



GLASGOW CLYDE COLLEGE

**ANNUAL REPORT TO THE BOARD OF
MANAGEMENT & THE AUDITOR GENERAL ON
THE EXTERNAL AUDIT FOR THE YEAR ENDED 31
JULY 2016**

Topic	Date
Commencement of final visit	w/c 5 October 2016
Audit clearance meeting	2 November 2016
Presentation to Audit Committee	7 December 2016
Presentation to Board of Management	21 December 2016

TABLE OF CONTENTS

SECTION	PAGE
TABLE OF CONTENTS	1
1 EXECUTIVE SUMMARY	2
2 INTRODUCTION.....	4
3 FINANCIAL REVIEW	6
4 AUDIT APPROACH & KEY FINDINGS	14
5 GOVERNANCE & INTERNAL CONTROLS	17
6 FRAUD AND IRREGULARITIES.....	20
7 AUDIT RECOMMENDATIONS – 31 JULY 2015	21
8 AUDIT RECOMMENDATIONS – 31 JULY 2016	29
APPENDICES	30
APPENDICES	PAGE
A STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF MANAGEMENT	31
B INDEPENDENT AUDITOR’S REPORT	34
C LETTER OF REPRESENTATION	37
D IDENTIFIED AUDIT RISKS, APPROACH & CONCLUSION	40
E CONTACT DETAILS.....	42

This report has been prepared for the purposes of the College Management, Board and the Auditor General for Scotland and should not be issued to third parties without our prior written consent. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visit. Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

1 EXECUTIVE SUMMARY

1.1 FINANCIAL REVIEW

The College returned an accounting deficit of £1,052k for the 12 months ended 31 July 2016. The comparative results for the 16 months ended 31 July 2015 was a deficit of £769k (restated). The reason for the restatement of the 2014/15 position is explained in section 3.6. After accounting for actuarial losses in respect of the pension schemes the College is reporting total comprehensive expenditure of £2,585k (2015: £1,642k - restated). The College's overall position for 2015/16 is an operating surplus of £38k as shown in section 3.8 of this report.

The College has a net assets position of £38,716k (2015: £41,301k restated).

For the year ended 31 July 2017, the College has predicted a deficit of £259k within its annual budget.

1.2 FINANCIAL STATEMENTS

We have issued an unqualified audit opinion on the accounts of Glasgow Clyde College for the year ended 31 July 2016.

1.3 GOVERNANCE & INTERNAL CONTROL

We have undertaken an overall review of the Corporate Governance arrangements in place at the College. Our findings in this regard are detailed in section 5.3 with a follow up to the recommendations made to management following completion of the 2015 audit in section 7. Based on our findings it appears that the College has complied with Corporate Governance requirements throughout the period since the appointment of the Emergency Board in October 2015, which held office until 30 September 2016. Our findings are based on completion of a bespoke governance checklist, review of college minutes and discussion with senior management.

The Governance procedures in place and being put into practice by the Board of Management and senior executive team have improved substantially since the appointment of the Emergency Board in 2015 and have placed governance arrangements back on a firm footing ahead of Board appointments at the end of tenure in August 2016. Significant progress has been made with regard to adhering to the Code of Good Governance for Scotland's Colleges (CoGG). Full details of progress in relation to our 2014/15 recommendations can be found in section 7 of this report and a summary of the remaining action points is noted in section 1.6.

1.4 REGULARITY

We have issued an unqualified regularity opinion. There are no significant issues that we wish to draw to the Board's attention in this regard.

1.5 ACCOUNTABILITY REPORT

The College is required to include an Accountability report within its annual report and accounts in accordance with the SFC Accounts Direction. Included within this is a Remuneration and Staff Report. We have undertaken appropriate audit work as part of our engagement and have issued an unqualified audit opinion in respect of the auditable areas of the Remuneration and Staff Report.

1.6 RECOMMENDATIONS TO MANAGEMENT

We have made no new recommendations in the year. Our follow up comments to points raised last year are included in section 7 of this report.

There are two governance recommendations from our 2014/15 audit work which have not yet been fully cleared. One is not yet due for implementation, in relation to internal audit's review of compliance with the CoGG, which is due to take place in 2016-17 and the other point relates to the evaluation of the Board of Management Chair which will take place during 2016-17 and requires to be monitored for follow up.

2 INTRODUCTION

2.1 APPOINTMENT

Wylie & Bisset LLP were appointed by Audit Scotland as the External Auditors of Glasgow Clyde College with effect from 1 August 2013 until 31 July 2016. This Annual Report has been prepared following the conclusion of our audit of the financial statements of the college for the year ended 31 July 2016.

