# Glasgow Clyde College

## 2020/21 Annual Audit Report to the Board and the Auditor General for Scotland

November 2021

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# Key messages

This report concludes our audit of the Glasgow Clyde College for 2020/21.

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

# Financial statements audit

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| **Audit opinion** | Our independent auditor's report includes:<br>• an unqualified opinion on the financial statements;<br>• an unqualified opinion on regularity; and<br>• an unqualified opinion on other prescribed matters.<br>Our audit work is complete and there are currently no matters which would require modification of our audit report. |
| **Key findings on audit risks and other matters** | Our key findings are included in the financial statements audit section of this report.<br>COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and our audit opinion. We are pleased to report those risks identified did not materialise.<br>Glasgow Clyde College ("the College") had good administrative processes in place to prepare the annual report and accounts and the required supporting working papers. |
| **Audit adjustments** | We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We are pleased to report that there were no material adjustments to the financial statements. We identified one unadjusted difference of £0.206 million with further details included in Appendix 2. We identified some minor disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements. |
| **Accounting systems and internal controls** | We have applied our risk based methodology to your audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process.<br>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted. |

# Wider scope audit

**Auditor judgement**

**Financial Sustainability**

The financial position improved when compared to the last year due to additional funding of £2.1 million provided by the Scottish Funding Council (SFC), Glasgow Clyde Education Foundation and a COVID interruption insurance claim. The College is forecasting a deficit for 2021/22 and small surpluses in the two years that follow (adjusted for non-cash items).

While the medium-term financial position of the College has stabilised, there are still a number of uncertainties in relation to COVID, student numbers and other sector wide issues which continue to increase financial risk and uncertainty.

The College has appropriate arrangements in place to manage its financial position and use of resources, including consideration of its financial sustainability.

The Board has short and medium-term financial plans in place and appropriate arrangements for financial monitoring and managing.

The College has a well established capital planning process in place and is estimating to invest c£9 million in capital expenditure over 2021-24.

**Auditor judgement**

**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 £4.068 million for the year. Actuarial gains of £13.288 million moved the Colleges position to accounting surplus of £9.220 million for the year.

The adjusted underlying operating surplus for the year was £0.572 million (£0.267 million in 2019/20)

The College's balance sheet records negative reserves of £3.382 million, mainly reflecting movements in pension liabilities which will be met over the longer term.  The accounts also record cash balances of £8.535 million at July 2021 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

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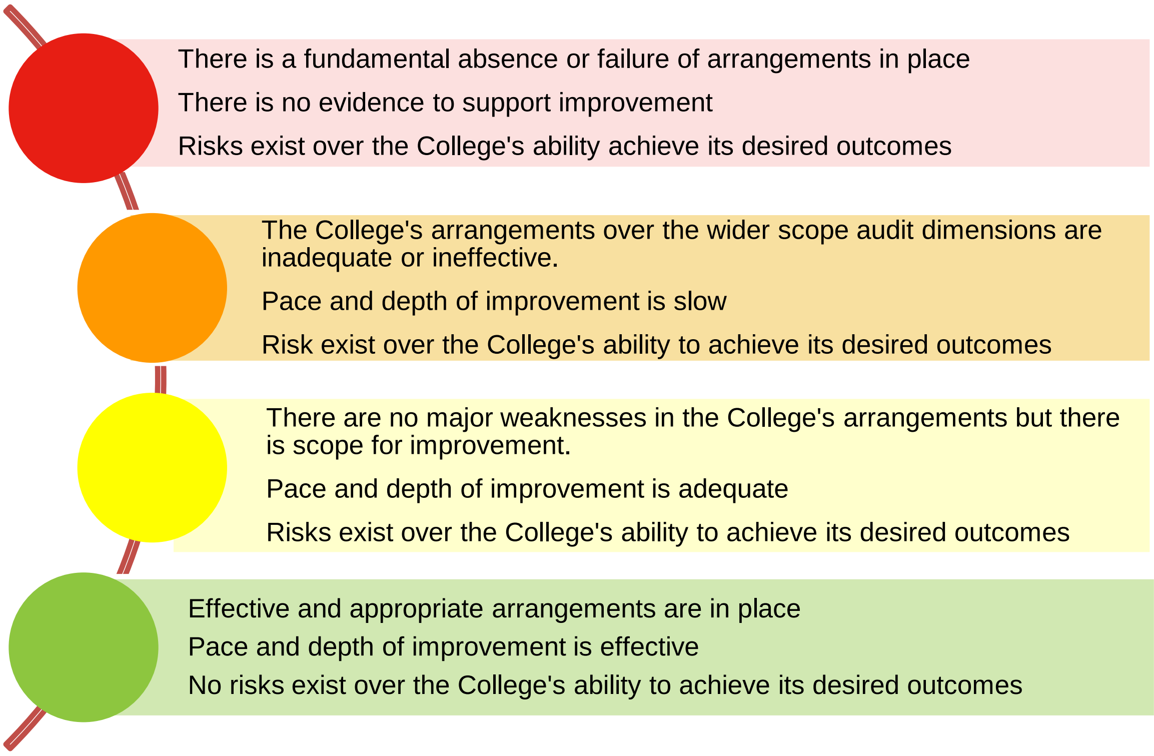
| **Governance & Transparency** | **Auditor judgement** | |
| | Governance arrangements at the College were found to be satisfactory and appropriate, including an induction programme for the new Board members.<br><br>Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct. | |
| **Value for Money** | **Auditor judgement** | |
| | 2020/21 was a challenging year, with financial indicators improving, but performance in relation to student engagement and Credit targets is declining. For the first time ever, the College has not met its Credit target due to the higher student withdrawal level. We do note that the Credits were only 1.5% short of the target.<br><br>The impact of Brexit has been minimal, but may become more significant from 2021/22 onwards when EU residents will be treated as international students and therefore required to pay tuition fees.<br><br>The Board has appropriate performance management processes in place that support monitoring and managing the performance. The College has good plans and ambitions to continuously improve its performance. | |

## Definition

Our wider scope audit involves consideration of the College's arrangements as they relate to financial sustainability, financial management, governance and transparency and value for money.  We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.



# Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Glasgow Clyde College for 2020/21.
We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (2016) and maintained auditor independence. 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".

## Scope

1. This report summarises the findings from our 2020/21 audit of Glasgow Clyde College.

2. We outlined the scope of our audit in our Annual 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 2020/21 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; and
- any other work requested by Audit Scotland.

**Exhibit 1: Audit dimensions within the Code of Audit Practice (2016)**


## 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 do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

5. We would like to thank all management and staff for their co-

operation and assistance during our audit.

## Auditor independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.

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

## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

## Openness and transparency

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

# Financial statements audit

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.

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.

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

## Overall conclusion

12. The annual report and accounts were considered by the Audit Committee and by the Board of Management in November and December 2021 respectively. Our independent auditor's report is unqualified.

13. We received the unaudited annual report and accounts and supporting papers of a high standard, and the work papers were provided in line with our agreed audit timetable. Our thanks go to staff at the College for their assistance with our work.

## Our audit opinion

| Opinion | Basis for opinion | Conclusions |
|---|---|---|
| Financial statements | We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.<br><br>Our findings / conclusion to inform our opinion are set out in this section of our annual report. | We have issued an unqualified audit opinion on the 2020/21 financial statements. |
| Going concern basis of accounting | In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.<br><br>Our wider scope audit work considers the financial sustainability of the College. | We reviewed the financial forecasts for 2021/22. 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.<br><br>Our audit opinion is unqualified in this respect. |
| Regularity | We plan and perform 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.<br><br>In our opinion, in all material respects, the expenditure and income in the financial statements were incurred or |

| Opinion | Basis for opinion | Conclusions |
| --- | --- | --- |
| | | applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. |
| Opinions prescribed by the Auditor General for Scotland on:<br>• Performance Report and Governance Statement<br>• Remuneration and Staff Report | We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.<br><br>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations. | The annual report contains no material misstatements or inconsistencies with the financial statements.<br><br>We have concluded that:<br>• the information given in the Performance Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that the report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council;<br>• the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council. |
| Matters reported by exception | We are required to report on whether:<br>• adequate accounting records have not been kept; or<br>• the financial statements and the audited part of the | We have no matters to report. |

| Opinion | Basis for opinion | Conclusions |
|---|---|---|
| | Remuneration and Staff Report are not in agreement with the accounting records; or<br>• we have not received all the information and explanations we require for our audit. | |

## An overview of the scope of our audit

14. The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Audit Committee in May 2021. 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 Glasgow Clyde 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.

15. 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.

16. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

## Significant risk areas

17. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

18. The significant risk areas 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.

## Significant risk areas

| 1. Management override | |
|---|---|
| **Significant risk description** | 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.*<br><br>**Risk assessment**: **High** |
| **How the scope of our audit responded to the significant risk** | **Key judgement**<br><br>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the College's controls for specific transactions.<br><br>**Audit procedures**<br><br>• Reviewed of the College's accounting records and audit testing on transactions.<br>• Adopted data analytics techniques in testing carried out.<br>• Reviewed judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates. |
| **Key observations** | We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years. |

| 2. Revenue recognition | |
|---|---|
| **Significant risk description** | 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 College could adopt accounting policies or recognise income transactions in such a way as to lead to a material misstatement in the reported financial position.<br><br>**Risk assessment: High** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br><br>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for revenue resource allocation from the Scottish Funding Council due to a lack of incentive and opportunity to manipulate transactions.<br><br>**Audit procedures**<br><br>• Evaluated the significant revenue streams and review the controls in place over accounting for revenue.<br><br>• Considered the College’s key areas of revenue and obtained evidence that revenue is recorded in line with appropriate accounting policies and that the policies have been applied consistently across the year. |
| **Key observations** | We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that it is fairly stated in the financial statements. |

| 3. Expenditure recognition | |
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| **Significant risk description** | As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.<br><br>**Risk assessment: High** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br><br>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.<br><br>**Audit procedures**<br><br>• Evaluated the significant non-pay expenditure streams and reviewed the controls in place over accounting for expenditure.<br><br>• Considered College's key areas of expenditure and obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.<br><br>• Reviewed accruals around the year end to consider if there is any indication of understatement of balances held.<br><br>• Considered accounting estimates. |
| **Key observations** | We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. |

| 4. Pension assumptions | |
|---|---|
| **Significant risk description** | 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.<br><br>**Risk assessment: High** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br>Given that small movements in the underlaying assumptions may translate into significant changes of the pension liability we deem this area to be subject to a high risk of misstatement.<br><br>**Audit procedures**<br>• Reviewed the controls in place to ensure that the data provided from the pension fund is complete and accurate.<br>• Reviewed the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data.<br>• Agreed the disclosures in the financial statements to information provided by the actuary.<br>• Considered completeness and accuracy of the information provided by the College to the actuary.<br>• Ensured that we can rely on actuary’s work as an expert by obtaining sufficient appropriate audit evidence that such work is adequate for the purposes of the audit. |
| **Key observations** | The net pension liability was £12.16 million as at 31 July 2021 (2020: £22.19 million). We gained reasonable assurance that the pension assumptions used are appropriate and that the pension liability is not misstated in the annual accounts. |

