



**Scott-Moncrieff**  
business advisers and accountants

# **Glasgow Colleges' Regional Board**

Annual report on the 2015/16 audit  
to the Board and the Auditor General for  
Scotland

**December 2016**

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# Executive Summary

## Annual report and accounts

The annual report and accounts for the year ended 31 July 2016 were approved by the Glasgow Colleges' Regional Board ("the GCRB") on 12 December 2016. Our independent auditor's report gives an unqualified opinion on financial statements, the regularity of transactions, and on other prescribed matters. We are also satisfied that there are no matters which we are required to report by exception.

The draft annual report and accounts were of a good standard and were provided in accordance with the agreed timetable. Our thanks go to the GCRB management and Finance staff at the City of Glasgow College for their co-operation and assistance during the audit process.

## Financial management

The GCRB has adequate arrangements in place for financial management and the use of resources. Our conclusion has been based on a review of the GCRB's financial performance, financial position and financial forecasts.

The GCRB has seen a reduction in expenditure of £8,597 in year. This is principally due to an increase in staff costs of £39,581 combined with a reduction in other operating costs of £48,178. Staff costs for 2015/16 were 1.4% below those budgeted and other operating expenditure incurred was 49% below budget.

The balance sheet at 31 July 2016 shows a £nil balance overall, reflecting the financing arrangements of the GCRB.

We have evaluated the GCRB's key financial systems and determined them to be adequate to prevent material misstatements in the annual accounts. We have not identified any significant deficiencies in the operation or design of the key financial systems. We are satisfied that the weaknesses identified during our 2014/15 audit have been appropriately addressed by the GCRB management.

- The GCRB spent £229,164 on staff costs during the year ended 31 July 2016, which approximates to 85% of total expenditure for the same period.
- Staff costs for 2015/16 were 1.4% below those budgeted and other operating expenditure incurred was 49% below budget.
- The GCRB's 2016/17 revenue budget forecasts a small surplus of £13,201. Total budgeted spend is £236,325.
- Significant governance weaknesses identified during our 2014/15 audit have been satisfactorily addressed during the year.
- The GCRB continues to work with the SFC to ensure that all necessary arrangements are in place to assume fully-operational fundable body status.

## Financial sustainability

The GCRB's processes in respect of budget management appear to be robust and have been well embedded in the year. Whilst the financial outlook for the GCRB and FE sector more generally, continues to be extremely challenging, the GCRB is considered to be financially stable.

## Governance and transparency

The GCRB has operated with satisfactory governance arrangements in place during the year. Our audit work has included reviewing corporate governance arrangements as they relate to:

- systems of internal control;
- risk management;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and the prevention and detection of bribery and corruption.

We are satisfied that the significant weaknesses in governance arrangements as identified during our

2014/15 have been appropriately addressed by management.

The GCRB continues to work with the SFC to ensure that all necessary arrangements are in place to assume fully-operational fundable body status. However, as this status has not been granted during the 2015-16 financial year, the GCRB has again not been able to discharge the majority of its functions under the Post 16 Education (Scotland) Act 2013.

## Value for money

The GCRB has operated with satisfactory arrangements for ensuring the attainment of value for money and continuous improvement in performance.

## Looking forward

The GCRB has not yet been awarded fully-operational fundable body status by the SFC and is therefore not in a position to fully exercise its strategic management and coordination duties as set out under the Post-16 Education (Scotland) Act.

The GCRB continues to work with the SFC to ensure that all necessary arrangements are in place to assume fully-operational fundable body status.

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

Further, the award of fully-operational fundable body status may have accounting implications for the GCRB to prepare full consolidated annual accounts for the Glasgow college region. The preparation of consolidated accounts can be a timely and complex process which must be planned for sufficiently in advance. This will not only affect the GCRB, but the assigned colleges too.

## Conclusion

This report concludes our audit of the GCRB for the year to 31 July 2016. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

**Scott-Moncrieff  
December 2016**

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# Introduction

# Introduction

1. This report summarises the findings from our 2015/16 audit of the Glasgow Colleges' Regional Board ("the GCRB"). The scope of the audit was set out in our External Audit Plan which was presented to the Audit Committee at the outset of the audit.

2. The External Audit Plan summarised three key audit issues for 2015/16:

- Governance;
- Completeness and occurrence of income; and
- Management override.

This report includes our findings in relation to these key audit issues.

3. The main elements of our work in 2015/16 have been:

- An audit of the draft annual accounts, including a review of the annual governance statement and the remuneration report;
- A review of governance arrangements, internal controls and financial systems; and
- High level review of overall performance arrangements.

