Glasgow Clyde College

2021/22 Annual Audit Report to the Board and the Auditor General for Scotland

November 2022

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Key messages

This report concludes our audit of Glasgow Clyde College for 2021/22.

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

Financial statements audit

Audit opinion	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. Our audit work is substantially complete, subject to performing audit completion procedures.
Key findings on audit risks and other matters	We have reported our audit findings on pages 12-26. We are pleased to report that the audit progressed well and in accordance with the agreed timetable. The accounts provided by the Glasgow Clyde College ("the College") and working papers presented for audit were of a good standard.
Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We identified a small number of non-material misstatements which we list in Appendix 2. We identified a small number of disclosure and presentational adjustments during our audit. These have been reflected in the finalised 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. 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 of the College is challenging as it is forecasting operating deficits over the next five-year period. Deficit projections range from £8.400 million to £11.920 million depending on which assumptions are adopted.

There remain a number of forecasting uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty.

The flat cash funding settlement outcome notified from the Scottish Government will require a significant savings programme to be implemented and the College forecasts that this may result in a reduction of 9% of its workforce over the next three years. The scale of these reductions challenge the sustainability of the College's current operating model and may require rationalisation of education provision, which can have a consequential effect on future funding levels. The impact of reductions in expenditure for the student experience and on measures of positive outcomes for students have yet to be determined.

The College has a well established capital planning process in place and is estimating to invest c£13.6 million in capital expenditure over 2022/27, although the funding beyond 2022/23 is to be confirmed every year by the SFC and GCRB.

Auditor judgement

Financial Management

The College is well managed financially, but faces unprecedented and continuing challenges as it emerges from the COVID-19 pandemic and addresses the impact of flat cash funding in the context of high levels of wage and general inflation.

The College reports an operating deficit of £3.873 million for the year. Actuarial gains of £35.647 million and property revaluation moved the College's position to an accounting surplus of £34.459 million for the year.

The adjusted underlying operating surplus for the year was £0.786 million (£0.572 million in 2020/21).

The accounts also record high cash balances of £10.433 million at July 2022 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

Auditor judgement

Governance & Transparency

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.

Value for Money	**Auditor judgement**
	2021/22 was a challenging year, with overall deteriorating performance recorded by the College against a range of indicators indicating that the College is still recovering from the impact of the COVID-19 pandemic. Importantly, the College has not met its students credit target (3.7% under delivery) for the second year in succession. However, the College continues to report high levels of student satisfaction. The performance in the learning and teaching effectiveness deteriorated when compared to the prior year and most of the targets were not met. This is attributed to the long-lasting impact of the COVID restrictions, mental and health impacts on students and the College workforce, and a more difficult labour market where the demand for low skill labour has increased. Most of the College's financial performance ratios have improved over the period and the College maintains good and increasing levels of student satisfaction. The Board has appropriate performance management processes in place that support monitoring and managing the 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.

There is a fundamental absence or failure of arrangements in place

There is no evidence to support improvement

Substantial unmitigated risks affect achievement of corporate objectives

Arrangements are inadequate or ineffective.

Pace and depth of improvement is slow

Significant unmitigated risks affect achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to achievement of objectives are managed

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 2021/22.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence.

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

Scope

1. 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 2021/22 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

Responsibilities

2. 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.

3. 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.

4. This is our final year of our audit appointment under the current audit arrangements. 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 Standard. 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.

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.

In this section we summarise the findings from our audit of the 2021/22 annual report and accounts.

Overall conclusion

11. The annual report and accounts are due to be considered by the Board of Management and Audit Committee by December 2022. Our independent auditor's report is unqualified.

12. We received the unaudited annual report and accounts and supporting papers of a good standard. 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. 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 2021/22 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. 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. 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. 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.

Opinion	Basis for opinion	Conclusions
Opinions prescribed by the Auditor General for Scotland on: • Performance Report and Governance Statement • 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. 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. We have concluded that: • 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 report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; • 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: • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or	We have no matters to report.

Opinion	Basis for opinion	Conclusions
	• we have not received all the information and explanations we require for our audit.	

An overview of the scope of our audit

13. The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Audit Committee in May 2022. 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.

14. 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.

15. 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

16. 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.

