College recognised that this is not sustainable in the longer term and was exploring options for service redesign to ensure the college achieves financial balance over the medium term.

Since our 2017/18 Annual Audit Report, the College has developed financial plans to manage its 2019/20 financial position recognising that it is entering a financially challenging period. The College has set a deficit budget for 2019/20. The 2019/20 budget identifies a funding gap to be addressed through delivery of saving proposals and increased funding from GKLF. The College recognises that there is significant risk and uncertainty associated with these and failure to achieve these will result in cash flow issues for the College.

The required savings over the medium term are significant and the College is developing a five-year business plan to manage the Colleges financial position beyond 2019/20.

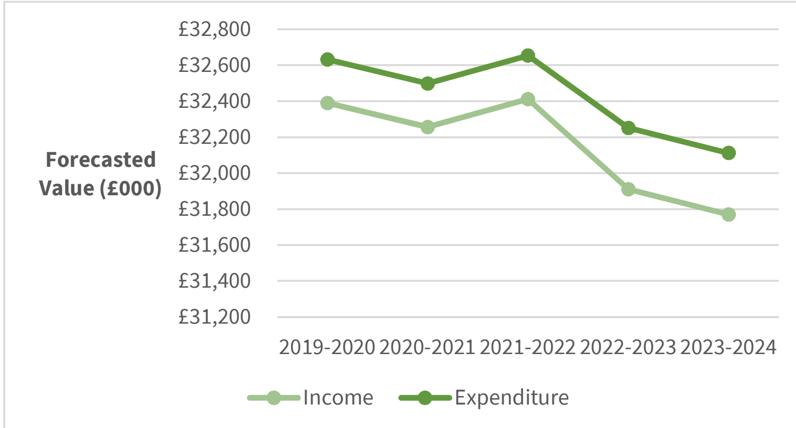
Excerpt from the 2018/19 External Audit Plan

49. 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 the College's current expectation is that this will benefit them in relative terms.

50. 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 represent approximately 70% of the College's spend (excluding childcare cost). 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 a reduction in staffing through natural wastage, the College has fully recognised that there will be a further need to roll out a programme of restructuring.

51. The College's 2019/20 budget and the 2018/19 to 2023/24 FFR as submitted to the SFC in September 2019 include recurring operating deficits every year from 2019/20 through to 2023/24 (planning period). However, the College has recognised a break even adjusted operating position every year throughout the planning period (see Exhibit 3 below).

Exhibit 3: Income & expenditure forecast



Source: FFR

52. 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.

53. Whilst the FFR includes a balanced adjusted operating position across the planning period, it must be recognised that in determining these forecasts, the College is wholly reliant on ongoing donations from the Arms' Length Foundation (the ALF) and ongoing efficiency savings to bridge the funding gap. Over the planning period, £1.9 million from the ALF will be required.

54. 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 which current cash reserves could not bridge.

55. The 2019/20 budget and latest FFR seek to be consistent with the Estates Strategy, ICT Strategy, Capital Investment Plan and Workforce Plan, however it is expected that these strategies will need reviewed following the savings plans currently being identified.

56. The FFR is not one in the same as the five-year business plan which we understand will be finalised in coming months. The five-year business plan will make firm proposals in terms of exactly how the College plans to achieve the required efficiency savings and staffing reductions whilst delivering the intended credit target, which are to remain at current levels through to and including 2021/22.

Short term financial planning

57. 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.

58. Further to these national matters, the College is also experiencing increased long-term sick absence rates leading to additional staff costs. Additionally, with the reduction of funding allocations in year for national bargaining costs and the cessation of grant income from the Big Lottery and Robertson Trust, the College is facing a period of significant financial pressure.

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. The 2019/20 budget was presented to the May 2019 Financial Controls Committee for comment and subsequently to the June 2019 Board for approval. As recognised in paragraphs 54 to 56 above, in order to achieve the College's allocation, the Board has approved a deficit budget for 2019/20.

Longer term financial strategy

61. 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.

62. 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.

63. 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.

64. 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.

65. 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.

