Glasgow Clyde College

2019/20 Annual Audit Report to the Board and the Auditor General for Scotland

November 2020

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Key messages

This report concludes our audit of the Glasgow Clyde College for 2019/20.

This section summarises the key findings and conclusions from our audit.

Annual report and accounts	The annual report and accounts for the year ended 31 July 2020 were approved by the Board of Management of Glasgow Clyde College on 9 December 2020. 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.
Financial Sustainability	The next two financial years will be extremely challenging for the College. The College is forecasting an underlying operating deficit position in the next financial year of £1.160million before restructuring. A smaller underlying operating deficit of £0.724million is forecast for 2021/22, with the deficit increasing in 2022/23 to £1.744million. In response, the College has approved a restructuring plan which, if achieved, would significantly reduce the forecast deficit position to £0.260million in 2021/22 with a return to small surpluses in subsequent years. The restructuring plan incorporates secured funding from the Glasgow Clyde Education Foundation of up to £1.8million in 2020/21 and up to £0.5million in 2021/22.
Financial Management	The College is well managed financially, but faces unprecedented challenges as a result of the COVID-19 pandemic. The College reports an operating deficit of £3.101million for the year to July 2020. Actuarial losses of £12.434million increased the overall deficit for the year to £15.535million. The adjusted underlying operating surplus for the year was £0.267million. The College's balance sheet records negative reserves of £14.156million, reflecting mainly movements in pension liabilities which will be met over the longer term. The accounts also record cash balances of £5.6million and the College has sufficient cash reserves to meet liabilities for the foreseeable future.
Governance & Transparency	Governance arrangements at the College were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic to date. Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Value for Money	The College has appropriate performance management processes in place that support the achievement of value for money. Performance in 2019/20 has improved from the previous year as shown in the reported KPIs in the financial statements.

Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

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November 2020

Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the College for 2019/20.

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

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

Introduction

1. This report summarises the findings from our 2019/20 audit of the 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 2019/20 annual report and accounts and related matters;
    - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
    - monitoring the College's participation in the National Fraud Initiative (NFI); and
    - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice

Responsibilities

3. The College is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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 would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor 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 the Financial Reporting Council's (FRC) Ethical Standards. In our professional judgement, we remained 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 any member of your audit team.

Openness and transparency

10. This report will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

Annual report and accounts

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

In this section we summarise the findings from our audit of the 2019/20 annual report and accounts.

Annual report and accounts

Unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 July 2020 were approved by the Board on 9 December 2020. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

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

Overall conclusion

11. Our independent auditor's report includes:
    - An unqualified opinion on the financial statements;
    - An unqualified opinion on regularity; 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.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

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

Management override

In any organisation, there exists a risk that management have 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.*

Noted in the 2019/20 External Audit Plan

14. 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.

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 income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Noted in the 2019/20 External Audit Plan

15. At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for the College's revenue resource allocation from Scottish Government.

16. Based on audit work performed, 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.

Risk of fraud in the recognition of expenditure

Practice Note 10 - *The Audit of Public Sector Financial Statements* 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.

Noted in the 2019/20 External Audit Plan

17. 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.

Estates valuation

The College's Cardonald campus is likely to require 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 completed an estates review of its three campuses by Gardiner & Theobald and BDP, which provided a range of options with supporting costings. This was reported to the Board in October 2019.

The College should review whether its 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.

Noted in the 2019/20 External Audit Plan

18. We have reviewed the arrangements in place to assess the carrying value of assets in the balance sheet, included the valuation of Cardonald Campus, and confirmed these are appropriate. Our audit included an assessment of management's review of potential impairment indicators, including the potential impact of COVID-19 on asset values, and did not identify any material impairment indicators.

Pension Assumptions

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

Noted in the 2019/20 External Audit Plan

19. We have reviewed the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. We have reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We have agreed the disclosures in the financial statements to information provided by the actuary.

COVID-19

The current COVID-19 pandemic presents a number of unprecedented challenges to the operation, financial management and governance of an organisation. Systems and processes have been amended to support remote working, governance arrangements and decision making has moved to a virtual environment and many organisations are forecasting large operating deficits due to loss of income and additional cost pressures.