## 5. Estates Valuation

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| **Significant risk description** | The Glasgow Clyde College holds a significant estate, with net book value of land and buildings of £168.5 million as at 31 July 2021. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional valuations, with the latest independent valuation completed at 31 July 2019. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates and small changes in estimates have the potential to result in a material change in asset valuation.<br><br>**Risk assessment: Medium** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br><br>There is the potential for management to use their judgement to influence the financial statements.<br><br>**Audit procedures**<br><br>• We ensured that assets are recorded in line with the SORP, Accounts Direction and the College's accounting policies, and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of COVID-19.<br><br>• Where professional advice has been sought, we considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We considered the College's impairment review and communication with the valuer. In addition, we considered the scope of the valuer's work and the information provided to the valuer for completeness. |
| **Key observations** | We gained reasonable assurance over the valuation of estates at the year end and are satisfied that the estate is fairly stated in the financial statements. |

## Other risk factors

### Impact of COVID-19 on the annual accounts

19. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and our audit opinion. Our conclusions are set out in the table below.

| Area considered | Description | Conclusion |
|---|---|---|
| Access to audit evidence | For the second year, our audit 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. | 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.<br><br>We stayed in close contact with the College's finance team right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed. |

## Estimates and judgements

20. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

21. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations, and accruals. We identified two accounting estimates listed below.

22. Our audit work consisted of reviewing these keys areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

| Estimates and judgements | |
|---|---|
| **Present value of retirement obligations** | Balanced |
| Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2021.<br><br>The assumptions of the actuary, Hymans Robertson, were overall within our expected range. The assumptions were predominantly in the middle our expected range except for the discount rate which, while slightly out with our expected range and towards its lower end, is considered to be on the prudent end of the scale. | |
| **Estates valuation** | Balanced |
| We ensured that assets are recorded in line with the FE SORP and the College's accounting policies, and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of COVID-19. No valuation took place in 2021 with the last valuation having taken place in 2019. Revaluations take place every 5 years with a 3 year mid review due to take place in 2022. However, the valuer confirmed that they would not expect any significant movements in the year ended 31 July 2021.<br><br>Where professional advice has been sought, we considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). The College performed an impairment review of the assets and did not identify any indication of impairment. The results of our subsequent review of the above evidence is that the estates net book value is not materially misstated. | |

## Materiality

23. 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

24. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the College's and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

25. We based our initial assessments of materiality levels on the information available at the time i.e. prior years audited accounts. For the College's financial statements the initial materiality was set at £0.950 million. On receipt of 2020/21 unaudited annual accounts, we reassessed

materiality to £0.998 million. We consider that our updated assessment has remained appropriate throughout our audit.

26. ISA (UK) 320 states that in certain circumstances it is appropriate to set a materiality amount for particular classes of transactions for which lesser amounts than the overall materiality could influence the decisions of users of the accounts. As set out in our Annual Audit Plan, we consider transactions when dealing with members (i.e. contributions and expenditure incurred providing payments to pensioners) to be of key interest to the users.

**Materiality – Glasgow Clyde College**

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|---|---|---|---|
| **Overall materiality** | £998,000 | 100% | Accounts materially misstated where total errors exceed this value |
| **Performance materiality** | £748,500 | 75% | Work performed to capture individual errors at this level |
| **Trivial threshold** | £49,900 | 5% | All errors greater than this level are reported |

| | |
|---|---|
| **Materiality** | Our assessment is made with reference to the College's expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College.<br><br>Our assessment of materiality equates to approximately 1.8% of the College's expenditure as disclosed in the 2020/21 unaudited annual accounts.<br><br>The above approach and percentage used are consistent with the prior year. |
| **Performance materiality** | 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.<br><br>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. |
| **Trivial misstatements** | Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. |

## Audit differences

27. We are pleased to report that there were no material adjustments to the financial statements. We identified one unadjusted difference due to the inconsistent approach to the capitalisation of ICT expenditure (further detailed in Appendix 2).

28. We identified some minor disclosure and presentational adjustments during our audit which have been addressed in the updated financial statements.

## Internal controls

29. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the College. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

## Action plan and follow up of prior year recommendations

30. There were no action points identified this year or outstanding to follow-up from prior years.

| Area | Assessment | Comment |
|---|---|---|
| Control and process environment | **Satisfactory** | We consider the control environment within the entity to be satisfactory. |
| Quality of supporting schedules | **Satisfactory** | The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes. |
| Responses to audit queries | **Satisfactory** | Management's responses to our audit queries were appropriate and received on a timely basis. |

## Other communications

### Accounting policies, presentation and disclosures

31. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.

32. The accounting policies, which are disclosed in the annual accounts, are in line with the SORP, and are considered appropriate.

33. 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.

34. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

## Fraud and suspected fraud

35. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

36. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

## Non-compliance with laws and regulations

37. As part of our standard audit testing, we have reviewed the laws and regulations impacting the College. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

## Written representations

38. We provided the final letter of representation to the Board of Management to sign at the same time as the financial statements are approved.

## Related parties

39. We are not aware of any related party transactions which have not been disclosed.

## Confirmations from third parties

40. We received all requested third party confirmations in respect of legal confirmations.

# 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.

## Financial sustainability

| **Auditor judgement** | |
|---|---|

The financial position improved when compared to the last year due to additional funding of £2.1 million provided by the Scottish Funding Council (SFC), Glasgow Clyde Education Foundation Glasgow  and a COVID interruption insurance claim. The College is forecasting a deficit for 2021/22 and small surpluses in the two years that follow (adjusted for non-cash items).

While the medium-term financial position of the College has stabilised, there are still a number of uncertainties in relation to COVID, student numbers and other sector wide issues which continue to increase financial risk and uncertainty.

The College has appropriate arrangements in place to manage its financial position and use of resources, including consideration of its financial sustainability.

The Board has short and medium-term financial plans in place and appropriate arrangements for financial monitoring and managing.

The College has a well established capital planning process in place and is estimating to invest c£9 million in capital expenditure over 2021-24.

## 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.**

## Significant audit risk

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

| Financial sustainability |
|---|
| At the planning stage of our audit, we noted the following risk in relation to financial sustainability:<br><br>The College continues to face significant challenges, with ongoing effort and activity to reach a long-term sustainable position. The 2020 Financial Forecast Return outlined a savings requirement of £4.260 million over the three-year period from 2020/21 to 2022/23.<br><br>In March 2021, the SFC announced additional funding for colleges for 2020/21 and as a result the College has received £0.997 million of the funding. Currently, the College estimates that it will achieve a break-even or small surplus position at the year-end (before receiving additional £0.997 million), against the previously planned deficit of £0.260 million.<br><br>The College has a savings target of £1.150 million in 2020/21 and is progressing with its voluntary severance scheme implementation to meet the target. The first tranche of the voluntary severance applications was reviewed in March 2021 and decisions on those applications were made accordingly.<br><br>Reducing staff costs is a key aspect of the College's ambitious savings plan and workforce planning should therefore be a key aspect in providing strategic direction and supporting delivery of these savings targets in a way that does not significantly impact service delivery.<br><br>Since submitting the 2020 FFR the College has also secured up to £1.800 million (2020/21) and up £0.5 million (2021/22) from Glasgow Clyde Education Foundation (GCEF). This additional funding will provide a financial bridge to support some service cost areas in the first two years of the financial plan. The funding is to be used as defined by GCEF's charitable objectives, for example, to sustain key services for students.<br><br>Work is ongoing to prepare the 2021/22 budget and update medium term financial plans, reflecting on the continued impact the COVID-19 pandemic has on service delivery and financial forecast. |
| *As noted in the 2020/21 Annual Audit Plan* |

42. The financial position of the College improved following additional funding of £0.997 million received from SFC in March 2021 and furlough income of £0.771 million. This reduced the need for the College to draw down to £0.900 million from GCEF as planned, with the remaining £0.900 million phased out for potential use in 2021/22. The College continues to plan and deliver savings, including implementation of the voluntary severance scheme in the year. The long-term position stabilised as a result of £0.574 million adjusted surplus outturn in 2020/21, with a deficit planned for 2021/22 and followed by two years of surpluses estimated. Consequently, the focus of our audit shifted to in-the-year managing of the financial position.

43. The College has prepared a three year medium-term financial forecast as required by Financial Forecasting Return (FFR) process. The latest FFR, approved by the Board of Management in October 2021 reported the forecasted year-end position for 2020/21, the budget for 2021/22 and forward forecasts for 2022/23 and 2023/24. The College also extends their internal financial planning for further two years beyond reporting included in FFR. Our work and conclusions on the budget and financial forecasts for 2021/22 onwards is set out below and notes the ongoing challenges the College continues to face.

## Short Term Financial Planning

44. Overall, the further education sector has received a 5.6% increase on revenue budgets for 2021/22, with the core teaching grant increase of 2.4% when compared to prior year. Scotland's further education sector continues to face a challenging financial situation in future years from the impact of national bargaining harmonisation/ job evaluation costs, cost of living pay award increases, general inflation, and pension increases and uncertainty of COVID impact.

45. The College is heavily reliant on SFC Grants which currently represent circa 77% of the College's total income (excluding non-cash deferred capital grants) and, as such, even a very small movement in grant funding has a significant impact on the College's financial position. The College has assessed a range of scenarios and stress tested assumptions to better understand the financial impact of potential changes and how they may manage and mitigate these changes.

46. The SFC published final college funding allocations in May 2021. The Glasgow Colleges Regional Board (GCRB) has subsequently provided a breakdown of allocations across the assigned colleges, including a top slice for the GCRB running costs and collaborative projects.

47. The SFC confirmed that they would not recover funds for shortfalls against core outcome agreement targets where these are related to COVID-19 for 2020/21. Colleges Scotland have

requested that SFC extend this arrangement into 2021/22 although this has not yet been agreed by SFC.

48. The College prepared their Financial Plan for the year 2021/22 based on three set of financial assumptions:

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

49. The revised Financial Plan for the year 2021/22 was presented to the Finance and Resource Committee in October 2021, projecting an operating deficit of £2.091 million, which adjusted for non-cash items is £0.450 million. The College rephased out £0.900 million of the GCEF funds into 2021/22 to partially offset the deficit.

