Good practice note on improving the quality of college annual report and accounts

Governance statements
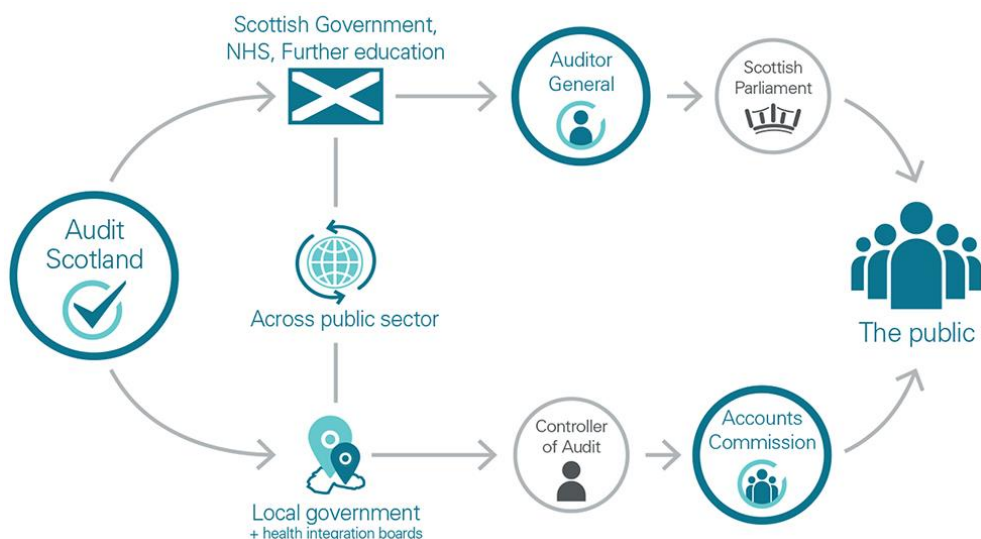
AUDIT SCOTLAND

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Introduction

Purpose

1. Audit Scotland promotes good practice in financial reporting in Scottish public bodies. Audit Scotland's Professional Support carry out reviews of annual report and accounts to identify and share examples of good practice reporting and highlight areas where improvements can be made.

2. This good practice note shares the findings from a review of the 2017/18 governance statements included within the annual report and accounts of the incorporated colleges and regional boards.

Context

3. Governance statements were chosen for a good practice review because 2017/18 was the second year of colleges applying the Code of Good Governance for Scottish Colleges 2016 (good governance code). Professional Support waited until year two to allow time for good practice to develop.

4. The review of governance statements was carried out by a team with knowledge of the relevant financial reporting framework. However, the team does not have a detailed understanding of each college's particular circumstances or the specific underlying governance structures.

5. Colleges are encouraged to use the findings in this report to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their governance statements.

Financial reporting requirements

6. Colleges are required to prepare their annual report and accounts in accordance with an accounts direction from the Scottish Funding Council (SFC) which requires compliance with the governance statement section of the *Scottish public finance manual* (the SPFM). The SPFM sets out the following essential features of a governance statement:

- the governance framework of the organisation, including information about the committee structure of the governing board (or equivalent) and the coverage of its work

- the operation of the governing board (or equivalent) during the period

- an assessment of corporate governance with reference to compliance with generally accepted best practice principles and relevant guidance, and explanations where a different approach has been adopted

- an assessment of the organisation's risk management arrangements and risk profile, including, subject to a public interest test, details of significant risk-related matters arising during the period

- a record of any written authorities provided to the Accountable Officer; and

- details of any significant lapses of data security.

Colleges should use this good practice note to assess and enhance their own governance statements

The examples presented in this note are all unaltered from governance statements in colleges' 2017/18 annual report and accounts

Unqualified audit opinions do not mean there is no scope for improving the quality of governance statements

7. The good governance code is considered by the SFC to represent generally accepted best practice. A basic form of wording for the assessment of compliance is provided in the accounts direction. This gives colleges the opportunity to report publicly on the extent to which they meet good governance requirements.

8. The 2017/18 governance statement of each college was also considered by the appointed external auditors with a view to expressing opinions on whether the statements were consistent with the financial statements and included the content required by the accounts direction. As there were no qualified opinions, there is reasonable assurance that minimum disclosure requirements were met. However, it should not be inferred that there is no scope for colleges to improve the quality of their governance statements.

Characteristics of high quality governance statements

9. Beyond basic compliance with requirements, there are a number of characteristics of financial reporting which Professional Support believe make for a high quality governance statement. These are summarised in Exhibit 1.

Exhibit 1

Characteristics of a high quality governance statement	A single story What worries board members Cut the clutter Clarity Summarise Explain change

These characteristics are based on those used by the Financial Reporting Council adapted for the public sector context

10. The remainder of this good practice note is structured around these characteristics, and it discusses and highlights some of the good practice adopted by colleges in relation to each one. The note also includes points for colleges to consider in striving to achieve good practice.

Contact points

11. The contact points for this good practice note are Neil Cameron, Manager (Professional Support) - 0131 625 1797 or Helen Cobb, Senior Adviser (Professional Support) - 0131 625 1901.

Part 1
A single story

Introduction

12. There should be a single, coherent narrative running through the whole of the annual report and accounts. The governance statement is a key component and should play its part in telling that single story.

Coherent narrative

13. The governance statement should not be prepared in isolation from the other components of the annual report and accounts. By taking an integrated approach, colleges can identify and highlight relationships between the governance statement and items in the other components.

