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Glasgow Kelvin College

2021/22 Annual Audit Report to the Board and the Auditor General for Scotland

November 2022

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Key messages

This report concludes our audit of Glasgow Kelvin College for 2021/22.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	Our proposed independent auditor's report includes: • an unqualified opinion on the financial statements; • an unqualified opinion on regularity; and • an unqualified opinion on other prescribed matters. Our audit work is complete.
Key findings on audit risks and other matters	We have reported our audit findings on pages 12-28. Our audit was delayed as the accounts were not provided to the agreed timetable. We understand this was due to absence of one of the accountants in the finance team and late adjustments being processed. We made a recommendation for the future years, so the audit process is more efficient.
Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. There have been no adjustments to the financial statements and no errors identified other than trivial. We identified a small number of disclosure amendments which we list in Appendix 2. These have been reflected in the finalised financial statements.
Accounting systems and internal controls	We have applied our risk based methodology to your audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.

Wider scope audit

Auditor judgement

Financial Sustainability

The further education sector has been notified of a 'flat cash' funding assumption from the SFC for the next five years and possibly beyond. In the context of high levels of inflation and pay awards, this translated into a highly challenging financial position. The College is forecasting in its core, most realistic scenario operating deficits in the first two years of the next five-year period, followed by breakeven results in the following two years and going back to a deficit in year five. However, a worst-case scenario, prepared in accordance with the SFC guidelines, assumes deficits amounting to up to £19 million over the five year period. All working assumptions confirm that the College will have to make difficult decisions on spending priorities in the coming years.

There remain a number of uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty.

The College has already signalled that it will be required to implement a programme of significant savings which may result in a reduction of 21% of its workforce over the next three years. The scale of these reductions challenge the sustainability of the College's current operating model and may require rationalisation of education provision which can have a consequential effect on future funding levels. The impact on student experience and the wider impact on measures of positive outcomes for students will require ongoing analysis as assumptions manifest into known parameters and actions.

The College is still to establish detail behind its capital plan beyond one year to provide the stakeholders with its detailed capital and maintenance needs to support its bid for longer term capital funding.

Financial Management

Auditor judgement

The College is well managed financially, but faces unprecedented and continuing challenges as a result of the COVID-19 pandemic, current levels of inflation, particularly in relation to utilities, and flat public sector funding.

The College has proactive and rigorous medium-term financial planning arrangements in place and has considered several possible scenarios and plans of action to address known and projected financial challenges.

The College reports an operating deficit of £1.404 million for the year. Actuarial gains of £23.455 million and property revaluation £9.979 million moved the College's position to an accounting surplus of £32.030 million for the year.

The adjusted operating surplus (as defined by the SFC) for the year was £1.092 million (£0.876 million in 2020/21).

The accounts also report cash balances of £4.157 million at July 2022 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

Governance & Transparency

Auditor judgement

Governance arrangements at the College were found to be good.

The Board was subject to an externally facilitated effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review concluded that the College demonstrates a high level of compliance with the Code.

Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Auditor judgement

Value for Money

2021/22 was a challenging year, with financial and liquidity indicators improving, but performance in relation to Credit targets and successful outcomes for students is declining. The College under delivered its Credit target by 3.6%, although this is in context of pandemic impact on students' lower presence on campuses and staff strike action.

Both the full-time Further and Higher Education success outcome figures will be below that achieved in 2018-19. Across all modes of learning and levels, we can see an increase in 2021/22 of partial success with more students not achieving the full qualification, particularly for Full-time HE courses.

The Board has appropriate performance management processes in place that support monitoring and management of performance outcomes.

The student satisfaction levels have increased when compared to last year.

Definition

Our wider scope audit involves consideration of the College's arrangements as they relate to financial sustainability, financial management, governance and transparency and value for money. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.

There is a fundamental absence or failure of arrangements in place
There is no evidence to support improvement
Substantial unmitigated risks affect achievement of corporate objectives

Arrangements are inadequate or ineffective.
Pace and depth of improvement is slow
Significant unmitigated risks affect achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists
Pace and depth of improvement are adequate
Risks exist to achievement of operational objectives

Effective and appropriate arrangements are in place
Pace and depth of improvement are effective
Risks to achievement of objectives are managed

Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Glasgow Kelvin College for 2021/22.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence.

At the College, we have designated the Audit and Risk Committee as "those charged with governance".

Scope

1. We outlined the scope of our audit in our Annual Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:

   - an audit of the 2021/22 annual report and accounts and related matters;
   - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
   - monitoring the College's participation in the National Fraud Initiative; and
   - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice

Responsibilities

2. The College is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

3. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

4. This is our final year of our audit appointment under the current audit arrangements. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

5. 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.

6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.

7. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

8. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

9. 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 any member of your audit team.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Financial statements audit

The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2021/22 annual report and accounts.

Overall conclusion

11. The annual report and accounts are due to be considered by the Board of Management and Audit and Risk Committee by December 2022. Our proposed independent auditor's report is unqualified.

12. GKC provided us with a trial balance and management accounts on day three of the audit and we received a first version of the unaudited annual accounts in Excel format eight working days after the agreed audit start date. This reflected the high workload level for the finance team (including unforeseen absences) during the period of the audit, but did also lead to resource and audit timetable inefficiencies which could have been avoided with improved communication.

Action point 1

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice. Our findings / conclusion to inform our opinion are set out in this section of our annual report.	We have proposed an unqualified audit opinion on the 2021/22 financial statements.
Going concern basis of accounting	In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body. Our wider scope audit work considers the financial sustainability of the College.	We reviewed the financial forecasts for 2021/22. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date. Our audit opinion is unqualified in this respect.
Regularity	We plan and perform our audit recognising that non-compliance with statute or regulations may	We did not identify any instances of irregular activity. In our opinion, in all material respects, the expenditure and

Opinion	Basis for opinion	Conclusions
	materially impact on the annual report and accounts.	income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
Opinions prescribed by the Auditor General for Scotland on: • Performance Report and Governance Statement • Remuneration and Staff Report	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. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • the information given in the Performance Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; • the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or	We have no matters to report.

Opinion	Basis for opinion	Conclusions
	• the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	

An overview of the scope of our audit

13. The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Audit and Risk Committee in May 2022. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

14. 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.

15. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas

16. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

17. The significant risk areas described in the table 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 is not modified with respect to any of the risks described below.

Significant risk areas

1. Management override	
Significant risk description	In any organisation there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with *ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.* **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the College's controls for specific transactions. **Audit procedures** • Review the College's accounting records and audit testing on transactions. • Adopt data analytics techniques in testing carried out. • Review judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.
Key observations	We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description	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 College could adopt accounting policies or recognise income transactions in such a way as to lead to a material misstatement in the reported financial position. **Risk assessment: High**
How the scope of our audit responded to the significant risk	Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for revenue resource allocations from the Scottish Funding Council or GCRB due to a lack of incentive and opportunity to manipulate transactions. **Audit procedures** • Evaluate the significant revenue streams and review the controls in place over accounting for revenue. • Consider the College’s key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and that the policies have been applied consistently across the year.
Key observations	We have gained reasonable assurance on the completeness, accuracy and occurrence of income and we are satisfied that it is fairly stated in the financial statements.