4. As part of our audit, we have also made use of the work of other inspection bodies, including the GCRB's internal audit service and Audit Scotland where possible and appropriate.

dates for implementation (see Appendix 1). Recommendations have been given a grading to help the GCRB assess their significance and prioritise the actions required. The GCRB has assessed these recommendations and concluded on appropriate actions.

8. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

9. This report is addressed to both the GCRB's Board and the Auditor General for Scotland and is published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

10. We would like to thank the GCRB's management and the City of Glasgow College Finance staff for their co-operation and assistance during our audit work.

## Responsibilities & reporting to those charged with governance

5. The GCRB is responsible for preparing an annual report and accounts that show a true and fair view and for implementing appropriate internal control systems.

6. Our procedures are carried out solely for the purposes of our audit so that we can form and express an opinion on the annual accounts in accordance with applicable law and International Standards on Auditing (UK & Ireland) (ISAs).

7. This report contains an action plan with specific recommendations, responsible officers and

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# Annual Accounts

# Annual accounts

## Introduction

11. The GCRB's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the GCRB and the auditor in relation to the annual accounts are outlined in Appendix 3.
12. In this section we summarise the issues arising from our audit of the 2015/16 annual report and accounts.

## Overall conclusion

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

13. The annual report and accounts for the year ended 31 July 2016 were approved by the GCRB Board on 12 December 2016. Our independent auditor's report gives:
  - an unqualified opinion on the financial statements;
  - an unqualified opinion on the regularity of transactions; and
  - an unqualified opinion on other prescribed matters.

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

### Good administrative processes were in place

15. We received a draft annual report and accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly.

### Our assessment of risks of material misstatement

16. The assessed risks of material misstatement were highlighted in our 2015/16 External Audit Plan previously presented to the Audit Committee. These risks 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 accounts as a whole, and not to express an opinion on individual accounts or disclosures.
17. We set out below the risks highlighted in our External Audit Plan together with a summary of our how our audit approach responded to these risks and the conclusions arising from our work.

## 1. Governance

As required by paragraph 17 of part 1 of the Financial Memorandum with Fundable Bodies in the college sector, the GCRB must comply with the principles of good governance set out within the Code of Good Governance for Scotland's Colleges.

Our 2014/15 Annual Report recognised that a number of key assurance mechanisms had not operated as intended during the course of the year, namely:

- a risk management framework;
- supporting committees;
- an internal audit function;
- an approved scheme of delegation, standing orders and standing financial instructions; and
- financial monitoring arrangements.

The GCRB has taken action to address these findings and implement revised governance arrangements during the first half of 2015/16.

While governance policies and procedures have been developed, there remains a risk that the detail within is not sufficient or appropriate to the GCRB or that the policies and procedures have not been consistently applied.





18. We reviewed and considered the robustness of the GCRB's risk management arrangements and are satisfied that they comply with the Code of Good Governance for Scotland's Colleges (as applicable to the GCRB). We have reviewed minutes of Board meetings and supporting committees to satisfy that risk management has been embedded within the organisation and is reviewed on a regular basis.
19. The intended governance structure of the GCRB includes an Audit Committee, Performance & Resources Committee and Nominations & Remuneration Committee reportable to the Board. We have confirmed that during 2015/16 these supporting committees have met in accordance with intended timetables and detailed minutes of all meetings have been made available to us in a timely manner.
20. We have reviewed all internal audit outputs in year and are content that there are no significant findings which impact on our audit. We consider the results of internal audit's 2015/16 outputs to be accurately reflected within the annual report.
21. We are satisfied that a formal scheme of financial delegation, standing orders and standing financial instructions has been endorsed by the Board and has been consistently applied in year.
22. We have reviewed the financial monitoring arrangements in place for both the current year and forward looking to ensure that financial information is sufficient and adequately monitored. The results of this work are set out within sections 3 and 4 of this report.
23. We are satisfied that the governance statement has been appropriately prepared, required sources of assurance have been obtained in its preparation and that it presents an accurate account of activities in year.

## 2. Completeness and occurrence of income

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



24. While we did not suspect incidences of material fraud and error, we have performed sufficient audit testing to provide assurance on the completeness and occurrence of income (and expenditure) recognised within the annual accounts. We have assessed the appropriateness of the income recognition accounting policy as stated within the annual accounts. We are satisfied that the income (and expenditure) recorded within the annual accounts has been done so consistently and in accordance with accounting policy.

### 3. Management override

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

*As included within the 2015/16 External Audit Plan*



25. While we did not suspect any incidences of management override leading to financial reporting issues, we have reviewed the accounting records for significant transactions outside the normal course of business and have confirmed that transactions are adequately supported, valid and accounted for correctly.

