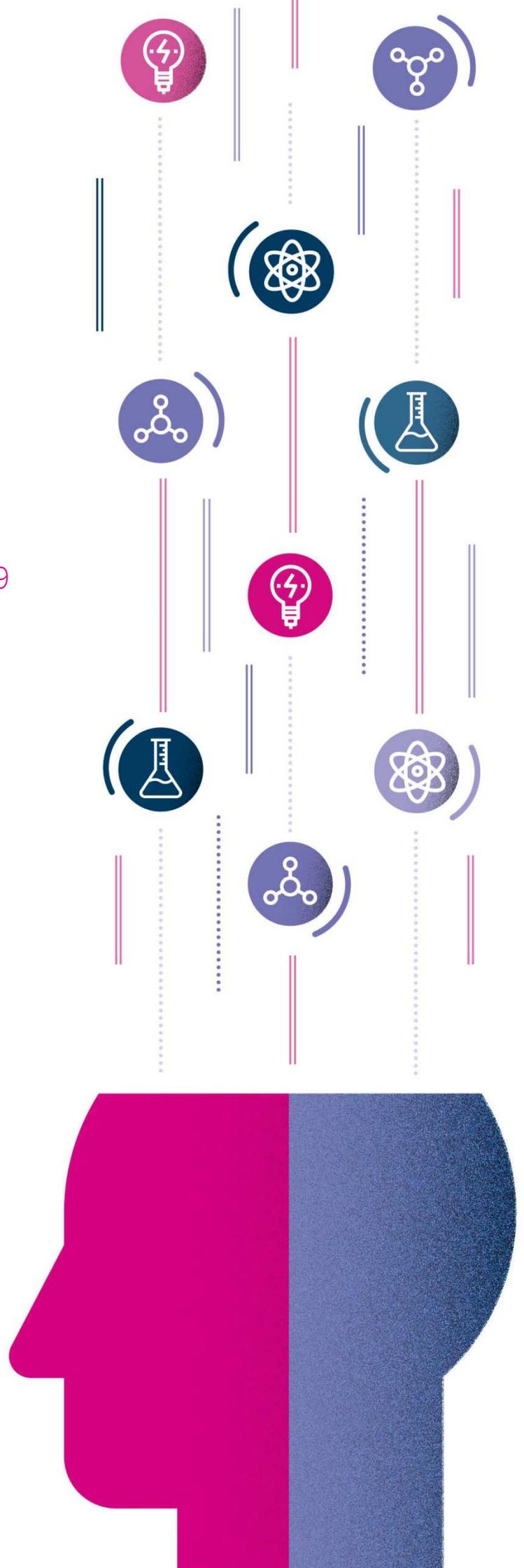


# Glasgow Colleges' Regional Board

Group External Audit Plan 2018/19

May 2019





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# 1. Introduction

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## Introduction

1. This document summarises the work plan for our 2018/19 external audit of Glasgow College's Regional Board ("GCRB").
2. The core elements of our work include:
  - an audit of the 2018/19 annual report and accounts;
  - a review of GCRB's arrangements for governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland.
3. process is independent and our objectivity has not been compromised in any way.
8. Scott-Moncrieff provides taxation services to GCRB. The expected non-audit fee for this work in 2018/19 is approximately £3,000.
9. We set out in Appendix 2 our assessment and confirmation of independence.

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including further education bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of GCRB for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2018/19 and summarises:
  - the responsibilities of Scott-Moncrieff as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Scott-Moncrieff and the audit team.
10. 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 GCRB 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 GCRB promote improved standards of governance, better management and decision making and more effective use of resources.

## Adding value through the audit

## Feedback

11. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).
12. While this plan is addressed to GCRB, it will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we will comply with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit



# 2. Respective responsibilities of the auditor and GCRB

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## Respective responsibilities of the auditor and GCRB