17. 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.* **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgement** 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. **Audit procedures** • Review the College's accounting records and audit testing on transactions. • Adopt data analytics techniques in testing carried out. • Review 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 includes 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. **Risk assessment: High**
How the scope of our audit responded to the significant risk	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 allocations from the Scottish Funding Council or GCRB due to a lack of incentive and opportunity to manipulate transactions. **Audit procedures** • Evaluate the significant revenue streams and reviewed the controls in place over accounting for revenue. • Consider the College's key areas of revenue and obtain 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	
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. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** 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. **Audit procedures** • Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. • Consider College's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review accruals around the year end to consider if there is any indication of understatement of balances held. Consider 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. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** 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. **Audit procedures** • Review the controls in place to ensure that the data provided from the pension fund is complete and accurate. • Review the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data. • Agree the disclosures in the financial statements to information provided by the actuary. • Consider completeness and accuracy of the information provided by the College to the actuary. • Ensure 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 asset was £20.159 million as at 31 July 2022 (2021: liability of £12.155 million). The change from pension liability in prior year to pension asset this year was caused by the changes in actuarial assumptions and mainly by an increase in the discount rate. We have observed a similar movement in a number of the Education sector entities this year. We have considered the actuarial assumptions and the Financial Reporting Standard 102 guidance in relation to asset recognition and presentation in the financial statements.

We gained reasonable assurance that the pension assumptions used are appropriate and that the pension asset is not misstated in the annual accounts.

5. Estates Valuation

Significant risk description

The College holds a significant estate, with net book value of land and buildings of £167.673 million as at 31 July 2022. 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 2022. 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.

Risk assessment: Medium

How the scope of our audit responded to the significant risk

Key judgements

There is the potential for management to use their judgement to influence the financial statements.

Audit procedures

- Ensure that assets are recorded in line with the Further Education Statement of Recommended Practice (FE SORP), Accounts Direction and the College's accounting policies, and have been accounted for appropriately. Review asset valuations and ensure 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.
- Where professional advice has been sought, we consider the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We consider the College's impairment review and communication with the valuer. In addition, we consider the scope of the valuer's work and the information provided to the valuer for completeness.

Key observations	The total value of the College's land and buildings increased by £2.793 million as a result of the 2022 valuation. This consists of £9.818 million (or 7%) increase in the value of the three campuses buildings and a decrease of £7.025 million (or 34%) in the land values. The buildings are of specialised nature and therefore are valued by using a depreciated replacement cost method, which means that it would cost nearly £154.2 million to replace them as at 31 July 2022. The buildings valuation upward movement is consistent with the inflation impact and linked to Tender Price Index representing an overall increase in construction cost. The value of the land for the three campuses decreased significantly from £20.505 million to £13.480 million as a result of the valuation. This was not in line with our expectation of land values increases we observe on the market. We challenged management on how they became satisfied that the downward movement in the value of land s reasonable. The downward movement has resulted from a change in the professional valuer's methodology as the new valuer's methodology differs from the previous one. The new valuer (Avison Young) used the most recent guidance from the Royal Institution of Chartered Surveyors (RICS) published in late 2018 which highlights that "the fundamental principle is that the hypothetical buyer for a modern equivalent asset would purchase the least expensive site that would realistically be suitable and appropriate for its proposed operations and the envisaged modern equivalent facility". While the previous valuer used evidence of other sales of Educational Land in various locations and the fact that the sites serve the community, are in an urban location and would attract land values assuming potential alternative uses. On this basis, Avison Young adopted land values reflective of their opinion of values relevant for the ongoing operational use of the facilities for College purposes, acknowledging that if the College were to replace the facilities, there would be consideration given to the degree of location flexibility available and corresponding cost of replacement site. Management is satisfied with the above updated approach of its expert. 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.

Estimates and judgements

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

19. 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 rates, provisions for legal obligations, and accruals. We identified two accounting estimates listed below.

20. 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 2022. The assumptions of the actuary, Hymans Robertson, were overall within our expected range. The assumptions were predominantly in the middle of our expected range except for the discount rate which, while slightly out with of the expected range and towards its lower end, is considered to be on the prudent end of the scale.	
Estates valuation	Prudent
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 year the College's assets were revalued by a professional valuer Avison Young. 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

21. 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.

22. 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.