#### Audit differences

26. One adjustment was made to the annual accounts which recognised £9,866 of creditors in respect of unpaid invoices as at year end. Due to income recognition accounting policies, this gave rise to a debtor for the same amount and therefore there was no implication to the bottom line of the balance sheet.
27. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts. We are satisfied that the annual accounts are compliant with FRS102 and 2015 HE & FE SORP requirements following the required restatement from UKGAAP.

#### Board representations

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

#### Regularity

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

- Reviewing minutes of relevant meetings;

- Enquiring of management and the GCRB's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

30. We are pleased to report that we did not identify any instances of concern with regard to the regularity of transactions or events.

#### Going concern

31. ISA 570 - *Going Concern* requires us to consider the appropriateness of the use of the going concern assumption in the preparation of the annual accounts, and to consider whether there are material uncertainties about the GCRB's ability to continue as a going concern which need to be disclosed in the annual report and accounts.

32. In order to gain assurance on these matters our work has included:

- review of budgets;
- review of minutes of post balance sheet board meetings; and
- enquiries of management and the GCRB's solicitors.

33. The Board considers that the GCRB has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate.

## Corporate Governance

34. The annual report and accounts must include a statement covering the responsibilities of the governing body in relation to corporate governance. The statement must indicate how the GCRB has complied with good practice in this area, including the 2014 Code of Good Governance for Scotland's Colleges ('Good Governance Code 2014').
35. The GCRB's governance statement states they were compliant with the principles of the Good Governance Code 2014. We reviewed the governance statement by:
  - reviewing the statement against Scottish Funding Council (SFC) and Audit Scotland guidance;
  - considering the adequacy of the process put in place by the Executive Director and Board to obtain assurances; and
  - assessing whether disclosures in the statement are consistent with our knowledge of the GCRB.
36. Whilst we provided some suggested changes to the content and layout of the governance

statement which have been incorporated within the final statement, we are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

## Remuneration report

37. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared. We have found that the Remuneration Report includes all relevant disclosures and is in agreement with the accounting records.

## Qualitative aspects of accounting practices and financial reporting

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

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	All other stated policies were considered reasonable and had been consistently applied throughout the reporting period.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	Given the limited content of the GCRB accounts, there are no core areas where significant estimates or judgements have been required.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed.	All significant risks and uncertainties have been appropriately reflected in the annual report and accounts.
The extent to which the financial statements have been affected by unusual transactions and the extent that these transactions are separately disclosed in the financial statements.	We did not identify any significant unusual transactions in the period.
Apparent misstatements in the annual report and accounts or material inconsistencies with the financial statements.	There are no misstatement or material inconsistencies between the annual accounts and the annual report.
Any significant financial statement disclosures to bring to your attention.	No significant account disclosures were identified that we consider should be brought to your attention.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the course of the detailed audit work.

## Follow up of prior year audit recommendations

39. As part of our audit we have followed up on the recommendations raised in our 2014/15 Annual Report. The table below indicates progress with the issues previously identified:

Total number of recommendations raised in our 2014/15 Annual Report	Complete	Not yet complete
3	2	1

40. Work is continuing to address the one outstanding recommendation which was in respect of finalising secondment agreements for seconded members of staff.

## Looking forward

### Fundable body status

41. The GCRB has not yet been awarded fully-operational fundable body status by the SFC and is therefore not in a position to fully exercise its strategic management and coordination duties as set out under the Post-16 Education (Scotland) Act.
42. The GCRB continues to work with the SFC to ensure that all necessary arrangements are in place to assume fully-operational fundable body status.
43. On 21 September 2016 the SFC wrote to the GCRB Chair. This correspondence confirmed that the GCRB had made considerable and effective progress in operating effectively as a Regional Strategic Body in line with Post-16 Education legislation as well as fulfilling their role in securing the provision of high quality fundable education in the Glasgow region.
44. The SFC outlined that there remained two key strands of work: i) the finalisation of the Financial Memorandum between the GCRB and colleges; and ii) the development of

processes required for the GCRB to assume fully-operational fundable body status.

45. These matters were discussed at the GCRB Board on 31 October 2016 at which the SFC was in attendance. We understand that subject to the successful completion of the above two workstreams, fully-operational fundable body status is anticipated before the end of the 2016/17 financial year.
46. Once fully-operational fundable status is granted to the GCRB, we will again consider the financial sustainability of the GCRB and its assigned colleges, in the context of the current financial austerity pressures facing the FE sector across Scotland.
47. Further, from an annual accounts perspective, we will need to consider the implications that the award of fully-operational fundable body status has on the requirement for the GCRB to prepare full consolidated annual accounts for the Glasgow college region. The preparation of consolidated accounts can be a timely and complex process which must be planned for sufficiently in advance. This will not only affect the GCRB, but the assigned colleges too.