14. The governance statement should be structured in a way that allows a cohesive and clear narrative flow. Although the SPFM identifies the essential feature for a governance statement as a list of bullets, a checklist approach is unlikely to achieve effective communication. Colleges should structure the governance statement to ensure it tells an understandable story of their governance arrangements.

15. Good linkages between related disclosures is essential for the annual report and accounts to communicate a holistic story. Insufficient linkage between different components can make it appear disjointed. In particular, there should be clear links to the college's strategy and objectives, with an explanation of how governance arrangements support their realisation. Exhibit 2 provides an example of such linkage:

> The governance statement should be structured in a way that allows a cohesive and clear narrative flow

Exhibit 2

In September 2017, the Board of Management approved a new Strategic Plan, setting out Edinburgh College's strategic aims over the next five years to 2022.

The Strategic Plan 2017/22 sets out the vision of the college for further education as a regional college across Edinburgh, Midlothian and East Lothian. It outlines the approach of the college to delivering an expansive and progressive curriculum to meet the needs of industry and equip students to meet the demands of the modern workplace. The plan has the college's values at its centre, to define our culture and foster a positive working environment. It also focuses on the status of the college as a key partner in community planning partnerships.

Length of governance statement

16. A comparison of the lengths of each college's governance statement showed a significant variation. The number of pages of the governance statements for 2017/18 are summarised in Exhibit 3.

Exhibit 3
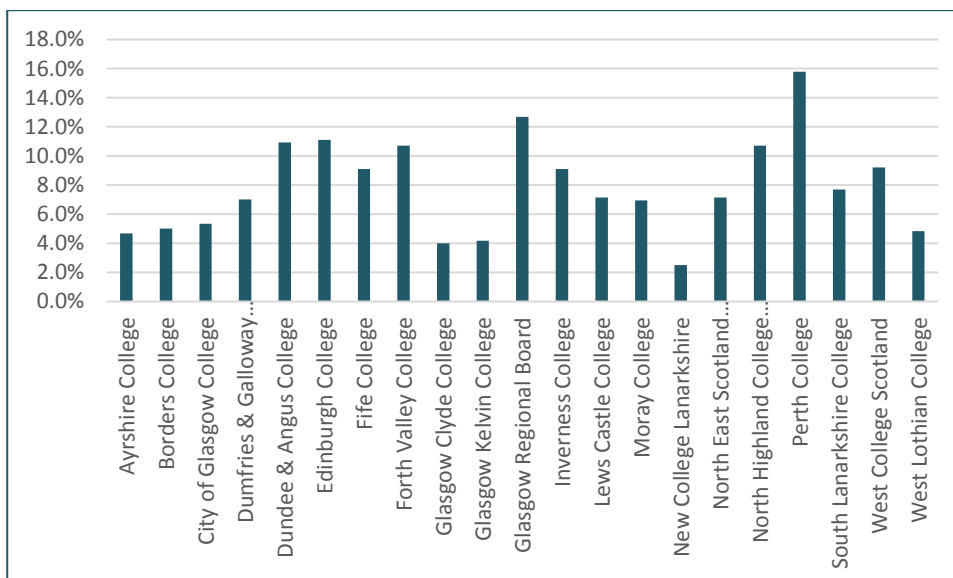Length of governance statements

Number of pages
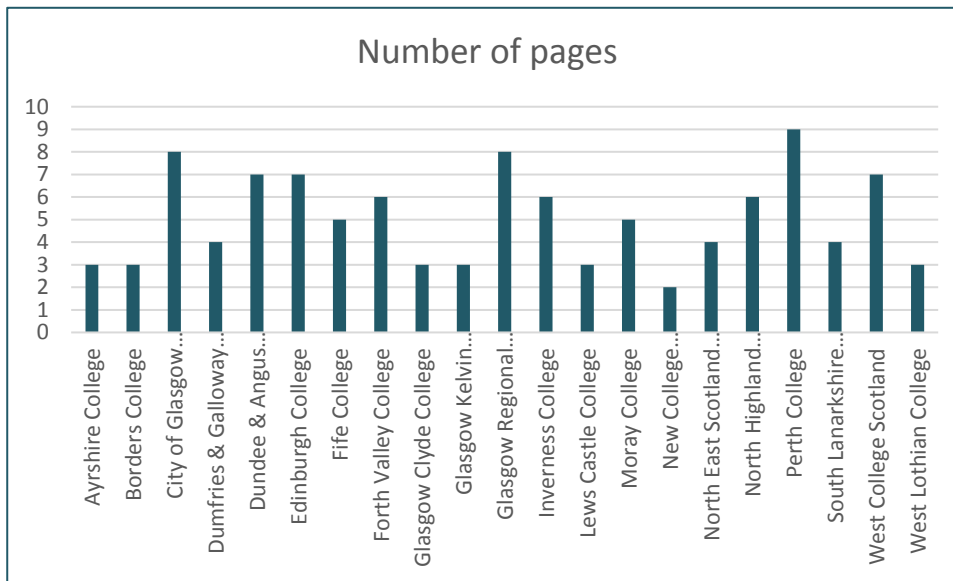
The average length of the governance statement was 5 pages. The longest was 9 pages and the shortest 2

17. The variation in length was not always explained by the relative size of the annual report and accounts. Exhibit 4 shows the length of the governance statement as a percentage of the overall length of the annual report and accounts:

Exhibit 4
Length of governance statement as a percentage of total length of accounts

The proportion ranged from 2% to 16%

18. Colleges should always strive for the governance statement to be brief, focussed and high level. These key themes are explored further in later sections of this good practice note.