### Auditor responsibilities

#### Code of Audit Practice

13. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

#### Our responsibilities

14. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

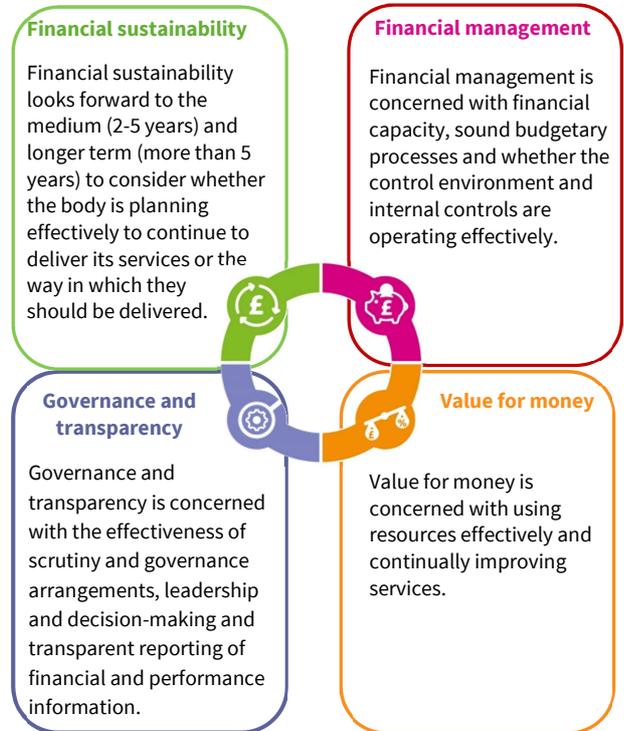
- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notify the Auditor General when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider public audit scope (proportionate to the audited body) by reviewing and providing judgements and conclusions on the audited bodies':
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  - suitability and effectiveness of corporate governance arrangements; and
  - financial position and arrangements for securing financial sustainability.

15. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors 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.

#### Wider scope audit work

16. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and

### Exhibit 1: Audit dimensions of wider scope public audit



undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

17. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
18. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
19. Our assessment takes into account the size, nature and risks of GCRB. Taking these factors into consideration,



we have concluded that application of the full wider scope is appropriate at GCRB.

effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. GCRB's responsibilities are summarised in Exhibit 2 – GCRB responsibilities.

## GCRB's responsibilities

20. GCRB has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing

## Exhibit 2 – GCRB responsibilities

| Area   | GCRB's responsibilities  |
|--|--|
| <p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>  | <p>GCRB has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li> <li>• maintaining proper accounting records; and</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.</li> </ul> |
| <p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p> | <p>GCRB is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>   |



| Area  | GCRB's responsibilities  |
|---|--|
| <p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>   | <p>GCRB is responsible for ensuring that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>GCRB is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>GCRB is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p> |
| <p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p> | <p>GCRB is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>GCRB is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>   |
| <p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>   | <p>GCRB has a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>   |



# 3. Audit strategy

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# Audit strategy

## Risk-based audit approach

21. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to GCRB. This ensures that our audit

focuses on the areas of highest risk. Our audit planning is based on:

|  |   |   |
|--|---|---|
| <b>Discussions with senior officers at the Board</b>   | <b>Our understanding of the further education sector and its key priorities and risks</b> | <b>Attendance at the Audit Committee</b>                                      |
| <b>Guidance from Audit Scotland</b>                    | <b>Discussions with Audit Scotland and other sector auditors</b>                          | <b>Discussions with internal audit and reviews of their plans and reports</b> |
| <b>Review of GCRB's corporate strategies and plans</b> | <b>Review of GCRB's corporate risk register</b>   | <b>The outcomes of prior year audits</b>                                      |

22. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

### Communications with those charged with governance

23. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with GCRB that these communications will be through the Audit Committee.

### Professional standards and guidance

24. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Partnership working

25. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

### Audit Scotland

26. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

27. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review GCRB arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which GCRB uses the national performance reports as a means to help improve performance at the local level.

28. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.



## Internal audit

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29. GCRB's internal audit service is provided by Henderson Loggie. We are committed to avoiding duplication of audit effort and ensuring an efficient use of GCRB's total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource available to GCRB is used efficiently and effectively.



# 4. Annual report and consolidated financial statements

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# Annual report and consolidated financial statements

## Introduction

30. Audited bodies' annual report and accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of GCRB's annual report and consolidated financial statements.
31. The annual report and consolidated financial statements of GCRB comprise the financial statements, the performance report and the accountability report.