3. Expenditure recognition	
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end. **Audit procedures** • Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. • Consider College's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review accruals around the year end to consider if there is any indication of understatement of balances held. Consider accounting estimates.
Key observations	We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

4. Pension assumptions	
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Given that small movements in the underlaying assumptions may translate into significant changes of the pension liability we deem this area to be subject to a high risk of misstatement. **Audit procedures** • Review the controls in place to ensure that the data provided from the pension fund is complete and accurate. • Review the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data. • Agree the disclosures in the financial statements to information provided by the actuary. • Consider completeness and accuracy of the information provided by the College to the actuary. • Ensure that we can rely on actuary's work as an expert by obtaining sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.
Key observations	The net pension asset was £11.948 million as at 31 July 2022 (2021: liability of £9.228 million). The change from pension liability in prior year to pension asset this year was caused by the changes in actuarial assumptions and mainly by an increase in the discount rate. We have observed a similar movement in a number of Education sector entities this year. We have considered the actuarial assumptions and the Financial Reporting Standard 102 guidance in relation to asset recognition and presentation in the financial statements.

	We gained reasonable assurance that the pension assumptions used are appropriate and that the pension asset is not misstated in the annual accounts.

5. Estates Valuation	
Significant risk description	The College holds a significant estate, with net book value of land and buildings of £63.848 million as at 31 July 2022. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional valuations, with the latest independent valuation completed at 31 July 2022. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates and small changes in estimates have the potential to result in a material change in asset valuation. **Risk assessment:** **Medium**
How the scope of our audit responded to the significant risk	**Key judgements** There is the potential for management to use their judgement to influence the financial statements. **Audit procedures** • We ensured that assets are recorded in line with the Further Education Statement of Recommended Practice (FE SORP), Accounts Direction and the College's accounting policies, and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of COVID-19. • Where professional advice has been sought, we considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We considered the College's impairment review and communication with the valuer. In addition, we considered the scope of the valuer's work and the information provided to the valuer for completeness.

Key observations	The total value of the College's land and buildings increased by £5.235 million as a result of the 2022 valuation. This consists of £5.130 million (or 9%) increase in the value of the four campuses buildings and an increase of £0.105 million (or 4%) in the land values. The buildings are of specialised nature and therefore are valued by using a depreciated replacement cost method, which means that it would cost over £61.1 million to replace them as at 31 July 2022. The buildings valuation upward movement is consistent with the inflation impact and linked to Tender Price Index representing an overall increase in construction cost. The value of the land for the four campuses increased slightly and in accordance with our expectation. We gained reasonable assurance over the valuation of estates at the year end and are satisfied that the estate is fairly stated in the financial statements.

Estimates and judgements

18. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

19. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation rates, provisions for legal obligations, and accruals. We identified two accounting estimates listed below.

20. Our audit work consisted of reviewing these keys areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements	
Present value of retirement obligations	Balanced
Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2022. The assumptions of the actuary, Hymans Robertson, were overall within our expected range. The assumptions were predominantly in the middle of our expected range except	

Estimates and judgements	
for the discount rate which, while slightly out with of the expected range and towards its lower end, is considered to be on the prudent end of the scale.	
Estates valuation	Balanced
We ensured that assets are recorded in line with the FE SORP and the College's accounting policies and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This year the College's assets were revalued by a professional valuer Avison Young. We considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). The College performed an impairment review of the assets and did not identify any indication of impairment. The results of our subsequent review of the above evidence is that the estates net book value is not materially misstated.	

Materiality

21. 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

22. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the College's and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

23. We based our initial assessments of materiality levels on the information available at the time i.e. prior years audited accounts. For the College's financial statements, the initial materiality was set at £650,000. On receipt of 2021/22 unaudited annual accounts, we reassessed materiality and kept it unchanged. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality

Overall materiality £650,000	100%	Accounts materially misstated where total errors exceed this value
Performance materiality £488,000	75%	Work performed to capture individual errors at this level
Trivial threshold £32,500	5%	All errors greater than this level are reported

Materiality	Our assessment is made with reference to the College's expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College. Our assessment of materiality equates to approximately 1.8% of the College's expenditure as disclosed in the 2021/22 unaudited annual accounts. The above approach and percentage used are consistent with the prior year.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. 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. Performance materiality is set at a value 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 overall materiality.

Trivial misstatements	Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

24. We are pleased to report that there were no adjustments to the financial statements that would be above the trivial threshold.

25. We identified some disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

Internal controls

26. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the College. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We have not identified any controls recommendations.

Action plan and follow up of prior year recommendations

27. An action plan and our recommendations are included in Appendix 3. An update on the recommendations we made in the previous years is in Appendix 4.

Area	Assessment	Comment
Control and process environment	**Good**	We consider the control environment within the entity to be good.
Quality of supporting schedules	**Satisfactory**	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	**Satisfactory**	Management's responses to our audit queries were appropriate.

Other communications

Accounting policies, presentation and disclosures

28. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.

29. The accounting policies, which are disclosed in the annual accounts, are in line with the FE SORP, and are considered appropriate.

30. This year the College shows a pension asset as compared to the pension liabilities shown in prior year. This has had a material impact on the net assets position in the Balance Sheet. There are no other significant financial statements disclosures that we consider should be brought to your attention.

31. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

32. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

33. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

34. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

35. As part of our standard audit testing, we have reviewed the laws and regulations impacting the College. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

36. We provided the final letter of representation to the Board of Management for signing at the same time as the financial statements are approved.

Related parties

37. We are not aware of any related party transactions which have not been disclosed.

Third party confirmations

38. We have received all third parties confirmations required for the purpose of our audit.

Financial sustainability

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

Auditor judgement

The further education sector has been notified of a ‘flat cash’ funding assumption from the SFC for the next five years and possibly beyond. In the context of high levels of inflation and pay awards, this translated into a highly challenging financial position. The College is forecasting in its core, most realistic scenario operating deficits in the first two years of the next five-year period, followed by breakeven results in the following two years and going back to a deficit in year five. However, a worst-case scenario, prepared in accordance with the SFC guidelines, assumes deficits amounting to up to £19 million over the five year period. All working assumptions confirm that the College will have to make difficult decisions on spending priorities in the coming years.

There remain a number of uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty.

The College has already signalled that it will be required to implement a programme of significant savings which may result in a reduction of 21% of its workforce over the next three years. The scale of these reductions challenge the sustainability of the College’s current operating model and may require rationalisation of education provision which can have a consequential effect on future funding levels. The impact on student experience and the wider impact on measures of positive outcomes for students will require ongoing analysis as assumptions manifest into known parameters and actions.

The College is still to establish detail behind its capital plan beyond one year to provide the stakeholders with its detailed capital and maintenance needs to support its bid for longer term capital funding.