50. This revision to the initial June 2021 budget, that estimated a small surplus, was caused by the latest available enrolment data indicating that some of the students enrolled for 2021/22 did not actually start their courses.

51. The 2021/22 SFC main grant allocation of £34.619 million consists of core funding of £33.214 million and £1.405 million of ESF funding which supports delivery of 121,354 core credits and 4,998 ESF credits. The current forecast ESF funding allocation has been reduced by £1.329 million to reflect the current risk in respect of the 2021/22 forecast credit position. The College will be closely managing and monitoring this risk during the year with an aim of achieving its full 2021/22 credit target.

52. The 2021/22 budget is based on a range of underlying assumptions. Whilst COVID restrictions are currently gradually being relaxed, there remains a level of uncertainty and, as such, the College will be required to keep the budgetary assumptions under review on an ongoing basis and update its forecasts to reflect any changes which may become apparent as the academic year progresses.

53. In particular, changes in assumptions in respect of SFC European Social Funding, Tuition Fees, Commercial income and External Funding and staff pay awards could have a significant impact on the resultant outturn for 2021/22.

54. There is a new academic management structure in place from the beginning of 2021/22 and it is essential that all the budget holders both in the support areas and within the new academic management structure are suitably skilled in understanding and managing their budgets.

## Medium Term Financial Planning

55. The Financial Forecasting Return 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 FFR is aligned to the 2019-2025 College Strategic Plan, the Financial Sustainability Strategy and the Estates Strategy.

56. The table below presents a 5-year financial plan, based on an assumption of achieving recurring savings, mainly from the voluntary severance scheme and reinvesting some of those savings.

57. The latest FFR, requires colleges to report actual financial performance for the session 2020/21, forecasts through to 2023/24. 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 2021/22 so the assumptions are indicative.

### Financial Plans (£000s)

| | 2021/22 Budget | 2022/23 Forecast | 2023/24 Forecast |
|---|---|---|---|
| Total income | 52,211 | 54,320 | 55,741 |
| Total expenditure | (54,301) | (54,602) | (56,006) |
| **Operating position** | **(2,091)** | **(283)** | **(265)** |
| **Adjusted operating result** | **(450)** | **191** | **208** |

**Source: 2021 Financial Forecast Return**

58. In addition to COVID impact, the further education sector has a number of key challenges, including:

- uncertainty over funding levels due to short term nature of the Scottish Government budgets;
- National Bargaining and national support staff job evaluation scheme, with the costs being estimates;
- the SFC have indicated that they plan to return to formula funding by 2022-2023, however and the details of the future funding model are not available as of yet; and
- under the current SFC Funding model, the average price per credit can vary significantly across Regions/Colleges.

59. The potential impact of Brexit remains unclear at a time when reductions in European Funding are already expected to have an adverse effect on the College's revenue streams in the short to medium term. Thus it is critical that this is continually monitored by the College to ensure that measures are in place to prevent funding deficits.

60. The College has made several key changes to their five-year plan. This includes aspects surrounding staff costs and staff restructuring. Now, Voluntary Severance Plans and the related one-off costs and recurring savings have been reduced and rephased across the life of the plan. In addition, the College is also planning to reinvest some recurring staff cost savings in key priority areas.

## Sector Developments

61. During 2020/21 SFC has published the following sector wide reports:

- Coherence and Sustainability: A review of Scotland's Colleges and Universities Phase One report: Insights to Develop Further (October 2020)
- Review of Coherent Provision and Sustainability: Progress Update Phase Two report (March 2021)
- Coherence and sustainability: Financial Sustainability of Colleges and Universities Phase Three report (June 2021).

62. The June 2021 report outlined a range of recommendations which could have significant and far-reaching impacts on the Tertiary Education sector in the medium to longer term.

63. The Scottish Government published its response to the SFC report in October 2021. The SG broadly accepted the majority of the recommendations, with some requiring further consultation and development. The next steps will include SFC developing an implementation plan and working closely with the Scottish Government and sector stakeholders.

## Impact of COVID-19 pandemic on financial plans

64. The decision to close all three campuses on Friday 2 March 2020 and the various levels of Covid restrictions since that date have had an adverse impact on commercial activity, SFC European Social Fund (ESF) and Flexible Workforce Development funded Activity.

65. In response to the pandemic, the Commercial Growth plan, which was previously outlined in the 2019 FFR, has been reviewed and translated into a Commercial Recovery plan in an effort to bring levels of commercial activity back up to pre-COVID levels by academic year 2021/22 with annual commercial growth targets included in 2022/23 and 2023/24.

66. While the COVID restrictions are being relaxed by the Scottish Government, the College is aware of the uncertainties and is keeping the budgetary assumptions under ongoing review. Looking forward, the achievement of financial balance is dependent on the funding of the additional costs, and returning to normal activity levels in line with a phased approach.

## Capital plans

67. Well established capital planning processes are in place. The Capital plan is based on forecast SFC and GCEF Capital Funding.

68. GCEF Capital Funding forecasts are based on the assumption that the College will draw down the remainder of the funds currently held by GCEF over the next three years.

69. The capital plan for 2020/21 highlights eight estates projects as the College main capital project priorities. In delivering their capital plans, the College faced logistical challenges through their volume of projects involved; timing of allocation of funding and the challenges of COVID 19. However, SFC confirmed that £1.099 million of capital funds were able to be carried forward into 2021/22 to compensate for these challenges.