### Future accounting developments

48. At this time we are not aware of any anticipated changes to the College sector's accounting framework for 2016/17. We will continue to monitor this and ensure to inform the GCRB should we become aware of any developments.

### Future auditing developments

49. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. The new Code outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.
50. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In

addition to publishing all annual audit reports, annual audit plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

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# **Financial management**

# Financial management

## Introduction

51. It is the GCRB's responsibility to ensure that its financial affairs are conducted in a proper manner. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
52. This section of the report sets out the main findings from our review of how the GCRB has managed its key resources in terms of financial performance.

## Overall conclusion

53. Overall, we found that the GCRB has adequate arrangements in place for financial management and the use of resources. Our conclusion has been based on a review of the GCRB's financial performance, financial position and financial forecasts. Each of these elements have been considered below.

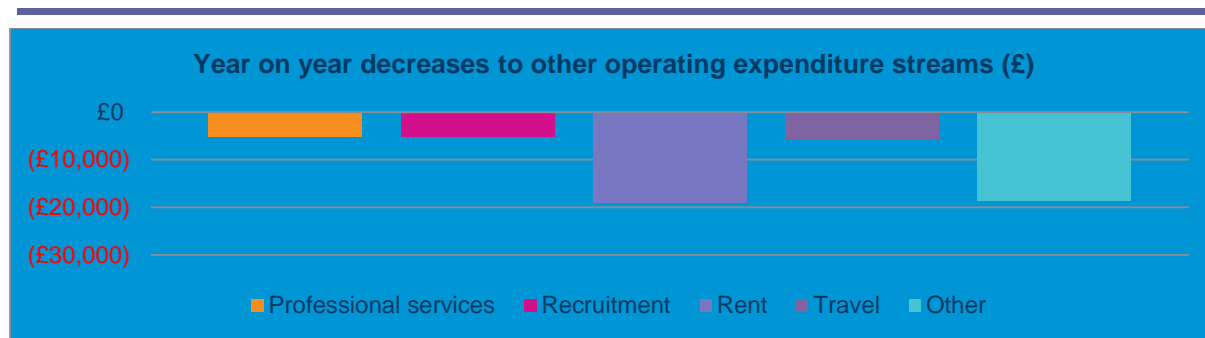
## Financial performance

Total expenditure has fallen by 3.1% in year to £270,020

	2015/16 (£)	2014/15 (£)	Variance (£)
Income	(270,020)	(278,617)	(8,597)
Expenditure	270,020	278,617	8,597

54. Overall the GCRB has seen a reduction in expenditure of £8,597 in year. This is principally due to an increase in staff costs of £39,581 and a reduction in other operating costs of £48,178.

55. Staff costs have increased in year due to:
- the increase in salary costs paid for the outgoing Interim Chief Officer (seconded from the SFC) as of November 2015 to March 2016. Prior to November 2015, the GCRB provided the SFC a £75,000 contribution to his annual salary whilst after this date, the GCRB was responsible for 100% of his salary costs; and
  - Administration cover was required to temporarily fill a maternity post.
56. Other operating costs have decreased by 54% in year. This reduction has arisen as a result of:
- Costs incurred in respect of external audit, legal services and recruitment have reduced by £16,953 as the running of the GCRB has stabilised;
  - Travel costs have fallen by £5,810 in year and all other costs by £16,809 primarily as a result of the implementation of tighter controls over spend;
  - Accommodation is currently provided by the City of Glasgow College free of charge. During 2014/15, the GCRB incurred £19,157 of rental costs in respect of office space utilised at Glasgow Caledonian University; and
  - Additional areas of spend in year have included £6,636 paid for internal audit services, £1,815 paid for IT equipment (not capitalised) and £2,100 for personnel services.





## Financial position

### The GCRB holds no reserves as at 31 July 2016

- 57. The balance sheet as at 31 July 2016 shows a £nil balance overall, reflecting the financing arrangements of the GCRB.
- 58. The GCRB does not maintain its own banking arrangements and therefore does not hold a cash balance. Any unspent funding at the year end is held by the City of Glasgow College on behalf of the GCRB.
- 59. Included within the balance sheet is £50,352 of debtors and creditors (including accruals) in respect of costs incurred during 2015/16 which had not been paid for as at year end.

### Performance against budget

- 60. The GCRB's initial budgeted expenditure for 2015/16 was £294,952.