There is increasing uncertainty of how long these challenges will persist and as a result, the extent of the impact on the preparation and audit of the 2019/20 annual report and financial statements remains unknown. We will continue to monitor government and relevant announcements as they pertain to the audit of the College and adapt our audit approach as required.

Noted in the 2019/20 External Audit Plan

20. We have monitored the emerging situation and liaised with the College to ensure they continue to adopt robust governance arrangements and maintain an appropriate system of internal control.]We have reviewed the year-end process to ensure this supports the preparation of true and fair financial statements, including consideration of management estimates, valuations and the necessary supporting disclosures. We also reviewed the Board's consideration of the College's ability to continue as a going concern.

21. We have assessed the impact of the valuations on assets and pensions as part of our audit work to determine if any disclosures are

required in the accounts or if any modification to the audit opinion may be required.

22. We have gained assurance that the going concern basis is reasonable and that steps have been taken to mitigate the effects of COVID-19. No subsequent events were identified. The disclosures within the financial statements are adequate. We have concluded no modification to the audit opinion is required.

Content of the annual report and accounts

23. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FReM) which covered the following:

- The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
- Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.

24. The College took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.

Access to audit evidence

25. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.

26. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

27. We stayed in close contact with College finance colleagues right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed.

Good Administrative processes

28. 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.

An overview of the scope of our audit

29. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in May 2020. 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.

30. 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.

31. 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 below.

Our application of materiality

32. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.

33. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

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

35. Our initial assessment of materiality for the financial statements was £0.945million. On receipt of the 2019/20 draft accounts, we reassessed materiality and changed this to £0.960million. We consider that our updated assessment has remained appropriate throughout our audit.

	Materiality £million
Overall materiality: Our assessment is made with reference to the College's expenditure, which is considered one of the principal considerations for the users of the financial statements when assessing financial performance.	0.960
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	0.720

36. We noted within our External Audit Plan that we would report to the

College all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the annual accounts.

Audit differences

37. We identified no material adjustments to the unaudited annual accounts. We identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts. There were no unadjusted differences to the unaudited annual accounts.

Other matters identified during our audit

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

Other information in the annual report and accounts

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

The performance report

40. 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.

41. 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.

42. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

The accountability report

43. 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

44. 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 2019/20 Accounts Direction, released by the SFC.

45. We consider the coverage of the governance statement to be in line with our expectations.

Remuneration and staff report

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

Regularity

47. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

48. In our opinion 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.

College representations

49. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts.

Follow up of prior year recommendations

50. There were no prior year recommendations and only one 2017/18 recommendation remaining in terms of financial sustainability which was followed up in the audit of the financial statements.

Qualitative aspects of accounting practices and financial reporting

51. During the course of our audit, we considered 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 financial statements. Our audit conclusions on these qualitative aspects are as follows:

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. The last valuation took place as at 31 July 2019 and was informed by advice from qualified, independent experts. The valuation process is in line with the requirements with accounting standards. Pension estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of managements' experts in line with the requirements of ISA (UK) 500.We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.
The appropriateness of the going concern assumption	We reviewed the financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date.

Qualitative aspect considered	Audit conclusion
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We did not identify any uncertainties, including any significant risk or required disclosures, which are not already included in the annual accounts.
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 statement disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While disclosure and presentational adjustments were made during the audit 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.

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 and the way in which they should be delivered.

The College's financial position has been significantly impacted by the COVID-19 pandemic. The future financial sustainability of the College is more uncertain as a result and dependent on the achievement of an ambitious cost saving programme.

The College's three year financial plan includes secured funding from the Glasgow Clyde Education Foundation of up to £1.8million in 2020/21 and up to £0.5million in 2021/22.

If savings plans are achieved, then the Board is forecasting a small deficit position in 2020/21 followed by 2 years of small surpluses.

Significant audit risk

52. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities which was stated in advance of the audit as follows:

Financial sustainability
At the planning stage of our audit, we noted the following risk in relation to financial sustainability: The Scottish Funding Council (SFC) requires colleges to prepare five-year Financial Forecast Returns (FFRs). We reported in our 2018/19 Annual Audit Report that the College prepared an FFR, in line with SFC guidance, which forecast a small surplus in 2020/21 and 2021/22 followed by deficits rising to £1.625million in 2023/24. The College 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 has been working on their financial planning and preparing contingency plans to put in place if the commercial income targets are not realised. We will assess the impact Covid-19 will have on the College's ability to deliver their services and what impact this will have on its financial plans.