39. During the year we have identified significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability (per our Annual Audit Plan)	
Significant risk description	The College continues to face challenges, with ongoing effort and activity to reach a long term sustainable position. This has been exacerbated by the wider economic environment, including the impact of a flat cash funding settlement in the context of high levels of cost and wage inflation and by lower than expected levels of student applications and retention levels. The Draft 2022/23 budget and the medium term financial plan (2022-25) was presented to the Board in June. The plan included an analysis of a range of potential scenarios and a sensitivity analysis. The College, at that time, was estimating a deficit of £0.412 million in the first year of the forecast followed by a break-even position in the following two years. This is a change from the previous favourable position of expected surpluses. As a result, the financial position of the College was to be supported by additional donations from the Arm's Length Foundation (ALF) and this support was expected to in the region of £1.210 million over the next three financial years. This would reduce the ALF balance to £0.290 million at the end of 2024/25 financial year. In prior years the College was able to manage its financial position through a combination of generating additional commercial income, income from additional funding sources, and through its savings programme. For example, additional funding was received from SFC in 2020/21, and one-off income was received from a tax refund. However, by nature these sources of funding are exceptional. The College also had a Transformation and Renewal Plan covering up to the end of 201/22. This plan has now been replaced with a new five year College Operating Plan from 2022/23 onwards with plans to achieve ongoing savings through its workforce planning and voluntary severance scheme.

	In addition to the ALF donation, for the period of 2022-25, the College was planning to rely on a programme of cost savings with a target of £0.500 million per annum in other cost and by achieving additional annual savings through reducing workforce numbers. The indicative funding from the Scottish Funding Council for 2022/23 is the same as the 2021/22 indicative core funding. We have updated the above risk identified at the planning stage of the audit for our most up to date analysis below.
Key observations	The College has continued to face significant financial challenges which will require additional cuts to planned expenditure to reach a long-term sustainable position. Covid funding received in 2020/21, alleviated some of the strain faced by the College in the current financial year, but this funding is non-recurring and few additional sources of funding are immediately available. The latest FFR, approved by the Board of Management in October 2022, reported the year-end position for 2021/22, the budget for 2022/23 and forward forecasts for and up to 2026/27, all based on two scenarios agreed by the SFC and College sector to aid cross sector comparison. The College also developed a new College Operating Plan ('COP') covering the five year period over 2022/23-27. This plan presents a third scenario based on the latest assumptions and has been adopted by the College as their core scenario. This was also presented to the Board of Management at their meeting in October. The College is forecasting, from its core scenario as presented within the COP, deficits for the first two years followed by two years of breakeven and last year of small deficit - in accordance with the Scottish Funding Council's (SFC) Adjusted Operating Result (AOR) methodology. When adjusted for non-cash items the College estimates its financial position will be a deficit of £1.4 million to over this period. Our work and conclusions on the budget and financial forecasts for 2022/23 onwards are set out below.

Short Term Financial Planning

40. The further education sector has received a 'flat cash' settlement from the Scottish Government for 2022/23. This translates into a 1.9% decrease from a baseline revenue budget, but a 5.1% reduction from the full published prior year budget. The funding for Colleges is further impacted by the removal of additional COVID-19 related elements.

41. As a result, Scotland's further education sector, already in financial recovery following the impact of Covid-19, now faces a precarious financial future as general and wage inflation costs significantly exceed current funding levels.

42. The College is heavily reliant on SFC funding which currently represent c.82% of the College's total income (excluding non-cash deferred capital grants) and a small movement in grant funding has a significant impact on the College's financial position. The College has assessed a range of scenarios and stress tested assumptions to better understand the financial impact of potential changes and how they may manage and mitigate these changes.

43. The SFC published final colleges funding allocations in May 2022. The Glasgow Colleges Regional Board (GCRB) has subsequently provided a breakdown of allocations across the assigned colleges, including a top slice for the GCRB running costs and collaborative projects.

44. The 2022/23 SFC main grant allocation for the College is £22.854 million and this supports delivery of 77,614 of student credits. The allocation is the same as in the prior year, but does not contain additional European Social Fund element, and as a result the credit target reduced by 1.8% when compared to 2021/22.

45. The College prepared its budget for the year 2022/23 based on the indicative allocations and detailed forecasts available at the time. The key assumptions include:

- any additional cost of the national job role evaluation will be funded in full;
- 1.5% salary increase;
- 7% reduction on non-staff budget cost;
- student support commitments will be fully funded; and
- movements arising from the Actuarial Valuation are not included as these are deemed difficult to predict.

46. The budget for the year 2022/23 was presented to the Finance and Physical Resources Committee in May 2022, projecting an operating deficit of £1.552 million. Once adjusted for non-cash and exceptional items and the Arm's Length Funding (ALF), the College has an underlying operating deficit of £0.459 million.

47. This was further adjusted in the October's 2022 FFR and the Operating Plan. The last document is the most up-to-date reflection of the GKC's financial planning. It estimates that the operating deficit will increase to £1.834 million and when adjusted for ALF and non-cash items it will be at £1.160 million.

Medium Term Financial Planning

48. The College has a robust and proactive approach to financial planning. In the last financial year, a number of key strategic documents and budgets have been considered and updated to reflect the dynamic financial environment the College faces.

49. The Financial Strategy presented to the Board of Management in December 2021, covers the period 2022-2027. The College's overall

strategy was taken into consideration when preparing this document.

50. The College's strategic priorities are as follows:

- Ensure high quality financial planning, monitoring and control.
- Maximise income, control costs, and manage cash flow.
- Ensure the best use of all resources – staff, financial and assets.

51. Another key document is the FFR which is an established part of the SFC's financial health monitoring framework. The FFR allows the SFC to monitor and assess the medium-term financial planning and health of colleges.

52. The latest FFR, required colleges to report actual financial performance for the session 2022/24, forecasts through to 2026/27. This iteration of the FFR included a very optimistic break-even scenario, but also did include a very pessimistic one which estimated that the College's deficit could reach £19 million over the next five years if a range of 'worst-case' scenarios came to pass.

53. For the Base FFR to be submitted to the SFC, the College must ensure that the budget is balanced. To achieve this outcome, the College's voluntary severance scheme will be extended and may require the loss of up to 89 full time equivalents over a three year period which represents a significant proportion of the College's workforce.

54. The FFR pessimistic scenario forecasts that, by the end of the five years, the College's total deficit could reach £19million, with the College running out of cash by 2023/24, an effectively insolvent position.

55. The 'College Operating Plan' was developed shortly after the October 2022 FFR and represents the most realistic current forecast model and the outcomes from this model are detailed in the Exhibit below.

Exhibit 2: Medium term planning (£000s)

	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget
Total income	30,918	30,781	30,851	30,921	30,994
Total expenditure	(32,752)	(32,640)	(31,579)	(31,310)	(31,613)
Operating surplus/(deficit)	**(1,834)**	**(1,859)**	**(728)**	**(389)**	**(619)**
ALF donation	232	1,100	500	Nil	Nil

	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget
Operating surplus/(deficit)	**(1,602)**	**(759)**	**(228)**	**(389)**	**(619)**
Adjusted operating result	**(1,160)**	**(317)**	**214**	**53**	**(177)**

Source: College Operating Plan - October 2022

56. The adjusted operating result is the key financial measure used by the College. It takes the operating position per the accounting standards and adjusts it to exclude non-cash items. The above budgets assume initial deficits followed by break-even positions.

57. The 2023/24 deficit is assumed to reduce significantly due to the Glasgow Kelvin College Arm's Length Foundation's ('ALF') payment that is planned to support GKC's expenditure.

58. The ALF holds resources which could, if approved, be used to support the College's financial planning. At the end of the 2021/22 the ALF had c.£1.7 million of funds available. Because the financial situation of the College in 2021/22 improved there was no requirement to use this funding. The College budgeted to use ALF funding for capital purposes and reduce them to Nil by July 2025. As ALF funds are non-recurring, this would remove the use of this funding stream from contingencies.

