



**Scott-Moncrieff**  
business advisers and accountants

# **Glasgow Colleges' Regional Board (GCRB)**

Annual report on the 2014/15 audit  
to the Board and the Auditor General for  
Scotland

**March 2016**

# Contents

- Executive summary ..... 1**
- Introduction..... 4**
- Annual report and accounts ..... 6**
- Financial management ..... 19**
- Financial sustainability ..... 22**
- Governance and transparency ..... 25**
- Appendices ..... 27**
- Appendix 1: Management action plan ..... 28**
- Appendix 2: Unadjusted differences ..... 32**
- Appendix 3: Scope of the audit ..... 33**
- Appendix 4: Respective responsibilities of the GCRB’s Board and the Auditor  
..... 34**

# Executive summary

## Annual report and accounts

The Glasgow Colleges' Regional Board (GCRB) was formally established in May 2014 as part of the further education sector reforms under the Post-16 Education (Scotland) Act 2013. This is therefore the first time that GCRB has been required to prepare annual accounts.

The annual report and accounts for the period ended 31 July 2015 are to be approved by the GCRB on 14 March 2016.

Our independent auditor's report provides an unqualified opinion on:

- the financial statements;
- regularity of transactions; and
- other prescribed matters.

However, we have included an 'emphasis of matter' declaration with regard to our audit opinion on regularity to draw attention to the governance weaknesses within the organisation during the course of the reporting period.

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

The annual report and accounts and supporting schedules presented by the GCRB were of a reasonable standard, however a number of required improvements and clarifications were identified. Our thanks go to GCRB senior officials and City of Glasgow College Finance staff for their co-operation and assistance during the audit process.

## Financial management

The total expenditure relating to GCRB in the 2014/15 reporting period was £278,617. By way of comparison, this is £118,371 less than the £396,988 anticipated spend for the period<sup>1</sup>. As described in Note 2 to the Accounts, the costs of the GCRB in the accounting

<sup>1</sup> The £396,988 comprises: the £153,202 of expenditure funded by the Scottish Funding Council (SFC) – see note 2 to accounts; and the January to July 2015 element of the calendar year budget approved by the SFC, which was £243,786.

period were funded through a combination of direct SFC funding (£153,202) and top-sliced funds from the 2014/15 funding allocations of the three member colleges (£125,415<sup>2</sup>).

There was no agreed budget in place for the first eight months of the 2014/15 reporting period and no running cost information was presented to the Board during 2014/15.

Overall, we found that the GCRB did not have sufficiently adequate arrangements in place for financial management and the use of resources during 2014/15. Our conclusion has been based on a review of the GCRB's financial systems, governance, performance, financial position and financial forecasts.

## Financial sustainability

The GCRB's 2015/16 funding allocation from SFC comprises £225,000, to be funded equally by the three member colleges. Additionally, where the £118,371 of unspent funds in 2014/15, held by the SFC, will be rolled forward to the 2015/16 financial year, this provides a total resource allocation of £343,371. The GCRB's revenue budget, as reported to the Board in January 2016, being the latest figures available, forecasts a small surplus for 2015/16.

Overall, we consider that the GCRB has introduced appropriate planning and monitoring arrangements going forward. 2015/16 will be the first period that such arrangements have been actively implemented, and we will review these procedures in further detail during the course of our 2015/16 audit to ensure that they are operating effectively and as intended. Further, we will re-consider the appropriateness of current processes once the GCRB achieves fully-operational fundable body status.

## Governance and transparency

During the period, GCRB established several governance documents, including the following:

- code of conduct for board members;

<sup>2</sup> The actual top-slice was £243,786 (based on budgeted figures), but £118,371 has not been utilised and has therefore been carried forward to 2015/16.

- board regulations;
- terms of reference for board committees;
- expenses procedure for board members;
- a guide for information;
- gifts and hospitality register; and
- agreed procedures for board member recruitment.

These outputs represented important components of GCRB's overall governance arrangements.

However, we found that the GCRB did not operate with good financial governance arrangements during the period. As recognised at the planning stage of our audit, the following key assurance mechanisms and fundamental internal control functions were not in place during the reporting period:

- an appropriate risk management framework;
- key Board committees such as an Audit Committee and Performance & Resources Committee;
- an internal audit function;
- an approved scheme of financial delegation, standing orders or standard financial instructions; and
- appropriate financial monitoring arrangements.

In discussion with both current and previous GCRB senior officials, we recognise that there were, and continue to be, a range of issues and challenges in relation to setting up the new organisation and attaining fully-operational fundable body status. We understand that these challenges, particularly in relation to achieving a shared understanding of the relative roles and responsibilities of the GCRB, the SFC and the assigned colleges in the governance of further education provision in Glasgow in part, explain why full governance arrangements were not fully developed or implemented.

Whilst the absence of the above key internal control mechanisms are deemed to represent fundamental weakness in the GCRB's governance arrangement for

the period under audit, we are satisfied that these matters are reported appropriately in the Annual Governance Statement within the annual accounts.

Finally, we acknowledge that the Interim Chief Officer has prioritised the development of appropriate governance procedures since his appointment in May 2015, and good plans are now in place to address the issues raised in our report.

## Conclusion

This report concludes our audit of the GCRB for the 15 month period to 31 July 2015. 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**  
**March 2016**

1

# Introduction

# Introduction

1. This report summarises the findings from our 2014/15 audit of the Glasgow Colleges' Regional Board (GCRB). The scope of the audit was set out in our External Audit Strategy and Plan.
2. The External Audit Strategy and Plan identified seven key audit issues for 2014/15:

  - Completeness of income;
  - Completeness of expenditure;
  - Completeness of accounting records;
  - Management override;
  - Governance;
  - Going concern; and
  - Timetable.

This report includes our findings in relation to these key audit issues.
3. The main elements of our work in 2014/15 have been:

  - An audit of the annual report and accounts, including a review of the governance statement and the remuneration report;
  - A review of governance arrangements, internal controls and financial systems;
  - An overview of performance management arrangements and arrangements to deliver best value; and
  - Discussions with past and present senior officials involved in the running of the GCRB.
4. Our procedures are carried out solely for the purposes of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) (ISAs).
5. The GCRB is responsible for preparing its annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified 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 annual accounts 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.
6. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Management should assess these recommendations and consider their wider implications before deciding appropriate actions. Each recommendation has been given a grading to help the GCRB assess their significance and prioritise the actions required.
7. This report is addressed to both the GCRB and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
8. We would like to thank the GCRB senior officials, both present and past, and City of Glasgow College Finance staff for their co-operation and assistance during our audit work.

