



Glasgow Colleges' Regional Board

2019/20 Annual Audit Report to the Board and the Auditor General for Scotland

January 2021



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Key messages



Annual report and accounts audit

The group annual accounts for the year ended 31 July 2020 are scheduled to be signed by the Board on 25 January 2021. We report within our independent auditor's report an unqualified opinion on the group annual accounts, regularity and on other prescribed matters. We are also satisfied that there are no other matters which we are required to report by exception.

The group annual accounts and supporting schedules were of a high standard. Our thanks go to staff at the Glasgow Colleges' Regional Board for their assistance with our work.

Wider scope audit

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:



Governance statement

- We are satisfied that the Governance Statement has been prepared in accordance with the SFC Accounts Direction and that the content is consistent with the financial statements.
- The Board has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Board's accounting and internal control systems throughout the year or as a result of remote working during the COVID-19 pandemic.
- GCRB has taken action to improve regional governance arrangements. However opportunities to improve information sharing across the region should continue to be explored to ensure the GCRB can continue to fulfil their role as a regional strategic body.



Financial sustainability

- GCRB has adequate arrangements in place for short and medium term financial planning, although it continues to face significant challenges and is operating within tight financial parameters. Effort and activity continues to reach a long term sustainable financial position for the Glasgow college region.
- The FFR for GCRB and the Glasgow college region was submitted to the SFC in June 2020 and approved by the Board in September 2020. For GCRB a breakeven position has been forecast throughout the planning period to 2022/23. The Glasgow college region forecasts an adjusted operating deficit of £6,480k in 2020/21 (surplus of £202k in 2019/20) and a steadily improving, but still challenging position across the remaining planning period.
- SFC reported their review of GCRB in October 2020. This recognised the significant progress made by GCRB and highlighted three key recommendations, including the need to explore options for improving collaboration across the region. The Glasgow region is continuing to face significant financial challenges and the approach to addressing these, such as staffing cuts and one-off funding, is not sustainable. We are encouraged by GCRB's approach to exploring other delivery models with the region and will continue to monitor the steps taken as part of our 2020/21 audit. Strategic decision making needs to be more effective at a pan-regional level to support the financial viability and sustainability of the three assigned colleges and the region over the medium to long term.

Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Azets

December 2020

Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Glasgow Colleges' Regional Board for 2019/20.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (UK) 260: *Communication with those charged with governance*.

At the Glasgow Colleges' Regional Board, the Audit Committee has been designated as "those charged with governance".

Introduction

1. This report summarises the findings from our 2019/20 audit of the Glasgow Colleges' Regional Board ("GCRB").
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee at the outset of our audit. The core elements of our work include:
 - an audit of the 2019/20 annual report and accounts and related matters;
 - consideration of the GCRB arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1);
 - monitoring the GCRB's participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. GCRB is responsible for preparing an annual report and consolidated financial statements which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding on appropriate actions. We give each recommendation a grading to help GCRB assess their significance and prioritise the actions required.
5. We discussed and agreed the content of this report with GCRB management.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

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

Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Openness and transparency

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

Annual report and Consolidated Financial Statements

The Glasgow Colleges' Regional Board Annual Report and Consolidated Financial Statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2019/20 annual report and consolidated financial statements.

Annual report and consolidated financial statements

An unqualified audit opinion on the annual report and consolidated financial statements

The annual report and consolidated financial statements for the year ended 31 July 2020 were presented to the Board on 25 January 2021. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and consolidated financial statements.

GCRB has appropriate administrative processes in place to prepare the group annual report and accounts and the required supporting working papers.

Overall conclusion

12. The annual report and consolidated financial statement for the year ended 31 July 2020 were considered by the Audit Committee on 12 January and then approved by the Board of Management on 25 January 2021. We report within our independent auditor's report:

- An unqualified opinion on the financial statements;
- An unqualified opinion on regularity; and
- An unqualified opinion on other prescribed matters.

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

Our assessment of risks of material misstatement

14. The assessed risks of material misstatement described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

Management override

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

Noted in the 2019/20 External Audit Plan

15. We have not identified any indications of management override in the year. We have reviewed the GCRB accounting records and obtained evidence that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Revenue recognition

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

Noted in the 2019/20 External Audit Plan

16. At the planning stage of our audit, we considered the nature of the revenue streams at GCRB against the risk factors set out in ISA (UK) 240. We identified that for the Scottish Funding Council (the SFC) grant funding, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. We concluded, however, the risk of fraud in relation to revenue recognition is present in all other income streams.
17. For all non-SFC revenue streams, we have gained reasonable assurance over the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusions, we evaluated GCRB's key revenue streams and performed detailed testing over GCRB's revenue accounting. We also

carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

Risk of fraud in the recognition of expenditure

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

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

Noted in the 2019/20 External Audit Plan

18. Whilst we did not suspect specific instances of material fraud and error, we have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion we carried out testing to confirm that the GCRB’s policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Preparation of consolidated financial statements

GCRB will be required to prepare consolidated financial statements for the period ended 31 July 2020. They continue to work with the assigned colleges to ensure there are consistent accounting policies across the region and there is a suitable timetable to allow GCRB to meet the reporting deadlines as outlined in the SFC accounts direction. However, any errors in the consolidation process carry a risk of material misstatements for the consolidated accounts.