59. The current cash position of the College is favorable, therefore not raising any concerns in relation to a going concern assumption. However, the annual expected future cash flows show net outflow of cash over the period of the financial plan and resulting in a low cash position in 2023/24. We explore the cash position further in the financial management section of this report.

Key medium-term financial challenges

60. The further education sector has a number of key challenges, including:

- flat cash budgets requiring continuing savings to match the inflationary pressures;
- uncertainty over funding levels due to short term nature of the Scottish Government budgets;
- National Bargaining and national support staff job evaluation scheme, with the costs being estimates; and
- under the current SFC Funding model, the average price per credit can vary significantly across Regions/Colleges.

61. Glasgow Kelvin College, as any other further education institution, delivers its services to the public through teaching, therefore its teaching and support staff are crucial to the College fulfilling its role. We note that due to the above financial constraints, the College must identify savings with staff costs accounting for the significant

majority of College spend. It is the main cost driver as a 1% change equates to c.£0.230 million increase/decrease in cost.

62. When looking at the range of the scenarios considered by GKC, we identify that the assumed voluntary severance scheme savings, if successful, would mean reduction up to 89 FTE over the next three financial years. This equals to 21% of the College's workforce.

63. Such a significant reduction in staff levels would likely mean that the current College's operating model will not be sustainable with a consequent impact on the volume of activity undertaken and in the methods of teaching delivery. Any change will likely have consequences for student experience and the quality of education delivery and outcomes.

64. A reduction in staffing levels may impact on the ability of the College to achieve its annual credit target and other national objectives and therefore having a knock-on effect on future financial and non-financial performance.

65. We do understand that these external factors (e.g. funding decisions, inflation, pay awards) are not entirely within the College's control and the College is considering all options to maintain appropriate levels of the teaching delivery. At the same time this challenge will be partly managed by an effective and continuously changing, scenario-based workforce plan.

66. The College has in place a high-level People Strategy 2021-26. We note this document analyses the key issues faced and structure of the workforce and the College is developing further detail as to possible actions and scenarios.

Action point 2

Capital plans

67. The College has a high-level Estates and Sustainability Strategy 2022-27 and maintains a short-term capital plan and its latest iteration covers 2021/22 and 2021/22 financial years. It is based on the Glasgow Regional Colleges Board's allocations which were as presented in the table.

68. In the past year the College has been undertaking its Campus Reinvestment Project. This covers all four campuses and four Project Workstreams: Student Zones, Curriculum Developments, College Environment and Staff Spaces.

69. The project is currently budgeted to cost £0.850million, funded by the College and the ALF.

70. As a result of a difficult financial situation, the College is considering a range of options to fund future capital investment, including closing and selling of one of its existing campus sites.

71. For 2022/23, the College has been allocated capital funds of £0.133million by the SFC for Digital Poverty. Additionally, in line with prior years, the College is also able to use student funding underspend to support digital access for eligible students through the purchase of ICT equipment.

Capital allocations (£000s)

	2021/22	2022/23
Lifecycle maintenance	570	592
High priority maintenance	499	500
Total	**1,069**	**1,092**

72. The Capital expenditure plans are based on GCRB allocations and the colleges sector estates condition survey prepared by a third party on behalf of the SFC. Last year we encouraged the College to develop a mid to long term capital plan to help manage its estate and support the College in its discussions with the funding providers on capital investment priorities for the Region. Progress on implementing this recommendation has been slow as the College has been reacting to the difficult financial situation and focusing on its medium term financial planning. As a result, we have restated this recommendation.

Financial management

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

Auditor judgement

The College is well managed financially, but faces unprecedented and continuing challenges as a result of the COVID-19 pandemic, current levels of inflation, particularly in relation to utilities, and flat public sector funding.

The College has proactive and rigorous medium-term financial planning arrangements in place and has considered several possible scenarios and plans of action to address known and projected financial challenges.

The College reports an operating deficit of £1.404 million for the year. Actuarial gains of £23.455 million and property revaluation £9.979 million moved the College's position to an accounting surplus of £32.030 million for the year.

The adjusted operating surplus (as defined by the SFC) for the year was £1.092 million (£0.876 million in 2020/21).

The accounts also report cash balances of £4.157 million at July 2022 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

Financial Performance

73. The College reports an operating deficit of £1.404 million for the year ended 31 July 2022. After adjusting the operating position for non-cash items that are out with the control of the College, such as pensions and net depreciation, the College shows an adjusted underlying surplus of £1.092 million, the equivalent of 3.3% of total income.

74. The table below sets out the College's 2021/22 income and expenditure budget against results for the year:

2021/22 performance	Actual 2021/22 £'000	Annual budget 2021/22 £'000	Variance – Favourable/ (Adverse) £'000
SFC income	25,738	26,324	(586)
Non-SFC income	5,133	4,739	394
Deferred capital grant release	1,543	1,550	(7)
Donation from Learning Foundation	0	0	0
Total income	**32,414**	**32,613**	**(199)**
Staff costs	22,180	22,530	350
Voluntary severance	98	300	202
Other operating expenses	7,502	7,920	418
Depreciation	2,326	1,992	(334)
Total expenditure	**32,106**	**32,742**	**636**
Cash budget for priorities	783	442	341
Operating (deficit)/surplus for the year	**1,091**	**313**	**778**

75. The College's main source of income continues to be grant funding from the SFC (77% in 2021/22). The financial position improved in the year due to the following additional income:

- £0.424 million of funding that SFC confirmed it will not claw back for the undelivered student credits;
- lower than expected staff cost and less spend on voluntary severance scheme. Some of these savings relate to delays in recruitment; and
- savings on consumables, utility costs and other building running cost relating to lower student and staff presence on campuses.

76. Staff costs continue to be the highest area of spend for the College accounting for 71% (69% in 2020/21) of total expenditure. When compared to the previous year these costs decreased by 2% mainly reflecting savings achieved from prior severance schemes, difficulties with recruitment during the year and lower than budgeted take-up of the in-year severance scheme.

77. The cost of voluntary severance in the year was lower than last year at £0.091 million (£1.066 million in 2020/21) and 5 members of staff took advantage of the scheme. The College's Voluntary severance programme is expected to continue into future years as the main way to achieve savings in expenditure.

Cash position

78. Operating cash held by the College was £4.157 million at year. The operating cash policy of the College is to maintain 15-25 days cash, while the current cash position represents 47 days. The College expects that this will go down to £1.7 million at the end of 2022/23 financial year, due to

- £.1.5 million of deferred income used;
- £0.7 million of creditors and accruals being paid; and
- £0.5 million of deficit asummed.

79. The College is required to make its cash position in line with requirement of maintaining a break-even position and having cash for working capital purposes. The current position is outwith its approved operating cash policy days.

Action point 3

Budget Setting

80. The Financial Memorandum between the GCRB and the assigned Glasgow colleges sets out the formal relationship between the GCRB and the College and the requirements with which the College must comply in return for payment of grant by the Regional Strategic Body.

81. The GCRB is responsible for leading the regional funding allocation process, however college input is necessary.

82. The Principal, supported by the Vice Principal Operations and Head of Finance, is responsible for preparing an annual revenue and capital financial plan, aligned to the College's strategic and operational plan, for consideration by the FPRC before submission to the Board.