2

# Annual report and accounts

# Annual report and accounts

9. The GCRB's annual report and accounts are the principal means of accounting for the stewardship of the resources provided for its operation and its performance in the use of those resources. The respective responsibilities of the GCRB and the auditor in relation to the financial statements are outlined in Appendix 4.
10. In this section we summarise the issues arising from our audit of the 2014/15 annual report and accounts.

## Overall conclusion

### An unqualified audit opinion on the annual report and accounts

11. The annual report and accounts for the 15 month period ending 31 July 2015 are due to be approved by the GCRB on 14 March 2016. Our independent auditor's report gives:
  - an unqualified opinion on the annual report and accounts;
  - an unqualified opinion on the regularity; and
  - an unqualified opinion on other prescribed matters.
12. However, an emphasis of matter paragraph, outlined below, has been included within our

Auditor's Report with regard to regularity in respect of the governance weaknesses within the organisation during the course of the reporting period:

### ***“Emphasis of Matter***

*The Governance statement discloses that the required structures, systems and procedures for an effective system of governance and internal control, including arrangements for the efficient and effective use of public funds, were not complete and fully implemented during the accounting period. Our opinions on the financial statements and on regularity are not modified in respect of this matter”.*

### Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts has been modified in respect of the governance risk included within Exhibit 1 below.

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

### 1.1 Completeness of income

Under International Standards on Auditing (UK & Ireland) 240 “The auditor's responsibilities relating to fraud in an audit of financial statements”, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the GCRB could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported revenue position.

Whilst we recognise that the GCRB's revenue streams are limited to funding from the Scottish Funding Council and we do not suspect any incidences of fraud or error, we are mindful that there has been no specific bank account in place for the GCRB's finances during the reporting period and all associated transactions have been managed by service organisations / equivalent.

*Noted in 2014/15 External Audit Strategy & Plan*

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



- 14. We have performed sufficient audit testing to provide assurance on the completeness and occurrence of income recognised within the financial statements. We have assessed the appropriateness of the income recognition accounting policy as stated within the financial statements. This assessment resulted in discussions with management and revisions made to the policy applied. We are satisfied that the income recorded within the financial statements has been done so consistently and in accordance with the revised policy.

**1.2 Completeness of expenditure**

Throughout the reporting period, GCRB financial processing has been performed by three different organisations: the Scottish Funding Council, Glasgow Caledonian University and City of Glasgow College.

Whilst we understand that the number of transactions undertaken in the reporting period was low, due to the limited activity of the GCRB, there remains a risk that expenditure transaction data provided by the service organisations may be incomplete, for example, where transactions have been miscoded and have not been allocated to the GCRB cost centre / equivalent.

*Noted in 2014/15 External Audit Strategy & Plan*



- 15. We have reviewed written confirmations and relevant audit reports provided to management by the Scottish Funding Council (SFC) and Glasgow Caledonian University to satisfy that there were no matters arising during the reporting period in respect of respective internal control environments which could have a bearing on the transactions handled on behalf of GCRB.
- 16. We have audited the transaction reports provided by SFC, Glasgow Caledonian University and the City of Glasgow College to ensure that the items within are appropriately supported and have been mapped through to the financial statements.
- 17. We have undertaken analytical procedures, where possible, to satisfy that the expenditure recognised within the financial statements is considered complete and in line with expectations.
- 18. Review of Board meeting minutes to date has not identified any further areas of spend that have not been reflected within the financial statements.

**1.3 Completeness of accounting records**

We understand that full accounting records underpinning the transactions undertaken, currently rest with the three individual service organisations/ bodies that processed them. As auditors to the GCRB, we do not have access to the respective service organisations, and unless we can be satisfied that all records held can be, or will be, provided to the GCRB, there is a risk that we may be unable to obtain sufficient audit evidence to support our audit opinion.

We will continue to work with management to ensure that appropriate steps are taken to ensure that information exchange is sufficient for our needs.

*Noted in 2014/15 External Audit Strategy & Plan*



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

19. Whilst the majority of supporting invoices and underlying audit evidence held by the three service organisations / bodies was provided at the outset of the audit, we were required to follow up a number of outstanding invoices identified, primarily held by Glasgow Caledonian University. However, we are satisfied that we have now received all information requested.

### 1.4 Management override

In any organisation, there is a risk that management have the ability to process transactions or make adjustments to the financial records outside of the normal financial control process. Such transactions could lead to a material misstatement in the financial statements. We treat this as a presumed risk in accordance with International Standards on Auditing (UK & Ireland) 240 "The auditor's responsibilities relating to fraud in an audit of financial statements".

Whilst we do not suspect any incidences of management override, we will review the accounting records for significant transactions that are outside the normal course of business and obtain evidence that such transactions are valid and accounted for correctly.

*Noted in 2014/15 External Audit Strategy & Plan*



20. Our audit work has not identified any significant or material transactions that are outside the ordinary course of business. We have undertaken audit testing of 99.75% of expenditure as recognised within the financial statements and are satisfied that there are no material items, individually or in aggregate, that have been accounted for incorrectly.

### 1.5 Governance

The GCRB has faced a number of widely reported strategic, operational, governance and people challenges since its inception. Until a time where such issues can be fully rectified and fundable body status can be granted, the GCRB cannot be considered effective in its role.

The governance statement provides a platform for the GCRB to demonstrate to the reader of the annual report and accounts, what stewardship and risk management arrangements have been in place during the reporting period.

We are acutely aware that the committee structure within the GCRB has not been operating as intended during the reporting period, there is no endorsed risk management framework in place, there has been no internal audit services provided, permanent appointment of the GCRB management team remains ongoing and there was no Scheme of Delegation approved by the Board in place during the reporting period.

Part of the responsibility of audit will be to provide an independent assessment of how the Board has managed these challenges over the reporting period, how effective the Board has been in meeting its statutory responsibilities under the Act, and in assessing the robustness of plans to take the organisation forward.

*Noted in 2014/15 External Audit Strategy & Plan*



21. The GCRB has not yet been awarded fully-operational fundable body status by the SFC and is therefore not in a position to fully exercise its strategic management and coordination duties as set out under the Post-16 Education (Scotland) Act. Despite this, the GCRB has been operational during the course of 2014/15, supported by public funds.
22. As required by paragraph 17 of part 1 of the Financial Memorandum with Fundable Bodies in the College Sector, the GCRB must comply with the principles of good governance set out within the Code of Good Governance for Scotland's Colleges. The GCRB's 2014/15

---

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

Accounts Direction, as issued by the SFC, further clarifies that the GCRB governance statement should adequately explain the GCRB's unique governance arrangements in place during the period. In line with the principles of comply or explain, explanation should be provided in the event that the GCRB's practices are not consistent with principles.

