

# Glasgow Colleges' Regional Board

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Glasgow Colleges' Regional Board and the Auditor General for  
Scotland

January 2024

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# Key messages

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## 2022/23 annual report and accounts

- 1 Audit opinions on the annual report and consolidated financial statements are unmodified.
- 2 The annual report and consolidated financial statements presented for audit were of a good standard.

## Wider-scope

- 3 Glasgow Colleges' Regional Board reported an adjusted operating surplus of £0.17 million and an adjusted operating deficit of £4.4 million for the region, demonstrating the need for the Glasgow colleges to move to a sustainable operating cost model.
- 4 The medium term financial plans for Glasgow Colleges' Regional Board and the three colleges in the region are reflected in Financial Forecast Returns to the Scottish Funding Council. The consolidated position shows an underlying deficit each year from 2023/24 to 2025/26.
- 5 Glasgow Colleges' Regional Board is operating in an uncertain environment due to the ongoing regional review, which could lead to organisation and structural change.
- 6 Governance arrangements are appropriate.

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# Introduction

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**1.** This report summarises the findings from the 2022/23 annual audit of Glasgow Colleges' Regional Board (GCRB). The scope of the audit was set out in an Annual Audit Plan presented to the 30 May 2023 meeting of the Audit and Assurance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of GCRB's annual report and consolidated financial statements
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability.

**2.** This report is addressed to GCRB and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

**3.** Mark Laird has been appointed by the Auditor General as auditor of GCRB for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of this five-year appointment. The appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022. I have been assigned responsibility for the GCRB audit for 2022/23 only to respond to a change in Mark's availability.

**4.** My team and I would like to thank board members, audit and assurance committee members and executive directors for their cooperation and assistance in this year.

## Responsibilities and reporting

**5.** GCRB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and consolidated financial statements that are in accordance with the accounts direction from Scottish Funding Council. GCRB is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

**6.** The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

**7.** Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist.

Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

## Auditor Independence

**8.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. GCRB received a rebate of £3,118 against the 2022/23 audit fee and so the proposed audit fee of £35,560 as set out in our 22/23 Annual Audit Plan was reduced to £32,442. We are not aware of any relationships that could compromise our objectivity and independence.

**9.** We add value to GCRB by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations where appropriate
- sharing intelligence and good practice identified.

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# Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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## Main judgements

Audit opinions on the annual report and consolidated financial statements are unmodified

The annual report and consolidated financial statements presented for audit were of a good standard.

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## Audit opinions on the annual report and consolidated financial statements are unmodified

**10.** The Board approved the annual report and consolidated financial statements for GCRB and its group for the year ended 31 July 2023 on 29 January 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor, the financial statements:

- give a true and fair view of the state of the affairs of the Glasgow Colleges' Regional Board and its group as at 31 July 2023 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

## Overall materiality was assessed as £0.15 million for GCRB and £3.8 million for the group

**11.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues

may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**12.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and consolidated financial statements and is summarised in [Exhibit 1](#).

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## Exhibit 1

### Materiality values

Materiality level	GCRB	Group
Overall materiality	£0.15 million	£3.8 million
Performance materiality	£0.11 million	£2.9 million
Reporting threshold	£1,000	£200,000

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**13.** The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

**14.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting our understanding of the entity and the absence of any reported errors in the prior year.

**15.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

**16.** Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the body's accounting practices.

**17.** The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

**18.** The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings and key audit matters from the audit of the annual report and consolidated financial statements