Explanation of governance statement

19. The governance statement forms part of a college's corporate governance report within the accountability report. Most colleges included a heading to identify the governance statement. Exhibit 5 illustrates a clear explanation of the elements of the corporate governance report including the governance statement:

Exhibit 5

ACCOUNTABILITY REPORT

The Accountability Report comprises the Corporate Governance Report and the Remuneration and Staff Report, and is signed by the Chair and the Principal.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Report comprises the following sections:

- Directors' Report
- Statement of the Board of Management's Responsibilities
- Governance Statement
  - Statement of Compliance
  - Governance Structure
  - Corporate Strategy
  - Board's Statement on Internal Control
  - Going Concern

The governance statement should be clearly identified within the wider accountability report

20. The governance statement is required to cover the responsibilities of the college's board of management in relation to corporate governance. The SPFM requires it to provide the reader with a clear understanding of the college's internal control structure and its management of resources.

21. It is helpful to users if an explanation of the purpose of the governance statement is provided. To be most helpful, the explanation should address how the statement fits in with the other components of the annual report and accounts.

22. Most colleges provided a suitable introduction in 2017/18 setting the context and explaining the purpose of the statement. Exhibit 6 provides an example of a clear explanation:

Exhibit 6

Introduction

Dundee and Angus College is committed to exhibiting good practice in all aspects of corporate governance. This governance statement is written to assist the reader of the financial statements understand how the principles have been applied.

This governance statement is designed to supplement the information provided in the financial statements. It sets out the governance structures, risk management and internal control processes that have been operating in the College in the year to 31 July 2018 and reports the Board's assessment of the effectiveness of these arrangements.

The purpose of the statement should be clearly explained

Use of cross-referencing

23. It is often helpful to group together similar or related disclosures in the annual report and accounts, as this will help reduce duplication and enable linkages to be highlighted and explained. Information which the SPFM requires to be included in the governance statement may be included elsewhere in the

annual report and accounts if that helps the college tell its story more effectively. However, where that is the case, a cross reference from the governance statement must be included to satisfy the requirements.

24. Exhibit 7 shows examples of the use of a cross-reference:

Exhibit 7

> The College Leadership Team and Executive Management Team keep risk management under regular review, reporting into all Committee and the Board. Any urgent or escalating risks are also reported to the Chair in addition to this process.
>
> Significant risks and management action that have been considered and agreed during 2017-18 are set out at page 5 of the Performance Report in these financial statements.

> treatment of risks, and accordingly are careful to evaluate each risk individually. Section 1.3 of the overview section of this annual report details key issues and risks identified within GCRB's current risk register.

Cross references must be included where a required element is included elsewhere in the document

Issues identified in our review of whether the governance statement contributed to providing a single story:

Some colleges did not separately identify the governance statement, confused it with other elements of the wider corporate governance report, or named it inconsistently

There were significant variations in the length of the governance statement

Around a third of colleges did not provide a clear explanation of the purpose of the governance statement

Most colleges did not make use of effective cross-referencing

Points to consider when considering whether the governance statement helps to tell a single story:

Stand back and consider whether the governance statement helps to tell a fair, balanced and understandable story

Structure the statement in a way that allows a coherent and clear narrative

Aim for the statement to be brief, focussed and high level

Explain the purpose of the statement

Avoid using a checklist approach which can lead to duplication and a disjointed narrative

Innovate and experiment with presentation and ways to best tell the story

Part 2
What worries board members?

Introduction

25. In order to provide an insight into the effectiveness of a college's governance arrangements, the governance statement should be open and transparent, and should reflect those specific matters that genuinely cause the board of management concern.

Specific matters

26. The matters included in the governance statement should reflect an individual college's particular features and challenges. Colleges should strive to be as specific as possible so that users of the accounts can understand why the matters are important to the college's board of management.

27. Exhibit 8 provides an example of specific wording:

Exhibit 8

The Audit & Risk Assurance Committee receives regular reports from the college's internal Risk Management & Assurance Group. This Group reviews operational risk and proposes updates to the Top Risk Register. Any proposed changes to the Top Risk Register are highlighted and discussed by the Audit & Risk Assurance Committee, prior to a Summary Top Risk Register being presented to the Board of Management. Heads of department are also invited to attend this Committee to provide a statement on risk assurance and risk mitigation in relation to their areas of expertise. Following these meetings it is acknowledged that more work is required to improve business continuity planning during 2018/19.

The Audit & Risk Assurance Committee has also undertaken a series of risk 'deep dives' throughout the academic year 2017/18. The purpose of each deep dive was to consider key risks in greater detail to allow members to understand current and planned mitigations, internal controls and seek further assurances - if required. Examples of risk deep dives which took place in 2017/18 include: ICT / Cyber Security; General Data Protection Regulation (GDPR); Fraud and Anti-Corruption; and, Commercial Income. With regards to GDPR the Committee noted that there were no known significant lapses of data security during the year.

Matters included should be specific

Assessment of arrangements

28. Colleges are required to provide an assessment of corporate governance arrangements. The emphasis in the governance statement should therefore be on assessing the effectiveness of the arrangements rather than simply providing a description of those arrangements.

29. There should be a clear assessment of whether the college's governance arrangements are fit for purpose. Exhibit 9 shows an example of a clear assessment:

Exhibit 9

The internal auditor's annual report stated that, in their opinion, "GCRB has systems demonstrating adequate and effective arrangements for risk management, control and governance, and proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2017-18 and also in previous years."