2.2 RESPECTIVE RESPONSIBILITIES

Our audit has been carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice (the “Code”) issued by Audit Scotland in May 2011. The “Code” states that the auditor’s objectives are to:

- Provide an opinion whether the College’s financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
- Review and report on other information published in the financial statements, including the annual governance statement, statement of internal control and remuneration report;
- Review and report on the College’s corporate governance arrangements as they relate to:
 - The College’s review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position
- Review aspects of the College’s arrangements to manage its performance and achieve Best Value.

The responsibilities of the Board of Management with regard to the financial statements are set out in the “Statement of Responsibilities of the Board of Management” included in Appendix A and in the “Independent Auditors’ Report” in Appendix B.

The responsibilities of Wylie & Bisset LLP with regard to the financial statements and our audit opinion on the financial statements are included in the “Independent Auditors’ Report” included in Appendix B.

2.3 REPORTING

Our audit work has been designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the College’s systems and financial statements.

This Annual Report has been prepared for the purposes of the College’s management and Board and should not be issued to third parties without our prior written consent. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visit.

Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

3 FINANCIAL REVIEW

3.1 FINANCIAL STATEMENTS

The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year. The Accounts Direction requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 ("the SORP").

The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

3.2 AUDIT OPINION

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the year ended 31 July 2016, as, in our opinion, the financial statements give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 July 2016 and of its deficit for the year then ended; and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended). We are satisfied that funds received have been applied for their intended purpose.

3.3 GOING CONCERN

In light of the College's net current liability position, we have reviewed the Board of Management's assessment of the College's ability to continue as a going concern. The College's forecasts and financial projections indicate that the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements. As auditors we are satisfied following review of the forecasts and financial projections that the Board of Management's assessment of the going concern basis of preparation is appropriate.

3.4 SUBMISSION OF WORKING PAPERS

The financial pages of the accounts submitted for audit were complete and included all the relevant financial information. Working papers provided have been of a good standard and queries arising from the audit have all been resolved. Key staff members were available for consultation throughout the audit process. The corporate governance statement within the financial statements was presented for review following completion of the audit fieldwork visit. This did not significantly detract from the efficiency of the audit process.

3.5 STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

	Year to 31 July 2016 £'000	Annualised 2015 Restated £'000	16 months to 31 July 2015 restated £'000
Income			
Funding council grants	34,483	33,647	44,862
SFC exceptional restructuring income	616	151	201
Tuition fees and education contracts	7,495	6,812	9,082
Other grant income	1,665	1,976	2,634
Other operating income	2,672	1,926	2,568
Investment income	11	19	25
Total Income	46,942	44,531	59,372
Expenditure			
Staff costs	31,363	27,916	37,221
Exceptional restructuring costs	616	151	201
Other operating expenses	11,594	12,061	16,081
Depreciation	4,157	4,292	5,723
Transfer to Arm's-Length Foundation	-	450	600
Interest and other finance costs	264	236	315
Total Expenditure	47,994	45,106	60,141
Deficit for the period	(1,052)	(577)	(769)
Actuarial loss in respect of pension schemes	(1,533)	(655)	(873)
Total Comprehensive Expenditure for the period	(2,585)	(1,232)	(1,642)

3.5 STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE (CONTINUED)

The figures used for 2014/15 comparative purposes are calculated annualised figures as the prior reporting period was for 16 months.

Income

Overall income was £2,411k (5.4%) higher than the annualised 2014/15 figure. This is mainly attributable to:

- Scottish Funding Council (SFC):
 - Academic Year 2015/16 SFC income was £836k higher than the 2014/15 annualised figure largely due to the timing of the related teaching activity not being evenly distributed across the 2014/15 sixteen month period.
- Income from Tuition Fees and Education Contracts increased by £750k in comparison to the annualised 2014/15 figure; this was largely due to additional income from international contracts and HN Associates.
- Other Operating income increased by £746k in comparison to the annualised 2014/15 figure; this was largely due to income recognition on capital and revenue projects associated with Glasgow Clyde Education Foundation

Expenditure

Academic Year 2015/16 salary costs including pension and social security increased by £3,448k (12%) in comparison to the 2014/15 annualised figure. This was partially due to the fact that temporary teaching staff costs were not evenly distributed across the 2014/15 sixteen month period. Other contributing factors to the movement in staff costs include a pay increase, increased levels of employers' pension contributions and national insurance payments and a year end accrual for outstanding holiday pay.

Other operating expenses decreased by £467k year on year which represents a 3.9% reduction in costs on non-staff related expenditure items. During 2015-16 the College has continued to identify areas of activity which can be delivered more cost effectively, ensuring value for money is achieved.

A reconciliation of total comprehensive expenditure to operating surplus can be found at section 3.8.