As noted in the 2019/20 External Audit Plan

53. The College has undertaken a significant amount of work in reviewing and revising financial plans as the impact of the COVID19 pandemic has evolved. This work has included a restructure of academic and support staff provision within the College and a number of detailed revisions to financial plans and forecasts. The commercial income growth plan has been revised to reflect the current economic climate and there are now significant cost reductions in the College's agreed financial plan. Whilst the financial challenges facing the College remain significant, the College is well placed to manage these challenges.

54. The College has prepared a three-year medium-term financial forecast as required by the FFR process. The latest FFR, approved by the Board of Management in October 2020, reported the forecasted year-end position for 2019/20, the budget for 2020/21 and forward forecasts for 2021/22 and 2022/23. Our work and conclusions on the budget and financial forecasts for 2020/21 onwards are set out below and notes the challenges the College faces in the next two years.

Short Term Financial Planning

55. Scotland's further education sector is facing an extremely challenging financial situation during the next financial year from the impact of national bargaining harmonisation/ job evaluation costs, pay award increases and pension increases.

56. Notwithstanding the reduction in non-SFC income and increase in expenditure as a result of the COVID-19 pandemic. The SFC has confirmed however that it will not recover funds for shortfalls against core outcome agreement targets where these are related to COVID-19 in 2019/20 and 2020/21. The full financial impact of the COVID-19 pandemic is highly uncertain putting the further education sector's financial sustainability at significant risk.

57. The SFC published indicative funding allocations in April 2020 and final allocations in June 2020. 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.

58. The College prepared their Financial Plan for the year 2020/21 based on three sets of financial assumptions:

- realistic assumptions;
- optimistic assumptions; and
- pessimistic assumptions.

59. The Financial Plan for the year 2020/21 was presented to the Board in October 2020, projecting an operating deficit of £2.586million. Once adjusted for non-cash and exceptional items, the College forecasts an underlying operating deficit of £1.160million.

60. The College applied to the Glasgow Clyde Education Foundation for funding of £1.8million in 2020/21 and £0.5million in 2021/22 to provide a financial bridge to support some service cost areas in the first two years of the plan. This application was approved in November 2020 and the application of these funds, and achievement of projected savings from the planned restructure process, will significantly reduce the projected underlying deficit in 2020/21 to £0.260million and return the College to a surplus position in subsequent years.

61. The plan highlights that there is a high level of uncertainty across several major streams of income and expenditure. This includes significant uncertainty of demand for commercial based training in particular.

62. The College recognises that it will need to substantially change the teaching model for academic year 2020/21 to take account of Government guidance, social distancing and minimising infection risk. Additional costs have been incurred in 2020/21 to ensure the campus adheres to social distancing requirements and other COVID-19 related measures. The next financial year will be extremely challenging for the College.

Long Term Financial Planning

63. Since the COVID-19 virus, the College has prepared a FFR as required by the SFC.

64. The FFR is an established part of the SFC's financial health monitoring

framework. The FFR allows the SFC to monitor and assess the medium-term financial planning and health of colleges. The latest FFR, requires colleges to report actual financial performance for the session 2019/20, and forecasts through to 2022/23. The SFC has developed key assumptions with college Finance Directors that should be used in the FFR to support consistency and comparability across the sector. There is no Scottish Government budget beyond the year 2020/21 so the assumptions are indicative.

65. "SFC Call For Information: Financial forecast return (FFR) for further education institutions 2019/20 to 2022/23" provides guidance to the colleges for the preparation of the FFR including key financial planning assumptions. The assumptions include:

- Credits and teaching income (Core and European Social Fund activity): core funding and additional funding for ESF activity for 2020/21 should be based on the final funding allocations announced in June 2019. SFC anticipates a shortfall against student number credits target as a result of COVID-19 however no revision to activity targets for any region prior to 2022/23 when there will be a 2.7% reduction at sector level in activity.
- Flexible workforce development fund: colleges should assume that Flexible Workforce Development funding will Continue at 2019/20 levels.
- Regional strategic bodies: will need to advise their assigned colleges of their funding assumptions over the forecast period to 2022/23.
- 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 2020/21 funding allocations announced in April 2020.
- 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.
- Disposals: any planned property disposals and include both expected proceeds and costs of disposal.