Openness and transparency

30. The governance statement should be an open and honest reflection of governance and the challenges faced by the college. Disclosures should provide an insight into outcomes achieved and the risks faced.

31. It is unlikely that all aspects of the governance arrangements will be fully fit for purpose and colleges should be transparent about what is working well and what needs to improve. If undertaken properly and in the right spirit, the actual process of preparing the governance statement should add value to the effectiveness of the governance arrangements by surfacing underlying governance issues.

32. The aim should not be to have a governance statement that does not highlight areas for improvement. A rigorous and robust assessment should identify issues that the college would need to address. Any organisation where the governance statement does not identify any issues risks creating a culture in which problems and concerns are suppressed. The absence of any issues to report could, rather than indicating a strong governance framework, signal the reverse.

33. Exhibit 10 provides an example of a college highlighting areas for improvement:

> The governance statement should be expected to include areas for improvement

Exhibit 10

Self Evaluation

The Chair meets with each member of the Board on an annual basis as part of the Board's process of evaluating the effectiveness of board members. The evaluation of the Board Chair is undertaken by the Vice Chair. The performance of the Board Chair is also evaluated by the Scottish Government, as regional college chairs are appointed by the Scottish Ministers and are personally accountable to them.

An external Board Governance Effectiveness Review was undertaken in January 2017. The report in February 2017 concluded that 'the college meets its obligations under the Code of Good Governance and, in a number of areas, promotes highly effective governance'.

Self Evaluation of the Board was undertaken in January 2018. This happens each year, apart from the years for External Review which are planned for every third year.

The outcome of the Self Evaluation was very positive. Key areas identified for further improvement include:

 - To develop a Board Links Scheme to facilitate improved organisational knowledge and the opportunity to understand staff views, culture and College business;

 - Refining the organisation and content of Board and Board Committee meetings and communication - to continue to improve the effectiveness of the meetings structure and the facilitation of effective decision making;
- Continue to improve strategic knowledge and understanding of priorities in the sector;
- Stakeholders - promote College activities and get feedback on what they want from us;

- Review and further improve Induction Packs for new Board members;
 - Continue with the good uptake of development/ learning opportunities including development of networking with other college Boards.

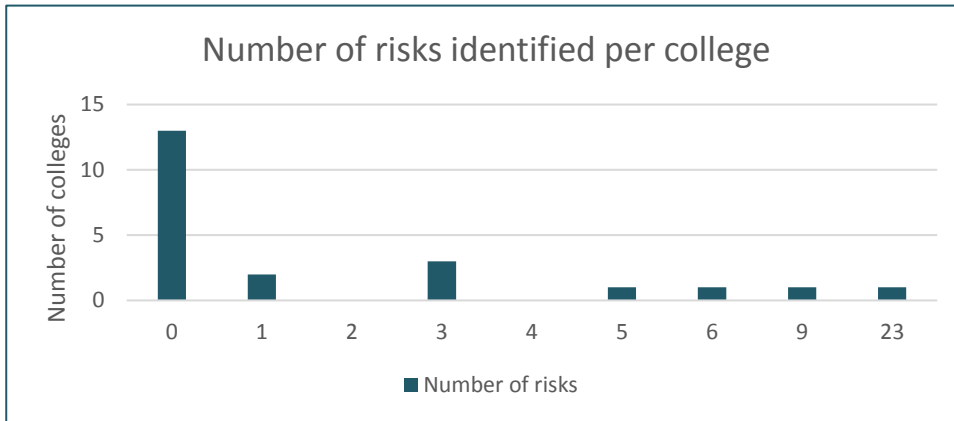In addition to this, the Board will continue to review and refine the organisation of Board meetings and effectiveness of Board meetings.

Number of risks disclosed

34. Colleges are required to disclose risk-related matters arising during the year. Our review identified a significant variation in the number of risks reported. Exhibit 11 highlights that only nine colleges disclosed risks in their governance statement.

Exhibit 11
Number of risks disclosed by each college

Number of risks identified per college

(Bar chart. X-axis: Number of risks (0, 1, 2, 3, 4, 5, 6, 9, 23); Y-axis: Number of colleges (0 to 15). Values: 0 risks ≈ 13 colleges; 1 risk ≈ 2 colleges; 3 risks ≈ 3 colleges; 5 risks ≈ 1 college; 6 risks ≈ 1 college; 9 risks ≈ 1 college; 23 risks ≈ 1 college. Legend: Number of risks.)
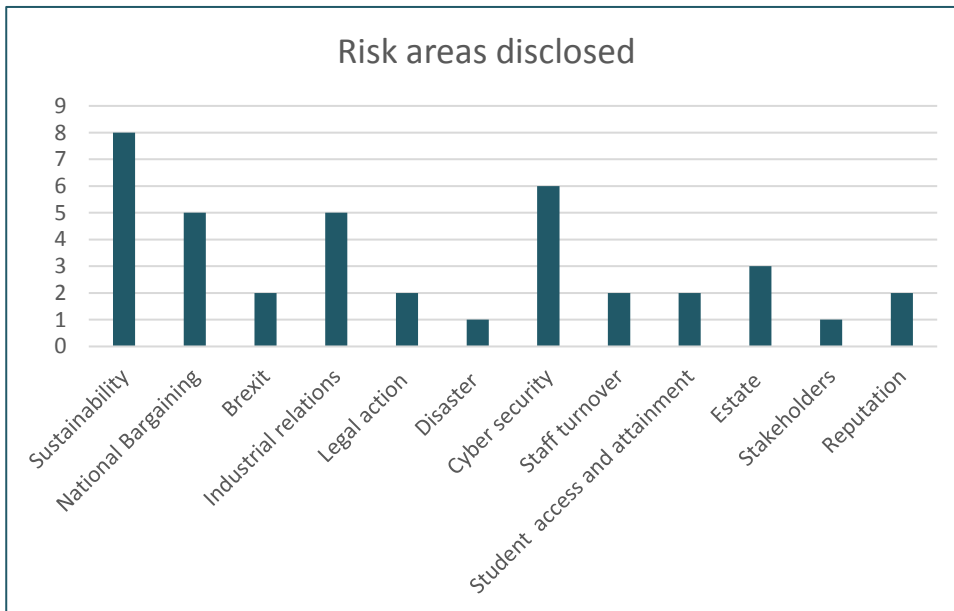
Thirteen colleges did not report any risks