Noted in the 2019/20 External Audit Plan

19. The GCRB group comprises the GCRB and three Glasgow colleges; City of Glasgow College, Glasgow Kelvin College and Glasgow Clyde College. At the planning stage we assessed the group and deemed all three Glasgow colleges to be significant in the context of the group audit. We revisited our assessment on receipt of the unaudited

financial statements and deemed that our conclusion remained appropriate.

20. As part of our audit we reviewed the consolidated entries made within the consolidated financial statements and confirmed entries back to the financial statements of the group bodies. Overall, we concluded that the results of the group bodies had been appropriately consolidated into the GCRB's group accounts.
21. Azets is the appointed auditor to the three Glasgow colleges. During our audit we liaised with the audit engagement teams and confirmed that their programmes of work were adequate for our purposes.
22. We have nothing to report in respect of the following matters:
 - No significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor that materially impacted on the consolidated financial statements; and
 - There were no limitations on the group audit.

Covid-19

The current Covid-19 pandemic presents a number of unprecedented challenges to the operation, financial management and governance of an organisation. Systems and processes have been amended to support remote working, governance arrangements and decision making has moved to a virtual environment and many organisations are forecasting large operating deficits due to loss of income and additional cost pressures.

There is increasing uncertainty on how long these challenges will persist and as a result, the extent of the impact on the preparation and audit of the 2019/20 annual report and financial statements remains unknown. We will continue to monitor government and relevant announcements as they pertain to the audit of GCRB and adapt our approach as required.

Covid-19 has impacted the valuation of assets due to the uncertainty over the performance of the markets and pensions due to the changes in assumptions required on discount rates and mortality rates.

Noted in the 2019/20 External Audit Plan

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23. We have monitored the emerging situation and liaised with GCRB to ensure they continue to adopt robust governance arrangements and maintain an appropriate system of internal control. We have reviewed the year-end process to ensure this supports the preparation of true

and fair financial statements, including consideration of management estimates, valuations and the necessary supporting disclosures.

24. We have assessed the impact of the valuations on assets and pensions as part of our audit work to determine if any disclosures are required in the accounts or if any modification to the audit opinion may be required. We did not identify any indication of material uncertainty with regards to these valuations.
25. We have gained assurance that the going concern basis is reasonable and that steps have been taken to mitigate the effects of COVID-19. No subsequent events were identified and the disclosures within the financial statements are adequate. We have concluded that no modification to the audit opinion is required.

Content of the annual report and accounts

26. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FRM) which covered the following:
 - The addendum permits, but does not require, bodies to omit or reduce the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
 - Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.
27. GCRB took the decision to include the performance analysis section of the Performance report and make the full disclosures in the Accountability Report.
28. In addition, we confirmed that GCRB complied with all mandatory disclosure requirements outline in the Scottish Funding Council's Accounts Direction for Scottish College's 2019-20.

Access to audit evidence

29. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherently challenging nature of carrying out our audit remotely.
30. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

31. Throughout our audit of GCRB, we have been provided with sufficient audit evidence to form our audit opinion. There were no issues noted with the reliability or appropriateness of evidence provided.
32. The unaudited annual report and accounts and supporting papers received were generally of a good standard and there were no delays to the consolidation process. Our thanks go to staff at GCRB for their assistance with our work.

Pension assumptions

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

Noted in the 2019/20 External Audit Plan

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33. We have reviewed the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. We have reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We have agreed the disclosures in the financial statements to information provided by the actuary.

An overview of the scope of our audit

34. The scope of our audit was detailed in our Group External Audit Plan, which was considered by the Audit Committee at the outset of our audit. 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 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.

35. 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.
36. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. 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 management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Our application of materiality

37. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.

38. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

39. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

40. Our initial assessment of materiality for GCRB financial statements was £8,000, equating to approximately 1.8% of GCRB's 2018/19 gross expenditure. We

reviewed this on receipt of draft 2019/20 financial statements and set our materiality at £10,000, approximately 1.3% of gross expenditure.