23. 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 £1,000,000. On receipt of 2021/22 unaudited annual accounts, we reassessed materiality and kept it at the same level. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality

Overall materiality £1,000,000	100%	Accounts materially misstated where total errors exceed this value
Performance materiality £750,000	75%	Work performed to capture individual errors at this level
Trivial threshold £50,000	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. Our assessment of materiality equates to approximately 1.8% of the College's expenditure as disclosed in the 2021/22 unaudited annual accounts. 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. 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

24. We are pleased to report that there were no material adjustments to the financial statements. We list adjusted and unadjusted misstatements in Appendix 2.

25. We identified some minor disclosure and presentational adjustments during our audit.

Internal controls

26. 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. We have not identified any control weaknesses.

Action plan and follow up of prior year recommendations

27. An action plan and our recommendations are included in Appendix 3. There were no action points outstanding to follow-up from prior years.

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

Other communications

Accounting policies, presentation and disclosures

28. 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.

29. The accounting policies, which are disclosed in the annual accounts, are

in line with the FE SORP, and are considered appropriate.

30. This year the College shows a pension asset as compared to the pension liabilities shown in prior year. This has had a material impact on the net assets position in the Balance Sheet. There are no other 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.

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

Fraud and suspected fraud

32. 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.

33. 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

34. 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

35. We provided the final letter of representation to the Board of Management for signing at the same time as the financial statements are approved.

Related parties

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

Third party confirmations

37. We are awaiting a bank balances confirmation letter from one of the banks.

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.

Auditor judgement

The financial position of the College is challenging as it is forecasting operating deficits over the next five-year period. Deficit projections range from £8.400 million to £11.920 million depending on which assumptions are adopted.

There remain a number of forecasting uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty.

The flat cash funding settlement outcome notified from the Scottish Government will require a significant savings programme to be implemented and the College forecasts that this may result in a reduction of 9% of its workforce over the next three years. The scale of these reductions challenge the sustainability of the College's current operating model and may require rationalisation of education provision, which can have a consequential effect on future funding levels. The impact of reductions in expenditure for the student experience and on measures of positive outcomes for students have yet to be determined.

The College has a well established capital planning process in place and is estimating to invest c£13.6 million in capital expenditure over 2022/27, although the funding beyond 2022/23 is to be confirmed every year by the SFC and GCRB.

38. During the year we have identified significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability	
Significant risk description	The College continues to face significant challenges with ongoing effort and activity to reach a long term sustainable position. The latest Financial Forecast Return (FFR) outlined deficits for the next five financial years rising to significant levels. When adjusted for non-cash items the College estimates deficits totalling between £8.400 million and £11.920 million over this period. After a short period of financial stability and additional income last year, the financial position of the College is expected to be impacted by a number of adverse factors, including lower student intake and retention rates, potential staff cost increases and inflation increases. The College continues to plan to deliver savings, including implementation of the voluntary severance scheme. Additional income of £1.1 million in relation to a non-recurring VAT rebate received in the year and £0.709 million of SFC that is no longer going to be clawed back contributed to a more positive in-year outturn.
Key observations	The section above was based on 2021/22 FFR as reported in our Annual Audit Plan in May 2022. The medium and long-term financial outlook of the College has deteriorated due to the flat cash allocation from the Scottish Funding Council. While the College managed to achieve a surplus position in 2021/22, this was due to a one-off nature of additional Lennartz VAT rebate income and additional income from SFC which is not going to be clawed back due to most recent guidance issued by the SFC. The latest FFR, approved by the Board of Management in October 2022, reported the year-end position for 2021/22, the budget for 2022/23 and forward forecasts for and up to 2026/27. The College is expecting deficits for the next five financial years rising to significant levels. When adjusted for non-cash items the College estimates deficits totalling between £8.400 million (per the basic FFR submission) and £11.920 million (per worst case scenario) over this period. Our work and conclusions on the budget and financial forecasts for 2022/23 onwards is set out below and notes the ongoing challenges the College continues to face.

Short Term Financial Planning

39. The further education sector has received a ‘flat cash’ settlement from the Scottish Government for 2022/23. This translates into a 1.9% decrease from a baseline revenue budget, but a 5.1% reduction from the full published previous year budget. The funding for Colleges also does not contain any additional COVID-19 related element this year.

40. As a result, Scotland’s further education sector continues to face a very challenging financial situation in future years from the impact of national bargaining harmonisation/job evaluation costs, cost of living pay award increases and general inflation.

41. 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 a 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.

42. The SFC published final Colleges funding allocations in May 2022. 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.

