



**Scott-Moncrieff**  
business advisers and accountants

# **Glasgow Colleges' Regional Board**

2016/17 Annual Audit Report to the Regional Board and the Auditor General for Scotland

**December 2017**

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# Key Messages

## Annual report and financial statements

The annual report and financial statements for the year ended 31 July 2017 were approved by the Glasgow Colleges' Regional Board on 18 December 2017. We reported within our independent auditor's report an unqualified opinion on the financial statements, the regularity of transactions and other prescribed matters. We are also satisfied that there are no matters which we are required to report by exception.

Our thanks go out to all management and staff at the Board for their co-operation and assistance during the duration of the audit process.

## Wider scope

### Financial sustainability

The Board has effective arrangements in place for financial planning and monitoring. In line with the Scottish Funding Council requirements the Board has prepared a Financial Forecasting Return (FFR) which projects a breakeven position in each of the five years

At a regional level an underlying deficit position of £2.7 million is forecast in 2018/19 and this is forecast to increase year on year to £4.5 million in 2021/22. There is recognition at the Board that there are significant challenges ahead to bridge the budget gap.



### Financial management

Overall, the Board has effective arrangements in place for financial management and the use of resources. The Board has managed funds in year to deliver an overall deficit position of £13,000. This deficit relates to the movement in the defined benefit pension liability and comes under the Annually Managed Expenditure budget.

Our conclusion is based on a review of the Board's financial performance against its annual budget and our review of the budget monitoring and control systems in place.



### Governance and transparency

The Board has satisfactory governance arrangements in place.

In year the Glasgow Colleges' Regional Board received fundable body status and from 1 August 2017 the Board had responsibility for agreeing and monitoring the colleges' performance against outcome agreement targets.

The Board is transparent in the way that it conducts its business.



### Value for money

The Board demonstrated commitment to achieving value for money through its annual review of the value for money strategy.

The Board published its first regional strategy in October 2017. Work is underway to develop a performance management framework aligned to the strategy.

The Board monitored performance against regional outcome agreements across the region and noted significant progress with improvements required in attainment of full time courses and inter-region progression.



## Key facts

- The Board spent £321,928 on the provision of services in 2016/17. The majority of the expenditure (70%) relates to staff costs.
- The Board reported a deficit of £13,000, however the deficit relates to the movement in actuarial assumptions and is not an indication of going concern or financial management issues.
- The Board currently holds net liabilities of £41,000 this relates to the pension liability arising from membership of the Strathclyde Pension Fund.

## Conclusion

This report concludes our audit of the Board for the year to 31 July 2017. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

**Scott-Moncrieff**  
**December 2017**

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# Introduction

# Introduction

1. This report summarises the findings from our 2016/17 audit of Glasgow Colleges' Regional Board ("the Board").
2. We outlined the scope of our audit in the external audit plan which we presented to the Audit Committee in May 2017. The main elements of our work in 2016/17 have been:
  - an interim audit of the Board's key financial systems and aspects of its corporate governance arrangements;
  - an audit of the draft financial statements, including a review of the governance statement;
  - a review of the arrangements as they relate to the four dimensions of wider scope public audit: governance and transparency, financial management, financial sustainability and value for money; and
  - consideration of the local impact of Audit Scotland's national performance report [\*The Role of Boards\*](#).
3. The Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and 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 of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We discussed and agreed the content of this report with the Interim Finance and Resources Director. We would like to thank all management and staff for their co-operation and assistance during our audit.

## Adding value through the audit

5. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board 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 Board promote improved standards of governance, better management and decision-making and more effective use of resources.
6. This report is addressed to both the Board 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).
7. We welcome any comments you may have on the quality of our work and this report via: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).

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# Annual financial statements

# Annual financial statements

## An unqualified audit opinion on the financial statements

The financial statements for the year ended 31 July 2017 were approved for signature by the Board on 18 December 2017. We reported within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on the regularity of transactions; and
- an unqualified opinion on other prescribed matters.

## Introduction

8. The Board's annual report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Board and the auditor in relation to the financial statements are outlined in appendix 3.
9. In this section we summarise the issues arising from our audit of the 2016/17 annual report and financial statements.

## Overall conclusion

### An unqualified audit opinion on the annual report and financial statements

10. The Board approved the annual report and financial statements at their Board meeting on 18 December 2017. We reported:
  - an unqualified opinion on the financial statements;
  - an unqualified opinion on the regularity of transactions; and
  - an unqualified opinion on other prescribed matters.

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

### Good administrative processes were in place in respect of the financial statements

12. We received draft financial statements and supporting papers in line with our agreed audit timetable. Our thanks go to all staff at the Board for their assistance throughout our audit.

## Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in Exhibit 1 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 financial statements as a whole, and not to express an opinion on individual financial statements or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described in Exhibit 1.

## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Management Override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

*Noted in 2016/17 External Audit Plan*

## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

- 14. We have not identified any indications of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.
- 15. We have also reviewed the journal entries processed in the period and around the year end and did not identify any issues.
- 16. While we did not identify any issues with journal entries in year we did identify weaknesses in the control environment which have been outlined in appendix 1.

*Action plan point 1*

### 2. Revenue recognition

Under ISA 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. Practice Note 10 (revised) highlights that in the public sector most entities are net spending bodies and there is a risk of fraud over expenditure.

The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

*Noted in 2016/17 External Audit Plan*

- 
- 17. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue and expenditure accounting and found them to be sufficient. We have evaluated key revenue and expenditure transactions and streams, and carried out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied reasonably.