35. There are many risks which are common to all colleges, for example the impact of the national pay bargaining on financial sustainability. Exhibit 12 below shows the risks disclosed and the number of colleges disclosing them.

Exhibit 12
Risk areas disclosed

Risk areas disclosed

(Bar chart. Y-axis: 0 to 9. Categories and values: Sustainability 8; National Bargaining 5; Brexit 2; Industrial relations 5; Legal action 2; Disaster 1; Cyber security 6; Staff turnover 2; Student access and attainment 2; Estate 3; Stakeholders 1; Reputation 2.)

36. The best disclosures explained the impact of the risks. Exhibit 13 illustrates a concise summary of the significant risks facing a college:

Exhibit 13

The Board of Management recognise that the most significant risk to the College relates to financial sustainability. Whilst this risk has been present on the risk register for some time, it is becoming a higher risk due to a number of factors, the combined effects of which pose serious challenges for the UHI partnership and the College. A new Finance Strategy is being developed and action against this strategy will provide risk mitigation. Positive engagement with UHI Executive Office and partner institutions will form a key element to minimise this risk.

This college identified the main risks it faced

Effectiveness of internal control

37. A key element of overall governance arrangements is the system of internal control. Exhibit 14 provides an example of a concise outline of internal control:

Exhibit 14

The system of internal control is based on a framework of management information, administrative processes including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Board of Management.
- Clear definitions of the responsibilities of, and the authority to delegate to the Depute Principal and other members of the Senior Management Team.
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets.
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns.
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board;
- Comprehensive Financial Regulations approved by the Board of Management
- The adoption of formal project management disciplines.

This college provided a clear and concise outline of internal control

38. Assurance the college obtains on the effectiveness of its system of internal control comes from the work carried out by internal audit. Most colleges explained the role that internal audit played and stated that it provided an opinion on the effectiveness of the system.

39. Some colleges enhanced the usefulness of the disclosure by including a summary of the results of internal audit reviews and provided the opinion expressed. Exhibit 15 provides an example:

Exhibit 15

The internal auditor has expressed the opinion that the Regional Board of North East Scotland College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time internal audit work was undertaken and that the College has proper arrangements to promote and secure value for money.

This college disclosed the head of internal audits overall opinion.

Assessing significance

40. All governance issues identified should be considered for disclosure in the governance statement. The matters actually included should generally be those that the board of management regularly monitor and discuss because of the magnitude of their potential effect on the college.

41. In preparing the governance statement, the college needs to take a view on whether issues are significant enough to be included within the statement.

42. Exhibit 16 lists the key questions to be answered in judging whether an issue is significant:

Key issues and risks will generally be those that board members regularly monitor.

Exhibit 16
Questions to help decide whether to disclose an issue

Does the issue put a significant programme or project at risk?

Might financial stability, security or data integrity be put at risk?

Might the issue prejudice achievement of the business plan or other priorities?

Could the issue undermine the integrity or reputation of the organisation?

Could this issue have a material impact on the accounts?

Mitigation controls

43. It is helpful to users if an explanation of how the risks are managed or mitigated is included in the governance statement. A few colleges provided an explanation of what they were doing to manage the risks overall in 2017/18. Exhibit 17 provides an example:

Exhibit 17

The Board of Management has overall responsibility for ensuring the effective identification, mitigation and monitoring of strategic risks within the College. The Audit Committee has delegated authority from the Board of Management to approve the Risk Management Policy and to review regular reports from the College Senior Management Team regarding risk.

The College operates a Strategic Risk register which identifies the most significant risks to the College. This register is taken to every meeting of the Audit Committee for comment and challenge. It is also provided annually to the Board of Management.

The Principal is responsible for the maintenance of the College strategic risk register and for ensuring appropriate risk mitigation actions are implemented to address significant risks to College operations and strategic objectives. Senior Management Team members are responsible for establishing controls to mitigate identified risks wherever possible. This information is included on the Strategic Risk Register in summary form.

Risk Management is embedded in the operations of the College. The identification and mitigation of risk is a component in all decision making and is a standing item at all Senior Management Team, Board Committee and Board of Management meetings. The College also operates a risk management system whereby areas of significant risk to the College have their own specific risk register. It is under this approach that an estates risk register was established to support the Falkirk campus project.

Delegation of responsibility for managing the key risks in the risk registers is essential if risk management is to be effective. The risk registers, therefore identify "owners" for each risk.