Issue	Resolution
<p><b>1. Defined benefit plan asset (GCRB)</b></p> <p>In 2022/23, the actuary presented results for GCRB with a net pension asset, i.e. its share of assets was greater than forecast obligations. The unaudited annual report and single entity financial statements reported the net asset of £0.12 million.</p> <p>Under FRS 102, an entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan. Management requested an asset ceiling calculation from the actuary in line with IFRIC 14 to identify the extent to which the asset should be recognised.</p> <p>The methodology adopted in the asset ceiling calculation assumes a minimum funding requirement exists in the Local Government Pension Scheme for contributions relating to future service. Restricting the asset in line with this methodology reduces the net asset position on GCRB's balance sheet to £nil. This is because the future contributions were found to be greater than the future service costs.</p> <p>The asset ceiling was not applied in the financial statements presented for audit. This was because the college audits had not concluded and GCRB intended to adopt a consistent approach to accounting for the defined benefit plan asset.</p>	<p>The audited financial statements have been adjusted to restrict the net asset position in line with the asset ceiling considerations presented by the actuary. The impact of this adjustment is a decrease in the net asset position of £0.12 million and a corresponding decrease in other comprehensive income.</p>
<p><b>2. Prior year restatement (Group)</b></p> <p>In 2022/23 the colleges' actuary presented a report with a net pension asset, and an asset ceiling was calculated and applied in accordance with the relevant accounting standards (FRS 102 and IFRIC 14). As part of the audit of City of Glasgow and Glasgow Kelvin College it was also agreed that the asset ceiling should be reflected in the balance for 2021/22. Therefore, a prior period adjustment was posted to the prior year net asset to reduce it by £8.5 million.</p>	<p>The prior year balances in GCRB's consolidated financial statements have been restated in line with the audited financial statements of the colleges. A prior year statement note has also been included in the audited consolidated financial statements to explain the reason for the restatement and the impact.</p>



## Our audit work responded to the risks of material misstatement we identified in the annual report and consolidated financial statements

19. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and consolidated financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Identified significant risks of material misstatement in the annual report and consolidated financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals throughout the year and post-closing entries and focus on significant risk areas.</li> <li>• Evaluate any significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Review of accounting estimates for management bias.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> </ul>	<p>We carried out the assurance procedures as planned and did not identify any instances of management override of control.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>	
<p><b>2. Estimation in the valuations of land and buildings (Group)</b></p> <p>There is a significant degree of subjectivity in the valuations of land and buildings held by the group's components. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. This presents a significant risk of material misstatement for the consolidated financial statements.</p>	<p>We will obtain assurances from component auditors over:</p> <ul style="list-style-type: none"> <li>• Review of the information provided to the external valuer to assess for completeness.</li> <li>• Review of detailed working papers to support asset reviews and impairments.</li> <li>• Evaluation of the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Critical assessment of the approach adopted to assess the risk that assets not subject to valuation are materially misstated and consideration the robustness of that approach.</li> <li>• Critical assessment of the adequacy of the disclosures regarding the assumptions in relation to the valuation of land and buildings.</li> </ul>	<p>We obtained assurances from the component auditors on the audit work and judgements formed in this account area as planned. We reviewed audit working papers where appropriate. All matters identified by the component auditors were adjusted in the accounts prior to consolidation.</p> <p>We have concluded that the estimation in the valuation of land and buildings is appropriate.</p>
<p><b>3. Estimation in the valuations of pension asset/liability (Group)</b></p> <p>The actuarial valuations depend on a range of financial and demographic estimations about the future. The subjectivity around these estimates gives rise to a significant risk of material misstatement within the group's components, and the consolidated financial statements.</p>	<p>We will obtain assurances from component auditors over:</p> <ul style="list-style-type: none"> <li>• The accuracy and completeness of information provided to the actuary.</li> <li>• Evaluation of the professional competence of the actuary.</li> <li>• The appropriateness of assumptions used by the actuary.</li> <li>• The reasonableness of actuarial estimates on material elements of the valuation.</li> </ul>	<p>We obtained assurances from the component auditors on the audit work and judgements formed in this account area as planned. We reviewed audit working papers where appropriate. All matters identified by the component auditors were adjusted in the accounts prior to consolidation (see <a href="#">Exhibit 2</a>).</p> <p>We have concluded that the estimation in the</p>

Audit risk	Assurance procedure	Results and conclusions
		valuation of the pension assets and liabilities is appropriate.