### 3 Preparation of consolidated financial statements

The Scottish Funding Council (the SFC) approved the fundable body status of the Board as of 1 April 2017.

The Board considered the implications of achieving fundable body status for their financial reporting. The Board referred to the guidance in FRS 102 on consolidation and concluded that when fundable body status was granted this would create a group arrangement with City of Glasgow College, Glasgow Kelvin College and Glasgow Clyde College being subsidiaries of the Board. This would trigger a need to prepare consolidated financial statements under FRS 102.

The Board is planning to produce consolidated financial statements for the period ended 31 July 2017. They are working with the colleges to ensure there are consistent accounting policies across the region and there is a suitable timetable to allow the Board to meet the reporting deadlines as outlined in the SFC financial statements direction.

*Noted in 2016/17 External Audit Plan*

- 
- 18. Although fundable body status was approved by the SFC as of 1 April 2017 full transfer of

## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

functions did not occur from that date. The Board commenced work in 2016/ 17 to allow the transfer of functions from 1 August 2017. This included the development of the Board's role in negotiating outcome agreements and the creation of banking facilities for the Board.

19. The Board considered that the approval of fundable body status alone did not constitute control. The consultation, approval and monitoring of outcome agreements and ability to provide funds are the other indicators of control which the Board have deemed would require consolidation. From our understanding of the governance arrangements and powers of the Board this is deemed reasonable.
20. From 1 August the Board took over the role of approving outcome agreements and monitoring performance against the key outcomes. In 2017/18 the Board will take on responsibility for providing funds to the Colleges within the Glasgow Region. As the functions did not transfer from the SFC to the Board until 1 August 2017 it was deemed appropriate that consolidated financial statements should be prepared from 1 August 2017.
21. The Board has undertaken preparatory work in 2016/17 to align the accounting policies of the Colleges within the regional group, however, this has not had a significant impact on the disclosed figures and no material adjustments were required to any of the College financial statements.

### Our application of materiality

22. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
23. Our initial assessment of materiality for the financial statements was £4,860, approximately 1.8% of the prior year expenditure of the Board. Upon receipt of the draft annual report and financial statements we revised our materiality assessment to £5,400, approximately 1.8% of reported expenditure in 2016/17. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the Board.
24. We set a level of performance materiality for each area of work, which is based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the

areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	50%	£2,700
Medium	60%	£3,240
Low	75%	£4,050

25. We agreed to report any misstatements identified through our audit that fall into one of the following categories:
  - All material corrected misstatements.
  - Uncorrected misstatements over £270.
  - Misstatements below £270 that we believe warrant reporting on qualitative grounds.

### Audit differences

26. We noted that there were two material adjustments to the draft annual report and financial statements. These adjustments related to the classification of creditors within the notes to the financial statements between trade creditors and salary accruals and the inclusion of VAT for Robin Ashton's salary.
27. We also identified two potential adjustments which are not considered material to the financial statements, either individually or in aggregate.
28. Management has considered the potential adjustments and elected to revise the financial statements for all the differences identified as part of the audit.
29. Full details of the audit differences are outlined in appendix 2.
30. In addition to the audit adjustments we identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.

## An overview of the scope of our audit

31. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in May 2017. 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.
32. 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.
33. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

## Regularity

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

## Other matters identified during our audit

### Performance and Accountability Report

35. We have considered the information given in the performance report that forms part of the College's annual report and financial statements. Following our initial review we identified some minor areas where the narrative was not prepared in line with the guidance issued by the SFC.
36. From 2016/17 our opinion on other prescribed matters includes a requirement to provide an opinion on whether the performance report is consistent with the financial statements and whether it has been properly prepared in accordance with applicable legal requirements.
37. We have therefore requested the performance report be adjusted to reflect the requirements of the SFC financial statements direction.

### Governance statement

38. The Board's Governance Statement explains that the Board was generally compliant with the principles of the 2016 Code of Good Governance for Scotland's Colleges but noted one area of partial compliance. The Board operates a combined Nominations and Remuneration Committee which included both staff and student members. This is out of line with guidance which suggests the remuneration committee should include only non-executive members. The Board has considered this and concluded that due to its unique nature this is appropriate and no changes will be made.
39. The review is deemed to be in accordance with the requirements outlined in the 2016/17 Accounts Direction, released by the SFC.
40. We are satisfied that the content of the governance statement is not inconsistent with information gathered during the course of our normal audit work but we identified minor disclosures which were not in line with the requirements of the SFC Accounts Direction. We are required to report in our opinion on

other prescribed matters whether the governance statement has been prepared in line with applicable guidance therefore we have raised this with management and this was adjusted in final draft of the financial statements.

#### Remuneration report

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

#### Accounting and internal control systems

42. The Board has adequate systems in place to record, process, summarise and report financial and other relevant data. While we have not identified any significant weaknesses or governance issues in the accounting and internal control systems, we did identify two areas for improvement during our final audit. We outline the issues identified and our recommendations at appendix 1.

#### Action plan points 2-3

#### Follow up of prior year recommendations

43. As part of our audit, we have followed up on the recommendations raised as part of the external audit in 2015/16. The table below indicates that two recommendations were raised and all are either complete or partially complete. Further detail on these recommendations is included in the action plan at appendix 1.