44. It is also useful if colleges give an indication of the significance of risks after mitigation has been applied. Exhibit 18 provides examples:

Exhibit 18

The most significant financial risks for the College after mitigation are:

- the failure to achieve a balanced budget/delivery of the Financial Recovery Plan;

- medium-term financial sustainability/impact of National Bargaining; and

- the College estate and infrastructure not being fit for purpose due to lack of capital investment.

The following table sets out the six strategic risks for which the underlying risk has been scored as "major". It records the residual risk, with no risks shown as "major" and only three as "significant", following the mitigating actions which have been taken.

Risk	Before mitigation	After mitigation
Failure to achieve institutional sustainability	Major	Significant
College disadvantaged by changes arising from UK leaving European Union	Major	Significant
Industrial Relations Problems	Major	Significant
Legal actions; serious accident; incident or civil/criminal breach	Major	Minor
Disasters – eg Fire, MIS Failure, Failure of Emergency Procedures	Major	Minor
Breach of data security / data protection*	Major	Minor

This college explained the most significant risks after mitigation

This college set out the impact of mitigation on each risk

Action plan

45. The governance statement should highlight the areas to be improved and importantly how this is to be actioned. It is important that the governance statement includes an action plan which:

- covers all significant issues

- shows who is responsible for each action and in what timescale.

Issues identified in our review of whether the governance statement explained what worried the board:

Most colleges did not disclose the opinion of the head of internal audit on internal control

Colleges did not include an action plan

Most colleges did not disclose any risks

Most colleges described the risk management processes without providing a clear assessment of effectiveness

Points to consider when explaining what worries the board

Be sufficiently specific so that users can understand why risks are important

Include a clear assessment of whether governance arrangements are fit for purpose

Consider all governance issues identified but disclose and explain only those that are considered significant

Describe the actions to mitigate key risks

Include an action plan

Part 3
Cut the clutter

46. Governance statements should be brief, focussed and avoid clutter. Clutter is immaterial disclosures that inhibit the ability of users to identify and understand relevant information.

Comprehensive and concise

47. The governance statement should be comprehensive, but it should also be concise. There does not have to be a tension between these two requirements.

48. Comprehensiveness reflects the breadth of information that should be included rather than the depth of information. The governance statement does not need to cover all possible matters in detail to be considered comprehensive. It should include the information that is necessary for an understanding of the governance arrangements of the college. There is a risk that the longer governance statements highlighted in part 1 include too much unnecessary information leading to the main messages being lost.

49. Conciseness is achieved through the efficient communication of all significant information. Colleges should not confuse conciseness with excessive brevity in the level and type of information provided. There are risks that the shorter governance statements highlighted in part 1 are overly brief and so do not include all the necessary information.

Relevance of disclosures

50. Colleges should take care to ensure that all the information included in the governance statement is relevant to its circumstances.

51. Boiler-plate wording refers to generic disclosure which could apply to any body that gives no additional useful information to users of the accounts. While taking standard wording from another source can be of assistance, a college should take care to tailor the wording to its specific circumstances.

Materiality of disclosures

52. Financial reporting is not an end in itself and the information to be included in the governance statement should be determined by the needs of users. Only information that is material to users of the accounts should be included in the governance statement. Materiality is an aspect of relevance that is specific to each college based on the nature or magnitude of the effect of the information, judged in the particular circumstances.

53. This requires the board of management to apply judgement based on their assessment of the relative importance of the matter to the college.

54. Immaterial information should be excluded as it can obscure the key messages and impair understandability.

Duplication

55. The appropriate use of cross-referencing (explained in part 1) should help to avoid unnecessary duplication. Where an item is adequately addressed in

> Clutter is immaterial disclosures that inhibit the ability to identify and understand relevant information

> Relevance is a fundamental qualitative characteristic of financial information

> Materiality is an entity-specific aspect of relevance

one part of the annual report and accounts it can be included elsewhere by cross-reference.

56. For example, the accounts direction requires an explanation of the adoption of the going concern basis in the performance report but also suggests confirmation in respect of going concern in the governance statements. Most colleges included a reference in only one place.

Use of signposting

57. Colleges should avoid excessive wordy descriptions particularly where a weblink would suffice. Signposting is a useful technique that can be used to direct users to complementary information that is not required to meet the disclosure requirements for the governance statement. Signposted information can be located in another component in the annual report and accounts (e.g. an appendix) or elsewhere (e.g. on a website).

58. Some colleges made effective use of signposting in 2017/18 to refer the user to further documents and information available. For example, a few colleges provided a link to the registers of interests for members. Exhibit 19 provides an example:

Signposting to complementary information can reduce the statement length

Exhibit 19

A short biography of each Board Member together with their Register of Interests can be accessed on our website. The following link can be used https://dundeeandangus.ac.uk/about-us/governance/

59. However, where hyperlinks are included, colleges should ensure that the version of the annual report and accounts published on their website allows the user to follow these links.

Issues identified in our review of whether the governance statements contained clutter:
Some colleges included lengthy descriptions of a wide range of matters rather than succinctly focussing on key aspects
Some colleges went into excessive detail on certain items
Many colleges appeared to be using boiler-plate wording
Some colleges directed users to other documents but did not provide a hyperlink
Most of the hyperlinks in the governance statement did not work for external users

Points to consider when reducing clutter:

Include the necessary breadth of information in a concise way

Ensure disclosures are relevant to the college

Use judgement to assess the relative importance of relevant information

Consider the appropriate use of signposting to allow the user to access complementary information

Avoid excessive detail about a large number of matters

Part 4
Clarity

60. The governance statement should provide understandable information and use precise language that explains issues clearly.