43. The 2022/23 SFC main grant allocation of £35.319 million consists of core funding of £34.619 million, £0.653 million of Foundation Apprenticeships allocation and other SFC funding. The credits target is 124,037 which is 1.8% reduction on previous year.

44. The budget for the year 2022/23 was presented to the Board in October 2022, initially projecting an adjusted operating deficit of £0.473 million, further revised to £0.272 million in the FFR submission.

45. The 2022/23 budget is based on a range of underlying assumptions. There remains a level of uncertainty around inflation and potential impact of any pay rises 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.

46. The key assumptions include:

- no additional funding will be available from SFC/GCRB to support a voluntary severance scheme;
- tuition fees income is returning to pre-COVID levels;
- the unused funding from Glasgow Clyde Education Foundation (GCEF) for financial sustainability of £0.700 million has been carried forward to 2022/23;
- there is no expectation of further income in relation to Lennartz VAT rebate; and
- inflationary increases of c.7% for various non-pay cost lines.

Medium Term Financial Planning

47. 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 FFR is aligned to the 2019-2025 College Strategic Plan, the Financial Sustainability Strategy and the Estates Strategy.

48. The latest FFR, requires colleges to report actual financial performance for the session 2022, forecasts through to 2026/27. 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 2022/23 so the assumptions are indicative.

49. 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.

Exhibit 2: Financial Plans (£000s)

	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Total income	54,894	55,518	53,722	53,618	53,618
Total expenditure	(56,014)	(56,551)	(56,747)	(56,944)	(58,067)
Operating position	**(1,120)**	**(1,033)**	**(3,024)**	**(3,326)**	**(4,449)**
Adjusted operating result	**(272)**	**(1,832)**	**(1,524)**	**(1,825)**	**(2,948)**

Source: Financial Forecast Return 2022

50. The adjusted operating result is the key financial measure used by the College. It takes the operating position per accounting standards and adjusts to exclude non-cash items. The above budgets assume increasing deficits in all of the following five years totaling £8.400 million.

51. These deficits are based on assumptions of future flat cash SFC funding, only small staff cost increases achieved by reduction in staff numbers and by smaller inflation increases beyond an initial inflation peak estimated in 2023/24.

52. The main cost driver is staff and a 1% change to staff cost equates to c.£0.400 million increase/decrease in cost. The College has run a number of scenarios around the staff costs and inflation for non-staff expenditure. These more realistic scenarios show total deficits for the next 5 years ranging from £8.850 million to £11.920 million in total.

53. The current cash position of the College is favorable, therefore not raising any concerns in relation to a going concern assumption. However, the annual expected future cash flows show net outflow of cash over the period of the financial plan and resulting in a negative cash position in 2024/25. We explore the cash position further in the financial management section of this report.

Key medium-term financial challenges

54. The further education sector has a number of key challenges, including:

- flat cash budgets requiring continuing savings to match the inflationary pressures;
- 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; and
- under the current SFC Funding model, the average price per credit can vary significantly across Regions/Colleges.

55. Glasgow Clyde College, as any other further education institution, delivers its services to the public through teaching, therefore its teaching and support staff are crucial to the College fulfilling its role. We note that due to the above financial constraints the College must identify savings with staff costs accounting for the significant majority of College spend.

56. When looking at the range of the scenarios considered by the College, we identify that the assumed voluntary severance scheme savings, if successful, would mean a reduction up to 63 FTE over the next four financial years. This equals to 9% of the College's current workforce.

Exhibit 3: Staff plans

Year	Targeted saving (£'000)	FTE reduction (number)
2022/23	175	Nil
2023/24	1,200	30
2024/25	867	22
2025/26	433	11
Total	**2,500**	**63**

Source: GCC internal reports

57. Such a significant reduction in the staff levels would likely mean that the current College operating model will not be sustainable with a consequent impact on the volume of activity undertaken and in the method of that delivery. Any change will likely have consequences for student experience and the quality of education delivery and outcomes.

58. A reduction in staffing levels may impact on the ability of the College to achieve its annual credit target and other national objectives and therefore having a knock-on effect on future financial and non-financial performance.

59. We do understand that these external factors (funding, pay levels) are not entirely in the College's control and the College is considering all options to maintain appropriate levels of the teaching delivery. At the same time this challenge will be partly managed by an effective and continuously changing, scenario-based workforce plan.