70. The FFR outlines capital investment in property, plant and equipment over the next three years, totalling in the region of £9 million.

**Capital Forecasts (£000s)**

| CRL | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|
| SFC Capital Funding | 2,546 | 2,539 | 1,940 | 1,940 |
| GCEF Capital Funding | 215 | 42 | 1,309 | 1,309 |
| **Capital Expenditure Plan** | **2,761** | **2,581** | **3,249** | **3,249** |

**Source: 2021 Financial Forecast Return**

# Financial management

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

| **Auditor judgement** | |
|---|---|

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 £4.068 million for the year. Actuarial gains of £13.288 million moved the College's position to accounting surplus of £9.220 million for the year.

The adjusted underlying operating surplus for the year was £0.572 million (£0.267 million in 2019/20)

The College's balance sheet records negative reserves of £3.382 million, reflecting mainly movements in pension liabilities which will be met over the longer term. The accounts also record cash balances of £8.535 million at July 2021 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

The College had a savings target of £1.150 million which was achieved through a voluntary severance scheme in the year providing recurrent savings against one-off cost of £0.896 million.

## Financial Performance

71. The College reported an operating deficit of £4.068 million. After adjusting for non-cash items that are out with the control of the College, such as pensions and net depreciation, the adjusted operating position for 2020/21 is a surplus of £0.572 million, the equivalent of 1% of total income.

72. The College plans to utilise this surplus to offset the recently updated 2021/22 budgeted deficit of £0.450 million as a forward planning risk measure.

73. The table below sets out the College's 2020/21 income and expenditure budget against results for the ear as disclosed in the financial statements.

| 2020/21 performance | Budget 2020/21 £000 | Actual 2020/21 £000 | Favourable/ (Adverse) £000 |
|---|---|---|---|
| SFC income | 39,851 | 39,602 | (249) |
| Tuition fees (fundable and commercial) | 5,581 | 5,842 | 261 |
| Other grant income | 1,314 | 1,505 | 191 |
| Other operating Income | 4,860 | 4,360 | (500) |
| **Total income** | **51,606** | **51,309** | **(297)** |
| Staff costs | 36,287 | 39,010 | (2,723) |
| Exceptional Restructuring Costs | 900 | 1,396 | (496) |
| Other operating expenses (including interest payable) | 10,721 | 9,613 | 1,108 |
| Depreciation | 5,384 | 5,358 | 26 |
| **Total expenditure** | **53,292** | **55,377** | **(2,085)** |
| **Operating (deficit) for the year** | **(1,686)** | **(4,068)** | **(2,382)** |

74. As a result of COVID and related restrictions, a range of other 2020/21 income sources have declined from pre-COVID levels. These include SFC Flexible Workforce Development Fund Funding, commercial income, tuition

fees, non-SFC grant funding, income from in-sourced catering facilities, income from in-sourced nursery facilities and other non-SFC income.

75. The College received additional income and funding from the following sources:

- £0.997 million of additional SFC Support Funding;
- £0.250 million of income from a Covid Business Interruption Insurance Claim; and
- £0.900 million of Financial Sustainability funding from the Arms-Length Foundation in addition to £1.588 million of previously agreed funding to support other revenue and capital development projects.

76. The additional funding helped the College to achieve an adjusted operating surplus in the year. The College has a reserves cash policy of maintaining 15 days of baseline cash, plus a cash balance to cover for a potential Lennartz (VAT on past capital projects) liability which has now been settled in full. At the year end the closing cash balance was over 60 days, due to an increase in creditors, deferred income and a voluntary severance provision at year end. Additionally there was an underspend in SFC Student Support Funding which SFC is expected to claw back in 2021/22. The College is forecasting that the cash position will return to pre-Covid levels by July 2022.

77. Staff costs continue to be the highest area of spend for the College accounting for 70% (71% in 2019/20) of total revenue expenditure. Implementing the new agreed rates of pay for teaching staff and associated increases in employers' pension contributions, is now placing significant additional financial pressure on the College and 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 outcomes.

78. The College furloughed a range of staff across various areas to offset the financial impact of the pandemic. This resulted in additional income of £0.771 million in the year.

79. The cost of voluntary severance in the year was £0.896 million and a further provision for £0.500 million was made for committed, but not yet finalised voluntary exits.

## Budget Setting

80. 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

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

82. 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

83. The budget preparation process is built upon contributions from budget

holders to ensure meaningful and achievable estimates are agreed.

## Efficiency savings

84. As part of the 2020/21 Financial Plan, the College was tasked with achieving £1.150 million efficiency savings through a cost reduction. The key element of achieving this target was to use staff restructuring and related voluntary severance scheme. The scheme was offered to all staff and provided the College with a re-current annual savings of circa £1.180 million consisting of staff and relating on-cost.

85. The one-off cost of the severance scheme payments was £0.896 million and the College estimates that there might be some minimal backfill cost in the future, which would be possible to quantify once the new academic management restructure is finalised.

86. Due to the interest in the voluntary severance scheme the College has also made a provision for £0.500 million for exit packages expected to finalise and to provide further savings in 2021/22.

## Systems of Internal Control

87. 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.

88. No significant issues were identified from our audit work. We consider the system of control in place at the College to be satisfactory.