### Staff costs were 1.4% under budget

- 61. The original staff costs budget (including the costs of the Chair) for 2015/16 was £215,542. This was subsequently revised to £232,345 in year when it was confirmed that the SFC would charge the GCRB for the full cost of Interim Chief Officer for the period beyond November 2015, rather than the previously agreed £75,000 annual contribution towards these costs. At the time of this revision, it was not known how long the Interim Chief Officer would remain in post and therefore these increased salary costs were assumed to the end of the 2015/16 year. Actual staff costs incurred in year totalled £229,164, being £3,181 less than the revised budget. This underspend has primarily resulted following the appointment of the Executive Director who replaced the Interim Chief Officer in May 2016.

### Other operating costs were 49% under budget

- 62. Other operating expenditure was budgeted at £79,500 for the 2015/16 year. Actual costs incurred were 49% less than this, at £40,856. Specifically, £52,000 was originally budgeted for professional services, including External Audit, Internal Audit and Legal fees. Actual costs incurred were £27,420. This was a direct

consequence of the GCRB's operations stabilising.

## Review of key financial systems and budgetary control

- 63. During our audit work we have considered the GCRB's accounting systems and internal controls. We have found the systems of internal financial control to be adequate and operating effectively. We are satisfied that weaknesses identified during our 2014/15 audit have been appropriately addressed.
- 64. We have suggested some minor presentational changes to be included within financial performance information presented to the GCRB Board going forward. These non-significant proposals have been agreed with management.
- 65. The 2015/16 internal audit plan included a review of 'Financial Performance Monitoring (GCRB and assigned colleges)'. We are content that the outcome of this work provided satisfactory assurance on the processes in place.

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# Financial sustainability

# Financial sustainability

## Introduction

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

## Overall conclusion

67. The GCRB's processes in respect of budget management appear to be robust and have been well embedded in the year. Whilst the financial outlook for the GCRB and FE sector more generally, continues to be extremely challenging, the GCRB is considered to be financially stable.
68. We will re-consider the appropriateness of current processes once the GCRB achieves fully-operational fundable body status.

## Short term financial forecasts

### Budgets have been prepared for 2016/17 and a small surplus has been forecast

69. The GCRB's 2016/17 revenue budget forecasts a small surplus of £13,201.
70. Funding identified includes unspent funds from the SFC in 2015/16 of £69,526 (forecast at the time of budget preparation) and a further £180,000 to be funded by the three assigned colleges, providing a total allocation of £249,526.
71. The SFC has confirmed funding for the Glasgow region, including the GCRB, for 2016/17 that will be allocated on a regional basis through outcome agreements.
72. The GCRB budgeted spend categories for 2016/17 do not vary significantly from 2015/16 activity. From our review of the 2016/17 budget against 2015/16 activity, the following has been noted:
- Staff costs, including those of the Chair, have been budgeted at £194,165 for 2016/17. The decrease in comparison to 2015/16 outturn of £229,164 is primarily due to the Executive Director's salary being

lower than the full salary costs paid to the SFC in respect of the previous Interim Chief Officer (from November 2015 to March 2016). In addition, the requirement for maternity cover ceased in November 2016, four months into the financial year.

## Medium and long term financial planning

### Absence of longer term financial planning

73. Ongoing budget pressures within the sector mean that it is vital that colleges and regional boards plan sufficiently to ensure they are financially sustainable in the longer term. Going forward there is likely to be further significant pressures on the sector to cut costs and generate new revenue streams.
74. Audit Scotland's report "Scotland's Colleges 2016" recommends that colleges, and by default, regional boards, prepare long term financial strategies (a minimum five years). The GCRB, nor assigned colleges (as far as we are aware), do not currently prepare long term financial plans.
75. Audit Scotland's report suggests plans should be supported by medium term financial plans and workforce plans. These plans will enable colleges and regional boards to plan for and take action to address future financial pressures. This includes enabling national collective bargaining, estate maintenance and student support funding.
76. Whilst it is recognised that funding allocations from the Scottish Government typically cover one to three-year spending review periods, the GCRB, along with its three assigned colleges, would benefit from developing a long-term financial strategy that includes a clear understanding of its costs, scenario planning, savings options and demonstrate how it will meet demand and deliver services.
77. This matter should be considered by the GCRB once fully-operational fundable body status has been awarded.

**Action plan point 1**

**The GCRB's capacity to allocate funds effectively across the region**

**78.** During 2015/16, the GCRB has worked to develop a regional funding model (based on a simplified version of the SFC's model). This funding model is intended to derive transparent funding allocations which clearly support curriculum needs, respect and value assigned college contributions and maintain continued

financial sustainability.