23. Our audit work on governance arrangements and the Annual Governance Statement, as included within the annual report and accounts, involved a detailed review of the governance activities in place during the reporting period and developments that have occurred since the period end.
24. During the period, GCRB established several governance documents, including the following:
  - code of conduct for board members;
  - board regulations;
  - terms of reference for board committees;
  - expenses procedure for board members;
  - a guide for information;
  - gifts and hospitality register; and
  - agreed procedures for board member recruitment.
25. These outputs represented important components of the GCRB's overall governance arrangements.
26. However, as recognised at the planning stage of the audit, the following key assurance mechanisms and fundamental internal control functions were not in place during the reporting period:
  - a risk management framework;
  - supporting Audit Committee and Performance & Resources Committee;
  - an internal audit function;
  - an approved scheme of financial delegation, standing orders and standard financial instructions; and
  - financial monitoring arrangements.
27. We note however that the GCRB has faced a number of significant challenges in setting up a new organisation and working towards attaining fully-operational fundable body status in the context of a tight financial settlement for the college sector. A key and ongoing challenge has been in reaching a shared understanding with all key stakeholders of the

---

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

relative roles and responsibilities of the GCRB in relation to the assigned colleges and the SFC following the formation of the Regional Board.

28. Whilst the absence of the above key internal control mechanisms are deemed to be fundamental weaknesses in the GCRB's governance arrangements during the reporting period, we are satisfied that the Annual Governance Statement within the annual accounts appropriately discloses these matters.
29. Nevertheless, we consider the absence of a number of key internal controls and financial governance arrangements to be of such significance that, whilst we are able to issue an unqualified opinion on the financial statements and on the regularity of the GCRB transactions, we have included an emphasis of matter paragraph within our auditor's report to draw attention to these matters to help readers better understand the accounts information in context.

### Risk management framework

30. During the course of the reporting period, there was no risk management framework in place. The overall risk management policy and procedure and accompanying risk management guidance was approved by the Board in October 2015. An initial working version of the risk register has also now been developed.
31. Whilst risk management was not embedded within the organisation during the reporting period, our initial review of the recently implemented risk management framework has noted:
  - roles and responsibilities for risk management have now been clearly identified and documented. We consider these to be appropriate to the size of the organisation;
  - the structures and processes by which management plan and monitor risk management been agreed;
  - initial efforts have been made to prioritise risks according to impact and likelihood; and
  - the overall process works towards ensuring that risks are managed to an acceptable level, in accordance with the overall risk appetite set by the Board.
32. We will further assess the robustness of risk management arrangements during the course of the 2015/16 audit.

### Supporting Committees

33. There were no Audit Committee, or Performance & Resource Committee meetings held during the course of the reporting period. Where such supporting committees are not operational and not delivering against their remit, there is a risk that the Board does not receive all assurances required to support effective scrutiny. This increases the risk of fundamental governance issues materialising within the organisation. It is imperative that the supporting committees are fully resourced and are held in accordance with set timetables, fully asserting their responsibilities. We note that these supporting committees are now in

---

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

place and meetings have been held during the 2015/16 year to date.

### Internal Audit

34. The GCRB operated during the course of the 2014/15 financial reporting period with no internal audit function in place.
35. In October 2015, following a procurement exercise run in partnership with Glasgow Clyde College, the Board approved the appointment of Henderson Loggie as internal auditors for the 2015/16 financial year. The timing of the procurement exercise has resulted in the lapse of 3 months of the 2015/16 financial year where no internal audit assurance function has been in place.

### Approved scheme of financial delegation, standing orders and standard financial instructions

36. During the course of the reporting period, there was no scheme of delegation, standing orders or standard financial instructions in place. An interim scheme of delegation was implemented in June 2015 following the appointment of the Interim Chief Officer and a full version was formally approved by the Board at the October 2015 meeting.
37. Whilst invoices were verified as approved by either the Advisor to the Board or the Chair during the course of the reporting period, these individuals had no approved authority to do so without the consent of the Board. The arrangements in place also gave rise to instances where professional subscription and membership fees incurred were self-certified and approved for payment in the absence of appropriate segregation of duties controls.

### Financial monitoring arrangements

38. A high level budget was drafted by the Advisor to Board, in consultation with the SFC, in November 2014, setting out the budgeted running costs for the 2015 calendar year. There was no agreed budget in place for the first eight months of the reporting period. We understand that this budget was not formally presented to the Board but was reported to the SFC to enable them to determine the required funding to be top-sliced from the three colleges to support the running costs of the GCRB. We note that it is not clear whether the SFC or the GCRB was responsible for the budget submission in November 2014, however we have not investigated this matter further as we do not consider it to have a direct bearing on our auditor's report.
39. Our review of the budget as presented to the SFC against the actual costs incurred in period (January to July 2015 only), has observed a number of variations, including a number of generic costs budgeted for which do not appear to have materialised, and conversely, a number of costs that have been incurred during the first seven months of 2015 that were not originally budgeted for (please see the *Financial Management* section of this report for further details). As outlined within our response to risk 1.2 *Completeness of expenditure*, and risk 1.4 *Management override*, as set out above, our audit work performed on expenditure provides satisfactory assurance that running costs, as recorded within the financial statements, have not been materially misstated in respect of occurrence and completeness. The budget was based on information available at the time of preparation. As

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

the organisation has only been recently formed, the information available to inform the budget was not deemed sufficiently robust to provide us with necessary assurance over the running costs as recorded within the financial statements.

40. No further running cost budget information was presented to the Board during the reporting period. Whilst we recognise that 2014/15 was the first period of operation of the GCRB, and fully-operational fundable body status has not yet been granted, running costs were being incurred and we consider the absence of budgeting and / or monitoring arrangements in the period to be a significant weakness in the overall control environment.
41. 2015/16 funding allocations and beyond are based on the Regional Outcome Agreement for the Glasgow region. We understand that the 2015/16 funding allocation was formally set by the SFC and presented to the GCRB in September 2015.
42. We have been advised by management that running cost budget information is now presented to the Board and Performance & Resources Committee as a standing item. We have verified the paper submitted to the October 2015 Board and the paper submitted to the December 2015 Performance & Resources Committee with no significant matters to note. We will review these submissions in further detail during the course of our 2015/16 audit and assess any implications to the budget once the GCRB achieves fully-operational fundable body status, including the need for longer term planning.
43. We have been informed that the 2016/17 draft budget will be presented to March and April meetings of the Performance & Resources Committee and Board, respectively, for initial consideration.