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

67. From review of the College's FFR and accompanying analysis presented to the Board against underpinning audit evidence, we are satisfied that the submissions present a reasonable and realistic snapshot of the current position recognising the SFC's requirement for colleges to 'balance the budget', in the College's case, with continued support from the ALF. 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.

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 to be sufficiently aligned to those issued by the SFC.

69. During 2018/19, Internal Audit has reviewed the longer-term financial planning arrangements of the College and issued a 'good' level of assurance. We note that the audit focussed on the 2017/18 to 2022/23 FFR submitted during 2018, however the nature of the findings within support the result of our own work in respect of the latest FFR.

70. The five-year business plan, once finalised later this year, will outline further approaches to managing the finances of the college in the medium term. We will review the approved business plan during our 2019/20 audit.

71. We note that the medium-term financial sustainability of the College has been appropriately

recognised as a serious strategic risk in the corporate risk register.

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 £360 million.

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

74. The College’s 2019/20 Capital Investment Plan, aligned to the Estates Strategy, was considered and endorsed by the Financial Control Committee at its May 2019 meeting and subsequently by the Board in June 2019.

75. The GCRB capital allocations awarded the College with £0.993 million, £0.6 million (37% of the region’s allocation) of which related to very high priority maintenance 43% of the College’s very high priority maintenance budget has identified for Mechanical and Electrical replacement at the Springburn campus. The remainder for lifecycle maintenance.

76. The above allocations do not include ICT capital investment. The College therefore made a funding bid to the Glasgow Kelvin Learning Foundation (GKLF) to enable the College to make a capital investment on ICT hardware to maintain a quality learning environment. This bid was successful and the Foundation has allocated £600k for investment in hardware including laptop replacements, smartboard replacement and PC replacement along with some infrastructure improvements including increased server storage capacity.

Workforce planning

77. During 2016/17, the College developed a Workforce Plan 2017-22 to help work towards having the “right people with the right skills deployed in the right place”.

78. The plan was based on assumptions that the College would continue to operate during the period (2017-22) at the same scale, with similar staffing and student numbers and within the existing estate. Five key themes were identified within in the plan: Culture, Empowerment, Leadership, High Quality Learning and a Sustainable College, each of which carried a number of SMART targets.

79. This workforce plan remains current, bridging the majority of the current planning period. However, it should be recognised that in the current tight financial environment, with staff costs representing approximately 70% of the College’s expenditure, and recognition that a restructuring programme will be necessary, there is a risk that this Workforce Plan will quickly become outdated.

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 £2.121 million and adjusted" underlying deficit of £0.333million for the year ended 31 July 2019

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

The Finance Team is currently operating under full complement, however we have not identified any weakening of the internal control environment

Financial performance

80. The College reports an operating deficit of £2.121 million 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 deficit of £0.333million. The College has sufficient cash funds to cover this deficit.

81. 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			
Scottish Funding Council grants	21,520	23,811	2,291
Tuition fees and education contracts	4,573	5,245	672
Other income (including project grants, investment income, foundation apprenticeship, settlement for gymnasium and sale of fixed assets)	1,219	1,191	(28)
Donation from GKLF	180	61	(119)
Release of deferred capital grants	1,550	2,212	662
	29,042	**32,520**	**3,478**
Expenditure			
Staff Costs	22,264	24,281	2,017
Other operating expenses (including foundation apprenticeship)	5,280	7,838	2,558
Donation to GKLF	-	-	-
Depreciation	1,990	2,471	481
Interest Payable	-	51	51
	29,534	**34,641**	**5,107**
Operating surplus / (deficit) for the year ended 31 July 2019	**(492)**	**(2,121)**	**(1,629)**

Performance against budget

82. The College's budget for the SFC grant and other operating expenditure (deliberately) excludes:

- HE and FE childcare funds which constitute £1.4 million of the SFC grants received and paid out in year; and
- strategic funding of £0.5 million received and spent in year in respect of maintenance.

83. The £21.520 million budget for the SFC grant income identified above is after adjustment for the £0.260 million National Bargaining clawback by the SFC in year.

84. The College received an additional £0.041 million from the SFC in year in respect of the delivery of a further unplanned 266 credits.