60. A high-level Workforce Plan was presented to the Organisational Development Committee in September 2022. We note this plan analyses the key issues faced and structure of the workforce, but had no further detail as to the possible actions and scenarios.

Action point 1

Capital Plan

61. The College has a well established capital planning process in place. The Capital Masterplan is based on the 2021 College Estates Condition Survey which identified a need for £9.9 million (or £13 million including VAT) of estates work to be completed over a period of five years.

62. The capital allocation funding from GCRB in 2022/23 is £2.952 million (£2.820 million in prior year). The capital works include mainly maintenance and some improvements to the student spaces and car parks.

63. The Capital plan is based on forecast SFC, GCEF capital funding and the estates survey. The capital funding forecasts assume that the College will draw down the remainder of the GCEF funds over the next two years. Another assumption is that the SFC/GCRB funding beyond the 2022/23 will cover the requirements of the capital plan.

Exhibit 4: Capital plan (£'000)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
SFC/GCRB Capital Funding	2,589	2,300	2,089	2,089	2,089	2,089
GCEF Capital Funding	271	652	2,300	Nil	Nil	Nil
Capital Expenditure Plan	2,860	2,952	4,389	2,089	2,089	2,089

Source: September 2022 FFR

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 and continuing challenges as it emerges from the COVID-19 pandemic and addresses the impact of flat cash funding in the context of high levels of wage and general inflation.

The College reports an operating deficit of £3.873 million for the year. Actuarial gains of £35.647 million and property revaluation moved the College's position to an accounting surplus of £34.459 million for the year.

The adjusted underlying operating surplus for the year was £0.786 million (£0.572 million in 2020/21).

The accounts also record high cash balances of £10.433 million at July 2022 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

Financial Performance

64. The College reports an operating deficit of £4.753 million for the year ended 31 July 2022. After adjusting the operating position for non-cash items that are not in the control of the College, such as pensions and net depreciation, the College shows an adjusted underlying surplus of £0.086million.

65. The table below sets out the College's 2021/22 income and expenditure budget against results for the year and is based on management accounts:

Exhibit 5: Performance against budget

2021/22 performance	Budget 2021/22 £'000	Actual 2021/22 £'000	Variance – Favourable/ (Adverse) £'000
SFC income	40,076	41,316	1,240
Non-SFC Income	10,543	11,052	509
Total income	**50,619**	**52,368**	**1,749**
Staff costs	37,837	38,179	(341)
Maintenance and premises	3,033	2,857	176
Other operating expenses	6,843	6,584	259
Contingency	409	0	409
Depreciation	5,384	5,555	(171)
Pension adjustment	0	3,067	(3,067)
Total expenditure	**53,506**	**56,241**	**(2,735)**
Operating (deficit) for the year	**(2,887)**	**(3,873)**	**(986)**
Adjusted operating result	**(1,205)**	**786**	**1,991**

66. The College's main source of income continues to be grant funding from the SFC. The financial position improved in the year due to the following additional income:

- £0.529 million of additional credits funding received from the SFC;
- £1,100 million of HMRC payments for Lennartz VAT case.

67. The additional funding helped the College to achieve an adjusted operating surplus in the year.

68. Staff costs continue to be the highest area of spend for the College accounting for 73% of total expenditure and consistent with the previous year. When compared to the previous year these costs increased by 3.5% mainly reflecting pay awards. Staff costs include an additional provision in relation to the cost of potential pay claims.

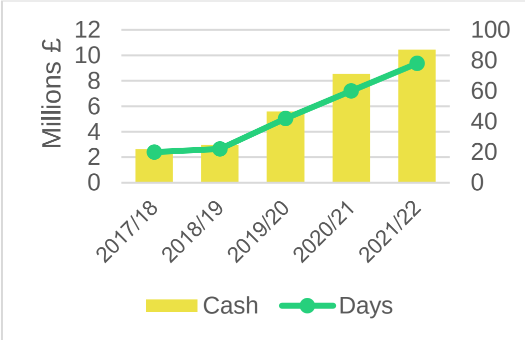
69. The cost of voluntary severance in the year was lower than last year at £0.280 million (£0.896 million in 2020/21) and 11 members of staff took advantage of the scheme. The College's Voluntary severance programme is expected to continue into future years as the main way to achieve savings in expenditure.

70. There have been no significant variances on non-pay expenditure, we note that there was a favorable variance in operating expenditure of c£0.400 million and that the contingency fund did not need to be used. The pension adjustment is not normally budgeted as it is not known until the actuary completes their work after the financial year end.