3.6 BALANCE SHEET

	Y/E 31/7/16 £'000	Restated Y/E 31/7/15 £'000
Fixed Assets		
Tangible fixed assets	142,466	145,799
Current Assets		
Stock	22	18
Debtors	2,072	1,599
Cash & cash equivalents	4,874	5,008
Creditors: amounts falling due in less than one year	(8,906)	(8,013)
Creditors: amounts falling due after more than one year	(88,957)	(92,721)
Unfunded Pension Provision	(3,376)	(3,422)
Pension liability	(9,479)	(6,967)
Net assets	38,716	41,301
Income & Expenditure reserve excluding pension reserve	4,330	3,788
Pension reserve	(9,479)	(6,967)
Revaluation reserve	43,865	44,480
Total Funds	38,716	41,301

• Total assets have decreased by £2,585k from last year. This is principally due to:

a) a reduction in tangible assets of £3,333k which is due to a depreciation charge of £4,157k offset by additions of £824k;

b) a £2,512k uplift in the funded pension provision at 31 July 2016;

offset by

c) an increase in debtors of £473k principally due to increases in prepayments and accrued income;

d) a reduction in creditors of £2,871k principally due to the release of deferred capital grants.

3.7 PRIOR YEAR RESTATEMENT

Following the introduction of the FE/HE SORP 2015, which was implemented for periods beginning on or after 1 January 2015, it has been necessary to change the basis on which the College accounts for deferred capital grants, and pensions.

The above changes have resulted in a prior year adjustment being made to the numbers as reported at 31 July 2015 and both the total reserves and surplus of the College have been restated as shown below. We are satisfied the restatement has been accounted for correctly and adequately disclosed. A reconciliation of the 2015 financial position and performance is provided below:

Reconciliation of Financial Position	At 31 July 2015
	£000
Total Reserves as previously stated	135,603
Capital grants moved to deferred income	(94,302)
Total Reserves as restated	<u>41,301</u>

Reconciliation of Financial Performance	At 31 July 2015
	£000
Surplus for year as previously stated	6
Pension adjustment	(925)
Non government capital grant income	150
Total Comprehensive Expenditure – as restated	<u>(769)</u>

3.8 RECONCILIATION OF TOTAL COMPREHENSIVE EXPENDITURE TO OPERATING SURPLUS

The table below reconciles the total comprehensive expenditure with the operating surplus in the year. This shows the College is operating in a surplus position with regard to the resources made available.

	Note	2014/15 16 months £000	2015/16 12 months £000
Deficit for the period / year as per statement of comprehensive income and expenditure		(1,642)	(2,585)
Impact of pension valuation on College – salary costs	(a)	628	669
Impact of pension valuation on College – interest	(a)	315	264
Actuarial loss in respect of pension	(a)	873	1,533
Non government capital grant income recognition	(b)	(150)	(323)
Use of depreciation cash	(a)	-	480
Operating surplus for the year		<u>24</u>	<u>38</u>

3.8 RECONCILIATION OF TOTAL COMPREHENSIVE EXPENDITURE TO OPERATING SURPLUS (CONTINUED)

Notes

- (a) These costs are non-cash items relating to the actuarial valuations of the College pension funds. As these costs are non-cash related and the College cannot control the impact they have been adjusted for.
- (b) Non government grants have been accounted for using the performance model under FRS102 and the FE/HE SORP and grants previously deferred have been released to income.

4 AUDIT APPROACH & KEY FINDINGS

4.1 OUR APPROACH

Our audit approach recognises the requirements of the CoGG and is designed to adhere to the general principles outlined therein. Our approach is also designed to address the requirements of the Financial Memorandum between the Scottish Funding Council (SFC) and the Boards of Management of the Colleges of Further Education.

Our audit approach is risk based and focused on the key risks facing the College.

During our initial planning procedures, we identified a number of areas where we considered the risk of misstatement in the accounts to be greater than normal. Our audit procedures were designed and undertaken to ensure greater focus on these risk areas in order that specific conclusions could be made with regard to the identified risks. Details of the risks identified, our audit response and our conclusions are included within Appendix D.

As part of prior years' audit procedures, we documented the systems and controls in place at the College and obtained an understanding of their operation. In accordance with auditing standards, during our current year audit visit we confirmed our documented understanding of the main operating cycles and associated accounting systems via interviews of staff and the performance of walk through tests. This process has allowed us to review, in the course of our audit, the key elements of the College's systems of internal financial controls in the main operating cycles.

Based on our procedures, we have not identified any areas where the operation of internal financial controls could be improved.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the College's accounts as a whole. An audit does not examine every operating activity and accounting procedure in the College, nor does it provide a substitute for management's responsibility to maintain adequate controls over the College's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the Colleges systems and working practices, or of all improvements that could be made.