66. Using the above assumptions the College has prepared an FFR which forecasts underlying deficits for the next two financial years and a small underlying surplus in 2022/23.

67. The updated forecast in October 2020 (using realistic assumptions) shows a forecast for 2020/21 of an underlying deficit of £2.586million.

68. Since February 2020, the forecasts have been updated for further information as it has become available. This includes the significant impact COVID-19 has and will continue to have on the College's income and expenditure.

69. The College recognises that COVID-19 has had a significant adverse impact on the College's ability to achieve an operating surplus in 2019/20 and 2020/21.

70. The FFR also requires colleges to set out material risks to income and expenditure, and if possible, to quantify these risks, which should link to the college's risk register. The College has identified six key risks:

- failure to achieve surplus targets for commercial activity/failure to achieve/ maintain planned levels of non-SFC income;
- ability to reduce College cost base to meet requirements of three-year financial forecast
- achieving contracted overall teaching delivery targets for any key partner;
- Potential impact of failure of College operational processes/ systems/ ICT infrastructure
- Failure in any area of College data management processes; and
- Potentially not achieving acceptably high standard quality of teaching delivery and support for students and suitable student experience.

71. The scale of the financial challenge for the College and the further education sector over the next two financial years is unprecedented.

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 is well managed financially, but faces unprecedented challenges as a result of the COVID-19 pandemic.

The College reports an operating deficit of £3.101million for the year. Actuarial losses of £12.434million increased the overall deficit for the year to £15.536million.

The adjusted underlying operating surplus for the year was £0.267million.

The College's balance sheet records negative reserves of £14.156million, reflecting mainly movements in pension liabilities which will be met over the longer term. The accounts also record cash balances of £5.6million at July 2020 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

Financial performance

72. The College reports an operating deficit of £3.101million for the year ended 31 July 2020. Adjusting the operating position for technical accounting factors that are out with the control of the College, such as pensions and net depreciation, the College shows an adjusted underlying surplus of £0.267million

73. The table below sets out the College's 2019/20 income and expenditure budget against results for the year as disclosed within the financial statements:

2019/20 performance	Actual 19/20 £000	Actual 18/19 £000	Change £000
SFC income	38,642	37,622	1,020
Tuition fees (fundable and commercial)	6,094	7,133	(1,039)
Other grant income	1,740	1,765	(25)
Other Operating Income	3,309	2,504	805
Total income	**49,785**	**49,025**	**760**
Staff costs	37,648	36,583	(1,065)
Exceptional Restructuring Costs	586	67	(519)
Other operating expenses (including interest payable)	9,270	10,640	1,370
Depreciation	5,382	5,312	(70)
Total expenditure	**52,886**	**52,602**	**(284)**
Operating (deficit) for the year	**(3,101)**	**(3,577)**	**476**

Financial Performance

74. The College's main source of income continues to be grant funding from the SFC (78% in 2019/20). 2019/20 total income is 1.6% higher than in the previous year, mainly due to additional income to support the increased costs from national pay bargaining.

75. The College's finances have been significantly impacted by a decline in income from commercial sources associated with the impact of the COVID19 pandemic. The decline in income has been offset by a decline in expenditure associated with premises costs, as the College campus closed from national lockdown on 23 March 2020. The College also benefited from a savings in staff costs linked to a restructure programme implemented in 2019/20

76. Whilst the College has a long-term ambition to substantially increase non-SFC income, they face competition from across the sector and significant challenges as a consequence of COVID-19. The College is currently exploring teaching models to increase and improve online provision to minimise the reduction in income

77. Expenditure has remained at broadly the same levels as the prior year largely due to cost savings linked to the COVID19 pandemic outlined above.