Number of recommendations raised in 2015/16	Complete	Partially Complete
2	1	1

#### Qualitative aspects of accounting practices and financial reporting

44. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual report and financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the annual report and financial statements. We noted that there was no financial instruments policy in the draft financial statements. The financial statements have been updated to reflect appropriate accounting policies.
The timing of the transactions and the period in which they are recorded.	As outlined in appendix 2 we identified two transactions which had been recorded in the incorrect financial period. The transactions were not material but the Board elected to adjust the financial statements.
The appropriateness of the accounting estimates and judgements used.	<p>The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate on the whole.</p> <p>In 2016/17 the Board were approved as an admitted employer of the Strathclyde Pension Fund. The Board recognised the pension liability in line with the SORP and included a prior year adjustment to reflect the actuarial loss and pension liability attributable to 2015/16. Significant estimates and judgements have been adopted over pension liabilities. The Board has utilised the work of independent experts or industry practice to support the estimate applied.</p>
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed.	We have not identified any uncertainties including any significant risk or required disclosures which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions and the extent that these transactions are separately disclosed in the financial statements.	We did not identify any significant unusual transactions in the period that were not anticipated.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	There are no misstatement or material inconsistencies between the financial statements and the annual report.
Any significant financial statement disclosures to bring to your attention.	We did not identify any significant financial statement disclosures to bring to your attention.
Disagreement over any accounting treatment or financial statement disclosure.	While adjustments were made, there was no material disagreement during the course of the audit over any accounting treatment or disclosures.
Difficulties encountered in the audit.	There were no significant difficulties encountered.

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# Financial management

# Financial management



Overall, the Board has effective arrangements in place for financial management and the use of resources. The Board has managed funds in year to deliver an overall deficit position of £13,000. This deficit relates to the movement in the defined benefit pension liability and comes under the Annually Managed Expenditure budget.

Our conclusion is based on a review of the Board's financial performance against its annual budget and our review of the budget monitoring and control systems in place.

Looking forward the Board will have responsibility for monitoring the financial health of Glasgow Region Colleges, consideration should be given as to how the Board will deliver this.

## Financial performance

45. The Board has reported an operating deficit for the period to 31 July 2017 of £13,000, following the inclusion of the actuarial valuation for 2016/17.

	2016/17 Actual £000	2016/17 Budget £000	Variance £000
SFC Grants	287	250	37
Miscellaneous Income	9	0	9
<b>Total Income</b>	<b>296</b>	<b>250</b>	<b>46</b>
Staff and Board costs	206	210	5
Other costs	90	35	(56)
<b>Total expenditure</b>	<b>296</b>	<b>245</b>	<b>(51)</b>
<b>Operating Surplus/ (deficit)</b>	<b>0</b>	<b>5</b>	<b>(5)</b>

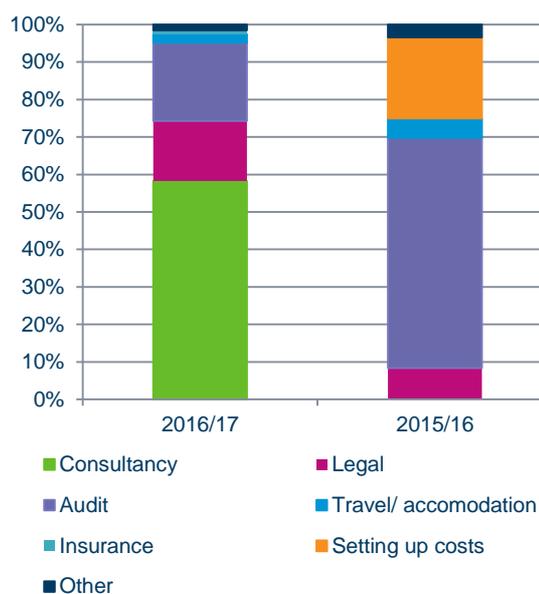
46. During 2016/17 the SFC awarded the Board additional grant to meet the costs of a Director of Finance and Resources from March 2017.

47. Staff costs account for 70% of the overall expenditure at the Board. The staff costs are relatively stable with a core team of three employees. The reduction in staff costs was due to the salary of the Executive Director being lower than budgeted.

### Other Expenditure analysis

48. Other costs significantly increased against both budget and prior year. There was significant movement since the prior year increasing by 120% in 2016/17 from £40,856 to £89,867.

### Exhibit 2: Analysis of Other Expenditure



- 49. The most significant movement relates to consultancy costs of £51,335 which includes £37,635 paid to JM Godfrey Ltd for financial support in year. The consultancy costs also include additional support through the use of a Board Secretary from February 2017. Both additional costs were approved by the Board and the SFC in 2016/17.
- 50. There was a significant increase in legal costs from £3,284 to £14,133 in year due to advice obtained with regards to gaining fundable body status.
- 51. In 2015/16 there was £8,497 associated with setting up the Board including recruitment, personnel services, computers and subscriptions. These costs reduced to zero in year which was in line with the reduction in 2016/17 compared to the 2015/16 actual.

- 57. While we have not placed formal reliance on the work of internal audit in 2016/17 for our financial statements audit, we have taken account of internal audit's work in respect of our wider scope responsibilities. We are grateful to the internal audit team for their assistance during the course of our work.

### Fraud and irregularity

- 58. We have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall, we found the arrangements to be sufficient and appropriate.