Cash position

71. 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 £10 million which equals to 75 days.

Exhibit 6: Cash position



Source: GCC's financial statements

72. The cash position increased at the end of 2021/22 mainly due to the following:

- £1.1 million of GCEF funding carried forward;
- £2.8 million of funds owed to SFC, Students Awards Agency Scotland and potential claw backs;
- £1.1 million of increase in other creditors (timing); and
- £1.6 million of surpluses generated over the last three financial years.

73. The College expects the cash balances to move to £3.469 million (26 days) at the end of July 2023. It is worth noting that the College maintains a current liquidity ratio at 1.2, which means it has more current assets than current liabilities indicating an ability to repay its current debts.

74. A key principle for public bodies is that they do not draw down cash in advance of need. The College should consider how it ensures that cash balances are at more appropriate levels. This might include reviewing its cash reserves policy.

Action Point 2

Budget Setting

75. 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.

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

77. 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.

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

Systems of Internal Control

79. 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.

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

National fraud initiative

81. The NFI is a counter-fraud exercise coordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

82. The most receive NFI exercise commenced in January 2021. These were investigated and the results of the exercise were presented to the Audit Committee in November 2021.

83. NFI exercise did not identify any fraud or error. We note that the creditor information was submitted on time, however the payroll information was submitted late in March 2021/ We note the arrangements for the and the has been actioned by GCC in the current iteration of the NFI exercise.

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

Standards of Conduct

85. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

86. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and scheme of delegation and for

complying with national and local codes of conduct.

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

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

88. 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.

89. Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between the GCRB and the Glasgow colleges. From review of available committee minutes and papers, we are satisfied that the College routinely considers reports on the development and implementation of the ROA.

Governance arrangements

90. 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; and
- Nominations Committee.

91. 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.

Board Changes

92. There have been a number of changes to the Board of Management from 1 August 2021 to the date of signing of the accounts.

93. 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.

Internal Audit

94. 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.

95. Internal Audit annual assurance opinion has been provided to the Audit Committee at the same time as this report. Internal audit concluded that the College has adequate and effective arrangements for risk management, control and governance.

Prevention and detection of fraud and irregularity

96. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

97. No incidences of fraud or irregularity were reported during the year.

Standards of conduct

98. 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.

Fairness and equality

99. As outlined in the Scottish Public Finance Manual, accountable officers have a specific responsibility to ensure that arrangements are in place to secure best value in public services. Audit Scotland has requested that, at least once during the term of our audit appointment, we carry out work on the organisation's approach to arrangements relating to the best value theme of fairness and equality.

100. We have therefore reviewed arrangements at the College in the following areas:

- commitment to fairness and equalities within the organisation;
- delivery of fairness and equalities outcomes through service delivery; and
- promotion of fairness and equalities in the wider community.

101. We are satisfied that appropriate arrangements are in place for GCC to secure fairness and equality in its operations.

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

2021/22 was a challenging year, with overall deteriorating performance recorded by the College against a range of indicators indicating that the College is still recovering from the impact of the COVID-19 pandemic. Importantly, the College has not met its students credit target (3.7% under delivery) for the second year in succession. However, the College continues to report high levels of student satisfaction.

The performance in the learning and teaching effectiveness deteriorated when compared to the prior year and most of the targets were not met. This is attributed to the long-lasting impact of the COVID restrictions, mental and health impacts on students and the College workforce, and a more difficult labour market where the demand for low skill labour has increased.

Most of the College's financial performance ratios have improved over the period and the College maintains good and increasing levels of student satisfaction.

The Board has appropriate performance management processes in place that support monitoring and managing the performance.

Performance management arrangements

102. 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.

103. 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

104. 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 was revised in 2021/22 and implemented with an official launch in September 2022.

105. The 2022-25 Strategic Plan sets out the vision, mission, strategic priorities and key goals of the College. The College's Strategic Themes within its 2022-25 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 2021/22 annual report and accounts.