4.2 AUDIT MATTERS ARISING

During the course of the audit a number of matters arose which were clarified and agreed in discussion with, or formally reported to the Assistant Principal Finance and Infrastructure & the Vice Principal Resources and College Development. This practice is an established part of the audit process. This report draws to the attention of the Board of Management any matters of particular significance or interest, which arose from the audit, noted as follows:

- **Accounting Policies:** In accordance with UK GAAP, the Audit Committee has formally reviewed the accounting policies included in the Annual Accounts. There have been changes to the accounting policies in this year following the introduction of FRS102 and the revised FE/HE SORP. We have not identified any instances where we consider the accounting policies to be inappropriate.
- **Accountability Report:** Incorporated colleges are required to include an Accountability Report which encompasses a Remuneration and Staff Report within their annual report and accounts. The Remuneration & Staff report sets out required information of senior officials of the College. We have audited the required information contained therein. We have nothing to report in respect of this statement.
- **Corporate Governance Compliance:** Our Corporate Governance statement in section 5.3 of this report details the position with regards to the College's compliance with the CoGG which concludes there is compliance since the Emergency Board were appointed in October 2015 throughout the rest of the year. Our recommendations from 2014/15, included in section 7 of this report, show the follow up position.
- **Pension Fund liabilities:** The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Strathclyde Pension Fund (SPF) for the non-teaching staff. The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with FRS 102, the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

The SPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in the balance sheet. The College has consistently reported significant liabilities over the past few years. The Strathclyde Pension Fund's actuaries provide the College with an updated valuation on an annual basis which is reflected in the pensions liability disclosed on the balance sheet. We have reviewed the College's accounting for these pension schemes and found that it complies with the requirements of FRS 102 and that disclosure is consistent with the actuarial report.

- **Early retirement provision:** The College has previously given early retirement to staff and makes payments to the pension fund to cover any shortfall arising from the decision to grant access to retirement benefits early. In line with the requirements of Financial Reporting Standard 102, the College recognises a liability for the future payments in relation to these early retirements. We have reviewed the College's accounting for these early retirements and found that it complies with the requirements of FRS 102 and that disclosure is consistent with the actuarial report.
- **Resource outturn:** The College is required to comply with Government accounting and budgeting rules on a fiscal year basis to the end of March. This requirement is as a result of the reclassification of Colleges as public bodies on 1 April 2014. The resource outturn is disclosed within the College Performance Report. As part of our audit work we have agreed the revenue resource budget and capital resource budget and associated expenditure against budget to the resource return submitted to the Scottish Funding Council. We have not audited the associated spend against budget, included within the Performance and Accountability report

4.3 UNADJUSTED ERRORS

Appendix C includes a copy of the letter of representation which we have sought from the Board in support of the matters reported to us during our audit procedures. There were no errors or deviations that were identified during our procedures other than clearly trifling.

4.4 INDEPENDENCE

International Standard on Auditing (UK and Ireland) 260: Communication with those charged with governance, requires that we communicate at least annually with you regarding all relationships between our firm and Glasgow Clyde College which, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff and to detail the related safeguards in place.

We are not aware of any such relationships between our firm and Glasgow Clyde College that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff.

In our professional judgement, as of the date of this report, Wylie & Bisset LLP is independent of Glasgow Clyde College within the meaning of United Kingdom regulatory and professional requirements and the objectivity of the audit engagement partner and the audit staff is not impaired.

5 GOVERNANCE & INTERNAL CONTROLS

5.1 GOVERNANCE

Corporate Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation. The respective responsibilities of the College and Wylie & Bisset LLP are summarised in Appendix A.

Although we are not required to form an opinion on the adequacy and effectiveness of the individual components of the College's code of corporate governance, we are required to consider the corporate governance arrangements in place at the College and ensure they comply with Scottish Funding Council requirements.

5.2 INTERNAL AUDIT

Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

The College's internal auditors during the year ended 31 July 2016 were Henderson Loggie.

In the course of the year ended 31 July 2016 the following areas were scheduled to be reviewed by the Internal Auditor:

1. Student Recruitment
2. Budgetary Control
3. Payroll
4. Risk management
5. Follow-up Reviews

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the report issued by the Internal Auditor. At the time of our audit, reporting was complete and the Annual Report has been issued.

Minutes of the audit committee were also reviewed. Our findings in this area proved satisfactory, allowing us to conclude that the internal audit function is operating effectively. Where relevant, reliance has been placed on the work of internal audit with regards to the work undertaken during our audit process.