83. The budget preparation process is built upon contributions from budget holders to ensure meaningful and achievable estimates are agreed.

Capital Expenditure

84. Towards the end of the financial year, significant campus re-investment project was carried out on the campus

buildings. The aim of this is to enhance student experience, improve retention rates and increase wellbeing and mental health.

85. The project has been progressing well, with the initial focus primarily being on the Easterhouse Campus and the Springburn Campus. Reports have been provided to the Finance and Resources to illustrate the progress. Currently the overall budget is balanced compared to the total forecasted spend.

Systems of Internal Control

86. We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

87. No significant issues were identified from our audit work. We consider the system of control in place at the College to be good.

Cyber Security Measures

88. Due to an increase in cyber-attacks in the sector a cyber security audit was performed, with the following matters being identified:

- Introduction to Phishing Training;
- Logging/ Intrusion Detection; and
- Mandatory Cyber Security module.

89. The college used a third party to carry out an ICT penetration test to test the current IT systems and received positive feedback, with no major areas of concern.

Prevention and detection of fraud and irregularity

90. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

91. Regular updates on fraud related matters (including Counter Fraud Services updates), and based on our recommendation the National Fraud Initiative (NFI) are presented to the Audit and Risk Committee.

National fraud initiative

92. The NFI is a counter-fraud exercise coordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

93. The most receive NFI exercise commenced in January 2021. These were investigated by the end of September 2021 and the NFI portal updated with outcomes by the deadline of 31 March 2022.

94. From the most recent exercise, no frauds were identified. There were a few errors highlighted which have all be dealt with appropriately.

95. As part of the Audit Scotland submission, we completed an NFI Checklist on the College's performance which reviewed the adequacy of their review and confirmed arrangements which were in place.

96. During our review we identified that the results of the NFI exercise had not been presented to the Audit

Committee. Following our recommendations this has been addressed and the Committee now receives updates on NFI results.

Governance and transparency

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

Auditor judgement

Governance arrangements at the College were found to be good.

The Board was subject to an externally facilitated effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review concluded that the College demonstrates a high level of compliance with the Code.

Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Regional Governance arrangements

97. The GCRB continues to make progress in coordinating collaborative regional activity and work with the assigned colleges to deliver all of the intended benefits of regionalisation.

98. There is a financial memorandum in place between the GCRB and assigned colleges which ensures that the terms and conditions of grant funding are clear and understood.

99. Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between the GCRB and the Glasgow colleges. From review of available committee minutes and papers, we are satisfied that the College routinely considers reports on the development and implementation of the ROA.

Governance arrangements

100. The Board of Management is responsible for ensuring the overall governance of the College. In driving forwards the strategic direction of the College and ensuring the governance framework is operating as intended, the Board continues to be supported by four committees:

- Audit and Risk Committee;
- Finance and Resources Committee;
- Learning and Teaching Committee.

101. The Board was subject to an externally facilitated effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review was performed by Henderson Loggie, the College's internal auditors and concluded that the College demonstrates a high level of compliance with the Code. The review highlighted a number of strengths of the Board, including breadth and depth of knowledge, which combined with the range of expertise providing management with support and challenge.

102. Our review of the College's Governance Statement confirms that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the Accounts Direction.

Responding to the COVID-19 pandemic

103. In September 2021, the College ensured sufficient measures in place to prepare for a return to on Campus working and studying. These measures included:

- one-way systems in place;
- 1m social distancing – classrooms occupancy levels;
- posters relating to social distancing and face mask covering; and
- lateral flow kits available at all reception areas.

104. The Board, its committees and senior management team have continued to meet online to oversee management of essential functions, management of impacts and preparedness for future functionality and delivery. There was no change to the meetings schedule or frequency of these meetings.

105. It has been noted that going forward for 2022/23, a hybrid option for attendance at Board and Committee meetings is currently being discussed.

Risk management

106. The College's risk register is regularly updated to reflect the various risks which impacts on the College's operations, including the development of mitigating actions where appropriate to reduce risk.

107. There are 13 risks on the risk register, all of which have an inherent risk of very high. There are then two residual risks which are rated very high. These are: Sustainable Funding and Strike Action.

108. As highlighted in the Financial Sustainability Section, the risk over funding is a significant concern for the college sector. With the rising inflation and energy costs, this reduces opportunities for the College to make positive contributions towards key areas such as Student Experience and Estate Strategies. Additionally, the College is being pressured to make 10% savings on their core other operating expenditure.

109. Therefore, it is imperative to take this into consideration whilst reviewing the financial plans and strategies in place and acknowledge the significant pressures which the college sector is facing.

Board Changes

110. During 2021/22, a recruitment exercise was undertake, with Board member interviews being held in May 2022. Two new Board members were recommended to GCRB for ratification.

111. In May 2022, the Senior Independent Member led on the submission to GCRB to allow the Chair to be reappointed for a second term; involving the consideration of a significant amount of information including evaluations from previous years. The Board Chair has now been reappointed for a second term in office.

112. A former Board member, of the College's Arms Length Foundation was appointed as the Board Secretary during the financial year.

Internal Audit

113. An effective internal audit service is an important element of a College's overall governance arrangements. The College's internal audit service is provided by Henderson Loggie. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the College's total audit resource.

114. Internal Audit annual assurance opinion will be provided to the Audit and Risk Committee at the same time as this report. In their opinion the Internal Audit concluded that the College has adequate and effective arrangements for risk management, control, and governance. This opinion also stated that proper arrangements are in place to promote and secure Value for Money.

Standards of conduct

115. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been

informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.

Fairness and equality

116. As outlined in the Scottish Public Finance Manual, accountable officers have a specific responsibility to ensure that arrangements are in place to secure best value in public services. Audit Scotland has requested that, at least once during the term of our audit appointment, we carry out work on the organisation's approach to arrangements relating to the best value theme of fairness and equality.

117. We have therefore reviewed arrangements at the College in the following areas:

- commitment to fairness and equalities within the organisation;
- delivery of fairness and equalities outcomes through service delivery; and
- promotion of fairness and equalities in the wider community.

118. The College has an Equality Outcomes Reports which covers the period 2021 to 2025. These focus on six Equality Outcomes.

119. Reports on Equality, Diversity and Inclusion are routinely presented to the Board of Management. Equality impact assessment is built into all committee meetings with equality as a standing item on each agenda.

120. We are satisfied that appropriate arrangements are in place for the College to secure fairness and equality in its operations.

Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the College's reporting of its performance.

Auditor judgement

2021/22 was a challenging year, with financial and liquidity indicators improving, but performance in relation to Credit targets and successful outcomes for students is declining. The College under delivered its Credit target by 3.6%, although this is in context of pandemic impact on students' lower presence on campuses and staff strike action.

Both the full-time Further and Higher Education success outcome figures will be below that achieved in 2018-19. Across all modes of learning and levels, we can see an increase in 2021/22 of partial success with more students not achieving the full qualification, particularly for Full-time HE courses.

The Board has appropriate performance management processes in place that support monitoring and management of performance outcomes.

The student satisfaction levels have increased when compared to last year.