## Approach to audit of the financial statements

32. Our opinion on the financial statements will be based on:

### Risk-based audit planning

33. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

### An audit of key systems and internal controls

34. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements
35. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and GCRB's own policies and procedures.
36. We will take cognisance of any relevant internal audit reviews of systems and controls.
37. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the financial statements

38. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.

39. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP), HM Treasury Financial Reporting Manual 2018/19 (FRM) and the Accounts Direction.
40. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

### Independent auditor's report

41. Our opinion on whether the financial statements give a true and fair view and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and accounts.
42. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

### Group accounts

43. GCRB prepared its financial statements on a group basis for the first time in 2017/18. The consolidation of the financial statements is thus still a relatively new process. The group consists of GCRB and the colleges within the Glasgow region:
- Glasgow Kelvin College;
  - Glasgow Clyde College; and
  - The City of Glasgow College.
44. The consolidation of the subsidiaries is expected to result in a material change to the parent's financial statements.
45. As part of our audit we will review the consolidation working papers to ensure the group accounts accurately reflect the activities of the parent and all the subsidiaries.
46. We liaise with the auditors of the subsidiaries to ensure we can obtain adequate assurance from the audit testing at each of the individual colleges. Where this is not possible we will conduct additional testing over the group balances as appropriate.



**Materiality**

- 47. 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. We will review our assessment of materiality throughout our audit.
- 48. Our initial assessment of materiality for the financial statements is £7,900 for GCRB and £2.607million for the Group. We consider the gross expenditure to be the principal consideration for the users of the group and parent accounts when assessing financial performance. We have set our planning materiality for GCRB at 1.8% of 2017/18 gross expenditure. We have lowered our materiality for the group to 1.5% of combined expenditure as reported in the 2017/18 financial statements for the regional colleges and GCRB. This takes cognisance of the increased level of stakeholder interest. We will review our assessment of materiality throughout the audit.
- 49. Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.
- 50. We set a performance (testing) materiality for each area of work which is based on a risk assessment for

the area. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

| Area risk assessment |           |           |           |
|----------------------|-----------|-----------|-----------|
|                      | £         |           |           |
|                      | High      | Medium    | Low       |
| GCRB                 | 3,950     | 4,740     | 5,925     |
| Group                | 1,173,200 | 1,433,900 | 1,824,900 |

- 51. We will report any misstatements identified through our audit that fall into one of the following categories:
  - All material corrected misstatements;
  - Uncorrected misstatements over 5% of overall materiality for GCRB and the Group; and
  - Other misstatements below the 5% threshold that we believe warrant reporting on qualitative grounds.

**Key audit risks in the financial statements**

- 52. Auditing standards require that we inform the Audit Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit Committee if our assessment changes significantly during the audit.

**Exhibit 3 – Key audit risks in the financial statements**

**1. Management override**

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



- 53. In response to this risk we will review GCRB’s accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, pension assumptions, provisions and arrears.



## 2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the GCRB could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

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54. As part of our planning process we have considered the nature of the revenue streams at the GCRB against the risk factors set out in ISA 240. We have identified that for Scottish Funding Council (SFC) grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature.
  55. We have reviewed income streams across the group and concluded that although the risk of revenue recognition can be rebutted for GCRB, the colleges within the group have significant other income streams and the risk of fraud in relation to revenue recognition is present.
  56. We will consider the colleges' key revenue transactions and streams and liaise with the college auditor to gain assurance over the control environment in place and the figures reported in the accounts of the regional colleges. Where we are unable to get satisfactory assurance from the component auditors we will conduct additional testing at the group level.

## 3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

In line with the practice note, our presumption is that GCRB and its subsidiaries could adopt accounting policies or recognise expenditure in a way that materially misstates the group's financial performance.

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57. As part of the planning process we have considered the nature of the expenditure at GCRB against the risk factors set out in ISA 240. We have identified that the majority of expenditure relates to payroll and this is not subject to manipulation in the same way as other expenditure items. We have therefore rebutted the risk of expenditure recognition for GCRB parent accounts.
  58. The group accounts consist of the expenditure for GCRB and the three regional colleges. We recognise that the colleges expenditure is more complex than GCRB and therefore we do not intend to rebut this risk for the group accounts.
  59. We will consider the colleges' key expenditure transactions and streams and liaise with the college auditor to gain assurance over the control environment in place and the figures reported in the accounts of the regional colleges. Where we are unable to get satisfactory assurance from the component auditors we will conduct additional testing at the group level.