*Management action plan point 1*

### 1.6 Going concern

The GCRB became a legal entity on 1 May 2014 and became operational on 1 August 2014. More than a year has now lapsed since operations commenced, yet the GCRB has not yet obtained fully-operational fundable body status, preventing it from delivering all responsibilities as set out in the Act. The full 2014/15 academic period ran without GCRB powers being enforced.

Where the Glasgow Colleges continue to operate effectively, with funding continuing to be received directly from the SFC and without the intended involvement of the GCRB, there is a risk that the going concern assumption of the GCRB may become jeopardised.

We are not aware of any current intention to terminate the existence of the GCRB, however management must clearly document their considerations and conclusions over the going concern assumption relevant to the GCRB.

*Noted in 2014/15 External Audit Strategy & Plan*



44. Our audit work included a review of progress in attaining fully-operational fundable body status. From this work, along with all other audit work conducted, including discussions with management and review of budgets and funding allocations, we are satisfied that there are no indications that the going concern assumption is not appropriate for the GCRB.

---

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

### 1.7 Timetable

In accordance with Audit Scotland timetables, the certification deadline for colleges' and GCRBs' 2014/15 annual reports and accounts is 31 December 2015.

Our proposed audit timetable is set out in the 'Audit Delivery' section of this report. The draft 2014/15 annual report and accounts are to be provided to us on 12 November, with a final audit start date of 16 November. The intention is for the Audit Committee and the Board to approve the document on 14 December. This allows for a three week window to complete the audit, process any changes required to the annual report and accounts and agree and issue our annual report for inclusion in Audit Committee papers.

This is an extremely tight turnaround and it is therefore imperative that the draft annual report and accounts presented for audit are complete and have undergone a thorough management review to ensure subsequent changes required are minimal.

We will work closely with the GCRB to ensure any findings from the audit are raised in a timely manner which should help to ensure that the accounts production and audit process runs as smoothly as possible.

*Noted in 2014/15 External Audit Strategy & Plan*



45. The 2014/15 financial statements reflect the first 15 month period of the GCRB's operations. As a new organisation, preparing an annual report and accounts for the first time, there were a number of challenges that the GCRB management and external auditors faced. Specifically, whilst an Accounts Direction was issued by the Scottish Government on 29 April 2014, effective 1 May 2014, there remained uncertainty over matters including: i) the duration of the reporting period; ii) the financial reporting framework to be applied; and iii) whether consolidated accounts, incorporating the results of the three assigned colleges, were required. Only on the 11 November 2015 was a revised Accounts Direction issued by the Scottish Funding Council, which clarified the above matters and allowed for the preparation of the draft annual report and accounts.
46. Whilst every reasonable attempt was made to meet the intended timetable, and the detailed audit work was predominantly completed in accordance with it, it was deemed imperative, with the support of management, that further time was required to ensure that this Annual Report provided a balanced, accurate and complete analysis of the audit issues emerging from our work.
47. As a result, the planned Audit Committee on 14 December 2015 was postponed to provide sufficient time for the Annual Report to be finalised.
48. Further, as at 14 December 2015, the pension disclosures within the Remuneration Report remained incomplete due to outstanding data in respect of the Interim Chief Officer. Additionally, written representation from Glasgow Caledonian University regarding assurances over the internal control environment operating during the period 1 January to 31 March 2015 had not been received. These items have now been obtained and audited with no significant issues to note.

## Audit differences

49. Whilst our transaction testing did not identify any material adjustments required to the accounts, our consideration of stated accounting policies, and application of, resulted in a material adjustment to income (SFC grant-in-aid) as disclosed within the accounts. The GCRB made the following adjustment:

	DR £	CR £
Income	107,171	
Debtors		107,171
<i>Being the reduction in recognised income to reflect the amendment of accounting policy</i>		

50. The adjustment made to the financial statements reflects a reduction in recognised income following a revision to the accounting policy. The original accounting policy stated that “*Recurrent grants from the Scottish Funding Council (SFC) are recognised in the period in which they are receivable.*” It is deemed acceptable for the GCRB to ‘draw down’ funding to meet its resource requirements as they fall due. The GCRB, nor entities operating on behalf of the GCRB, should not hold ‘reserves’ or significant cash balances at the financial period end. In line with the rest of the college sector, unspent resources should be returned to the SFC. Discussions with management confirmed that it would be more appropriate for income to be recognised in accordance with the services / operations delivered, and therefore, income should reflect expenditure. The revised accounting policy states that “*Recurrent grants from the Scottish Funding Council (SFC) are recognised in accordance with services/operations delivered.*”
51. In addition to the above adjustment, management identified and adjusted the draft accounts in respect of the following:

	DR £	CR £
SFC grants: Deducted from Member College Grant in Aid – note 2 to accounts	11,200	
SFC grants: Expenditure paid for by the SFC – note 2 to accounts		11,200
<i>Being the re-profiling of the external audit fee across the 2014/15 reporting period</i>		

52. The above two adjustments reconcile to the £118,371 underspend against anticipated costs of £396,988 for the 2014/15 reporting period.
53. During the course of our audit work, we identified three unadjusted items which have been documented within Appendix 2 of this report. These items are not considered to be material to the financial statements individually or in aggregate.
54. We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

### Other matters identified during our audit

55. In addition to the above governance observations, we identified two further findings during the course of our audit work which have been reported within Appendix 1 of this report:
- Uncertainty regarding the benefit to GCRB of certain legal costs;  
**Management action plan point 2**
  - Absent contract documentation.  
**Management action plan point 3**

## Management representations

56. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the annual report and accounts.

## Regularity

57. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and solicitors used by the GCRB the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

58. As noted within *Our assessment of risks of material misstatement* above, invoices were verified as approved by either the Advisor to the Board or the Chair during the course of the reporting period, despite there being no approved scheme of financial delegation in place. This arrangement also led to instances of self-certification of expenditure incurred.

59. However, whilst we have discussed the nature of a number of expenditure items with management to further understand the rationale

for incurring associated spend, we are pleased to report that we did not identify any instances of significant concern with regard to the regularity and legality of transactions or events. However, we did identify a legal invoice paid for by the GCRB, where there was uncertainty regarding whether the services provided were for the direct benefit of the GCRB. Management has investigated this matter and has concluded that the expenditure was authorised by the then Chair because it was believed there was benefit to the GCRB. Ensuring clarity of expenditure authorisation procedures is the subject of Action Point 2 in the Management Action Plan.

## Prior year audit recommendations

60. 2014/15 is the first period of operation of the GCRB and therefore there are no prior year audit recommendations to report upon.