5.3 STATEMENT OF CORPORATE GOVERNANCE

We have reviewed the Colleges Statement of Corporate Governance included within the financial statements. We are required to report where a statement does not comply with the requirements of SORP, Government Financial Reporting Manual 2015-16 (FRoM) and Scottish Funding Council, or if it is misleading or inconsistent with other information of which we are aware. The content of this statement is consistent with our understanding of the corporate governance arrangements in place at Glasgow Clyde College.

As part of our audit we have performed a review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity. In addition, we reviewed the College's Risk Register and risk management arrangements along with the minutes of meetings of the Board and key College committees issued during the year. We have followed up on issues from 2014/15 in relation to Governance and discussed progress with senior management in relation to the Governance issues disclosed in the Operating and Financial Review (OFR) in 2014/15.

The College is committed to exhibiting best practice in all aspects of Corporate Governance and, in the opinion of the Board of Management has fully complied with all the provisions of The Code of Good Governance for Scotland's Colleges (CoGG).

The College's full Board of Management meets at least four times a year and has six committees through which it conducts its business. Each committee has formally constituted terms of reference and standing orders. These committees include: an Audit Committee, a Remuneration Committee, a Nominations Committee, a Learning and Teaching Committee, a Finance and Resources Committee and an Organisational Development Committee. They all comprise mainly lay members of the Board, one of whom is the Chair. The Board is supported by a Board Secretary.

The Board remit requires an annual self-evaluation exercise. Each committee of the Board also completes an annual self-evaluation based on the remit of the committee.

The Board self evaluation was undertaken in August 2016 as planned however the Chair stepped down from the Board in June 2016 and, as such, was not included in this evaluation exercise. An evaluation of the current Chair will be included in an external effectiveness review of the Board which is scheduled for March 2017 and the next annual self-evaluation exercise which is scheduled for the summer of 2017. Based on our review, we are satisfied that the College operates appropriate Corporate Governance procedures and that management has adequate arrangements in place covering standards of conduct.

In our annual audit report in relation to the audit of the financial statements for period ended 31 July 2015 we were not satisfied that the College operated appropriate Corporate Governance procedures to enable compliance with the CoGG throughout the full period under review. Section 7 of this report details the position now in relation to the matters raised as a result of last period's audit. We are

satisfied since the appointment of the Emergency Board in October 2015 there has been compliance with the principles of the CoGG. As a result of last period's annual audit a report "section 22 report" was prepared by Audit Scotland under section 22 of the Public Finance and Accountability (Scotland) Act 2000 which, among other issues, addressed concerns relating to governance and compliance with the CoGG during 2014/15. We are satisfied, with respect to governance, these matters have now been addressed subject to the two outstanding points summarised in section 1.6.

A petition by a former Board member for a judicial review into the decision taken by Scottish Ministers to remove Board members was launched in January 2016. As at the time of submission of this report the judicial proceedings were ongoing and consequently the section 22 report has not been discussed by the Parliamentary Audit Committee.

We found no matters in relation to Corporate Governance to impact on our audit report.

6 FRAUD AND IRREGULARITIES

6.1 BEST PRACTICE

Best practice requires that the charity should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Governance procedures.

An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities during our audit planning procedures.

6.2 AUDIT FINDINGS

In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:

- a) The monitoring and compliance with financial procedures;
- b) The charity's strategy to prevent and detect fraud and other irregularities;
- c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.

No areas of significant concern were found during normal audit procedures.

We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Overall we concluded that management has an adequate approach to fraud prevention and detection and has reasonable controls in place to ensure that potential areas for fraud are detected and dealt with in an appropriate manner.

There are no specific recommendations made in this area however, it is highlighted that all the recommendations made have an implicit impact on the prevention and detection of fraud and other irregularities within the College.

7 AUDIT RECOMMENDATIONS – 31 JULY 2015

7.1 PRIOR YEAR RECOMMENDATIONS

A management letter was prepared by Wylie & Bisset LLP in relation to the accounts of Glasgow Clyde College for the period ended 31 July 2015.

The points noted within the prior year management letter, along with the observations and follow up conclusions from the current year are detailed below.

The points within the report have been assigned a priority level based on the urgency required in addressing the matters highlighted. An explanation of the priority is as follows:

High Priority - Recommendations addressing significant control weaknesses which should be implemented immediately.

Medium Priority - Recommendations addressing significant control weaknesses which should be addressed in the medium term.

Low Priority - Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the college matches current best practice.