Performance management arrangements

121. The Financial Memorandum between the SFC and fundable bodies in the college sector requires the Board to:

- have a strategy for reviewing systematically management's arrangements for securing value for money (VfM); and
- as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

122. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. The College is committed to ensuring value for money is achieved through good procurement practice and optimal use of procurement collaboration opportunities.

Performance framework

123. The College is currently creating a New Strategic Plan for the period 2021-26 which outlines their strategic ambitions and priorities going forward. The key strategic ambitions are as follows:

- Deliver an Inspirational & Inclusive Student Experience;
- Strengthen our Communities and Environment; and
- Create a High Performing, Resilient and Responsive College.

124. To ensure that progress is being made, a balanced scorecard will be applied to monitor the situation.

125. The College also have in place their Strategic Plan 2020-23 and their Transformation and Renewal Plan 2020-23.

126. Performance is monitored routinely throughout the year by the Board and Committees on regular basis and progress against performance measures is presented to the Board annually for challenge and scrutiny.

127. We are satisfied that the overarching themes set out within the Strategic Plan are fully aligned to reference and disclosures within the College's 2021/22 annual report and accounts.

128. In August 2022, Internal Audit issued a report on the college's Performance Reporting/ KPIs. Overall, this provided an assessment of Good, with the systems meeting the control objectives. The key findings were positive, with there being a good range of financial and non-financial reporting available as well as a five-year College Strategic Planning Framework 2022-2027 being established.

Performance results

129. The College includes 11 of its Key Performance Indicators (KPIs) in the annual report and accounts. These focus on areas including non-SFC income, credit targets and liquidity ratios. These align to the efficiency measures, with increased focus on improving efficiencies in relation to Credit Targets. We note that only one of the KPIs has a target set (Credits) and performance for the other indicators can be implied by comparing them relative to the previous years.

130. The College's performance against key performance indicators for

academic year 2022 shows that for the second year in a row the student credits target have not been met. On the other measures:

- the non-SFC income decreased compared to prior year and as a percentage of total income;
- FTE decreased by 7.2% to 232; and
- the current ratio (ability to pay its current debts) increased to 0.9.

131. Full KPIs comparison is included in Appendix 5.

132. The College delivered 80,230 credits in the academic year against its target of 83,207 (or 3.6% below the target) as set by the Glasgow Colleges Regional Board for academic year 2021/22. We note that the actual credits delivered are higher than prior' years which were at 78,690.

Outcomes KPIs

133. In addition to the above indicators, the College also reports on a number of measures relating to student outcomes, including successful qualification completion, partial success or withdrawals (Full data in Appendix 5).

Exhibit 3: Successful Outcomes percentages

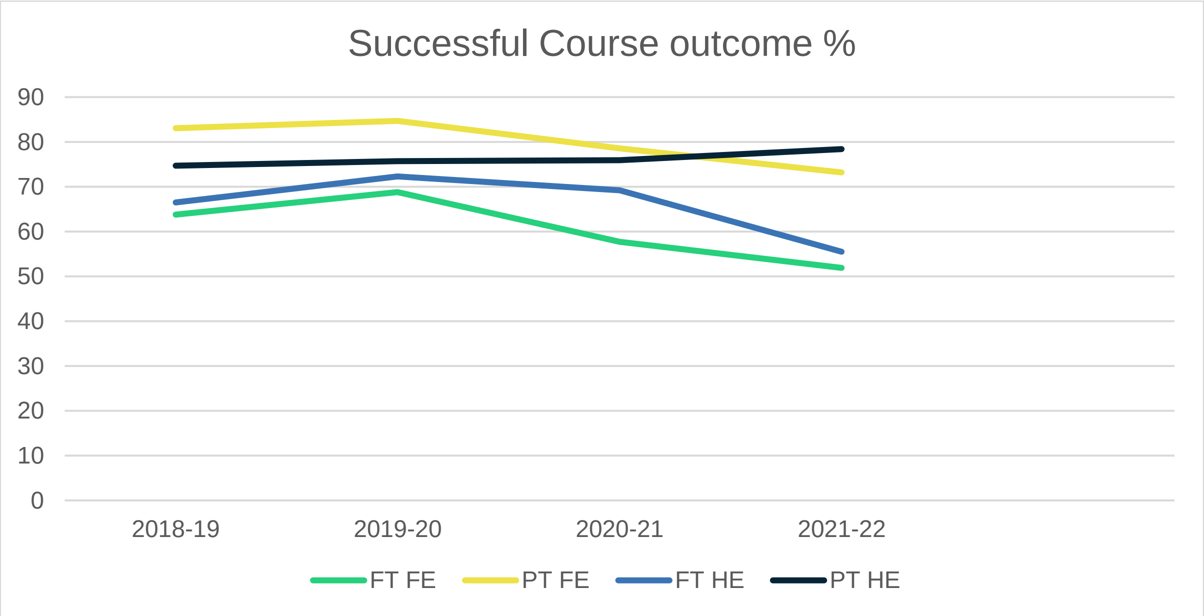
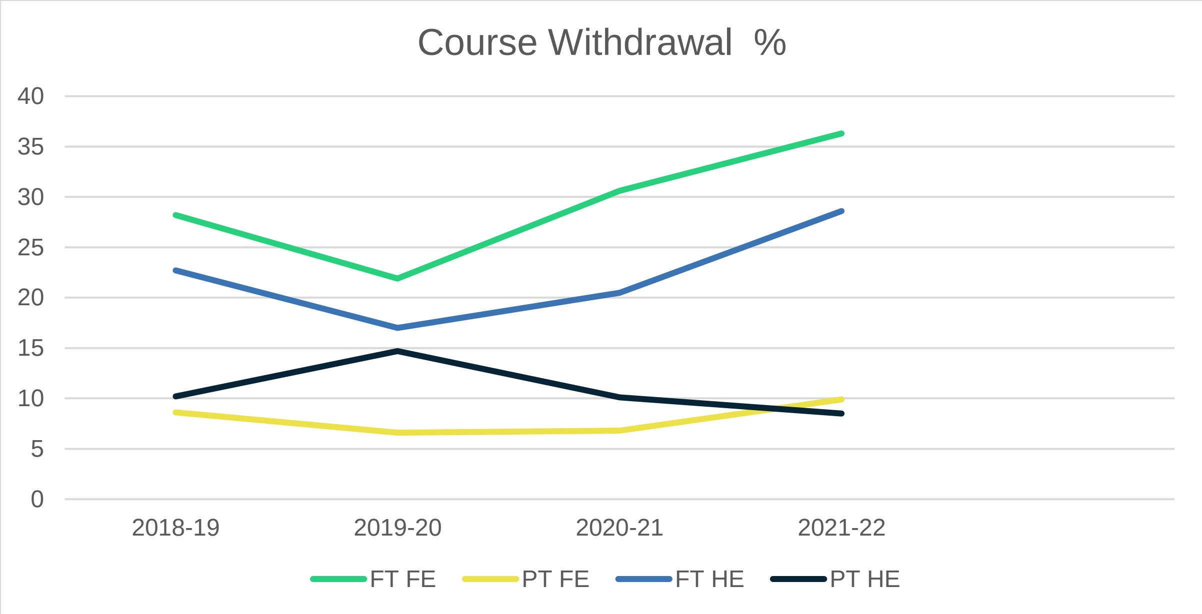


Exhibit 4: Withdrawals rates



134. Both full-time Further and Higher Education success outcome figures will be significantly below that achieved in 2018-19. The reductions in successful completion rates were caused by uncertainty and disruption and high levels of online learning. While online course delivery was a necessity during the Pandemic, this impacted some new students negatively.