85. The regional Foundation Apprenticeship Programme, recognised within Education Contracts, was significantly expanded in year, and generated an additional £0.612 million of income compared with budget.

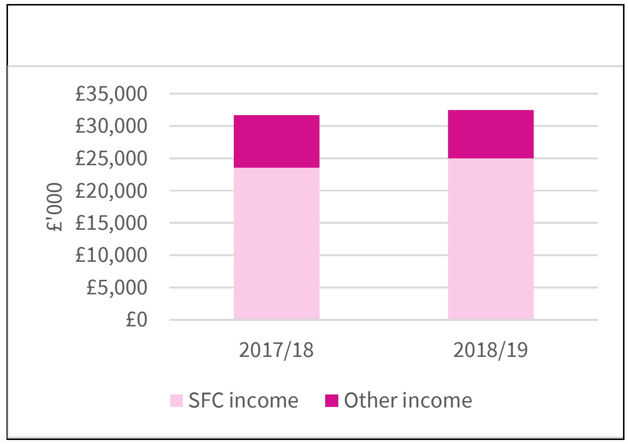
86. The increase in staff costs against budget is primarily as a result of additional support staff required to cover long term sickness / high absence rates. Aligned to the increased activity on the Foundation Apprenticeship Programme referred above, there were additional staffing costs (and operating costs) incurred.

2018/19 Income and expenditure

87. 2018/19 income is 2.5% higher than that reported in 2017/18, whilst there has been a 10.3% increase on expenditure in year. Colleges are operating within an extremely tight financial environment, with the gap between income and expenditure widening.

88. Across the sector, the proportion of non-government income that colleges generate has continued to decline. However, whilst the College saw a reduction of £0.637 million in other income during 2018/19 compared with the prior year this can be fully explained by donations from the ALF, which totalled £0.061 million in year compared with £0.809 million in the prior year. We expect that there will be a further decline in other income generated by the College in future years as 2018/19 saw grant income from the Big Lottery and Robertson Trust come to an end. Exhibit 5 sets out the income received by the College over the last two years.

Exhibit 5: Analysis of income

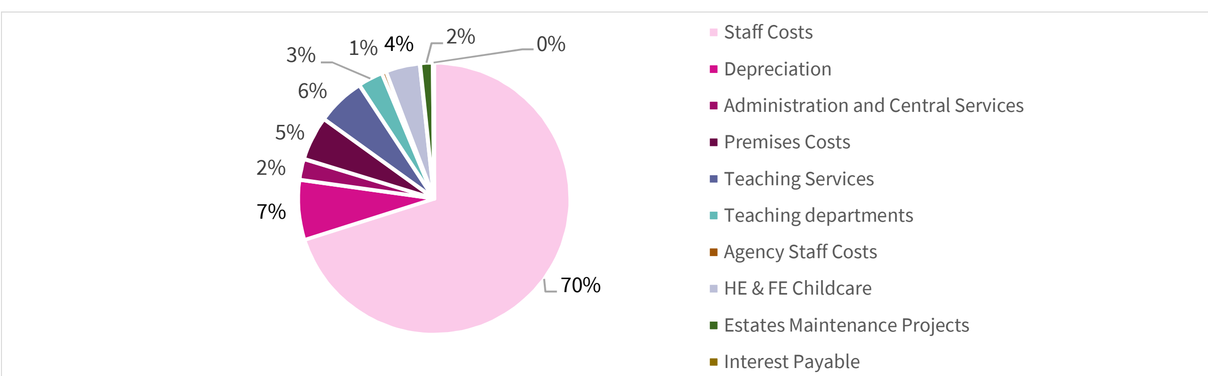


Source: 2018/19 financial statements

89. Staff costs remain the highest area of spend, constituting 70% of total spend in year, 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.

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

Exhibit 6: 2018/19 Expenditure analysis



Source: 2018/19 financial statements

Arm's Length Foundation

91. As set out within Exhibit 7 below, the College made no donations to the ALF in year and received £0.061 million, the lowest amount extracted since its creation.