7.2	Compliance with the Code of Good Governance for Scotland's Colleges (CoGG)
Observation	Based on our work undertaken in relation to Corporate Governance and the disclosures made in the OFR in relation to events which occurred during 2014-15 there is evidence that the Board did not comply with the principles contained within the CoGG throughout the full period under audit.
Implication	There is the risk that the college is not exhibiting best practice with regards to Corporate Governance and that the Board members may not be discharging their duties effectively resulting in detrimental impact on the college, its reputation and the student experience.
Evidence to support recommendation	<p>From our review of all the documentation discussed in section 5.3 of this report we include the following evidence to give context to the recommendations which follow:</p> <p>Leadership and Strategy</p> <ul style="list-style-type: none"> • The suspension of the Principal and the SFC governance review dominated discussion at Board meetings from February 2015 onwards meaning other strategic items of business were not adequately considered. <p>Openness and Transparency</p> <ul style="list-style-type: none"> • The Board did not operate in an open and transparent manner – minutes were consistently not being ratified at the subsequent Board meeting. • The Board minutes have not been publicly available on the College's website since September 2014. <p>Accountability</p> <ul style="list-style-type: none"> • There was a reliance on verbal updates from Committees to the Board. This is in contrast to the way Committee business should be reported, as set out in the Articles of Governance of the Board of Management.

Compliance with the Code of Good Governance for Scotland's Colleges (CoGG) (continued)	
Evidence to support recommendation	<p>Effectiveness</p> <ul style="list-style-type: none"> • Board meetings were sometimes conducted in the absence of the Board Secretary from October 2014 until they left their post in June 2015. In the absence of the Secretary to the Board minutes were taken by others. • There was a significant external legal presence and input at Board meetings from February 2015 onwards. • There was an absence of inclusion of Executive Management Team (EMT) involvement in Board business during 2015 resulting in a lack of joint working.
Recommendation	<p>Whilst we appreciate that a new Board of Management is now in place at the college there are a number of recommendations in relation to governance which we believe require to be addressed by the new Board and its committees. The recommendations which follow are made at a high level and designed to be considered in conjunction with findings of various third party reports produced during 2015 investigating the governance issues which led to the dismissal of the Board of Management members. The recommendations made are done so in light of the disclosures made in the Operating and Financial Review within the financial statements and the statements made on Corporate Governance in section 5.3 of this report.</p> <p>We recommend:</p> <ul style="list-style-type: none"> • A follow up review on the effectiveness of the Board and its ability to discharge its responsibilities is undertaken by internal audit during 2016-17. As part of this the effectiveness of the Board should be measured with respect to the principles as laid out in the CoGG;
Management response	<p>Recommendation accepted, the College will ensure this review is included in the 2016-17 Internal Audit Plan.</p>
2016 update	<ul style="list-style-type: none"> • This recommendation is due for action during 2016-17 in terms of internal audit's review and as such is carried forward to 2016-17. From our own review of Governance procedures, minutes of meetings and discussions with members of the executive management team we believe there is now compliance with the CoGG.

Compliance with the Code of Good Governance for Scotland's Colleges (CoGG) (continued)	
Recommendation	<ul style="list-style-type: none"> An action plan and timeline as to how the Board will ensure full compliance with the CoGG should be put in place;
Management response	<p>Recommendation accepted. Following the appointment of the new Board of Management a Glasgow Clyde College Governance Action Plan was implemented to address the stated governance issues as outlined in the Policy Note issued by the Cabinet Secretary when removing the Board Members on 8 October 2015.</p> <ul style="list-style-type: none"> The Board return to a position where they provide effective and regular scrutiny and challenge of key strategic and performance issues within the College. There is clear evidence from minutes of meetings that this was not happening during 2014-15 in contrast to earlier years; The Board must work constructively with the EMT at all times to ensure they are fully included in important college decisions. EMT members require to be present at all Board meetings to provide valuable insight into college activities; The Board must be able to demonstrate that it provides collective strategic leadership for the College by maintaining a sufficient focus on its strategic, corporate and operational objectives. During 2014-15, there is limited evidence of strategic and corporate issues being considered in adequate detail at Board meetings.
2016 Update:	<p>The College now has a rolling action plan in place detailing progress against points from last year's annual audit report. We are satisfied the points above have been implemented. There is evidence of this through minute review, discussion with the EMT and their involvement in Board meetings, point actioned.</p>