## Prevention and detection of fraud and irregularity

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

90. In accordance with the Audit Scotland's briefing *Covid-19: Emerging fraud risks* we have assessed whether the College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on changes in the control environment during the pandemic and fraud and corruption in the procurement function. We found that the College's arrangements are appropriate.

91. 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

92. 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.

93. Participating bodies were required to submit data in October 2020 and received matches for investigation in January 2021. Investigation work was completed and there have been no instances of fraud or irregularities identified.

94. 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.

| Auditor judgement | |
|---|---|

Governance arrangements at the College were found to be satisfactory and appropriate, including an induction programme for the new Board members.

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

## Regional Governance arrangements

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

96. 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.

97. 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.

## Governance Arrangements

98. 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 Resource Committee;
- Learning and Teaching Committee
- Organisational Development Committee
- Nominations Committee

99. In 2019 work began on an Academic Management restructure. This new structure came into place on 1 August 2021. This will provide medium-term financial benefits as several staff have been accepted for Voluntary Severance and others have opted to step down from their current promoted level and will receive 4 years' salary conservation.

## Board changes

100. The following changes in the governance arrangements have occurred during the period:

- Lindsey Paterson and Margaret Swiderska joined the Board in January 2021; and
- In October 2021 John Rafferty took over from Brian Hughes as Vice Principal.

101. In view of the number of board-level changes in the financial year, we reviewed the induction process for new Board members and concluded that it provides those charged with governance with the information and platform to undertake their duties effectively.

102. Our review of the College's Governance Statement confirms that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the Accounts Direction.

## Impact of COVID-19

103. 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.

104. The risks surrounding Covid-19 have been incorporated into the risk register, with ten out of the fifteen risks having the pandemic noted as a key consideration. These have been appropriately monitored throughout the year.

## Internal Audit

105. An effective internal audit service is an important element of a College's overall governance arrangements. The College's internal audit service is provided by Henderson Loggie. 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 College's total audit resource.

106. Internal Audit annual assurance opinion will be provided to the Audit Committee at the same time as this report. From discussions with the internal auditors and management we are not aware of any potential issues or adverse opinion.

107. In February 2021, Henderson Loggie carried out a review of the College's fraud and bribery prevention, detection and response processes. The overall grading of the review was "Good", meaning that the systems meet or exceed control objectives.

108. The report included a recommendation that the College's Unethical Behaviour and Whistleblowing Procedure should be reviewed. We are satisfied that the College has taken the appropriate action to update Whistleblowing Policies and Procedures.

## Standards of conduct

109. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.

# 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.

| **Auditor judgement** | |
|---|---|

2020/21 was a challenging year, with financial indicators improving, but performance in relation to student engagement and Credit targets is declining. For the first time ever, the College has not met its Credit target due to the higher student withdrawal level. We do note that the Credits were only 1.5% short of the target.

The impact of Brexit has been minimal, but may become more significant from 2021/22 onwards when EU residents will be treated as international students and therefore required to pay tuition fees.

The Board has appropriate performance management processes in place that support monitoring and managing the performance. The College has good plans and ambitions to continuously improve its performance.

## Value for money framework

110. The Financial Memorandum between the SFC and GCRB 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.

111. 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

112. The College has a 2019-25 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 2019/25 plan are:

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

113. We are satisfied that the overarching themes set out within the Strategic Plan are fully aligned to reference and disclosures within the College's 2020/21 annual report and accounts.

114. The Board approved a new strategic plan in 2019 pre-pandemic, but then it was decided to not formally launch it and instead focus on the delivery of the services and managing the organisation during the COVID. The new strategic plan is expected to be revised in 2021/22 and implemented when the operations are back to a normal.

115. The College has 16 KPIs which 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.

116. The performance indicators 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 2020/21 is shown below and is compared to target and to the preceding academic year.

| Key Performance Indicator | Purpose | 19/20 Actual | 19/20 Target | 20/21 Actual | 20/21 Target |
|---|---|---|---|---|---|
| **EFFECTIVENESS[1]** | | | | | |
| Successful outcome for Full Time FE enrolments on recognised qualifications | Measures Full Time FE student success | 70.1% | 69.0% | 63.9% | 66.0% |
| Successful outcome for Part Time FE enrolments on recognised qualifications | Measures Part Time FE student success | 80.1% | 78.0% | 70.5% | 75.0% |
| Successful outcome for Full Time HE enrolments on recognised qualifications | Measures Full Time HE student success | 77.4% | 75.0% | 71.3% | 73.0% |
| Successful outcome for Part Time HE enrolments on recognised qualifications | Measures Part Time HE student success | 80.1% | 78.0% | 77.0% | 76.0% |
| % of credits delivered to residents of SIMD 10 postcodes | Measures credits in SIMD10 postcodes | 31.4% | 34.0% | 31.8% | 31.6% |
| % of successful SIMD 10 students | Measures SIMD10 student success | 75.6% | 75.0% | 66.3% | 72.0% |
| % of students satisfied with their learning experience | Measures student satisfaction | 96.2% | 96.0% | 89.8% | 90.0% |
| **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 | | | | |

| Key Performance Indicator | Purpose | 19/20 Actual | 19/20 Target | 20/21 Actual | 20/21 Target |
|---|---|---|---|---|---|
| | against GCRB target | +0.9% | 0.0% | -1.5% | 0.0% |
| Working days lost through sickness absence | Measures lost staff time | 3.8% | 4.0% | 3.0% | 4.0% |
| Permanent Staff Turnover | Measures level of staff changes | 6.0% | N/A | 3.7% | N/A |
| Tonnes of CO2 emissions tCO2e | Measures carbon emissions | 2,024 | N/A | 2,080 | N/A |
| **FINANCIAL** | | | | | |
| Adjusted Operating surplus as % of total income | Measures level of operating surplus generated before key adjustments | 1% | 0% | 1% | -0.5% |
| Non SFC Income as percentage of total income | Measures reliance on SFC income source | 22.4% | 24.7% | 22.8% | 22.4% |
| Current Assets: current liabilities (excl deferred capital grants) | Measures short term assets to liabilities | 1.1 | 1.1 | 1.2 | 1.1 |
| Days cash | Measures level of cash | 43 | 19 | 62 | 21 |