## Qualitative aspects of accounting practices and financial reporting

61. During the course of our audit, we considered 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 accounts. 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 accounts. As referred to above, discussions were held with management regarding the suitability of the income recognition policy included within the draft accounts and revisions were agreed upon. All other stated policies were considered reasonable and had been consistently applied throughout the reporting period.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised. One transaction relating to 2015/16 was identified within our expenditure transaction testing as having been incorrectly accounted for in 2014/15 and has been recorded as an unadjusted difference within Appendix 2 of this report.
The appropriateness of the accounting estimates and judgements used.	Given the limited content of the GCRB accounts, there are no core areas where significant estimates or judgements have been required.
The potential effect on the annual report and accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual report and accounts.	All significant risks and uncertainties have been appropriately reflected in the annual report and accounts.
The extent to which the annual report and accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual report and accounts.	We did not identify any significant unusual transactions in the period.
Apparent misstatements in the Annual Review or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies between the annual accounts and the Annual Review.
Any significant financial statement disclosures to bring to your attention.	No significant financial statement disclosures were identified that we consider should be brought to your attention.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties, other than matters expressed within this report, encountered during the course of the detailed audit work.

## Looking forward

### Operational fundable body status developments

**62.** The GCRB continues to work with the SFC to ensure that all necessary arrangements are in place for the GCRB to assume fully-operational fundable body status. The SFC has set the GCRB a number of required criteria to achieve this objective.

**63.** On 18 January 2016 the SFC wrote to the GCRB with an update on its view of progress, the key points of which were:

- GCRB has made good progress ensuring the required processes, procedures and governance documentation are in place.
- The developing arrangements of collegiate working are working well with an increasingly regional approach based on mutual trust and respect.
- Finalisation of the 2016/17 Regional Outcome Agreement will be critical in ensuring delivery of the Curriculum & Estates Plan 2020 and the future sustainability of all three colleges.
- Building on that good progress, GCRB now requires additional time for governance and management arrangements to be fully implemented and operating effectively, about which the SFC will require further reassurance through observation.

**64.** We will continue to monitor developments during the course of our 2015/16 audit.

**65.** Once fully-operational fundable body status is granted to the GCRB, we will again consider the financial sustainability of the GCRB and its member colleges, in the context of the current financial austerity pressures facing the further education sector across Scotland.

### FE College Statement of Recommended Practice (SORP) - readiness for FRS 102

**66.** Colleges and Regional Boards are currently required to follow the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ('the SORP'). The SORP reflects UK Generally Accepted

Accounting Practice (UK GAAP) and aims to combine the requirements of further and higher education institutions and key stakeholders into recommended accounting practice.

**67.** With effect from the year ending 31 July 2016, the GCRB will be required to present its financial statements under FRS 102 (new UK GAAP), in line with all further education entities, reporting under the new Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP 2015). FRS 102 is a single set of accounting standards developed by the Financial Reporting Council (FRC) and replaces current UK GAAP.

**68.** The SORP represents a significant change in financial reporting across the college sector. This includes changes in disclosure and terminology within the accounts including the names of the primary financial statements. There are also some fundamental changes to accounting treatment e.g. income recognition, treatment of capital grants, and accounting for employee benefits.

**69.** For the GCRB, the transition date is 1 May 2014 with the first FRS 102 compliant accounts being prepared for year ended 31 July 2016. The comparative figures for the period ended 31 July 2015 will also require to be restated as part of the transition process.

**3**

# **Financial management**

# Financial management

70. It is the GCRB's responsibility to ensure that its financial affairs are conducted in a proper manner. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

71. For the period 1 May to 31 December 2014, the GCRB's running costs were funded directly from the SFC's strategic funds budget, and from 1 January 2015 onwards, they have been funded by grant-in-aid provided by the SFC to the Glasgow colleges.

72. SFC processed expenditure transactions relating to GCRB until 31 December 2014. From 1 January until 31 March 2015, this responsibility rested with Glasgow Caledonian University, and from 1 April 2015 to date, these services are being provided by the City of Glasgow College. Written assurances have been obtained to confirm the satisfactory operation of the systems of governance and internal control in place within the above organisations during the respective periods.

## Overall conclusion

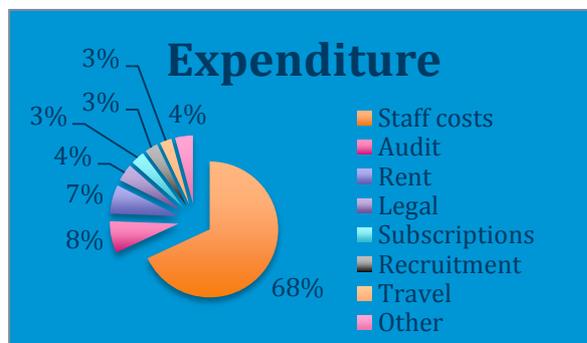
73. Overall, we found that the GCRB did not have sufficiently adequate arrangements in place for financial management and the use of resources during 2014/15. Our conclusion has been based on a review of the GCRB's financial performance, financial position and financial forecasts. Each of these elements is discussed in more detail below.

## The GCRB's financial performance in 2014/15

### Income and expenditure account

74. The total expenditure relating to GCRB in the 2014/15 reporting period was £278,617. This is £118,371 less than the £396,988 anticipated spend approved by the Scottish Funding Council (SFC). The costs of the GCRB in the reporting period were covered by: i) £153,202 direct SFC funding; and ii) £243,786 top-sliced from the 2014/15 funding allocations of the three member colleges.

75. Total spend of £278,617 incurred during 2014/15 was split as follows:



### Underspends

76. The significantly lower level of spend can be in part explained by:

- Staffing: the 2015 calendar year budget included £19,600 of costs, falling within the 2014/15 reporting period, in respect of a senior governance post which was not recruited for / filled.
- Consultancy: £23,439 for general consultancy advice anticipated between January and March 2015 was included in the budget, yet was never used.
- Shared services advice: £40,000 was included within the budget for legal advice on the use of shared services, including any VAT implications. However, these services have been provided free of charge by the member colleges and therefore no such advice was sought.
- Internal audit: £6,000 was budgeted for internal audit costs to cover January to July 2015, however, there was no internal audit function in place during the 2014/15 reporting period.
- Curtailing of rental and office related costs: in April 2015, the GCRB moved into rent free accommodation at the City of Glasgow College. Quarterly rent budgeted for Glasgow Caledonian University office space totalled £4,674 and therefore such costs were not applicable for the final three months of the 2014/15 as had been

included within the original budget.

- Other: the remaining part of the lower level spend was spread across several areas of other operating expenditure.