**79.** The GCRB has recognised that whilst funding assigned allocations for 2016/17 were accepted by each of the three colleges, further work is still required to develop and refine current approaches, particularly in aligning funding to the successful delivery of the GCRB's strategic aims on a longer term and sustainable basis.

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# Governance and transparency

# Governance and transparency

## Introduction

80. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
81. The GCRB is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.
86. The GCRB continues to work with the SFC to ensure that all necessary arrangements are in place for the GCRB to assume fully-operational fundable body status.
87. Despite these ongoing developments, we have found the current systems of internal control to be adequate for GCRB's current needs and compliant with both the Financial Memorandum with SFC and the requirements of the "Code of Good Governance for Scotland's Colleges", as applicable to the GCRB.

## Overall conclusion

82. We have found that the GCRB has operated with satisfactory governance arrangements in place during the year. Our audit work has included reviewing corporate governance arrangements as they relate to:
- systems of internal control;
  - risk management;
  - the prevention and detection of fraud and irregularity; and
  - standards of conduct and the prevention and detection of bribery and corruption.
83. We are satisfied that the significant weaknesses in governance arrangements as identified during our 2014/15 have been appropriately and completely addressed by management.

## Governance arrangements & systems of internal control

84. The GCRB became operational on 1 August 2014 and continues to take on more formal powers in the strategic management and coordination of the provision of further education across the three Glasgow colleges.
85. The GCRB has not yet been awarded fully-operational fundable body status by the SFC and is therefore not in a position to fully exercise its strategic management and coordination duties as set out under the Post-16 Education (Scotland) Act.

## Changes to the Board composition during the period

88. During 2015/16 nine new members were appointed to the Board, a further one member was reappointed and four left their posts. In the new financial year, four further members left the Board, two of which were student members. The GCRB is hopeful that Board member fluctuations will settle going forward.
89. Our review of Registers of Interest identified one instance in which a Board member had not provided a refreshed register for 2015/16. While we observe that declarations of interest appear as a standing item at every Board meeting, it should be ensured that a formal register is maintained and updated on an annual basis.  
*Action plan point 2*
90. In March 2016, the "Good College Governance – The Report of the Education Secretary's Task Group" was issued. There are a number of high level recommendations within regarding Board recruitment, training and assessment which the GCRB has implemented or is making good progress towards full implementation.

## Corporate governance arrangements are appropriate

91. At its meeting on 27 October 2015, the Board approved a process for evaluating its performance annually in seeking to improve its effectiveness. This process was exercised in year and the results were considered at a meeting of the Board in April 2016. The high level outcomes of this review are set out within the GCRB's governance statement.

## Risk management

92. Risk management is important to the establishment and regular review of systems of internal control. The GCRB's annual report outlines the principal risks and uncertainties of the GCRB and their associated response.
93. As detailed within our 2014/15 Annual Report, there was no risk management framework in place. The overall risk management policy and procedure and accompanying risk management guidance was only approved by the Board in October 2015.
94. Within our 2014/15 Annual Report we further observed that our initial review of the risk management framework (implemented in October 2015) identified that:
- Roles and responsibilities for risk management have been clearly identified and documented. We consider these to be reflective of the size of the organisation;
  - The structure by which management plan and monitor risk management been agreed;
  - Initial efforts have been made to prioritise risks according to impact and likelihood; and
  - The overall process works towards ensuring that risks are managed to an acceptable level, in accordance with the overall risk appetite.
95. As part of the 2015/16 internal audit plan, Henderson Loggie conducted a review on the "GCRB Risk Management / Oversight of Assigned College's Risk Management" which was awarded a satisfactory rating.
96. Whilst a number of strengths were identified with regard to the risk management arrangements in place, it was observed that most risks were above their risk tolerance acceptable scores. This indicated that either the tolerances should be amended or further mitigating controls put in place, or a mixture of both.
97. We are satisfied that whilst the GCRB's risk management arrangements are still in their

infancy and ongoing improvements will occur over time, overall we have found that the GCRB has adequate risk management arrangements in place to monitor and help mitigate key strategic risks.

## Internal audit

98. The internal audit service is a key component of the College's internal control framework. During 2014/15, the GCRB operated in the absence of an internal audit function. We are however satisfied that the GCRB have satisfactorily addressed this weakness and appointed Henderson Loggie to provide the internal audit service in 2015/16.
99. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the GCRB's total audit resource. We have considered the results of their 2015/16 work within our audit process.
100. Henderson Loggie's 2015/16 work has concluded that "...whilst GCRB has systems demonstrating adequate and effective arrangements for risk management, control and governance, and proper arrangements are in place to promote and secure Value for Money, it is important that the further work to finalise implementation of the operational arrangements required for fully operational fundable body status is completed as soon as possible. This opinion has been arrived at taking into consideration the work we have undertaken during 2015/16 and the position regarding fundable body status."
101. Following a joint tender with the City of Glasgow College, Henderson Loggie has recently been appointed as the GCRB's internal auditor for the period, 2016/17 to 2020/21.