78. Staff costs continue to be the highest area of spend for the College accounting for 71% of total expenditure an increase of c3% from the previous year. Implementing the new agreed rates of pay for teaching staff is now placing a significant additional financial pressure on the College and increases in employers' pension contributions 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

Budget setting

79. 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

80. The GCRB are responsible for leading the regional funding allocation process

81. The Vice Principal Resources & College Development and Assistant Principal Finance & Infrastructure are responsible for preparing an annual revenue and capital financial plan, aligned to the College's strategic and operational plan, for consideration by the FRC before submission to the Board

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

Budget monitoring and reporting

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

84. The financial projection for the year and position to date is presented to the FRC four times per year, with updates provided to the subsequent Board meeting. We are satisfied that the papers submitted are clear and allow for appropriate scrutiny and challenge.

Systems of internal control

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

86. We did not identify any significant weaknesses in the College's accounting and internal control systems during our audit.

Prevention and detection of fraud and irregularity

87. The College has adequate arrangements in place for the prevention and detection of fraud and irregularity. No incidences of fraud or irregularity were reported during the year.

National fraud initiative

88. 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.

89. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019.

90. We reviewed the College's participation in the NFI exercise in February 2020. We confirmed that match investigation work has been completed and the results recorded on the NFI system, with no instances of fraud identified.

91. Overall, we concluded that the College's arrangements with respect to NFI are satisfactory.

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.

Governance arrangements at the College were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic to date.

Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Governance and transparency

Regional Governance arrangements

92. The GCRB coordinates collaborative regional activity and continues to work with the assigned colleges to deliver all of the intended benefits of regionalisation.

93. 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.

94. Additionally, there has been an annual Regional Outcome Agreement (ROA) to date 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 has routinely considered reports on the development and implementation of the ROA and we note there will be an amended process form 2020/21.

Governance arrangements

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

- Remuneration Committee;
- Audit Committee;
- Finance and Resources Committee;
- Learning and Teaching Committee;
- Organisational Development Committee;
- Nominations Committee.

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

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

97. The Audit Committee has evaluated its operating arrangements and confirmed that it complies with the requirements of the updated Audit Committee Handbook.

Internal Audit

98. 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.

99. During 2019/20 we did not place formal reliance on the work of internal audit. However, we considered their outputs, where relevant, to ensure they were consistent with our own understanding.

Responding to the COVID-19 pandemic

100. The College responded quickly and effectively to the COVID19 pandemic and developed a comprehensive response plan which has been successfully implemented and overseen by the Board.

101. The Board, its committees and senior management team have continued to meet during the COVID-19 pandemic with all meetings taking place online to oversee management of essential functions, management of impacts and preparedness for future functionality and delivery. There was no change to the meetings schedule or frequency of these meetings.

102. The impact of the COVID19 pandemic has been reported to the Board and its Committees. The College risk register has been updated to reflect the various risk impacts of the pandemic on College operations, including the development of mitigating actions where appropriate to reduce risk.

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 reporting of its performance.

The College has appropriate performance management processes in place that support the achievement of value for money. Performance in 2019/20 has improved from the previous year.

The College has been required to revise its plans to reflect the impact of the COVID19 pandemic.

Value for money framework

103. 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.

104. 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 is achieved through good procurement practice and optimal use of procurement collaboration opportunities.

Performance framework

105. The College has a 2019-24 Strategic Plan in place. This plan sets out the vision, mission, strategic priorities and key goals of the College. The College's Strategic Themes within its 2019/24 plan are:

- Inspirational Learning and Teaching;
- Partner of Choice;
- Unrivalled Student Experience;
- Employer of Choice; and
- Financial Resilience through Operational Excellence.

106. We are satisfied that the overarching themes set out within the Strategic Plan are fully aligned to reference and disclosures within the College's 2019/20 annual report and accounts.

107. This plan, aligned to the wider Glasgow Regional planning and 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. Each strategy has a range of key themes for development.

108. 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.

109. Performance is monitored routinely throughout the year by the Board and Committees as appropriate and progress against performance measures is presented to the Board annually for challenge and scrutiny. Quality is central to the ethos of the College and the Board of Management has in place a policy that the College will, having regard to the availability of resources, seek to achieve the optimum level of quality in all aspects of its activities.