### Overspends

- 77.** Separately considered, is an amount of £11,546, as included within the 2014/15 accounts, awarded to the Advisor to the Board following a job evaluation exercise.
- 78.** The governance arrangements associated with the commissioning of this job evaluation exercise were not wholly robust as there was no evidence of Board oversight of the commissioning decision.
- 79.** The assessment concluded that the annual salary paid to the Advisor to the Board was not sufficiently reflective of the responsibilities of the post and therefore recommended a revised annual salary benchmark of £70,000, equating to a £10,000 annual uplift. This outcome was approved by the GCRB Nominations & Remuneration Committee in July 2014.
- 80.** However, the approved salary back payment was not made until after the Advisor to the Board had left the GCRB in March 2015. In August 2015, the SFC agreed the release of £12,595 from the original GCRB funding to cover the direct costs relating to this employment matter. This additional cost was not reflected within the 2015 budget.
- 81.** In addition to the above activity, we worked with management on the matter of a legal invoice paid for by the GCRB, due to uncertainty regarding whether the services provided were for the direct benefit of the GCRB. Management has investigated this matter and has concluded that the expenditure was authorised by the then Chair because it was believed there was benefit to the GCRB. Ensuring clarity of expenditure authorisation procedures is the subject of Action Point 2 in the Management Action Plan.

### Budget arrangements

- 82.** As set out within paragraph 38 of this report, there was no budget in place for the first eight months of the reporting period.
- 83.** We understand that no running cost budget information was presented to the Board during the reporting period. Whilst we recognise that 2014/15 was the first period of operation of the GCRB, and fully-operational fundable body status has not yet been granted, we consider the absence of any budgeting and monitoring arrangements in the period to be a significant weakness in the overall control environment.
- 84.** Further, our detailed audit work has identified three instances where we would have expected formal contracts / equivalent to have been in place between the GCRB and the bodies supplying the goods or services, yet they did not exist. These services included: accommodation, staff secondments and services provided by member colleges. This matter has been considered further within Appendix 1 of this report.

### Balance sheet

- 85.** The 2014/15 GCRB financial statements report the income awarded to and expenditure incurred by the SFC, Glasgow Caledonian University and City of Glasgow College in respect of the GCRB activities during the financial period. The balance sheet shows a £nil balance overall, reflecting the financing arrangements of the GCRB.
- 86.** The GCRB does not maintain its own banking arrangements and therefore does not hold a cash balance as at period end. Any unspent funding at the period end is held by the City of Glasgow College.
- 87.** The GCRB held no reserves as at 31 July 2015.

4

# Financial sustainability

# Financial sustainability

88. Financial sustainability looks forward to the medium and longer term to consider whether the GCRB is planning effectively to continue to deliver its services or the way in which they should be delivered.

## Overall conclusion

89. Overall, we consider that the GCRB has identified appropriate planning and monitoring arrangements going forward. 2015/16 will be the first period that such arrangements have been actively undertaken, and we will review these procedures in further detail during the course of our 2015/16 audit to ensure that they are operating effectively and as intended. Further, we will re-consider the appropriateness of current processes once the GCRB achieves fully-operational fundable body status.

## Financial forecasts

### Budgets have been prepared for 2015/16 and a small surplus has been forecast

90. The GCRB's revenue budget, as reported to the Performance & Resources Committee in December 2015, being the latest figures available, forecasts a small surplus of £58,326 for 2015/16.
91. Formally, the allocation for 2015/16 funding was set by the SFC. The funding offered for 2015/16 for the GCRB running costs was £225,000, to be funded equally by the three member colleges, each providing £75,000 from their own allocations. Additionally, 2014/15 unspent funds totalling £118,371, as held by SFC, would be rolled forward to the 2015/16 financial year. This provides a total resource allocation of £343,371.
92. Budgeted spend categories for 2015/16 do not vary significantly from 2014/15 activity. From our review of the 2015/16 budget against 2014/15 activity, the following has been noted:

### Staff costs

93. Budgeted staff costs, including the Chair, account for £232,345 for the 12 months to 31 July 2016, being 85% of total 2015/16 budgeted

spend. This compares to staff costs in the 2014/15 15 month period of £189,583, being 68% of total spend. The increase in costs can be explained by:

- The annual salary of the current Interim Chief Officer, who has been in post since May 2015, is greater than the annual salary paid to the previous Advisor to the Board who was in post from May 2014 to March 2015.
- The GCRB is to be charged by the SFC for the full cost of the Interim Chief Officer (rather than the previously agreed contribution) for the period beyond the original period of the secondment (i.e. from 11 November 2015 onwards).
- The staff costs for 2015/16 include additional staffing that is required to cover a maternity period.

### Other running costs

94. As of April 2015, the GCRB is based within the City of Glasgow College premises, which does not entail any rental costs. During 2014/15, rental costs of £19,157 were incurred for two offices utilised at Glasgow Caledonian University.
95. During 2014/15, £11,510 of legal costs were incurred, £8,880 of which related to advice sought in developing a robust governance framework. Significant one off legal costs are not anticipated in 2015/16, and therefore total legal costs have been budgeted at £2,000.
96. 2014/15 was the first period of operation of the GCRB, with which came a number of unique governance and accounting issues. These matters required significantly greater Audit Partner and Manager input than would ordinarily be expected for a body the scale of the GCRB. It is therefore anticipated that 2015/16 external audit fee will be significantly lower than the 2014/15 equivalent.
97. During 2014/15, there was no internal audit function in place. In October 2015, Henderson Loggie was appointed as internal auditors of the

GCRB for the 2015/16 financial year. The 2015/16 internal audit programme is yet to be finalised and therefore £12,000 of associated costs are the current best estimate.

98. The current projections for 2015/16 are based on the most reliable information available to the GCRB at this time.

#### Monitoring arrangements

99. As noted within paragraph 41 of this report, 2015/16 funding allocations and beyond are based on the Regional Outcome Agreement for the Glasgow region. We understand that the 2015/16 funding allocation was formally set by the SFC and presented to the GCRB in September 2015.
100. We understand that running cost budget information is now presented to every Board meeting and Performance & Resources Committee as a standing item. We have verified the paper submitted to the October 2015 Board and the paper submitted to the December 2015 Performance & Resources Committee (latest available) with no significant matters to note. We will review these submissions in further detail during the course of our 2015/16 audit and assess any implications to the budget once the GCRB achieves fully-operational fundable body status, including the need for longer term planning.
101. The 2016/17 draft budget will be presented to March and April meetings of the Performance & Resources Committee and Board, respectively, for initial consideration.
102. We also note that the October 2015 Board meeting approved the Financial Sustainability strategy.

**5**

# Governance and transparency

# Governance and transparency

**103.** Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

**104.** The GCRB is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

## Overall conclusion

**105.** During the period, GCRB established several governance documents, including the following:

- code of conduct for board members;
- board regulations;
- terms of reference for board committees;
- expenses procedure for board members;
- a guide for information;
- gifts and hospitality register; and
- agreed procedures for board member recruitment.