Plain language

61. The language used to support and explain the disclosures in the governance statement is fundamental to users' understanding of the information presented. The governance statement should be written in plain language such as in Exhibit 20.

The governance statement should be written in plain language

Exhibit 20

The Annual Internal Audit Report for 2017/18 submitted by the College's internal auditor concluded that, the College has adequate and effective arrangements for risk management, control and governance.

An audit register is used by senior management to periodically review and progress all outstanding recommendations and that is also reviewed by the committee.

GOVERNANCE STATEMENT

Introduction

The College is committed to complying with best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles of the Code of Conduct for Members of the Board of Management of Inverness College UHI, and the 2016 Code of Good Governance for Scotland's Colleges. Their purpose is to help the reader of the financial statements understand how the principles have been applied. It is a condition of the Financial Memorandum with the University of the Highlands and Islands (RSB) that the governing body of Inverness College UHI meets the principles of good governance set out in the 2016 Code of Good Governance for Scotland's Colleges

Use of jargon

62. The excessive use of technical language (i.e. jargon) should be avoided where possible. Where the use of technical terms is necessary, they should be clearly defined and used consistently. Some colleges clearly explained terms which were not obvious to lay persons. Exhibit 21 provides an example:

Exhibit 21

In November 2016, the Board of Mangement approved a revised Risk Mangement Policy and Risk Mangement Procedure, which included reference to Risk Tolerance as well as Risk Appetite. The respective definitions employed are set out in the Policy thus:

"In broad terms, appetite relates to the willingness to seek potential benefits, while tolerance sets limits on acceptable loss in pursuit of these benefits, with reference to the organisation's strength and resilience. The Institute of Risk Management states that: "While risk appetite is about the pursuit of risk, risk tolerance is about what an organisation can actually cope with."5 In short, the terms relate to whether an organisation is respectively "willing" and "able" to take the risk, or sustain the potential consequences of the risk.

Clear messages

63. Governance statements should be written so that messages are conveyed clearly, particularly when important assurances are being given. The overall evaluation of the effectiveness of corporate governance should be clear in respect of the extent of assurance being provided. The use of vague or ambiguous language does not send a clear message about accountability.

64. Exhibit 22 provides an example of a clear statement of compliance with the good governance code and another example clearly explaining an issue of non-compliance in accordance with the accounts direction:

Exhibit 22

The College complies with all the principles of the 2016 Code of Good Governance for Scottish Colleges, and it has complied throughout the year ended 31 July 2018.

Statement of Compliance
The College complies with all the principles of the 2016 Code of Governance for Scottish Colleges with the exception of the role of the Secretary to the Board. The Code of Good Governance states: "The board secretary may be a member of the senior management team in their board secretary capacity, but they cannot hold any other senior management team position at the same time."

The Board of Management have appointed the Vice Principal People and Performance as Secretary to the Board, who reports directly to the Chair in relation to their Board Secretary duties, in order to prevent any conflicts of interest. The Board is satisfied with this arrangement, noting that it is not unusual in either the public or private sectors. The Board of Management have no current plans to change this arrangement.

65. Colleges should avoid qualifying phrases such as compliance 'in all material respects' or 'to the extent applicable' without explain the areas of non-compliance and how they are to be addressed. Alternatively, if the non-compliance is genuinely not material and therefore there are no plans to address it, a qualifying phrase is unnecessary and misleading.

66. It may be clearer for users of the accounts if 'nil return items' (i.e. instances where there are no incidents of a required event) are explicitly reported as such. For example, nine colleges disclose the fact there were no data related incidents in 2017/18. It is assumed that the remaining colleges also had no such incidents, but a brief explicit statement removes any doubt.

Issues identified in our review of whether the governance statement was clear

Jargon was prevalent in many governance statements but some colleges did not explain it

It was not always clear which governance code the college was reporting compliance with or whether there was full compliance for the whole year

Points to consider when providing a clear explanation of governance include

	Use plain language
	Avoid using jargon, or explain it where it cannot be avoided. Consider providing a glossary of key terms
	Avoid boiler plate wording and make sure standard wording is tailored to the circumstances of the college

Part 5
Summarise

67. In order to highlight the key messages, items should be reported at an appropriate level of aggregation. Tables of summarised information should be supported by accompanying narrative.

Aggregation to appropriate level

68. The governance statement should not include so much detail that the main messages are lost. It is helpful if information is aggregated to an appropriate level as this helps users to see key themes without getting lost in excessive detail.

69. Exhibit 23 provides an example:

Items should be reported at an appropriate level of aggregation.

Exhibit 23

Attendance at the relevant meetings throughout the year was as follows:

•	Board of Management	85%	(2016/17: 73%)
•	Audit	85%	(2016/17: 77%)
•	Finance and Resources	88%	(2016/17: 94%)
•	Human Resources	100%	(2016/17: 100%)
•	Development	95%	(2016/17: 64%)

Infographics

70. The method of presentation can significantly affect the understandability of information in the governance statement. The most appropriate method of presentation will depend on the nature of the information but, in addition to narrative, may include tabular, graphical or pictorial methods.

71. Exhibit 24 illustrates a committee structure being described diagrammatically:

Infographics can improve presentation and should be supported by narrative.

Exhibit 24

Governance Structure

The College has a robust and effective Board and Committee structure in place.