107. The College has 15 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.

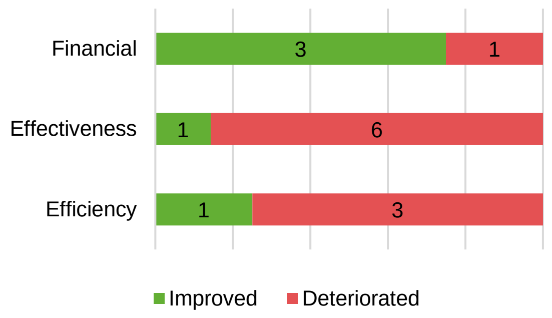
108. The performance indicators are reviewed by members of the Senior Leadership Team on a regular basis. Monitoring reports are also presented to the Board's Learning & Teaching Committee. The College's performance against key performance indicators for academic year 2020/21 is shown below and is compared to target and to the preceding academic year.

Performance results

109. The College met four of its performance targets, did not meet ten and for one there is no target.

110. Relative to the prior year the performance changes were as follows:

Exhibit 7: Relative performance



Source: GCC's annual reports

111. Financial targets include adjusted operating income, percentage of non SFC income, liquidity ratio and cash days. All of these improved, although cash days are very high as explained earlier in the report.

112. Effectiveness is the key area measuring College activities around student enrolments and outcomes. All, but the student satisfaction percentage have deteriorated when compared to the prior year. Prior to the pandemic the College was making good progress in this area, but the impact of the on campus restrictions was translating negatively into the students attainment.

113. This impact has wider implications and student surveys suggest that the underlying causes behind the high rates of withdrawals are lack of sense of belonging amongst students, their mental and physical health and labour shortages The College's efforts were visible in relatively high students' satisfaction levels (just under 94%).

114. In the Efficiency category the students Credit target was not met, while sickness absence and C02 emissions were lower than target, and staff turnover increasing between the years.

115. For the second year in a row, the College has failed to achieve its Credit targets for the financial year. The College delivered 124,546 credits against target of 129,328, being 3.7% below target. This is due to a lower full-time enrolment levels across large number of courses. Also early withdrawal levels, combined with higher in year part-time enrolments (awarding less credits) caused not meeting the target. We note however, that most recent guidance issued by the SFC will allow the College to keep most of the funding in relation to the underdelivery (2% out of 3.7%), being equivalent to c. £0.700 million.

116. The full performance indicators table is included in Appendix 4.

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) is 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: • 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; • 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; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • 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. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the

Area	The College's responsibilities
	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. 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 External 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 2021/22 (with prior year comparators) are as follows:

	Current year £	Prior year £
Audit of College (Auditor remuneration)	36,900	36,300
Pooled cost	1,940	2,200
Audit support costs	1,740	1,440
Total audit	**40,580**	**39,940**
Non-audit services	0	0
Total fees	**40,580**	**39,940**

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 the College since appointment can be found at https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122

Appendix 2: Adjusted and unadjusted errors identified during the audit

Corrected and uncorrected misstatements

Corrected items

No.	**Detail**	**SoCNE**		**Balance Sheet**		**Impact on SoCNE**
		Dr	**Cr**	**Dr**	**Cr**	
1	Provisions			£158,000		
	Expenditure	£158,000				-£158,000
	(Being derecognition of a voluntary scheme provision)					
2	SFC Debtor			£313,000		
	ESF Creditor				£313,000	
	Income	£313,000	£313,000			
	(Being recognition of debtor due from SFC at year end and due to ESF)					
	Total impact on the Statement of Comprehensive Net Expenditure					**-£158,000**

Uncorrected items

No.	**Detail**	**SoCNE**		**Balance Sheet**		**Impact on SoCNE**
		Dr	**Cr**	**Dr**	**Cr**	
1 (*)	Trade Debtors			£63,487		
	Trade Creditors				£63,487	
	(Being reallocation of debit balances held within trade creditors)					
	Total impact on the Statement of Comprehensive Net Expenditure					**Nil**

(*) *This is a minor presentational item which we would not expect the College to adjust.*

Appendix 3: Action Plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

The recommendations have been rated to help the College assess the significance of the issues and prioritise the actions required.