110. During 2019/20 the College had to close its buildings from mid-March as a result of the COVID 19 virus and this resulted in a rapid move to on-line blended learning for staff and students. This was an extremely challenging process for the College, particularly as not all staff and

students had appropriate access to IT and digital services to support the transition to remote learning at the outset. However, the College performance indicators show that for the four main indicators for the College sector for teaching and learning showed an improvement in performance for 2019/20 when compared to 2018/19 and all achieved above the target levels.

Performance results

111. Both financial and academic performance has been good during 2019/20, recognising the current financial constraints faced across the sector and the impact of the COVID19 pandemic.

112. One of the main challenges for the College is the Strategic Theme of Financial Resilience through Operational Excellence and Efficiency. This theme 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 will have an impact on the College's ability to fully address the requirements of key themes.

Key performance indicators

113. 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.

114. To monitor performance the College uses a range of performance indicators, which are reviewed by members of the Senior Leadership Team on a regular basis. Monitoring reports are also presented to the Board's Learning & Teaching Committee. The College's performance against key performance indicators for academic year 2019/20 is shown below and is compared to target and to the preceding academic year:

115. The table below sets out the College's progress in meeting these KPIs over the last two years. For 2019/20, the College's performance improved against all indicators except for the financial indicator in respect of Non-SFC Income as a percentage of total income which was impacted by the COVID19 pandemic.

Key Performance Indicator	Purpose	18/19 Actual	18/19 Target	19/20 Actual	19/20 Target
EFFECTIVENESS[1]					
Successful outcome for Full Time FE enrolments on recognised qualifications	Measures Full Time FE student success	68.0%	66.0%	70.1%	69.0%
Successful outcome for Part Time FE enrolments on recognised qualifications	Measures Part Time FE student success	76.2%	70.0 %	80.1%	78.0%
Successful outcome for Full Time HE enrolments on recognised qualifications	Measures Full Time HE student success	73.0%	75.0 %	77.4%	75.0%
Successful outcome for Part Time HE enrolments on recognised qualifications	Measures Part Time HE student success	77.2%	84.0 %	80.1%	78.0%
1: Effectiveness measures are based on latest recommended methodology from SFC, reflecting number of successful students divided by number of students initially enrolled and who attended at least one session. 2019/20 targets are based on Glasgow Regional Outcome Agreement targets.					
EFFICIENCY					
Performance against Credits activity target	Measures performance against GCRB target	+0.6%	0.0%	+0.9%	0.0%
Working days lost through sickness absence	Measures lost staff time	4.6%	4.1%	3.78%	4.0%
Permanent Staff Turnover	Measures level of staff changes	4.4%	N/A	6.0%	N/A

Key Performance Indicator	Purpose	18/19 Actual	18/19 Target	19/20 Actual	19/20 Target
FINANCIAL					
Adjusted Operating surplus as % of total income	Measures level of operating surplus generated before key adjustments	0%	0%	1%	0%
Non SFC Income as percentage of total income	Measures reliance on SFC income source	23.3%	24.3%	22.4%	24.7%
Current Assets: current liabilities (excl deferred capital grants)	Measures short term assets to liabilities	1.2	1.2	1.1	1.1
Days cash	Measures level of cash	23	22	43*	19

*** Days cash increased as a result of movements in working capital due to COVID19 and the related lockdown.**

2018/19 Regional Outcome Agreement

116. The 2019-20 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.

117. The College delivered 127,896 credits in the academic year August 2019 to July 2020 (2018/19 credits delivered: 128,106). This is 1132 credits (0.9%) over its 2019/20 target of 126,764 credits (2018/19 credit target: 127,286) as set by the Glasgow Colleges Regional Board for academic year 2019/20.

Looking forward

118. The College has recognised in its risk register and financial plans the impact that the COVID19 pandemic is having now, and may continue to have in the future, on the student learning experience. This College is in the process of putting plans in place to manage and mitigate this risk as one of its strategic priorities going forward.

Appendices

Appendix 1: Respective responsibilities of the College and the Auditor

Responsibility for the preparation of the annual report and accounts

Within the terms and conditions of the financial memorandum between the SFC and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year.

In preparing the 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 are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

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

- they give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the body's affairs as at 31 July 2020 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 have complied with the FRC's Ethical Standards. 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 Azets and the College, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.