### Budget monitoring and control

- 52. We have considered the Board's system of budgetary control and financial management and did not identify any significant deficiencies.
- 53. The Board's Performance and Resources Committee receives updates on the Board's running costs as a standing agenda item. The report provides members with a forecast year end position against budget and narrative commentary.
- 54. Due to the nature of the Board and the limited levels of income and expenditure, the detail presented to the Performance and Resources Committee is deemed appropriate.
- 55. The financial monitoring reports to date have focused solely on the performance of the Board; however with the Board obtaining fundable body status there is a responsibility to monitor the financial health of the colleges within the region. The Board has established arrangements for obtaining this information from the colleges and should consider how this is monitored and reported.

#### *Action plan point 4*

### Internal Audit

- 56. Henderson Loggie provides the Board's internal audit service. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of all of the work of internal audit.



# Financial sustainability

# Financial sustainability



The Board has effective arrangements in place for financial planning and monitoring. In line with Scottish Funding Council Guidance the Board has prepared a long term financial plan which identified a recurring breakeven position. The Board has recognised its responsibility to monitor the financial health of the colleges within the region and as such has reviewed the long term financial position across the region. The region wide position is a recurring underlying deficit from 2018/19 to 2021/22.

There is recognition at the Board that there are significant challenges ahead to bridge the budget gap and work is underway to identify savings options.

## Financial Planning of the Board

59. As outlined in our audit plan we identified a risk over long term sustainability of the Board:

### Financial Sustainability risk

Ongoing pressures within the further education mean that it is vital GCRB plans sufficiently to ensure the region is financially sustainable in the longer term. We understand that GCRB is considering the development of a regional strategy which will include a financial strategy and will cover a period of 5 years. We will review and report on GCRB's progress in developing an approach to long term strategic financial planning for the region.

### Budgets have been prepared for 2017/18 and a breakeven position has currently been forecast

60. The Board's revenue budget, as reported to the Performance and Resources Committee in May 2017 and endorsed by the Board in September 2017, forecasts a breakeven position in 2017/18. The SFC has confirmed funding for 2017/18 that will be allocated on a regional basis through outcome agreements. The Board is responsible for allocating funding to the Glasgow region, including the City of Glasgow College, Glasgow Kelvin College and Glasgow Clyde College.

### Medium and long term financial planning

61. The Scottish Funding Council issued guidance on Financial Forecast Returns required for the period to 2021/22 in June 2017. The returns require standard information from all colleges and regional boards and contribute to the SFC financial health monitoring framework.

62. As part of this guidance the SFC worked with sector representatives to provide guidance on key assumptions to be applied in the Financial Forecast Return as follows:

- Financial projections for 2017/18 should be based on the funding allocation announced in May 2017. Colleges should plan for a flat cash settlement in 2018/19 and 2019/20 and a 2% increase thereafter.
- The impact of national bargaining should be included with an additional specific grant to 2019/20 to reflect particular costs to the college.
- Capital maintenance will be held at 2017/18 levels.
- Non- SFC income and non-staff expenditure should be informed by local circumstance and 1.5% inflation applied.

63. The assumptions above have been applied to the Board, where applicable, and to all regional colleges to ensure comparability of the return information.

64. The Board are forecasting a relatively stable position across the five year period to 2021-22 with costs rising from £436,000 in 2017-18 to £450,000 in 2021-22. The Board is forecasting a breakeven position in each of the five years.

## Glasgow College Region Financial Planning

### A small underlying surplus is forecast for the region in 2017/18

65. In recognition of the move to fundable body status the Board presented an overview of the

Financial Forecast Returns for the Glasgow College Region to the Performance and Resources Committee in October 2017.

- 66. The Financial Forecast Returns were prepared by colleges within the region applying the assumptions as required by the SFC.
- 67. Across the region there is a projected deficit of £2.484 million in 2017/18. The deficit has largely arisen due to a projected loss of £4.381 million on the disposal of fixed assets. As shown in the graph below the underlying position for the region is a surplus of £0.647 million.

**Medium to long term financial plans forecast an underlying deficit position**

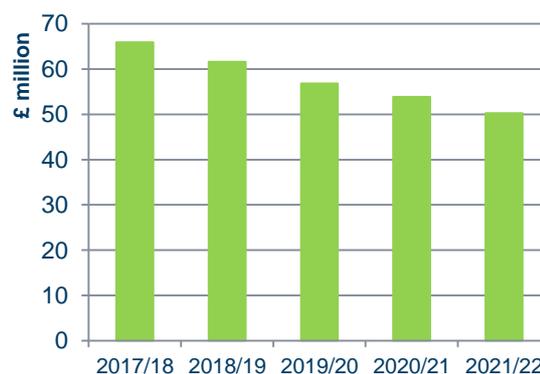
- 68. The combined position of the regional colleges is an underlying deficit over the long term with the deficits rising from £2.740 million in 2018/19 to £4.545 million in 2021/22.

**Exhibit 3: Projected underlying deficits**



- 69. This review identified that 71.8% of funding to colleges within the region comes by way of grant from the SFC. The colleges and Board recognised that the dependency on the SFC for funding allocations was a significant risk to the achievement of the budget.
- 70. The impact of the deficits is that the regional balance sheet position is deteriorating with a forecast reduction of £15.674 million in the five years to 2021/22.

**Exhibit 4: Forecast net assets**



- 71. It will be increasingly challenging to maintain service delivery within the confines of the regional budget. The Board will need to determine how they monitor the financial health of the colleges going forward and work with the colleges to develop a plan to close the budget gap while maintaining the quality of service.