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

Action Point One – Workforce planning	
Observation	The College is facing significant financial challenges, and some of the factors like funding or pay levels are not entirely in the College's control. At the same time this challenge will be partly managed by an effective and continuously changing, scenario-based workforce plan. A high-level Workforce Plan was presented to the Organisational Development Committee in September 2022. We note this plan analyses the key issues faced and structure of the workforce, but had no further detail as to the possible actions and scenarios.
Implication	A complete and scenario based workforce plan will help the College to manage its workforce and clarify GCC's position in relation to its financial needs.
Recommendation	We would recommend to develop a scenario based plan including more detail behind the high-level analysis.
Management response	As indicated above there was a paper and presentation to the OD Committee in September on workforce planning which provided a summary of the aims and benefits of workforce planning and of the College process. There was a focus in that report on the age profile of the staff workforce and any potential hotspots. The Committee were assured from the presentation that was being reviewed and requested that a workforce planning exercise be completed annually or biennially which will be reported back to

	Committee. There will therefore be an update report in September 2023 including consideration of developing a scenario based plan. However it should be noted that many of the impacts on the workforce plans for the College are influenced by external factors related to national bargaining and terms and conditions. **Responsible Officer:** Assistant Principal HR/ Vice Principal Resources & College Development/ Deputy Principal **Implementation Date:** September 2023

Action Point Two – Cash balances	
Observation	The College has a reserves cash policy of maintaining a minimum level of 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 £10 million which equals to 75 days.
Implication	A key principle for public bodies is that they do not draw down cash in advance of need.
Recommendation	The College should consider how it ensures that cash balances are at more appropriate levels. This might include reviewing its cash reserves policy.
Management response	SFC advised that colleges should draw down their full Main Grant funding allocation within the academic year. Furthermore SFC pay ESF and some other funding on a profile which the College is unable change. The College did not draw down the full year funding allocations for Deferred Credits or SFC Student Support funding. However, despite taking steps to reduce the in-year drawdown where it was possible to do so, the College is holding significant sums of SFC and SAAS funding at July 2022 which is forecast to be clawed back. The College is also holding GCEF cash which is ringfenced in line with the related grant conditions. In addition there are movements in debtors and creditors which have had an impact on the cash balance. When these factors are taken into account the College's liquidity ratio at July 2022 is 1.2 against a target of 1.1 which confirms that it is holding sufficient cash to meet its short term liabilities.

In response to this recommendation, the College will review its reserves cash policy.

Responsible Officer: Assistant Principal Finance & Infrastructure

Implementation Date: December 2022

Appendix 4: Key Performance Indicators

Key Performance Indicator	Purpose	20/21 Actual	20/21 Target	21/22 Actual	21/22 Target
EFFICIENCY					
Performance against Credits activity target	Measures performance against GCRB target	-1.5%	0.0%	-3.7%	0.0%
Working days lost through sickness absence	Measures lost staff time	3.0%	4.0%	3.18%	4.0%
Permanent Staff Turnover	Measures level of staff changes	3.7%	N/A	4.20%	N/A
Tonnes of CO2 emissions tCO2e	Measures carbon emissions	2,080	N/A	2,074	2,018
FINANCIAL					
Adjusted Operating surplus as % of total income	Measures level of operating surplus generated before key adjustments	1.1%	-0.5%	0.8%	-0.9%
Non SFC Income as percentage of total income	Measures reliance on SFC income source	22.8%	22.4%	21.4%	20.2%
Current assets: current liabilities (excl. deferred capital grants)	Measures short term assets to liabilities	1.2	1.1	1.2	1.1
Days cash	Measures level of cash	62*	21	76*	27
Key Performance Indicator	Purpose	20/21 Actual	20/21 Target	21/22 Actual	21/22 Target
LEARNING AND TEACHING EFFECTIVENESS1					
Successful outcome for Full Time FE enrolments on recognised qualifications	Measures Full Time FE student success	63.9%	66.0%	57.2%*	65%
Successful outcome for Part Time FE enrolments on recognised qualifications	Measures Part Time FE student success	70.5%	75.0%	68.6%*	73%
Successful outcome for Full Time HE enrolments on recognised qualifications	Measures Full Time HE student success	71.3%	73.0%	60.4%*	73%
Successful outcome for Part Time HE enrolments on recognised qualifications	Measures Part Time HE student success	77.0%	76.0%	71.3%*	79%
% of credits delivered to residents of SIMD10 postcodes	Measures credits in SIMD10 postcodes	31.8%	31.6%	29.4%	32%
% of successful SIMD10 students	Measures SIMD10 student success	66.3%	72.0%	60.1%	70%
% of students satisfied with their learning experience	Measures student satisfaction	89.8%	90.0%	93.4%	95%

[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. 2021/22 targets are based on Glasgow Regional Outcome Agreement targets.***

****21/22 is exclusive of covid catch-up enrolments***