**Source: Annual report and accounts 2020/21**

## Performance results

117. The College adjusted the KPIs target to reflect changes across the sector and the impact of the COVID19 pandemic. Overall the performance improved in the Financial area and deteriorated in the Effectiveness and Efficiency theme. The improved financial outlook is commented on in

118. the financial sustainability and management parts of our report.

119. Management sees the negative impact of COVID restrictions as the key factor for deteriorated performance , with three out of four indicators relating to student attainment declining as a result.

120. For the first time, the College has failed to achieve its Credit targets for the financial year. A higher number of the students withdrawing from College courses, with many courses being unable to deliver teaching, including Community based provision and school and College programmes. Whilst the impact of Brexit was low, it is expected that it might be more significant in 2021/22. As per our comment on page 31 the College reassessed its 2021/22 budget based on performance levels to date and now expects an adjusted deficit of £0.450 million.

## Performance outlook

121. Improvement initiatives to date have included the introduction of a Student Journey Task Group who met 5 times with key support/teaching staff mapping out all stages of the student journey with the aim of creating a new mapping document and introducing more enhanced communications and messaging at each stage of the process. Additionally, other processes such as Student Onboarding, Online Enrolment and development in admissions have been enhanced during the year.

122. These measures illustrate the College's focus on improving student experience and the effectiveness of these development will be reviewed through our 2021/22 audit.

123. For 2021/22, a suite of key performance indicators are being developed in relation to financial performance monitoring which will be reported to and monitored by the Senior Leadership Team and the Board of Management and Finance and Resources Committee. This area of development links to the implementation of the Procurement Strategy and achieving value for money within the College budgets.

## Responding to the COVID-19 pandemic

124. College staff have introduced new methods of learning and teaching in academic session 2020/21 and this has relied on the support of a range of support services teams. As the College had been making the shift to Blended learning prior to Covid-19.

Going forward, the College is focusing on greater personalisation of learning and a redesign of its services courses to meet this changing demand e.g. changed timetables, more flexibility of approaches, and a strong system of support services.

# Appendices

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

The Code of Audit Practice (2016) sets out the responsibilities of both the College and the auditor and are detailed below.

## The College's responsibilities

The College has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

| Area | The College's responsibilities |
|---|---|
| **Corporate governance** | The Board of Management and Chief Financial Officer (as accountable officer) are responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements. |
| **Financial statements** | The Board have responsibility for:<br>• preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;<br>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;<br>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;<br>• maintaining proper accounting records; and<br>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements.  Management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the College. |

| Area | The College's responsibilities |
|---|---|
| | Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.<br><br>The Board of Management and the Chief Financial Officer are 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 its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions. |
| **Standards of conduct for prevention and detection of fraud and error** | 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. |

## Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice.  These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

### 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

In accordance with our profession's ethical guidance and further to our Annual Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Further to our planning letter, we have identified that an audit partner from the firm has been seconded to SFC for a period of six months as a finance director. We can confirm that we have reviewed the threats that this poses to our independence and confirm that the appropriate safeguards have been in place throughout the audit to mitigate any associated risks.

## Audit and non-audit services

The total fees (VAT inclusive) charged to the College for the provision of services in 2020/21 (with prior year comparators) are as follows:

| | Current year £ | Prior year £ |
|---|---|---|
| Audit of College (Auditor remuneration) | £36,300 | £34,700 |
| Pooled cost | £2,200 | £1,890 |
| Audit support costs | £1,440 | £1,800 |
| **Total audit** | **£39,940** | **£38,390** |
| Non-audit services | --- | --- |
| **Total fees** | **£39,940** | **£38,390** |

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We have outlined the safeguards to our independence in our Annual Audit Plan. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.

## Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report which covers our work at LPF since appointment can be found at https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021

# Appendix 2: Adjusted and unadjusted errors identified during the audit

## Corrected and uncorrected misstatements

We did not identify any corrected misstatements during our audit of the College's annual report and accounts.

We identified one uncorrected difference.

| No | Detail | | |
|---|---|---|---|
| 1 | Dr Expenditure | £206,193 | |
| | Cr Fixed Assets | | £206,193 |
| | The College's historic approach to ICT expenditure is to write the amounts off to the Statement of Comprehensive Income and Expenditure as an expense due to the small value of individual ICT items and the fact that the SFC do not normally provide capital funding for ICT. However, during the year an individual capital grant was received from SFC for the amount above, specifically noting that it was for ICT capital expenditure and as a result the College treated the expenditure as capital. In line with FRS 102 a consistent approach should be taken in regard to capitalisation, thus the inconsistent treatment above has been regarded as an unadjusted difference. | | |

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