135. Across all modes of learning and levels, we can see an increase in 2021/22 of partial success with more students not achieving the full qualification, particularly for Full-time HE (FT HE) courses. Again, a main driver for this is likely to be the disruption to learning caused by Covid restrictions and strike action.

136. The Part-time HE programmes have been the least affected by the disruption, but the number of students in this category is relatively small and hence the overall impact on the College-wide figures is much less.

Student satisfaction levels

137. The College performed a student satisfaction survey in April 2022. The responses included those from learners from each of the faculties and from a range of courses including full-time and part-time. In almost all areas students indicated higher satisfaction levels when compared to last year.

Performance challenges

138. The College faces challenges in maintaining its student numbers as it currently enrols more than a half of its students from the 10% most deprived areas in Scotland. Students from these backgrounds are often harder to reach and the College has invested heavily in its community education programs.

139. The effects of COVID have impacted significantly on the College’s ability to proactively engage, through

community outreach, with some of Glasgow's most deprived citizens.

140. To combat these issues, the College has implemented various initiatives to target improvements in these areas. These include: returning to face to face teaching, strengthening evaluation and quality review arrangements, enhancing student facilities to improve student experience, attendance monitoring function within Student Information Services.

141. In addition, as part of the Transformation and Renewal Plan, various improvements have been made to increase effectiveness and efficiency. These include:

- increases in class group sizes where possible and appropriate. Until now this has been impacted by COVID-19 physical distancing requirements;
- combining common units with increased combined group delivery - again until now this has been impacted by COVID-19;
- development of on-line resources supported by a mix of teaching and support staff;
- further improvement in timetabling efficiency of teaching staff;
- management of TQFE training numbers where appropriate; and
- ongoing implementation and embedding of the College's Continuous Improvement programme.

Future Performance Indicators

142. Due to Covid related disruption, some of the national and college level quality enhancement arrangements were paused. As the College's operating environment returns to normal, these measures require to be reviewed and updated.

143. The most recent review has been undertaken as a part of College Operating Plan. The plan sets out a number of targets in relation to student success and retention levels, student credit delivery, and optimising timetabling and staff deployment.

Appendices

Appendix 1: Respective responsibilities of the College and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the College and the auditor and are detailed below.

The College's responsibilities

The College has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	The College's responsibilities
Corporate governance	The Board of Management and Chief Financial Officer (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its 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.
Financial statements.	The Board have responsibility for: • preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the College.

Area	The College's responsibilities
	Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. The Board of Management and the Chief Financial Officer are 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 its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The College 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.

Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and 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; and
- demonstrate compliance with the wider scope of public audit.

Wider scope of audit

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 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.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Further to our planning letter, we have identified that an audit partner from the firm has been seconded to SFC for a period of six months as a finance director. We can confirm that we have reviewed the threats that this poses to our independence and confirm that the appropriate safeguards have been in place throughout the audit to mitigate any associated risks.

Audit and non-audit services

The total fees (VAT inclusive) charged to the College for the provision of services in 2021/22 (with prior year comparators) are as follows:

	Current year £	Prior year £
Audit of College (Auditor remuneration)	36,900	35,320
Pooled cost	1,940	2,210
Audit support costs	1,740	1,440
Total audit	**40,580**	**38,970**
Non-audit services	0	0
Total fees	**40,580**	**38,970**

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We have outlined the safeguards to our independence in our Annual Audit Plan. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report which covers our work at the College since appointment can be found at https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122

Appendix 2: Audit misstatements

Corrected and uncorrected misstatements

We did not identify any corrected or uncorrected misstatements during our audit of the Funds' annual report and accounts.

The main disclosure amendments are presented in the table below.

Disclosure amendments

No	Detail
1	Additional disclosure in relation to fair pay required in 2021/22 were added to the Remuneration and Staff Report.
2	Revaluation of fixed assets was added to the Other Comprehensive Income.

Appendix 3: Action Plan

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

Action plan grading structure

The recommendations have been rated to help the College assess the significance of the issues and prioritise the actions required.

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

Action Point One – financial statements preparations	
Observation	We received a first version of the unaudited annual accounts in Excel format eight working days after the agreed audit start date. This reflected the high workload level for the finance team due to absence within the team during the period of the audit, but also lead to resource and audit timetable inefficiencies.
Implication	Late submission of the accounts may lead to inefficiencies and late sign off.
Recommendation	This could be avoided with improved communication in the future years.
Rating	**Other deficiency**

Management response	Management Accounts, Trial Balance and supporting schedules were all delivered on the morning of day three of the Audit. In previous years this allowed the Audit team to proceed with the balance sheet audit, however the formal approach is to work with the completed Financial Statements. Three significant changes were communicated to the finance team on the afternoon of the last working day before the audit was due to commence. This resulted in further discussion of these changes within the College and a significant re-working of the accounts. Late delivery of information to the finance team has been addressed. As in previous years the finance team focussed on completing key information to allow the Audit team to proceed. Following delivery of Management Accounts, Trial Balance and supporting schedules on 29 September the finance team's resource was prioritised to completion of September Management Accounts. The finance team are aware that completed Financial Statements should be delivered at the start of the audit process. **Responsible Officer:** Head of Finance **Implementation Date:** September 2023

Action Point Two – Workforce Planning	
Observation	The College is facing significant financial challenges, and some of the factors like funding or pay levels are not entirely in the College's control. At the same time this challenge will be partly managed by an effective and continuously changing, scenario-based workforce plan. There are high level workforce plans and a strategy in place. We note these plans analyse the key issues faced and structure of the workforce, but had no further detail as to the possible actions and scenarios.
Implication	A complete and scenario based workforce plan will help the College to manage its workforce and clarify GKC's position in relation to its financial needs.
Recommendation	We would recommend to develop a scenario based plan including more detail behind the high-level analysis.

Rating	**Other deficiency**
Management response	Management will be carrying out detailed workforce planning in the coming months. Data gathering has begun to facilitate this process and scenarios will be produced where possible. **Responsible Officer:** Director of People and Culture **Implementation Date:** April 2023

Action Point Three - Cash management	
Observation	The College has a reserves cash policy of maintaining 15-25 days of baseline cash. At the year end the closing cash balance was £4.157 million which equals to 47 days.
Implication	A key principle for public bodies is that they do not draw down cash in advance of need.
Recommendation	More needs to be done to improve working capital management to reduce cash balances to more appropriate levels.
Rating	**Other deficiency**
Management response	Cash includes balances held payable to third parties as evidenced in Deferred Income. Underlying cash at 31 July 2022 is £2.273 million. The majority of this cash will be utilised to support the College in implementing the Operating Plan over the next two years. The College will continue toe closely monitor its cash policy and may amend this if necessary. **Responsible Officer: Head of Finance** **Implementation Date:** July 2023