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 GKLF (the ALF)

GFLF transaction £million	2013/14*	2014/15**	2015/16	2016/17	2017/18	2018/19
Donation to GKLF	(3,221)	-	-	(2,800)	(300)	-
Donation from GKLF	-	-	500	277	2,010	61
Balance held by GKLF	**3,221**	**3,221**	**2,721**	**5,244**	**3,534**	**3,473**

**8 month period **16 month period*

Balance sheet

93. The balance sheet position has deteriorated as a consequence of the deficit for the year and a very significant increase in net pension liabilities for support staff. The pension liability is calculated independently by the Strathclyde Pension Fund Actuary and has increased to £6.1m during 2018/19.

Budget setting

94. 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.

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

96. The Vice Principal - Finance and Corporate Services is responsible for preparing an annual revenue budget and capital programme for submission and approval by the Board.

97. The budget preparation process is built upon contributions from Strategic and Operational Managers to ensure meaningful and achievable estimates are agreed.

Budget monitoring and reporting

98. Strategic and Operational Managers and other budget holders are responsible for the economic, effective and efficient use of resources allocated to them.

99. During the year, the Head of Finance is responsible for submitting revised budgets to the Financial Control Committee for consideration and, if required, approval.

100. We are satisfied that the College has effective and transparent budget setting and monitoring procedures in place, with the promotion of appropriate challenge and scrutiny inbuilt.

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 current and comprehensive financial regulations and policies in place, which are publicly available.

Financial capacity

103. The College's finance team is led by the Head of Finance (CA) and overseen by the Vice Principal – Finance and Corporate Services (CIPFA). However, the underpinning team has experienced resourcing

constraints for a significant period of the year, operating under full complement.

104. 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.

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 the College were 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's overall governance arrangements appear robust: they 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

Governance arrangements

112. 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 five committees:

Exhibit 8: Board of Management Committee Structure

113. 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 2018/19 self-evaluation exercise and acknowledge the positive responses within. We are satisfied that the actions identified from the exercise have been appropriately collated and allocated and are accessible through the Board's governance action plan.

114. 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.

115. 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 to ensure it remains compliant with the revised requirements of the Audit Committee handbook.

Regional Governance arrangements

116. 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.

117. 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.

118. 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. Further, we have confirmed that the GCRB has been represented at both Board and supporting committees during the course of the 2018/19 year.

Internal audit

119. 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.

120. 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.

121. Specifically, we noted that Internal Audit conducted a review of Corporate Governance arrangements during 2018/19 and has awarded the college an overall 'good' rating.

Openness and transparency

122. 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.

123. The College's current arrangements in respect of openness and transparency appear robust and well executed. We are satisfied that all minutes and

papers (as appropriate) from the Board and supporting committees are published on the College's website and are accessible to all. Through review of the Board's current governance action plan, we are satisfied that there is evidence of commitment to take forward any improvements identified.

Risk management

124. 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.

125. The College's Risk Management Strategy 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. During 2018/19 the College's Risk Management Strategy has been reviewed and refreshed. The main changes to the document have been in respect of updates to structural changes, the inclusion of the Risk Appetite Statement and appropriate reference to the recently introduced Assurance Framework: a new requirement set out in the Scottish Government Audit and Assurance Committee Handbook (May 2018).

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

EU withdrawal

127. 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.

128. 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.

129. 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

130. 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.

131. 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.

132. 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.

133. 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 current and embedded value for money strategy in place, written in the context of the severe budgetary pressures currently faced

The College has an established and appropriate performance management framework in place which promotes continuous improvement

Value for money

Value for money framework

134. 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.

135. 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.

136. The College has a VfM strategy in place, which sits alongside the College budget, the financial strategy and the procurement strategy. The VfM strategy outlines the College's approach in ensuring that it achieves Best Value and that it can demonstrate continuous improvement in the efficiency and effectiveness of its activities.

137. The 2018/19 VfM strategy has been written in the context of severe budgetary pressures faced by the College (see section 4: Financial Sustainability). Within, there are eight key considerations in ensuring value for money is attained:

- Budget targets
- Procurement
- Staff utilisation
- Restructuring (albeit none in year)
- Estates
- Income generation and commercialisation
- Absence management
- Long term review of delivery models

138. Assumptions made in respect of the above considerations are clearly and transparently set out within the strategy document.