**Action plan point 3**

**Regional consideration of assumptions**

- 72. As part of the financial planning process the Board noted that there had been challenge across the region with regard to the assumptions required by the SFC.
- 73. Upon review of the Financial Forecast Returns the Board recognised that there had been inconsistencies in the assumptions applied across the region.
  - The City of Glasgow College has assumed that fee income will increase over the 5 year period whereas the other two colleges have assumed a flat position.
  - The City of Glasgow College has predicted significant increases due to the pay harmonisation costs, whereas Glasgow Clyde College and Glasgow Kelvin College have applied the 1% pay increase for support staff and that national bargaining costs will be met by a specific grant from the SFC.
- 74. The Board recognise the limitations of the Financial Forecast Returns and note that they will work with the colleges to undertake increased financial planning activity in order to create a consistent and robust financial projection

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# Governance and transparency

# Governance and transparency



The Board operated with satisfactory governance arrangements in place. Our work on corporate governance focused on reviewing the Board's arrangements to ensure effective systems are in place regarding internal control and standards of conduct.

In year the Board received fundable body status and from 1 August 2017 the Board has responsibility for monitoring the colleges' performance against the outcome agreements.

The Board is transparent in the way that it conducts its business, with the agendas and minutes readily available on the Board website.

## Regional governance arrangements

75. As outlined in our audit plan we identified a risk over long term sustainability of the Board:

### Governance risk

In April 2017 the SFC awarded the Board fundable body status under the Further and Higher Education (Scotland) Act 2005. This gives the Board responsibility for allocating and distributing funding to the three colleges in the Glasgow region (City of Glasgow College, Glasgow Kelvin College and Glasgow Clyde College).

This is a significant increase in the responsibilities of the Board will require robust governance arrangements and a strong system of internal control to be in place.

76. The Board was awarded fundable body status on 1 April 2017 and during 2016/17 worked with the SFC to create the structures needed to take on full funding and monitoring functions from 2017/18.
77. While in prior years the SFC and the Board were responsible for negotiating the outcome agreements with colleges, in 2017/18 academic year they were agreed solely with the Board.
78. This will be the first year of the Board having responsibility for monitoring outcomes and supplying funding to the Board. The Board announced its regional strategy in October 2017. The strategy outlines the mission of the Board as *"to deliver life changing learning through an efficient and effective regional college system which widens access, meets the needs of employers and improves regional and*

*national prosperity."*

79. The relationship between the Board and the colleges is still developing and a Memorandum of Understanding was presented to the Regional Board in September 2017.
80. The Memorandum of Understanding was designed to outline the commitment of the Board and three colleges within the region to work together as an effective and efficient regional system.
81. The memorandum outlines that effective partnership working will be driven by the nine Principles of Public Life in Scotland and three overarching commitments:
- Open and proactive communication;
  - Collaboration and joint working; and
  - Joint development and networking.
82. The governance arrangements are still in development and it will be crucial that all of the bodies within the region adhere to the principles in the Memorandum of Understanding in order to deliver the regional objectives.

## Risk management

83. A developed and integrated approach to risk management is a key feature of a robust system of internal control. The Board maintains a risk register in line with their Risk Management Policy.
84. A review of the risk management arrangements was undertaken in 2016/17 to help drive improvement. The review was informed by work undertaken by Internal Audit who noted

the “system meets control objectives with some weaknesses present.”

- 85. Key recommendations include a requirement for management to undertake a review of the system of internal control and to put in place a mechanism for reviewing the assigned colleges’ risk registers.
- 86. A revised risk management policy was drafted to include the recommendations. The risk register continues to be reported as a standing item on the Regional Board meetings; the assigned colleges risk register was presented to the Audit Committee on 3 October and will be included as a standing item going forward.

### Standards of conduct and arrangements for the prevention and detection of bribery and corruption

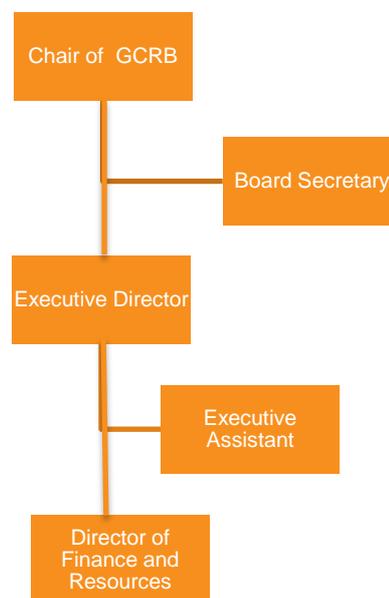
- 87. In our opinion the Board’s arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by a review of the arrangements for adopting and reviewing board regulations and schemes of delegation and complying with national and local Codes of Conduct.
- 88. Board members are responsible for maintaining the register of interests and this should be kept up to date with accurate information. As part of our work on related parties we identified three individuals who had interests in organisations which were undisclosed on their register of interests. The Board should ensure all Board members are aware of the process for updating their register of interests.

#### Follow up of prior year actions

### Revised Management Structure

- 89. In February 2017 the Board approved a revised staffing structure in order to ensure the needs of the Board were met when fully fundable status was awarded.

Exhibit 5: Approved management structure



- 90. As part of this proposal the salaries for both the proposed Director of Finance and Resources and the Executive Director were put forward for approval.
- 91. The staffing structure and salaries were presented to the Nominations and Remuneration Committee in February and following approval were presented to the Regional Board on 27 February 2017. Staff salaries for the new structure were agreed by the Board on 4 September 2017.
- 92. The governance procedures for the approval for the revised structure and senior management salaries were deemed to be sufficient and in line with the requirements of the Code of Good Governance which requires there “must be a formal procedure in place for setting the remuneration of the principal by a designated committee of non-executive members.”
- 93. We have confirmed the Nominations and Remuneration Committee is made up of non-executive members.