## Support committees

102. The intended governance structure of the GCRB includes an Audit Committee, Performance & Resources Committee and Nominations & Remuneration Committee reportable to the Board. During our 2014/15 audit, we observed that neither the Audit Committee, nor the Performance & Resource Committee met during the course of the reporting period. We are however satisfied that

during 2015/16 supporting committees have met in accordance with intended timetables and detailed minutes of all these meetings have been made available to us in a timely manner.

### Prevention and detection of fraud and irregularity

- 103.** The Board is responsible for preventing and detecting fraud and other irregularities. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, our audit was planned and conducted so as to give a reasonable expectation of detecting any material misstatements in the annual accounts resulting from improprieties or breach of regulations.
- 104.** Our work included a consideration of the GCRB's arrangements for the prevention and detection of fraud and irregularity. We observed that the policy on Fraud, Losses, Special Payments and Gifts, was introduced in August 2015, at the outset of the financial year. However, from the audit work undertaken, we did not identify any issues in relation to fraud and irregularity.

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

- 105.** In our opinion the GCRB's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate and in line with our expectations.

**106.** Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct.

**107.** During the 2014/15 audit we observed that there was no scheme of delegation, standing orders or standard financial instructions in place. However, we are satisfied that these have now been appropriately implemented and are being utilised as intended. Further, we are satisfied that a bribery policy has been endorsed by the GCRB Board and is made available to all staff.

**108.** The governance statement confirms that the GCRB has applied the principles of the Good Governance Code. This includes compliance with the SFC financial memorandum and the relevant aspects of the Scottish Public Finance Manual.



**6**

# Value for money

# Value for money

## Introduction

- 109.** Value for money is concerned with the appropriate use of resources and ensuring continuous improvement of services delivered.
- 110.** In this section we report on our audit work as it relates to the GCRB's own reporting of performance.

## Overall conclusion

- 111.** We have found that the GCRB has operated with satisfactory arrangements for ensuring the attainment of value for money and continuous improvement in performance.

### Arrangements are in place to promote and secure value for money

- 112.** The Financial Memorandum between the SFC and fundable bodies in the FE college sector requires the GCRB to:
- have a strategy for reviewing systematically management's arrangements for securing value for money; and
  - as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangement for achieving value for money.
- 113.** Securing the economical and effective management of the GCRB resources and expenditure is the responsibility of the Board. The governance statement confirms that the GCRB has applied the principles of the Good Governance Code which requires fundable bodies to use funds as economically, efficiently and effectively as possible.
- 114.** At its October 2016 meeting, the Audit Committee undertook an annual review of the GCRB's value for money strategy (updated as at September 2016). The Committee's terms of reference give it an advisory role in relation to the internal control environment, of which value for money is part. Overall the Committee was content with the strategy itself, however observed that further improvements could be made to communication between the GCRB committees and the supporting committees of

the three assigned colleges to ensure that information being provided is transparent and complete. The GCRB are presently working on revisions to current reporting channels.

- 115.** The GCRB's value for money strategy observes that it is not appropriate to have a single framework for promoting, achieving and measuring value for money: instead different approaches towards value for money are undertaken in the management of i) the GCRB operational costs budget; and ii) the programme budget (for funding the assigned colleges).
- 116.** In respect of operational costs, the GCRB has identified: i) procurement of goods and services; ii) human resources; and iii) shared services as the three main areas for promoting, achieve and monitoring value for money. For the programme budget, the main areas of focus are: i) the Financial Memoranda with the assigned colleges; ii) assurance processes in relation to internal control; iii) the GCRB's progress monitoring arrangements; iv) the Outcome Agreement process; and v) funding methodologies. The GCRB also has the statutory power to undertake value for money studies in the assigned colleges.

### Internal audit opinion on value for money

- 117.** Whilst no standalone review of value for money has been conducted by internal audit in year, we understand that value for money is an underlying consideration of every individual audit. We are not aware of any significant findings within internal audit's 2015/16 outputs which cast significant doubts over the GCRB's ability to operate with due consideration to value for money. Further, within internal audit's annual opinion, there is a positive confirmation that the GCRB has ".....proper arrangements in place to promote and secure Value for Money....".