> **Finance and General Purposes Committee**
> The Finance and General Purposes Committee advises the Board on key issues of the College's financial and resource management. It ensures that all areas of the College's financial performance, procurement and information technology are subject to best practice controls and review, ensuring solvency, sustainability, efficiency and innovation.
>
> It also considers matters of a general nature that do not fall to other standing sub-committees. This Committee normally meets four times a year, and in addition meets once a year with the Audit Committee to consider the annual Financial Statements.
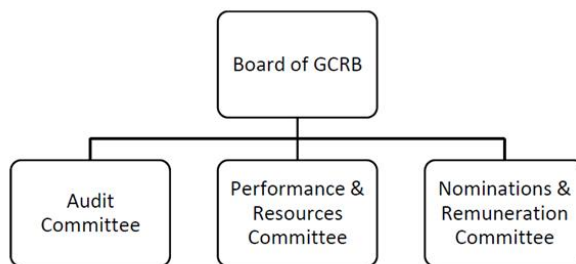
Disclosing each committee's remit under a sub heading improved the clarity of the disclosure

72. In most cases tables and other infographics should be supported by accompanying narrative. It is important that the narrative is consistent with the message conveyed by the infographic.

73. Exhibit 25 provides an example where narrative was used to explain a diagram:

Exhibit 25

> **Governance Structure**
>
> The following diagram outlines GCRB's governance structure:
>
> Board of GCRB
> — Audit Committee
> — Performance & Resources Committee
> — Nominations & Remuneration Committee
>
> The Board of GCRB held five formal meetings during the 2017-18 academic year. Two further meetings have been held so far within the 2018-19 academic year. The Nominations & Remuneration Committee met on six occasions, the Audit Committee four times and the Performance & Resources Committee five times.

74. As a rule, tables should not be of such a length as to span a number of pages. Where necessary, larger tables can be split into a number of smaller separate tables.

75. The use of innovative presentation techniques such as infographics can help to communicate information in an easy to access and attractive manner. The use of colour and pictures can help to engage readers. Information that can helpfully be presented graphically includes:

- actions to mitigate risks

- actions plans

- committee structures and governance frameworks.

Case studies

76. The use of case studies can be an effective way to engage the user and to highlight issues and action to address them. Exhibit 26 provides an example of a college making use of a case study to give the user an insight greater insight.

Exhibit 26

The Forth Valley College agreed Estates strategy comprises a vision for three new campuses. The first in Alloa, the second in Stirling and a third in Falkirk. A significant investment has already taken place in phases 1 and 2 of this strategy with Alloa and Stirling successfully completing on programme and within budget in 2011 and 2012 respectively. The new Falkirk Campus is planned to open in November 2019.

Significant progress has been made toward the realisation of the new Falkirk campus, with the submission of the final Decision Point 4 report to the Scottish Funding Council and Scottish Government and approval received on 4 October 2017. Following this approval, the appointment of the main contractor Balfour Beatty occurred on 11 October 2017.

The new campus plans include servicing the current Falkirk Campus curriculum and will accommodate over 11,000 students of which almost 2,000 will be full time. The New Falkirk Campus will be 20,720 sqm and will incorporate state of the art and flexible teaching accommodation, as well as low carbon initiatives, such as Photovoltaics, a Ground Source Heat Pump system, Combined Heat and Power boilers, along with other sustainable functions required to meet the Building Research Establishment Environmental Assessment Method (BREEAM) standard.

Issues identified in our review of whether the governance statement summarised information

Our review did not identify any use of infographics beyond basic tables

Some tables spanned a number of pages and were difficult to follow

Most colleges did not make use of case studies

Points to consider when summarising your governance arrangements

Aggregate information at an appropriate level to highlight key messages

Consider which information could be better presented using tables or more innovative infographics

Consider using case studies to add valuable insight

Part 6
Explain change

77. The governance statement should explain what was done in response to issues reported in the prior year.

Following up prior year action plan

78. It is important that colleges properly account for actions taken to address previous issues. The governance statement should provide a full explanation of the progress on implementing action plans included in previous years.

Changes in governance arrangements

79. It is helpful to readers if changes in the governance structure are highlighted and explained. Exhibit 27 provides an example:

Exhibit 27

Additionally, in recognition of the significant developments as the Falkirk Campus Project Board progresses towards the realisation of the new Falkirk Headquarters Campus, an additional committee has been established. While the Falkirk Campus Project Board is separate from the main Board of Management structure, three non-executive Board Members serve on this Board to ensure adequate representation from the main Board of Management

Changes in governance statement

80. Colleges should be striving to continuously improve the quality of their governance statements. The prior year governance statement should be seen as a base level on which to improve rather than a standard to replicate. It is expected that colleges should be able to demonstrate a marked improvement in their governance statements compared with the previous year.

81. Each year's governance statement should be written specifically for the year under consideration. The relevance of a matter may vary relative to other matters over time. As a minimum, there should be obvious differences to reflect new risks and challenges, enhancements in in governance arrangements, and changes in priorities. Our review therefore also considered the 2016/17 governance statements to provide a benchmark.

A college should aim for a marked improvement in its governance statement

Issues identified in our review of whether the governance statement explained change:

Most colleges did not provide any update on issues raised in previous years

Most governance statements did not show a noticeable improvement or development between 2016/17 and 2017/18

Points to consider when explaining change

Provide a full explanation of the progress on implementing previous year action plans

Highlight any changes in governance arrangements

Challenge the content and presentation of the governance annually

Good practice note on improving the quality of college annual report and accounts – governance statements

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