### Role of boards

- 94. In September 2010 the Auditor General for Scotland published a report aiming to assess the role and work of boards across 67 public bodies and 39 colleges. The report made the following recommendations:

All non-executives should receive a formal induction	Boards should review the skills and expertise required on the Board and attract people to plug the gaps	Performance of non-executives should be assessed on a regular basis	Scrutiny efforts should be focused on organisational performance, financial and risk management
Performance information provided to the board could be improved	Boards should aim to maximise openness and accessibility of papers	Declarations of interests should be considered at every meeting	Boards should review the use of committees and ensure delegation levels are appropriate

95. As part of our work in 2016/17 we followed up on the issues highlighted by Audit Scotland. Our findings have been shared with Audit Scotland and summarised below.

**Arrangements for scrutiny and decision-making are appropriate**

- 96. In our opinion, the overarching arrangements for scrutiny and decision-making at the Board are appropriate.
- 97. The governance framework is documented within the board regulations, scheme of delegation and members' code of conduct. The standing orders and code of conduct. The board regulations were last reviewed in February 2017, however the scheme of delegation and code of conduct were reviewed in 2015 and 2014 respectively. It is recommended that key governance documents are reviewed on an annual basis to ensure they remain up to date and appropriate.

**Action plan point 5**

98. A review of the governance arrangements in line with the Code of Good Governance is required in 2017/18. The Nominations and Remuneration Committee approved the appointment of an external assessor and the timescales for the review in October 2017.

99. Through our attendance at the Audit Committee and our review of Regional Board and committee minutes, we are satisfied that there is appropriate scrutiny and challenge from members. Published minutes demonstrate that policy decisions and performance management has been subject to scrutiny and formal approval.

100. Committee minutes are presented to the Regional Board and each committee is required to present an annual report which allows the Board to assess the effectiveness of the committee during the year.

**No Board or committee meetings are held in public**

101. While minutes of all Regional Board and Committee meetings are published online, Regional Board and committee meetings are not open to the public.

102. The Regional Board and its committees disclose on the website those papers which were considered and are not published. The aim is to improve transparency through the publication of full committee reports where there is no legal restriction over the content.

103. The Board is deemed to have good arrangements in place for promoting transparency.

#### **Appropriate induction and training takes place for Board members**

- 104.** There is a comprehensive national induction process in place to support Board members to understand and observe their respective roles and responsibilities. Attendance at this training is mandatory across all Scottish colleges.
- 105.** A record of the training attended by each new member is recorded through induction checklists to ensure the Board is compliant. One member of the Board who commenced in August 2017 is due to take this training in 2018.
- 106.** The Board also offer a local induction with the Chair, Executive Director and Board Secretary. This induction covers key governance procedures and strategic information. All members have undertaken this training.

#### **Appropriate arrangements in place to handle complaints**

- 107.** There is a complaints policy and procedures in place with key information published on its website. This information clearly identifies who can complain, how to complain and how long it will take to resolve a complaint.

6

# Value for money

# Value for money



The Board demonstrated commitment to achieving value for money through its annual review of the value for money strategy.

The Board published its first regional strategy in October 2017. Work is underway to develop a performance management framework aligned to the strategy.

The Board monitored performance against regional outcome agreements across the region and noted that significant progress to the achievement of targets had been made in 2016/17, however it was noted that further improvement was needed over rates of attainment and inter-region progression.

## Value for Money Framework

108. The Financial Memorandum between 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; and
- as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

109. Securing the economical and effective management of the Board's resources and expenditure is the responsibility of the Board.

110. At its October 2017 meeting the Audit Committee noted an annual review of the Board's value for money strategy. There were no significant changes to the value for money strategy in year.

## Development of the Strategic Plan

111. The Board published its first strategic plan in October 2017. This covers the period from 2017 to 2022. This plan focuses creating a regional strength to meet the regional ambitions. It focuses on three key areas:

- better lives in a better economy;
- widening access to life-changing learning; and
- unlocking regional potential and adding value.

112. It also focuses on the governance and management of the strategy and how this will be delivered through collaboration and measurement and accountability. Key targets and performance measures are yet to be developed. As part of our audit in 2017/18 we will review the development of the performance management framework for the new strategic plan.

## Performance reporting

113. At a regional level the Board conducted a Regional Outcome Agreement evaluation which covered key targets and achievements over four areas

- Volume of Core Credits and European Structural Funds Credits;
- Widening Access;
- Attainment;
- Post course destination; and
- Developing the young workforce.

114. The evaluation process considered a range of qualitative and quantitative data which was informed by regional groups and performance measures.

115. The report outlined that the Board considered there had been significant collective progress made towards the achievement of outcomes.

116. The key area where targets were not being met was in the attainment rates. It was reported attainment rates for full time courses for both further and higher education were behind target. In addition part time courses for higher

education were also just behind target, while part time courses for further education were ahead of target.

- 117.** The information collected through qualitative sources also identified attainment rates as a key area for improvement. In addition to this it was noted by the Board that there were low levels of intra-region progression to evidence a joined up regional curriculum offer. These will be key areas of focus for the Board going forward, while ensuring that the success in other areas is maintained.
- 118.** In reviewing the attainment rates the Board has considered the 2017/18 Regional Outcome Agreement targets. The Board has reviewed the appropriateness of the targets and has sought to change 2 local targets by a small margin in order to provide a more appropriate measure of success. In line with SFC guidance the change was approved by the Regional Board.