## 4. Preparation of consolidated financial statements

GCRB will, for the second time only, be required to prepare consolidated financial statements for the period ended 31 July 2019. They continue to work with the assigned colleges to ensure there are consistent accounting policies across the region and there is a suitable timetable to allow GCRB to meet the reporting deadlines as outlined in the SFC accounts direction. However, any errors in the consolidation process carry a risk of material misstatement for the consolidated accounts.

60. We will review the consolidation workings to ensure the group accounts have been prepared correctly and all inter-group balances have been eliminated appropriately.
61. ISA 600 requires that as group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries and the consolidation process to express an opinion on whether the group financial statements are prepared in accordance with the SORP.
62. We have identified that all three subsidiaries are significant for the purposes of the group financial statements and as such we will require comprehensive assurance that the figures provided by the colleges are materially correct. We have identified three significant risks which are relevant to the financial statements of the colleges and we will liaise with the component auditors to obtain satisfactory assurance.
63. Scott-Moncrieff provides external audit services to each of the colleges. We will therefore co-ordinate across the various audit teams to ensure group audit risks and materiality are considered by the subsidiary auditor. We will seek assurance from the college audit teams that the subsidiary accounts give a true and fair view and that there are no unadjusted errors which would have a material impact on the group.

### The performance report, accountability report and other information

64. The HM Treasury Government Financial Reporting Manual 2018/19 sets out the content required within the annual report and consolidated financial statements. In addition to presenting our opinions over the financial statements our independent auditor's report will also present our opinion on other aspects of the annual report and accounts:

#### Other information

65. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.
66. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the

course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our independent auditor's report.

#### The performance report

67. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains:
- an overview of the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and
  - a detailed summary of how the entity measures its performance.
68. Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.



## The accountability report

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69. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:
- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
  - A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
  - A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.
70. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements



# 5. Wider scope audit

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## Wider scope audit

### Introduction

71. As described in section 2, the Code frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. As part of our annual audit we consider and report against these four dimensions:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

72. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of GCRB's key priorities and risks. In 2018/19, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to GCRB:

- EU withdrawal;
- Changing landscape of public financial management;
- Dependency on key suppliers; and
- Openness and transparency.

73. At this stage of our audit planning process, we have not identified any significant risks to the wider scope dimension of our audit. However we continue to note the governance arrangements following the fundable body status as an other risk factor.

### Other risk factors

74. In April 2017, under the Further and Higher Education (Scotland) Act 2005, the GCRB was awarded fully operational fundable body status by the Scottish Funding Council (SFC). Underpinning the status, is the Memorandum of Understanding which was designed to outline the commitment to the organisation and three colleges within the region to work together as an effective and efficient regional system.

75. It is imperative that the significant increase in responsibilities awarded to the GCRB is supported by the robust governance arrangements and a strong system of internal controls. A GCRB development plan was established to continue to strengthen and monitor governance arrangements within the organisation and wider region.

76. At this time, governance arrangements and working relationships continue to develop and mature. The GCRB continues to work to ensure all three colleges within the region adhere to the principles of the Memorandum of Understanding in order to deliver the regional objectives.

77. As part of the audit, through review of minutes, discussions with key management and obtaining other audit evidence as appropriate, we will continue to assess the GCRB's compliance with the SFC's award of fully operational fundable body status requirements, the regional Memorandum of Understanding, regional outcome agreement and the underpinning development plan.

78. We have not, at this stage, identified any significant risks in relation to the other dimensions for the GCRB. We note that financial sustainability has been recognised as an audit risk for two out of the three regional colleges and we have outlined our intended work below. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report. The table below summarises our audit work in respect of each dimension.



## Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation's planning processes support the future delivery of services.

### Consideration

During 2017/18, we were satisfied that GCRB were forecasting a relatively stable position across the five year period to 2022/23. GCRB has forecast a breakeven position in each of the five years.

We noted that it will be increasingly challenging to maintain service delivery within the confines of the regional budget. GCRB has a role in monitoring the financial health of the colleges going forward and working with the colleges to develop a plan to close the budget gap, currently forecast for 2019/20 and beyond, while maintaining the quality of service. Financial sustainability has been recognised as an audit risk in 2018/19 for two of three of the assigned Glasgow colleges.