	Compliance with the Code of Good Governance for Scotland's Colleges (CoGG) (continued)
Recommendation	<ul style="list-style-type: none"> The Board must ensure effective lines of communication are in place at all times with the SFC and the Glasgow Colleges Regional Board; Inclusiveness needs to be demonstrated by the Board and student Board membership needs to be in evidence at all meetings to ensure students have a voice; and The Board work closely and in an open manner with the EMT to ensure procurement procedures are adhered to at all times and that expenditure incurred is in the best interests of the public.
Management response	Recommendations accepted. All relevant steps have been taken by the Board of Management from 8 th October 2015 to ensure these recommendations have been fully implemented.
2016 update	We are satisfied the College is now adhering to these principles in line with the CoGG.
Management response	<ul style="list-style-type: none"> The College require to make the minutes of meetings available on the website, which have been absent since September 2014;
2016 Update	Recommendation accepted. The Board of Management is fully committed to publishing minutes of meetings and, as such, this recommendation is currently being progressed. Minutes of relevant meetings are now being published on the Colleges website, point actioned
Management response	<ul style="list-style-type: none"> The role of Board Secretary requires to be filled as quickly as possible and the appointee to this position requires to have the experience and skill set to execute their responsibilities effectively and provide advice to the Board of Management where required;
2016 Update:	Recommendation accepted. The College has taken a range of steps to fill the post of Board Secretary but has, as yet, been unable to make an appointment. However the College is aiming to appoint a Board Secretary during February 2016. Board Secretary position is now filled and responsibilities are being discharged effectively, point actioned
Priority	High

7.3	Register of Interest
Observation	On review of Board Member Registers of Interest, it was noted that all were dated 2013 and 2014.
Implication	There is the risk that by not keeping Board members Register of Interests up to date, the College is not aware of potential related party transactions.
Recommendation	We recommend that the Register of Interests is updated regularly.
Priority	Medium
Management Response	Recommendation accepted. The exercise to update the Register of Interests for new Board members is currently in progress.
2016 Update	We are satisfied the register of interests is now being updated timeously, point actioned.

7.4	Self-Evaluation of Board Members and Chair
Observation	There was no written evidence to support that a self-evaluation process of Board members and the Chair of the Board had been performed during the year 2014/15.
Implication	There is the risk that Board members and the Chair may not be discharging their duties effectively.
Recommendation	Whilst we appreciate that the circumstances which lead to the dismissal of the Board and Chair of the Board by the Scottish Government may have contributed to self-evaluation not being undertaken, we recommend that the Board and Chair undertake a self-evaluation process every year.
Priority	Medium
Management Response	Recommendation accepted. The Board and Chair self-evaluation process will be undertaken on an annual basis in future.
2016 Update:	The annual evaluation was undertaken in August 2016 and reported on in section 5.3. Due to departure of the Chair in June 2016 his evaluation was not completed. An evaluation of the current Chair will be included in an external effectiveness review of the Board which is scheduled for March 2017 and the next annual self-evaluation exercise which is scheduled for the summer of 2017. Point actioned with the exception of ensuring the Chair is included in the process during 2017.

7.5	Fixed Assets
Observation	We understand that the College finance team do not perform physical checks to verify the existence of items held on its Fixed Asset Register.
Implication	There is the risk that the College's Fixed Asset Register does not agree to the assets currently being held by the College.
Recommendation	We recommend that the College finance team consider undertaking quarterly spot checks on a sample selection of fixed assets to confirm existence.
Priority	Low
Management Response	Recommendation accepted. The College finance team will carry out quarterly physical checks on a sample basis to verify the existence of items held on its Fixed Asset Register from 2015/16 onwards.
2016 Update	These checks are now being conducted as indicated, point actioned

8 AUDIT RECOMMENDATIONS – 31 JULY 2016

8.1 31 JULY 2016 RECOMMENDATIONS

There are no recommendations to be brought to the attention of the Board of Management in the current year.

APPENDICES

A STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

In accordance with the College's Constitution, the Board of Management of Glasgow Clyde College is responsible for the administration and management of the affairs of the College, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial period.

The Board of Management is responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Constitution, the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions, the 2015/16 Government Financial Reporting Model (FReM) issued by the Scottish Government, and other relevant accounting standards. It is the duty of the Board of Management, through its designated office holder, to prepare financial statements for each financial period which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period.

In causing the financial statements to be prepared, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the College will continue in operation.

The Board of Management has a responsibility to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Further and Higher Education (Scotland) Act 1992, the College's Financial Memorandum with the Funding Council, and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and hence to take reasonable steps to prevent and detect fraud;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure; and
- ensure sound corporate governance and the proper conduct of the College's operations.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic faculties and schools and heads of support and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the College and the Board of Management;

- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Board of Management; and
- a professional Internal Audit team whose annual programme is agreed by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any systems of internal financial control can however, only provide reasonable, but not absolute assurance against material misstatement or loss.

B INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of Glasgow Clyde College for the year ended 31 July 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Responsibilities of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the college's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income.

In addition, 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, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2016 and of its deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

C LETTER OF REPRESENTATION

Glasgow Clyde College
690 Mosspark Drive
Glasgow
G52 3AY

21 December 2016

Messrs Wylie & Bisset LLP
Chartered Accountants
168 Bath Street
Glasgow
G2 4TP

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief, apart from the governance issues referred to in the 2014/15 Financial Statements and Annual Audit Report, the following representations given to you in connection with your audit of the College's accounts for the year ended 31 July 2016.