# 7

# Appendices

# Appendix 1: Management action plan

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

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual report and financial statements 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.

## Action plan grading structure

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Definition	Number of audit observations	
		Current year	Prior year
5	Very high risk exposure – Major concerns requiring immediate attention	-	-
4	High risk exposure – Absence/failure of significant key controls	-	-
3	Moderate risk exposure – Not all key control procedures are working effectively	3	2
2	Limited risk exposure – Minor control procedures are not in place/not working effectively	2	-
1	Efficiency/housekeeping point	-	-

Action plan point	Issue & Recommendation	Management Comments
<b>1. Processing of journals</b>	<p><b>Observation</b></p> <p>From our review of the journals environment we identified two issues:</p> <ul style="list-style-type: none"> <li>City of Glasgow College finance team are responsible for processing journals on behalf of the Board. There is currently no review of the journals posted by the Board to ensure completeness and accuracy.</li> <li>City of Glasgow College maintain a separate cost centre for the Board and this is the basis for the financial statements. In 2016/17 only income and expenditure transactions were posted to the Board cost centre. Balance sheet transactions relating to debtors and creditors were populated manually.</li> </ul> <p><b>Recommendation</b></p> <p>We recommend the Board review all journals posted on their behalf and that all journals relating to the Board are posted to the appropriate cost centre.</p>	<p>Recommendation agreed. The change has been implemented with City of Glasgow College for all journals from this point forward.</p> <p><b>Responsible officer:</b></p> <p>Interim Director of Finance &amp; Resources</p> <p><b>Due date: 18 December 2017</b></p>
<b>Rating</b>		
<b>3</b>		
<b>Paragraph ref</b>		
<b>16</b>		

Action plan point	Issue & Recommendation	Management Comments
<b>2. Payments made without approval from the Board</b>	<p><b>Observation</b></p> <p>From our review of invoices paid in year we identified an instance where payment had been made to a supplier on behalf of the Board without approval from the appropriate officer at the Board.</p> <p><b>Recommendation</b></p> <p>It is recommended the Board puts in place procedures to ensure all invoices are subject to approval by an appropriate officer prior to payments being made to suppliers.</p>	<p>Recommendation agreed. Arrangements have been put in place with City of Glasgow College to ensure that all invoices are approved in advance by GCRB.</p> <p><b>Responsible officer:</b></p> <p>Interim Director of Finance &amp; Resources</p> <p><b>Due date: 18 December 2017</b></p>
<b>Rating</b>		
<b>3</b>		
<b>Paragraph ref</b>		
<b>42</b>		

Action plan point	Issue & Recommendation	Management Comments
<b>3. Late payment of suppliers</b>	<p><b>Observation</b></p> <p>The Board procurement policy states that all suppliers should be paid within 30 days, however, from those invoices sampled in year we found that the average payment period was 48.5 days.</p> <p><b>Recommendation</b></p> <p>The Board should ensure that payments are being made in line with its procurement policy.</p>	<p>Recommendation agreed. This has been raised previously with City of Glasgow College and changes implemented. The situation is being monitored to ensure that the changes are effective.</p> <p><b>Responsible officer:</b></p> <p>Interim Director of Finance and Resources</p> <p><b>Due date: 18 December 2017</b></p>
<b>Rating</b>		
<b>2</b>		
<b>Paragraph ref</b>		
<b>42</b>		

Action plan point	Issue & Recommendation	Management Comments
<b>4. Development of regional monitoring arrangements</b>	<p><b>Observation</b></p> <p>The financial monitoring reports to date have focused solely on the performance of the Board running costs against budget. As a result of achieving fundable body status the Board has a responsibility to monitor the financial health of the regional colleges. The Board has made arrangements for obtaining key financial information from the regional colleges.</p> <p>This will be increasingly important in light of the financial projections to 2021/22. There will be significant challenges in delivering balanced budget while maintaining the quality of service.</p> <p><b>Recommendation</b></p> <p>The Board should consider how the information from the regional colleges is monitored and reported. The Board should establish how it supports the region in creating plans to bridge the budget gap.</p>	<p>Recommendation agreed. This will be considered as part of the GCRB Finance Strategy to be considered by the Performance &amp; Resources Committee at its next meeting</p> <p><b>Responsible officer:</b></p> <p>Interim Director of Finance and Resources</p> <p><b>Due date: 31 March 2018</b></p>
<b>Rating</b>		
<b>3</b>		
<b>Paragraph ref</b>		
<b>55 and 71</b>		

Action plan point	Issue & Recommendation	Management Comments
<b>5. Review of governance documents</b>	<p><b>Observation</b></p> <p>The Board maintain key governance documents through the Board Regulations, Scheme of Delegation and Code of Conduct. From our review the Scheme of Delegation and Code of Conduct were last updated in 2015 and 2014 respectively.</p> <p><b>Recommendation</b></p> <p>The Board should review key governance documents on an annual basis to ensure they remain up to date and appropriate.</p>	<p>Recommendation agreed. All committee terms of reference have been reviewed during November and December 2017. Changes to both Audit Committee and Nominations and Remuneration Committee have been approved by the Board in the course of the year. The Board will be reviewing its Scheme of Delegation and implications for the Board Regulations in the new year.</p> <p><b>Responsible officer:</b></p> <p>Board Secretary</p> <p><b>Due date: 31 March 2018</b></p>
<b>Rating</b>		
<b>2</b>		
<b>Paragraph ref</b>		
<b>97</b>		