**20.** In addition, we identified an “area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be a risk of material misstatement to the financial statements. The area of specific audit focus was:

- **Estimation in the valuations of pension asset/liability** – GCRB is a member of the local government pension scheme (LGPS), which is accounted for as a defined benefit scheme in line with FRS 102. The present value of the retirement benefit obligation depends on several factors that are determined on an actuarial basis using a number of assumptions. We carried out audit procedures to obtain assurance over the pensions accounting and disclosures. One issue was noted as detailed in [Exhibit 2](#).

### Audit adjustments totalled £0.12 million

**21.** Overall, audit adjustments of £0.12 million were reflected in the audited annual report and consolidated financial statements. A number of other presentational matters were identified and corrected during the audit process.

**22.** Other than the corrected material monetary adjustment detailed as a significant finding in [Exhibit 2](#), our audit identified no misstatements above our reporting threshold.

### The unaudited annual report and consolidated financial statements were received on 9 December 2023

**23.** The unaudited annual report and single entity financial statements were received on 17 November 2023 and the consolidated financial statements were received on 9 December 2023. The consolidated financial statements were received a week later than planned as the preparation is dependent on the completion of the college audits.

**24.** The annual report and consolidated financial statements and accompanying working papers were of a good standard. Regular communication and support from the Finance and Resources Director helped the audit process run smoothly.

### There are no actions outstanding from the prior year

**25.** The previous auditor did not identify any actions during the 2021/22 audit. Therefore, there are no actions outstanding from the prior year.

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# Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

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## Conclusion

Glasgow Colleges' Regional Board reported an adjusted operating surplus of £0.17 million and an adjusted operating deficit of £4.4 million for the region, demonstrating the need for the Glasgow colleges to move to a sustainable operating cost model

The medium term financial plans for Glasgow Colleges' Regional Board and the three colleges in the region are reflected in Financial Forecast Returns to the Scottish Funding Council

Glasgow Colleges' Regional Board is operating in an uncertain environment due to the ongoing regional review, which could lead to organisation and structural change

Governance arrangements are appropriate.

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## Our wider dimension audit work has focussed on financial sustainability and the disclosures in the governance statement

**26.** The [Code of Audit Practice](#) includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body. Following our consideration of the quantitative and qualitative factors that apply to this assessment, we consider that the application of a full wider scope audit is not appropriate for GCRB. The focus of our wider dimension audit work therefore includes financial sustainability and governance arrangements.

## GCRB reported an adjusted operating surplus of £0.17 million and an adjusted operating deficit of £4.4 million for the region

**27.** In 2022/23, GCRB reported an operating surplus before other gains and losses of £0.14 million, and an operating deficit of £5.9 million for the region as a whole. The financial position for the region includes GCRB, City of Glasgow College, Glasgow Kelvin College and Glasgow Clyde College.

**28.** The accounts direction issued by the Scottish Funding Council requires the disclosure of an adjusted operating position. This is intended to reflect the underlying operating performance after allowing for material one-off or non-cash

items (e.g. depreciation, pension adjustments, exceptional income or expenditure).

**29.** As shown in [Exhibit 4](#), GCRB's adjusted operating position in 2022/23 was a surplus of £0.17 million and a deficit of £4.4 million for the region. The deficit demonstrates the need for the Glasgow colleges to transition to a sustainable operating cost model. Decisions at individual college level have been taken during the year to help reduce costs, such as introducing voluntary severance schemes, though the initial costs of these have partly contributed to the deficit in 22/23.