1. We acknowledge as members of the Board of Governors our responsibility for ensuring:
 - a) the financial statements are free of material misstatements including omissions .
 - b) that the financial statements give a true and fair view of the state of affairs of the College as at 31 July 2016.
 - c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
 - d) all other records and related information, including minutes of all management meetings, have been made available to you.
 - e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and

- f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Governors by the SFC.
2. We have appointed Henderson Loggie as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you
3. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
4. The College has no material liabilities or contingent liabilities other than those disclosed in the accounts.
5. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.
6. There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.
7. The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Governors nor to guarantee or provide security for such matters.
8. We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.
9. The College has not contracted for any capital expenditure other than as disclosed in the accounts.

10. The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements. Where these assets are included at market value in order to comply with accounting standards, we confirm that the market value has been determined based on our "best estimate" using relevant information currently available to us.
11. We are not aware of any irregularities, including fraud, involving management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.
12. We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.
13. We confirm that, in our opinion, the treatment of the College as a going concern within these financial statements is considered appropriate on the grounds that the operations and services of the College will continue to be provided using the same assets which have been transferred to Glasgow Clyde College. We are satisfied that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.
14. We confirm that you have not identified to us any unadjusted errors other than those which are clearly trifling. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts.
15. So far as the Board of Management is aware, there is no relevant audit information of which the College's auditors are unaware and it has taken all the steps that it ought to have taken as a Board of Management to make itself aware of any relevant audit information and to establish that the College's auditors are aware of that information.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

D IDENTIFIED AUDIT RISKS, APPROACH & CONCLUSION

Risk	Audit response	Conclusion
<p><u>Financial performance</u></p> <p>The level of Scottish Government funding available to the College is tight resulting in the College's ability to break even being challenging. There is an increased risk associated with the demand this places on current resources. The risks associated with reporting a break even position will become even greater in future years with the reclassification of the college as a non-departmental public body (NDPB).</p>	<p>As part of our audit process we will review the College's final outturn and ensure we can adequately explain any deviations from budget. Any non-standard transactions will be specifically reviewed as part of our audit testing and ensuring adherence with the requirements of auditing standards.</p>	<p>We are satisfied that the procedures and processes operated by the College in this area are adequate to meet the needs of the College in a time of tight resources.</p> <p>All significant deviations from budget have been adequately explained and supported.</p> <p>We are satisfied that non standard transactions have been processed correctly.</p>
<p><u>Override of Internal Controls</u></p> <p>There is a risk of fraud or error arising due to management override of controls. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs.</p>	<p>Our audit procedures will include testing the appropriateness of journal entries recorded within the general ledger and other adjustments made in the preparation of the financial statements, along with a review of accounting estimates for any evidence of management bias. We will also consider specifically any significant transactions outside the normal operations of the College.</p>	<p>Satisfactory. Our testing has highlighted no issues in this area. There are no indicators of inappropriate management override of controls.</p>

Risk	Audit response	Conclusion
<p><u>Revenue Recognition</u></p> <p>There is a risk of material misstatement due to errors in revenue recognition. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs unless it can be specifically rebutted.</p>	<p>Our standard testing procedures in this area will adequately address the associated risk such that a specific additional audit response is not required.</p>	<p>Satisfactory. Our testing of the income balances has highlighted no issues with regard to revenue recognition providing adequate assurance over the figures included within the financial statements.</p>
<p><u>Revised FE/HE SORP</u></p> <p>The revised FE/HE SORP will be compulsory for accounting periods beginning on or after 1 January 2015, ie 31 July 2016 year ends. Consideration to its implementation must be given now with regards to comparative figures and the transitional balance sheet position at 1 August 2014. Specifically the College needs to consider if it has the mechanism in place to calculate holiday pay accruals for all staff. This information will need to be collated from 1 August 2014 to allow for comparative information to be available at 31 July 2015.</p>	<p>We will discuss the implications of the upcoming changes with college management throughout the audit process and ensure where possible relevant guidance is given to aid the run up to implementation of the new SORP.</p>	<p>This area has been reviewed throughout the audit process and we are satisfied with the procedures in place.</p>

E CONTACT DETAILS

Name	Position	Email
Ross McLauchlan	Audit Partner	ross.mclauchlan@wyliebisset.com
Scott Gillon	Partner, Engagement Manager	scott.gillon@wyliebisset.com
Anil Chumbhit	Manager, Audit Senior	anil.chumbhit@wyliebisset.com

Wylie & Bisset LLP

168 Bath Street

Glasgow

G2 4TP

Tel: 0141 566 7000

Fax: 0141 566 7001