Appendix 4: Follow-up on prior years points

Capital plans	
Observation	Capital expenditure plans, are based on GCRB allocations and the colleges sector estates condition survey prepared by a third party on behalf of the SFC. The capital plans prepared by the College in effect are only for one year.
Implication	We would expect the College has capital plans beyond one year to manage its asset base over the long term.
Recommendation	We understand that the SFC and GCRB funding works in annual cycles, however we would encourage the College to have a mid to long term capital plan in place to help manage its estate and support the College in their discussions with the funding providers.
Rating	**Other observation**
Management response	**2020/21 response:** The College accepts this recommendation and will seek to develop a three to five year capital plan during 2021/22. **2021/22 update:** Due to other priorities, it has not been possible to compile a 3-5 year capital plan this year. The College will aim to do this in 2022/23. **Responsible Officer:** Director of Corporate Services **Implementation Date:** July 2023

Appendix 5: Key Performance Indicators

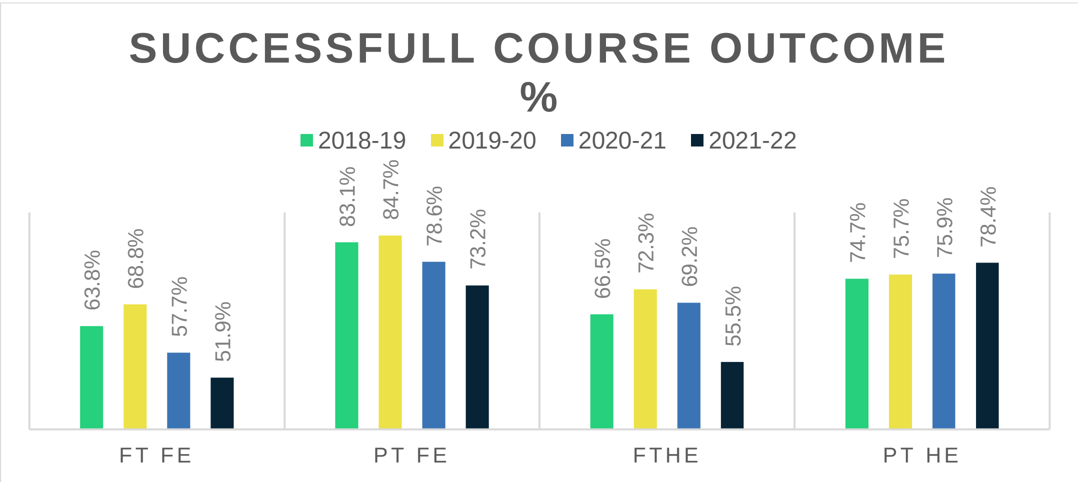
Performance Indicator	2018/19	2019/20	2020/21	2021/22
Adjusted Operating Surplus (Deficit) as a % of Income *	(1.0%)	0.7%	2.6%	3.3%
Non - SFC Income	£7,533,000	£7,513,000	£7,835,000	£5,466,000
Non SFC Income as a % of Total Income**	23%	23%	23%	17%
Staff Costs as a % of Total Expenditure	70%	70%	69%	71%
Credits Delivered	80,172	79,312	78,690	80,238
Credits Target (ROA)	79,516	79,243	79,093	83,207
FTE Teaching Staff	272	260	250	232
Credits per FTE Teacher ***	295	334	349	346
Current Ratio (current assets / current liabilities)	0.4	0.5	0.8	0.9
Net Current Assets/ (Liabilities)	(£3,650,000)	(£3,011,000)	(£1,926,000)	(£804,000)
Days Cash	15	21	42	47

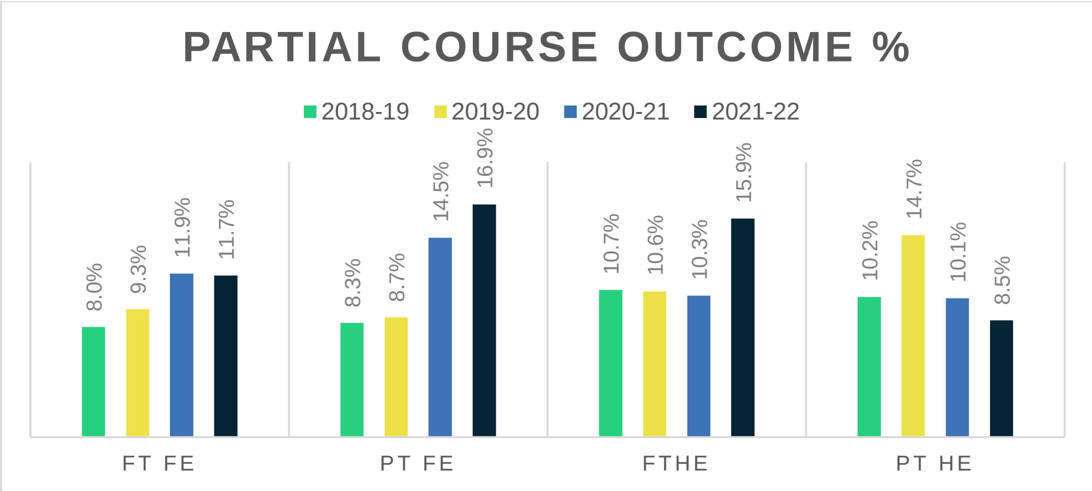
* based on underlying surplus methodology established by the SFC

**excludes proceeds from disposal of fixed assets and capital grants

***based on full-time course estimates

Outcomes Performance




PARTIAL COURSE OUTCOME %
2018-19
2019-20
2020-21
2021-22
8.0%
9.3%
11.9%
11.7%
8.3%
8.7%
14.5%
16.9%
10.7%
10.6%
10.3%
15.9%
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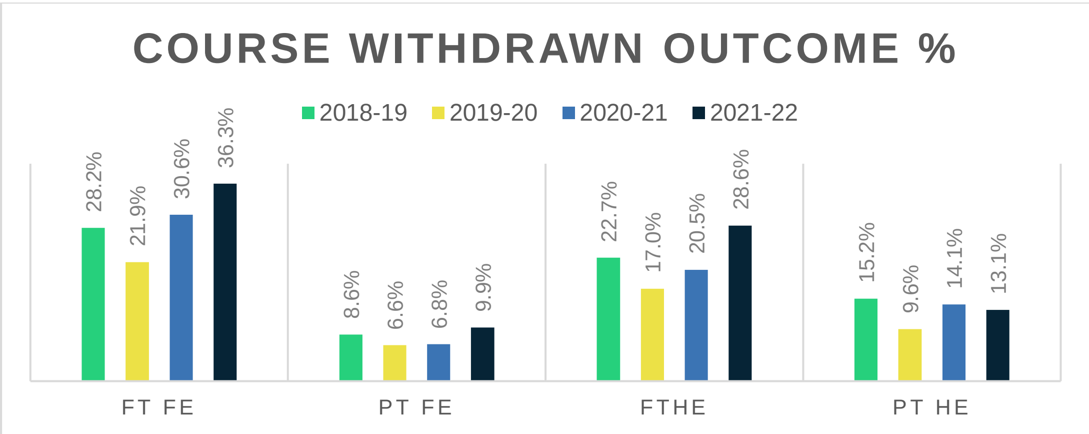
COURSE WITHDRAWN OUTCOME %
2018-19
2019-20
2020-21
2021-22
28.2%
21.9%
30.6%
36.3%
8.6%
6.6%
6.8%
9.9%
22.7%
17.0%
20.5%
28.6%
15.2%
9.6%
14.1%
13.1%
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