## Performance

- 118.** Performance focus within the GCRB during 2015/16 has been to establish the structures, systems and procedures which the GCRB

requires to be fully-operational, and for the SFC to transfer to the GCRB full responsibility for the management of the assigned colleges and associated funding. The GCRB and the SFC are currently working on a detailed transition plan which will set out tasks and timeframes related to funding, monitoring and financial arrangements which will allow fully-operational fundable body status to be implemented.

**119.** From a regional perspective, the key priority in year has been the development of the 2016/17 Regional Outcome Agreement (ROA). Internal audit conducted a review in year on “Regional Outcome Agreement (ROA) Development / Monitoring of Progress against ROA”. This work concluded that there was a robust framework in place underpinning the development of the 2016/17 ROA, and further there was a strong process to monitor progress against the 2015/16 ROA.



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# Appendices

# Appendix 1: Management action plan

Our action plan details the control weaknesses that we have identified during the course of our audit. The action plan details the officer responsible for implementing each recommendation and an implementation date. The Board should assess each recommendation for wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work, and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Action plan grading structure

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

The grading structure for our recommendations is as follows:

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

No.	Issue & Recommendation	Management Comments
1. Long term financial strategy	<p><b>Observation</b></p> <p>Ongoing budget pressures within the sector mean that it is vital that colleges and regional boards plans sufficiently to ensure they are financially sustainable in the longer term. Going forward there is likely to be further significant pressures on the sector to cuts costs and generate new revenue streams.</p> <p>Audit Scotland’s report “Scotland’s Colleges 2016” recommends that colleges, and by default, regional boards, prepare long term financial strategies (a minimum five years). The GCRB, nor assigned colleges (as far as we are aware) currently does not prepare a long term financial plan.</p> <p><b>Recommendation</b></p> <p>Whilst it is recognised that funding allocations from the Scottish Government typically cover one to three-year spending review periods, the GCRB, along with its three assigned colleges, would benefit from developing a long-term financial strategy that includes a clear understanding of its costs, scenario planning, saving options and demonstrate how it will meet demand and deliver services.</p> <p>This matter should be considered by the GCRB once fully-operational fundable body status has been awarded.</p>	<p><b>Responsible Officer:</b> GCRB Executive Director</p> <p><b>Completion Date:</b></p> <p>To be considered by the GCRB once fully-operational fundable body status has been awarded.</p>
Rating		
Grade 2		
Para 77		

No.	Issue & Recommendation	Management Comments
2. Registers of Interest	<p><b>Observation</b></p> <p>Our review of Registers of Interest identified one instance in which a Board member had not provided a refreshed register for 2015/16.</p> <p><b>Recommendation</b></p> <p>While we observe that declarations of interest appear as a standing item at every Board meeting, it should be ensured that a formal register is maintained and updated on an annual basis.</p>	<p><b>Responsible Officer:</b> GCRB Executive Director</p> <p><b>Completion Date:</b></p> <p>The Register of Interest will be checked and refreshed in December 2016 and thereafter annually each August.</p>
Rating		
Grade 2		
Para		
89		

# Appendix 2: Scope of the audit

## An overview of the scope of our audit

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs).

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in March 2016. 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 GCRB. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

Our standard audit approach is based on performing a review of the key accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained below.

## Our application of materiality

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

Our initial assessment of materiality for the annual report and accounts during our planning work was £2,800. On receipt of the draft 2015/16 accounts, we revised this assessment to £2,700. Our assessment of

materiality is set with reference to a range of benchmarks (including total income/ expenditure and gross assets). We consider expenditure to be the principal consideration for the users of the accounts when assessing the performance of the GCRB.

## Performance materiality

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

Area risk assessment	Weighting	Performance materiality (£'000)
High	45%	1,215
Medium	55%	1,485
Low	75%	2,025

## Reporting

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

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 10% of the overall materiality figure (i.e. over £280);
- Other misstatements below the 10% threshold that we believe warrant reporting on qualitative grounds.

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



# Appendix 3: Respective responsibilities

## Management responsibilities

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

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the GCRB and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 2005, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

## Auditor responsibilities

Public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the annual accounts and associated documents such as the governance statement, but also providing a view, where appropriate, on matters such as propriety, performance and the use of resources.

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

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

### Opinion on financial statement

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

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the SFC of the state of the body's affairs as at 31 July 2016 and of its surplus for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 2005 and directions made thereunder.

### Opinion on regularity

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

### Opinion on other prescribed matters

We express an opinion on whether:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

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

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

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

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

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

### Confirmation of auditor independence

Ethical Standard 1: Integrity, objectivity and independence, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.



**Scott-Moncrieff**  
business advisers and accountants