#### Exhibit 4 Financial Performance in 2022/23

Performance	2022/23	2022/23	2021/22	2021/22
	GCRB £m	Group £m	GCRB £m	Group £m
Income	0.915	185.728	1.072	180.799
Expenditure	(0.772)	(191.655)	(1.203)	(190.403)
Surplus/(deficit) before gains and losses	0.143	(5.927)	(0.131)	(9.604)
Adjusted operating surplus/(deficit)	0.172	(4.426)	0.004	1.414

Source: GCRB annual report and consolidated financial statements 2022/23

#### The Board approved a balanced budget for GCRB in 2023/24 but an underlying deficit is forecast for the Glasgow region

**30.** The 2023/24 budget for GCRB was considered by the Performance and Resources Committee in March 2023 and approved by the Board in May 2023. The budget consists of two parts:

- GCRB running costs of £0.513 million (21/22 original budget: £0.496 million), including staff and board costs and audit fees. The increase in year relates to pay uplifts.
- GCRB programme costs of £0.445 million (21/22 original budget: £0.445 million). The Programme of Action relates to initiatives for the region.

**31.** The forecast financial position for the Glasgow region as a whole for 2023/24 is shown in [Exhibit 5](#) and described in more detail below.

## Medium term financial plans are set out in Financial Forecast Returns to the Scottish Funding Council

**32.** The Financial Forecast Return (FFR) is an annual return that regions, and colleges, are required to submit to the Scottish Funding Council (SFC). These enable the Scottish Funding Council to monitor and assess the medium term financial planning and health of the sector. The June 2023 return required GCRB and the three colleges in the Glasgow region to include financial projections for 2023/24 to 2025/26.

**33.** The FFR for GCRB shows a projected underlying deficit for 2023/24 of £0.21 million, with a breakeven position being achieved in subsequent years. As shown in [Exhibit 5](#), the consolidated position projects a deficit from 2023/24 through to 2025/26. Overall, the FFR indicates that income is forecast to decrease by £9.2 million, or five per cent, over the next three years to 2025/26.

**34.** Audit Scotland's, [Scotland's Colleges 2023](#), briefing paper highlighted that risks to the college sector's financial sustainability have increased since reporting in 2022. Rising staffing costs are colleges' biggest financial pressure. Staff costs (excluding exceptional restructuring costs) accounted for around two thirds of the total expenditure in the Glasgow region in 2022/23. Therefore, staffing changes is one of the main levers available to reduce costs. This is evident in the severance schemes that are planned or have been implemented in the Glasgow region. The briefing paper concludes that the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

### Exhibit 5

#### Consolidated Financial Forecast Return projections 2023/24 to 2025/26

Medium term financial projections	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Income	185.728	177.953	176.897	176.501
Expenditure	(191.655)	(181.930)	(181.991)	(183.048)
Surplus/(deficit) before gains and losses	(5.927)	(3.977)	(5.094)	(6.547)
Adjusted operating surplus/(deficit)	(4.426)	(3.839)	(2.476)	(3.769)

Source: GCRB consolidated Financial Forecast Return 23/24

## Governance arrangements are appropriate

**35.** GCRB's governance arrangements have been set out in the Governance Statement that forms part of the annual report and consolidated financial statements. We have reviewed these arrangements and concluded that they are appropriate.

**36.** The Code of Good Governance for Scotland's Colleges (the Code) requires GCRB to keep its effectiveness under annual review, with an externally facilitated review completed at least every five years. The next external review is due to take place by 2026. In 2022/23, the Board undertook a self-evaluation and considered the results at its meeting in May 2023. A paper outlining compliance with the Code was also taken to the Audit and Assurance Committee to support the disclosures in the Governance Statement. No significant areas of non-compliance were identified.

**37.** However, the reviews undertaken in year do highlight that GCRB is operating in an uncertain environment due to the ongoing review that originates from the Scottish Funding Council's 2020 review of GCRB as Regional Strategic Body. A decision has not been taken on the way forward but it could result in organisation and structural change for GCRB.

**38.** We have concluded that the information given in the Governance Statement for the year to 31 July 2023 is consistent with the financial statements and complies with the Government Financial Reporting Manual 22-23 and the Accounts Direction issued by the Scottish Funding Council.

# Glasgow Colleges' Regional Board

## 2022/23 Annual Audit Report

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



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