139. VfM initiatives are embedded within annual budgets and monitored through the monthly management accounts process (see Section 5: Financial Management).

Performance reporting

140. In respect of 2018/19, the College had a three-year Strategic Plan 2018-21 in place: the 2019-22 plan has now been published. This plan, aligned to the Glasgow Regional Curriculum and Estates Plan and the Regional Outcome Agreement, sets out the vision, mission, strategic priorities and strategic objectives of the college. For 2018/19, the College's strategic objectives were:

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

141. We are satisfied that the strategic objectives set out within the Strategic Plan 2018-21 are fully aligned to reference and disclosures within the College's 2018/19 annual report and accounts.

142. Underpinning these strategic objectives are performance measures, which are identified as part of the operational planning process.

143. 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. In addition to financial and enrolment data, this includes quantitative and qualitative analysis of feedback from learners, commendations and complaints, feedback from partners, employers and other service users.

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

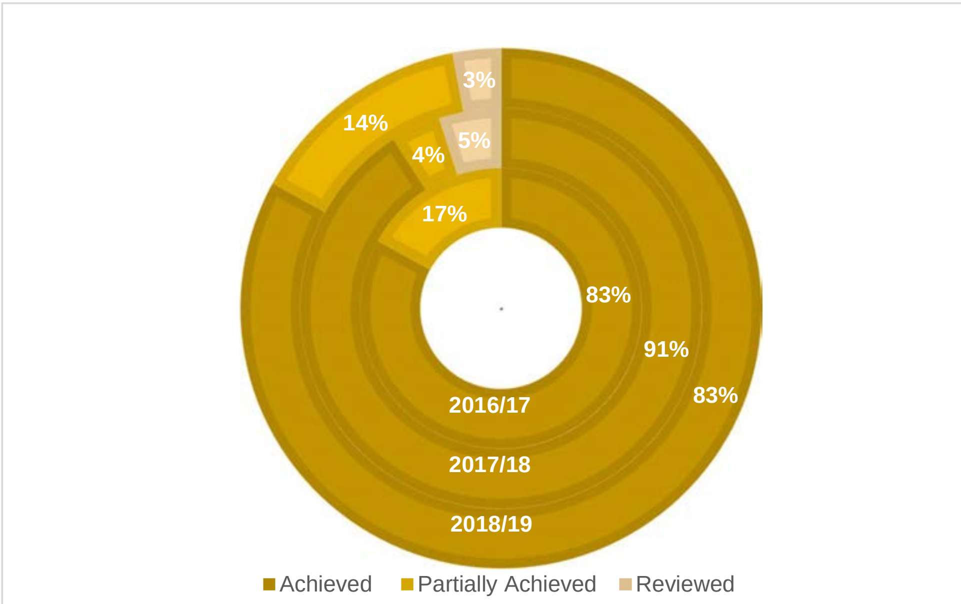
145. The College has also undertaken work in year to further enhance their well established arrangements for self-review and to drive forward improved performance, referencing the "How good is our college?" quality framework and underpinning Evaluative Review and Enhancement Plan in seeking continuous improvement.

Key performance indicators

146. Operational performance has been reasonably strong during 2018/19, although financial performance has not been as hoped.

147. In respect of operational targets, a total of 112 operational targets were set with 93 of these being fully achieved, a further 16 were partially and / the target date extended. The remaining three targets were removed from the plan as events, outwith the control of the College, meant that they were superseded or became inappropriate during the year.

Exhibit 9: Performance against target



Source: 2018/19 annual report

148. The College considers its key target to be the delivery of student activity levels as agreed with the GCRB and the SFC. During 2018/19 the College had a target to deliver 79,516 credits and succeeded in delivering 80,172 credits, being 1% over target.

149. The other key focus of performance is operating within budget which has not achieved. As recognised within section 5: Financial Management, this was primarily due to higher than anticipated long term sickness absence costs and the in-year funding reduction of £0.26 million in respect of National Bargaining.