### Our audit approach

During our 2018/19 audit we will update our assessment of GCRB's financial standing and that for the region as a whole. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting.

We will also review the monitoring arrangements for the regional colleges and the governance arrangements for working with the regional colleges to drive forward an approach to closing the budget gap for 2019/20 and beyond.

We will ensure that the results of our financial sustainability audit work for GCRB are consistent with conclusions on the associated work conducted across the three Glasgow colleges.



## Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Consideration

GCRB Performance Committee receives regular monitoring reports throughout the financial year. The report provides members with a year to date position against budget, a forecasted year end position and narrative commentary.

Following the 2017/18 audit we noted that overall we found regional budget monitoring processes and systems of internal control to be adequate. However the current national funding model is not aligned to achieve regional goals and outcomes, which is imperative to regional effectiveness. We noted that the Group financial reporting had developed significantly during the year.

### Our audit approach

During our 2018/19 audit we will continue to review, conclude and report on the following:

- The achievement of financial planning targets and the effectiveness of financial performance reporting during 2018/19;
- Whether GCRB continues to have arrangements in place to ensure systems of internal control are operating effectively;
- Whether GCRB can continue to demonstrate the effectiveness of its budgetary control system in



## Consideration

## Our audit approach

communicating accurate and timely performance;

- Whether GCRB has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and
- Where appropriate, we will ensure that the results of our financial management audit work for GCRB are consistent with conclusions on the associated work conducted across the three Glasgow colleges.



### Governance and transparency

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

## Consideration

## Our audit approach

### See Exhibit 4

We concluded in 2017/18 that GCRB operated with satisfactory governance arrangements in place however, they had recognised the importance that moving forward the SFC places more reliance on the governance, monitoring procedures and controls of GCRB.

Our assessment was informed by a review of the corporate governance arrangements in place, the information provided to GCRB and Committees as well as the risk management arrangements in place.

As part of our work on governance and transparency in 2018/19, we will:

- Continue to consider whether GCRB can demonstrate that the governance arrangements in place are appropriate and are operating effectively;
- Consider the transparency of decision making and on financial and performance reporting;
- Assess whether GCRB is compliant with the revised Audit Committee handbook; and
- Review GCRB's preparations for the potential impact of EU withdrawal.
- We will review the performance self-evaluation return for the SFC and ensure the responses within are consistent with our understanding of the organisation.
- We will diarise regular discussions with GCRB management during the year to ensure that we are fully sighted on regional developments and where relevant, the ongoing relationships with the three colleges.
- We will review the results of the governance work conducted within the



## Consideration

## Our audit approach

audits of the three Glasgow colleges to ensure that there are no inconsistencies in findings in respect of the GCRB delivering its objectives and responsibilities.



### Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

## Consideration

## Our audit approach

Following the 2017/18 audit we noted that GCRB has continued to develop a robust performance management framework. Sufficient progress had been made in relation to the 2017/18 ROA with areas of improvement highlighted to drive forward in 2018/19. GCRB was making sufficient progress against its strategic ambitions in accordance with the Glasgow Region Strategic Plan 2017-22.

We concluded that GCRB had demonstrated commitment to achieving value for money through its annual review of the value for money strategy.

During 2018/19 we will review, conclude and report on:

- GCRB's ability to demonstrate the achievement of value for money in the use of its resources;
- Evidence which confirms that GCRB outcomes are improving and there is sufficient focus on improvement and the pace of it;
- Specifically, we will review progress on the collaborative projects being undertaken with the Glasgow colleges and understand how value for money is being monitored and achieved;
- We will seek to compare the value for money strategies and approaches applied by the three Glasgow colleges to identify priorities and ensure there is a consistent approach for the region as a whole which is in turn aligned to the regional outcome agreement ; and
- We will ensure that the results of our value for money audit work for GCRB are consistent with conclusions on the associated work conducted across the three Glasgow colleges.