**106.** These outputs represented important components of GCRB's overall governance arrangements.

**107.** However, we found that the GCRB did not operate with good financial governance arrangements during the period. As recognised at the planning stage of the audit, the following key assurance mechanisms and fundamental internal control functions were not in place during the reporting period:

- Risk management framework;
- Supporting Audit Committee and Performance & Resources Committee;
- Internal audit function;

- Approved scheme of financial delegation, standing orders and standard financial instructions; and
- Financial monitoring arrangements.

**108.** In discussion with both current and previous GCRB senior officials, we recognise that there were, and continue to be, a range of issues and challenges in relation to setting up the new organisation and attaining fully-operational fundable body status. We understand that these challenges, particularly in relation to achieving a shared understanding of the relative roles and responsibilities of the GCRB, the SFC and the assigned colleges in the governance of further education provision in Glasgow in part, explain why full governance arrangements were not fully developed or implemented.

**109.** Whilst the absence of these key internal control mechanisms is deemed to be a fundamental weakness, we are satisfied that the governance statement makes clear that such principles were not in place during the course of the reporting period.

## Systems of internal control

**110.** During our audit work we have considered the accounting systems and internal controls relevant to the maintenance of the GCRB's accounting records and preparation of financial statements. From the work conducted, we have not found these systems to be adequate and operating effectively.

**111.** Whilst invoices were verified as approved by either the Advisor to the Board or the Chair during the course of the reporting period, they had no approved authority to do so without the consent of the Board. The arrangements in place also gave rise to instances where subscription and membership fees incurred were self-certified and approved for payment which is not considered appropriate segregation of duties, regardless of the small size of the organisation. We are however satisfied that our audit testing of travel expenditure as incurred by senior management and the Board, has not identified any instances of self-certification and

all associated costs incurred appear reasonable in the ordinary course of business.

112. Weaknesses have been identified in respect of the financial monitoring arrangements in place at the GCRB during the course of the 2014/15 reporting period, however these have been addressed within section 3 of this report.

## Risk management

113. As detailed within paragraph 30 of this report, during the course of the reporting period, there was no risk management framework in place. The overall risk management policy and procedure and accompanying risk management guidance was approved by the Board in October 2015. An initial working version of the risk register has also now been developed.

114. Whilst risk management was not embedded within the organisation during the reporting period, our initial review of the recently implemented risk management framework has noted:

- Roles and responsibilities for risk management have been clearly identified and documented. We consider these to be reflective of the size of the organisation;
- The structure by which management plan and monitor risk management been agreed;
- Initial efforts have been made to prioritise risks according to impact and likelihood; and
- The overall process works towards ensuring that risks are managed to an acceptable level, in accordance with the overall risk appetite.

## Internal audit

115. There was no internal audit function in place during the course of the 2014/15 reporting period. Following a joint tender exercise with Glasgow Clyde College, we understand that Henderson Loggie has been appointed as internal auditors to the GCRB for 2015/16.

## Support committees

116. The intended governance structure of the GCRB includes an Audit Committee, Performance & Resources Committee and Nominations & Remuneration Committee reportable to the Board. However, neither the Audit Committee, nor the Performance & Resource Committee met during the course of the reporting period. We note that all three committees have met during the 2015/16 year.

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

117. In our opinion the GCRB's arrangements in place during 2014/15 in relation to standards of conduct and the prevention and detection of bribery and corruption were weak. However, it has been recognised that since the end of the reporting period, a bribery policy has been put in place.

118. During the course of the reporting period, there was no scheme of delegation, standing orders or standard financial instructions in place. An interim scheme of delegation was implemented in June 2015 following the appointment of the Interim Chief Officer and a full version was formally approved by the Board at the October 2015 meeting.

## Fraud and irregularity

119. The Board is responsible for preventing and detecting fraud and other irregularities. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, our audit was planned and conducted so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

120. Our work included a consideration of the GCRB's arrangements for the prevention and detection of fraud and irregularity. We observed that the policy on Fraud, Losses, Special Payments and Gifts, was only introduced in August 2015, after the end of the 2014/15 reporting period. However, from the audit work undertaken, we did not identify any further issues in relation to fraud and irregularity.

# 6

## 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 accounts 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 GCRB 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:

<b>Grade 5</b>	Very high risk exposure – major concerns requiring Board attention
<b>Grade 4</b>	High risk exposure – material observations requiring senior management attention
<b>Grade 3</b>	Moderate risk exposure – significant observations requiring management attention
<b>Grade 2</b>	Limited risk exposure – minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
<b>1. Governance</b>	<p>The GCRB has not yet been awarded fully-operational fundable body status by the SFC and is therefore not in a position to fully exercise its strategic management and coordination duties as set out under the Post-16 Education (Scotland) Act. Despite this, the GCRB has been operational during the course of 2014/15, supported by public funds.</p> <p>As required by paragraph 17 of part 1 of the Financial Memorandum with Fundable Bodies in the College Sector, the GCRB must comply with the principles of good governance set out within the Code of Good Governance for Scotland's Colleges. The GCRB 2014/15 Accounts Direction, as issued by the SFC, further clarifies that the GCRB governance statement should adequately explain the GCRB's unique governance arrangements in place during the period. In line with the principles of comply or explain, explanation should be provided in the event that the GCRB's practices are not consistent with principles.</p> <p>The GCRB must clearly set out a timetable and action plan detailing how it will comply with the good governance requirements of the SFC in order to achieve fully-operational fundable body status as soon as practical.</p> <p>This action plan and timetable should be formally agreed with the SFC.</p>	<p>Agreed.</p> <p>At the board meeting of GCRB on 27 October 2015, all the remaining policy and procedural requirements of the SFC were approved.</p> <p>In addition to these procedural requirements, the SFC has indicated that there will need to be time for the governance and management arrangements to be fully implemented and working seamlessly and for SFC to observe them in action.</p>
<b>Rating</b>		
<b>Grade 5</b>		
<b>Paragraph ref</b>		
<b>21 - 43</b>		

Action plan point	Issue & Recommendation	Management Comments
<b>2. Uncertainty regarding the benefit to GCRB of certain legal costs</b>	<p><b>Observation</b></p> <p>Within our expenditure transaction testing, we identified one solicitor's invoice for an amount of £950 in respect of employment advice provided, where there was uncertainty as to whether the services provided were for the direct benefit of the GCRB. The GCRB paid the invoice, as approved by the former Chair of the Board.</p>	<p>Agreed.</p> <p>More generally, management has also instituted regular financial reporting and monitoring so as to identify potentially unusual financial transactions.</p>
<b>Rating</b>		
<b>Grade 4</b>		