Academic performance

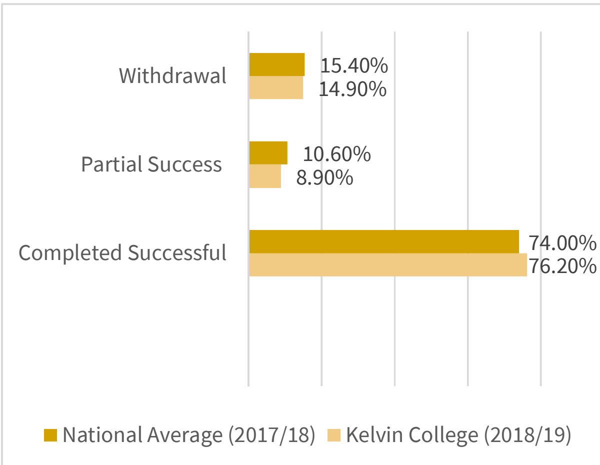
150. The College continues to tailor its offering to the needs of local communities, delivering in excess of 41.2% of its credits to learners from the most 10% deprived communities in Scotland in 2018/19, slightly below its target of 42.4%. The College appears to be meeting the SFC's target of delivering 20% of credits from the 10% most deprived areas by 2020/21, but it must ensure that this delivery continues. We note that the GCRB (through the Regional Outcome Agreement) set a target of 30.4% of credits to be delivered to learners from Scotland's 10% most deprived postcodes, however the region fell slightly short with 29.5% of credits being delivered.

151. Focusing delivery on the needs of the local community presents a number of challenges and, as with all sectors of the education system, attainment gaps still exist for students from the most deprived areas.

152. Attainment rates measure how many students successfully completed their course and achieve the associated qualification. The College's attainment rates for 2018/19 appear to have improved slightly on prior year, with a 1.6% increase in successful completion rates and a 0.8% reduction in withdrawals.

153. The College's attainment rates for 2018/19 also compare favourably to the 2017/18 national comparators (being the latest available statistics), as set out within Exhibit 10 below.

Exhibit 10: Attainment



Source: 2018/19 Annual report

154. Regardless, withdrawal (at 14.9% in 2018/19) is still a challenge for the College, particularly in respect of full-time provision, although there is some evidence that the improving local labour market is resulting in increasing numbers of learners leaving courses prior to completion to enter employment.

8. Appendices

Appendix 1: Respective responsibilities of the college and the Auditor

Responsibility for the preparation of the annual 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 annual 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 annual 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 two recommendations raised within our 2017/18 annual audit report, we note that two have now been implemented. Details are given below.

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.

1. Annual interest returns

Initial rating	Issue & recommendation	Management comments
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.	Recommendation accepted and this will be linked in with the 6 monthly Register of Interest update process. **Responsible officer:** Director of Corporate Services **Implementation date:** 31 July 2018

Current status	Audit update
Complete	From the 2018/19 audit we are now satisfied this has been addressed.

2. Long term financial sustainability

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** The college is reliant on funding from GKLF to support revenue expenditure over the short term. The college recognises this is not sustainable in the longer term and is exploring options for service redesign to ensure the college achieves a balanced budget over the medium term. **Risk** There is a risk that the cost reduction and income generation options available to the college will not be sufficient to maintain financial balance in the long term. **Recommendation** We recommend that the college undertakes scenario planning exercises and develop service re-design options to enable it to remain financially sustainable. The college must establish a long term sustainable financial model which addresses the current future deficit forecast position.	The College recognises that work is required to ensure it remains sustainable in the longer term and will continue to forward plan in a way which will seek to address the issues highlighted in the Financial Forecast Return. **Responsible officer:** Principal & Vice Principal – Finance & Corporate Services **Implementation date:** May 2019

Current status	Audit update
Complete	From the 2018/19 audit we are now satisfied this has been addressed.

Appendix 3: Audit differences

We identified the following potential adjustment to the financial statements during our audit. We have discussed this with management and have agreed that it 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
Fixed assets (asset under construction)			156	
Accruals				156
Being the under accrual of invoices received following the year end				