# 6. Audit outputs, timetables and fees

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## Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of the This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of GCRB.

| Audit output   | Format | Description  | Target month  |
|--|--------|--|---------------|
| External audit plan  | Report | This report sets out the scope of our audit for 2018/19.   | May 2019      |
| Independent Auditor's Report                               | Report | This report will contain our opinion on the financial statements, the regularity of transactions and the audited part of the remuneration report, annual governance statement and performance report.  | December 2019 |
| Annual Report to GCRB and the Auditor General for Scotland | Report | At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice. | December 2019 |

### Audit outputs

79. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
80. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

|                      | 2018/19        | 2017/18        |
|----------------------|----------------|----------------|
| Auditor remuneration | £18,970        | £18,540        |
| Pooled costs         | £1,090         | £1,190         |
| Audit support costs  | £1,150         | £1,030         |
| <b>Total fee</b>     | <b>£21,210</b> | <b>£20,760</b> |

### Audit fee

81. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
82. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
83. For 2018/19 the expected fee for GCRB is £21,210. We propose setting the 2018/19 audit fee at the 10% above expected fee level. This takes into consideration the risks identified at planning and the additional work anticipated as a result of the incident of fraud at one of the Colleges in the year.
84. We will take account of the risk exposure of GCRB and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.



## Audit timetable

85. A summary timetable, including audit outputs, is set out as follows:

|               |   |  |
|---------------|---|--|
| <b>APR 19</b> | ● | Planning meeting to inform the 2018/19 audit   |
| <b>MAY 19</b> | ● | Presentation of External Audit Plan to the Audit Committee   |
| <b>OCT 19</b> | ● | Accounts presented for audit and final audit visit begins  |
| <b>DEC 19</b> | ● | Annual audit report presented to the Audit Committee and submitted to the Auditor General for Scotland |



# 7. Appendices

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# Appendix 1: Your audit management team

| Edinburgh   | Glasgow                                 | Inverness                                 |
|---|---|---|
| Exchange Place 3<br>Semple Street<br>Edinburgh<br>EH3 8BL | 25 Bothwell Street<br>Glasgow<br>G2 6NL | 10 Ardross Street<br>Inverness<br>IV3 5NS |
| (0131) 473 3500   | (0141) 567 4500                         | (01463) 701 940                           |

## Your audit management team



### Gary Devlin

**Partner**

[gary.devlin@scott-moncrieff.com](mailto:gary.devlin@scott-moncrieff.com)

Gary is responsible for Scott-Moncrieff’s work in the public sector and further and higher education sectors. He has over 20 years’ experience in providing audit, assurance and advisory services to a wide range of clients and is an expert on governance and risk reviews in the public, charity and education sectors.

Gary experience spans internal audit, external audit and risk management services and he is the partner in charge of a range of our HE and FE internal and external audit appointments. Gary is the appointed auditor to Glasgow Clyde College, Glasgow Kelvin College, and the City of Glasgow College



### Sally Castledine

**Audit Manager**

[sally.castledine@scott-moncrieff.com](mailto:sally.castledine@scott-moncrieff.com)

Sally has over 12 years’ public sector external audit experience. She has delivered external audit services to a range of public sector bodies, including health bodies, central government bodies and further education bodies.

Sally will coordinate the wider scope elements of the audit, across the Glasgow college region working alongside Lynsey to deliver the overall audit engagement for GCRB specifically.



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## Lynsey Hamilton

### Assistant Manager

[lynsey.hamilton@scott-moncrieff.com](mailto:lynsey.hamilton@scott-moncrieff.com)

Lynsey will be supporting Sally and the onsite team in the delivery of the annual audit. Lynsey has a breadth of experience providing external audit and accounting services to a range of not-for-profit, charity and limited company clients.

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## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Non-audit services

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Scott-Moncrieff provides taxation services to the GCRB. All taxation services are provided by independent partners and staff who have no involvement in the audit of the annual report and consolidated financial statements. The total value of the taxation services provided in 2018/19 is anticipated to be approximately £3,000 (excluding VAT).

### Confirmation of independence

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We confirm that we will comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, GCRB, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.



## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of GCRB and Scott-Moncrieff.

### Annual report and consolidated financial statements

We will require the annual report and consolidated financial statements and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant GCRB staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

### Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Board's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from GCRB during the course of the audit on matters having a material effect on the financial statements. This will take place by means of a letter of representation, which will require to be signed by the Principal.

### Internal audit

It is the responsibility of GCRB to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

### Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

### Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

### Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Gary Devlin. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

### Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

### Agreement of terms

We shall be grateful if the Audit Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.