Action plan point	Issue & Recommendation	Management Comments
Paragraph ref	<p>Management has investigated this matter and has concluded that the expenditure was authorised by the then Chair because it was believed there was benefit to the GCRB.</p> <p><b>Risk</b> Where a robust and well embedded Board scheme of delegation and accompanying segregation of duties are not in place, there is a risk that expenditure may be incurred which is not deemed regular in the ordinary course of business.</p> <p><b>Recommendation</b> We are satisfied that a scheme of delegation has since been introduced by management which should help prevent any similar instances arising in the future.</p>	
55		

Action plan point	Issue & Recommendation	Management Comments
3. Absent contract documentation	<p><b>Observation</b> From the audit work performed, we have identified three instances where we would have expected formal contracts / equivalent to have been in place between the GCRB and the bodies supplying the goods or services, yet they did not exist:</p> <ul style="list-style-type: none"> <li>The GCRB's Executive Assistant is on secondment to the GCRB from Glasgow Clyde College. There is no documented secondment agreement in place to support this arrangement. £52,676 of costs were incurred during 2014/15 in respect of this secondment.</li> <li>The GCRB rented two office spaces within Glasgow Caledonian University during the 2014/15 period. There was a letter of agreement in place between the SFC and Glasgow Caledonian University regarding the larger of the office spaces, however no similar documentation could be provided in respect of the second office space on which £1,791 was spent during 2014/15. We are satisfied that no further action is required by management with regard to this matter,</li> </ul>	Agreed.
Rating		
Grade 3		
Paragraph ref		
55		

Action plan point	Issue & Recommendation	Management Comments
	<p>as office accommodation is now provided free of charge by the City of Glasgow College.</p> <ul style="list-style-type: none"> <li>• During 2014/15, there were no Service Level Agreements in place between the GCRB and the member colleges in respect of the administrative services being provided to the GCRB free of charge e.g. finance, HR, IT, accommodation etc. However we consider that management have already taken appropriate steps in rectifying the absence of such documentation: the agreement with Glasgow Clyde College has now been formalised and the agreements with City of Glasgow College and Glasgow Kelvin College are currently in draft form.</li> </ul> <p><b>Risk</b> Where arrangements over the supply of goods and services are not formally documented and agreed, there is a risk that the interpreted terms and conditions may be breached by either party, having a detrimental effect on the GCRB being able to successfully deliver its responsibilities. Further, unforeseen costs may arise, outwith the scope of the GCRB budget, putting additional pressure on delivering an efficient and effective service within the funding allocated.</p> <p><b>Recommendation</b> The GCRB should ensure that all such arrangements entered into are formally documented and approved, satisfying that there is a clear audit trail in place should any problems arise.</p>	

# Appendix 2: Unadjusted differences

## Board representations

We have requested that the signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified three unadjusted differences during our audit work. These differences are not considered to be material to the financial statements individually or in aggregate. The unadjusted items are included within the representation letter and shown below:

Unadjusted differences	Income & Expenditure		Balance Sheet	
	DR £	CR £	DR £	CR £
Income	139			
Expenditure		139		
<i>Being the removal of expenditure that relates to 2015/16</i>				
Income	406			
Expenditure		406		
<i>Being the removal of an expenditure item that has been accounted for twice in error</i>				
Expenditure	617			
Accruals				617
Income		617		
Debtors			617	
<i>Being the recognition of legal costs in 2014/15 not accrued for</i>				
<b>Net impact on surplus / deficit</b>	<b>£nil</b>			

It is recognised that these amounts are small in relation to GCRB's total expenditure.

# Appendix 3: Scope of the audit

## An overview of the scope of our audit

The External Audit Strategy and 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 GCRB. 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.

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. No additional significant risks were identified during our audit work.

The significant risks that had greatest effect on our audit, our response to those risks and our findings from the work performed are set out within *Our assessment of risks of material misstatement* within section 2 of this report. The audit response to each of these risks was designed in the context of the financial statements as a whole, and consequently, we do not express an opinion on individual risks

Our standard audit approach is based on performing a review of the key accounting 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, as set out below.

## Our application of materiality

The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual report and accounts.

Our initial assessment of materiality for the annual report and accounts was £1,350 and it remained at this level throughout our audit. Our assessment of materiality is set with reference to a range of benchmarks (including total expenditure). We consider this to be the principal consideration for the

users of the accounts when assessing the performance of the GCRB.

## Performance materiality

We set a performance materiality for each area of work which was based on a risk assessment for the area and percentage application of overall materiality. The performance testing thresholds, as set at the planning stage of the audit, are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	40%	£540
Medium	55%	£743
Low	75%	£1,013

However, given the current profile of the GCRB, sensitivities surrounding it and the limited number of transactions in the period, we deemed it prudent and appropriate to audit all of the transactions as reported within the draft accounts. We achieved 99.75% coverage of expenditure items, and are satisfied that those transactions that we did not audit are low value, high volume based, with an aggregate value significantly below our materiality threshold.

## Reporting

We have reported all misstatements identified through our audit that fell within one of the following categories:

- Material corrected misstatements i.e. those above £1,350;
- Uncorrected misstatements with a value in excess of £100; and
- Other misstatements below £100 that we believe warrant reporting on qualitative grounds.

We also report to the Audit Committee on significant disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

# Appendix 4: Respective responsibilities of the GCRB's Board and the Auditor

## Responsibility for the preparation of the annual report and accounts

Within the terms and conditions of the financial memorandum between the Scottish Funding Council (SFC) and the GCRB, the Board, is required to prepare the annual report and accounts for each financial period which give a true and fair view of the state of affairs of the GCRB and the surplus or deficit for that period.

### In preparing the annual report and accounts, the Board is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing financial statements on the going concern basis unless it is inappropriate to assume that the GCRB will continue in operation.

### The Board is also responsible for:

- keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the GCRB and enable it to ensure that the annual report and accounts comply with the Further and Higher Education (Scotland) Act 2005, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

### We audit the annual report and accounts and give an opinion on whether:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Funding Council of the state of the GCRB's affairs as at 31 July 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Funding Council;
- 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; and
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and that the information in the Operating and Financial Review is consistent with the financial statements.

### We are also required to report, if in our opinion:

- proper accounting records have not been kept; or
- the financial statements 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 Statement of Corporate Governance and Internal Control does not comply with SFC requirements.

## Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

In particular, there 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. In addition to the audit of the financial statements, Scott-Moncrieff has performed audit work in respect of student funds. The scope of this work is such that our independence and objectivity has not been compromised.



**Scott-Moncrieff**  
business advisers and accountants