## Recommendations from 2015/16

1. Long term financial strategy	
<b>Observation</b>	<p>Ongoing budget pressures within the sector mean that it is vital that colleges and regional boards plans sufficiently to ensure they are financially sustainable in the longer term. Going forward there is likely to be further significant pressures on the sector to cuts costs and generate new revenue streams.</p> <p>Audit Scotland's report "Scotland's Colleges 2016" recommends that colleges, and by default, regional boards, prepare long term financial strategies (a minimum five years). The GCRB, nor assigned colleges (as far as we are aware) currently does not prepare a long term financial plan.</p>
<b>Recommendation</b>	<p>Whilst it is recognised that funding allocations from the Scottish Government typically cover one to three-year spending review periods, the GCRB, along with its three assigned colleges, would benefit from developing a long-term financial strategy that includes a clear understanding of its costs, scenario planning, saving options and demonstrate how it will meet demand and deliver services. This matter should be considered by the GCRB once fully-operational fundable body status has been awarded.</p> <p><b>Grade 2</b></p>
<b>Original management response</b>	<p>To be considered by the GCRB once fully-operational fundable body status has been awarded.</p> <p><b>Action owner:</b> Executive Director</p>
<b>September 2017 update</b>	<p>As outlined in the financial sustainability section of the report a long term financial strategy was presented to the Finance and Resources Committee in May 2017 and to the Board in August 2017.</p>

2. Register of Interests	
<b>Observation</b>	<p>Our review of Registers of Interest identified one instance in which a Board member had not provided a refreshed register for 2015/16.</p>
<b>Recommendation</b>	<p>While we observe that declarations of interest appear as a standing item at every Board meeting, it should be ensured that a formal register is maintained and updated on an annual basis.</p> <p><b>Grade 2</b></p>
<b>Original management response</b>	<p>The Register of Interest will be checked and refreshed in December 2016 and thereafter annually each August.</p> <p><b>Action owner:</b> Executive Director</p>
<b>September 2017 update</b>	<p>The Board maintains a register of interests for all Board Members, however, we identified three individuals who had interests in organisations which were undisclosed on their register of interests. It is the responsibility of Board Members to update their</p>

## 2. Register of Interests

	<p>register of interests to ensure that it is accurate and up to date.</p> <p>In addition we identified one instance where one member had not provided a refreshed register of interests.</p>
<b>Management response</b>	<p>Board Members will be asked to review their Declaration of Interests and ensure that this is submitted on an annual basis (including confirmation that there have been no changes).</p> <p><b>Action owner: Board Secretary</b></p> <p><b>Due Date: 31 August 2018</b></p>

## Appendix 2: Audit differences

### Adjusted differences

We identified the following adjustments during the audit. We have discussed this adjustment with management and have agreed that it should be incorporated into the financial statements:

Adjusted differences	SoCI		Balance Sheet	
	DR	CR	DR	CR
Expenditure	301			
Prepayments				301
<i>Being the reversal of expenditure relating to 2016/17 being included as a prepayment</i>				
Expenditure	2,667			
Creditors				2,667
<i>Being post year end invoices relating to 2016/17 that were excluded from accruals</i>				
Trade Creditors			38,754	
Salary costs due to Glasgow Clyde College				38,754
<i>Being the misclassification of creditors in the notes to the accounts</i>				
Staff Costs	25,480			
Creditors- amounts owed to Glasgow Kelvin College				25,480
<i>Being a post balance sheet adjusting event following VAT advice on the Executive Director's salary</i>				
<b>Net impact on income / expenditure</b>		<b>£28,448</b>		

## Disclosure differences

We identified the following balances which were disclosed incorrectly in the financial statements

Adjustment type	Value of change £	Account balance	Impact on the financial statements
Disclosure	1,842	Financial assets	Financial assets were overstated by a net amount of £1,842 due to the inclusion prepayment balances. This has been adjusted in the revised financial statements
Disclosure	2,704	Financial liabilities	Financial liabilities were overstated due to the inclusion of other tax and social security, prepaid income and provisions. This has been adjusted in the revised financial statements.
Disclosure	9,388	Related parties	Undisclosed related party transactions for Colleges Scotland were identified as part of the audit testing. The related party transactions disclosure has been updated accordingly.

# Appendix 3: Respective responsibilities

## Management responsibilities

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the Board will continue in operation.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

## Auditor responsibilities

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 and associated documents such as the governance statement, but also providing a view, where appropriate, on matters such as propriety, performance and the use of resources.

Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with ISAs and

to give: an opinion on the financial statements, an opinion on regularity and an opinion on other prescribed matters. We are also required to report certain matters by exception. Each of these responsibilities is described below

### Opinion on financial statement

We audit the financial statements and give an opinion on whether they:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the body's affairs as at 31 July 2016 and of its surplus for the period 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, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

### Opinion on regularity

We confirm whether, 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 on other prescribed matters

We express an opinion on whether:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

- We are also required to report if, in our opinion: proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the governance statement does not comply with Scottish Funding Council requirements.

### Confirmation of auditor independence

FRC Ethical Standard – Integrity, Objectivity and Independence, issued by the Financial Reporting Council (FRC), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we have complied with FRC Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Board.



**Scott-Moncrieff**  
business advisers and accountants