41. Our initial assessment of materiality for the consolidated financial statements was £2,870k, approximately 1.5% of 2018/19 gross expenditure. We reviewed this on receipt of the draft 2019/20 consolidated financial statements and set our materiality at £2,600k, approximately 1.5% of gross expenditure.

42. We consider our initial assessment has remained appropriate throughout our audit.

	GCRB Materiality £000
Overall materiality: Our assessment is made with reference to the GCRB gross expenditure (approximately 1.3% of the 2019/20 expenditure) which is considered one of the principal considerations for the users of the financial statements when assessing financial performance.	10
Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	7.5

	Group Materiality £000
<p>Overall materiality: Our assessment is made with reference to the groups gross expenditure (approximately 1.5% of the 2018/19 expenditure) which is considered one of the principal considerations for the users of the financial statements when assessing financial performance.</p>	2,600
<p>Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 70% of overall materiality.</p>	1,836

43. We noted within our External Audit Plan that we would report on all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

Audit differences

44. We are pleased to report that our audit identified no material adjustments or unadjusted differences to the GCRB financial statements or the consolidated financial statements.
45. We identified some minor disclosure amendments during our audit, which have been reflected in the final set of consolidated financial statements.

Representations

46. We have requested that a signed representation letter be presented to us at the date of signing the annual report and consolidated financial statements. This letter is to be signed by the Board.

Other matters identified during our audit

47. During the course of our audit we noted the following:

Other information in the annual report and accounts

48. “Other information” in the annual report and accounts comprises any information other than the financial statements and our independent auditor’s report thereon. We do not express any form of assurance conclusion on the “other information” except as specifically stated below.

The performance report

49. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

50. We have concluded that the performance report has been prepared in accordance with the directions from the Scottish Funding Council and is consistent with the financial statements

The accountability report

51. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration

and staff report, and a parliamentary accountability report.

52. Our audit opinion specifically refers to the governance statement and the audited part of the remuneration and staff report.

Governance statement

53. Based on the audit work carried out, we have concluded that the governance statement has been prepared in accordance with the SFC Accounts Direction and Government Financial Reporting Manual and is consistent with the financial statements. We have provided further detail on our work and findings within the Wider Scope section of our report.

Remuneration and staff report

54. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with the SFC Accounts Direction.

Regularity

55. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.
56. 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.

Systems of internal control

57. We have evaluated the GCRB's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatement in the annual report and

accounts. Our approach has included documenting key internal financial controls and performing walkthroughs to confirm they are operating as intended. Our audit has identified no significant weaknesses in the GCRB's systems of internal control

58. The GCRB conduct an annual review of their system of internal control, the output of which was presented to the Audit Committee and Board in October 2020. No significant issues, weaknesses or failings were identified in this report.

Follow up of prior year recommendations

59. As concluded in our 2018/19 Annual Audit Report, there are no outstanding audit recommendations from prior years to follow up on.

Prevention and detection of fraud and irregularity

60. The GCRB is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption, and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
61. Our audit was planned to provide a reasonable expectation of detecting material misstatement in the financial statements resulting from fraud and irregularity. We found GCRB's arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.

Qualitative aspects of accounting practices and financial reporting

62. 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 report and accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the group accounting policies used.	The group accounting policies, which are disclosed in the group annual accounts, are in line with the Government Financial Reporting Manual and FRS 102. We reviewed the accounting policies of the GCRB parent and each subsidiary and did not identify any material inconsistencies.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	<p>We are satisfied that with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. Estimates have been made in relation to the pension provision.</p> <p>Pension estimates have been informed by advice from qualified independent experts. We evaluated the competence, objectivity and capability of managements' experts in line with the requirements of ISA (UK) 500.</p> <p>We liaised with the subsidiary auditors and no issues or concerns were raised in relation to the appropriateness of accounting estimates and the judgements applied by the regional colleges.</p> <p>The accounting estimates and judgements used by management in preparing the consolidated financial</p>

Qualitative aspect considered	Audit conclusion
	statements are therefore considered appropriate on the whole.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that GCRB will continue to operate for at least 12 months from the signing date.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual report and consolidated financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed of the GCRB, we did not identify any significant unusual transactions in 2019/20. We liaised with the subsidiary auditors and were not made aware of any significant unusual transaction made by the regional colleges in 2019/20.
Apparent misstatements in the annual report or material inconsistencies with the accounts.	The annual report contains no material misstatements or inconsistencies with the consolidated financial statements.
Any significant annual report and accounts disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual report and accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material 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 audit. We completed our audit work remotely and worked collaboratively with the Finance and Resources Director to manage and minimise the impact of this.

Wider scope

Following consideration of the size, nature and risks of GCRB, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
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Wider scope conclusions

Governance statement



We are satisfied that the Governance Statement has been prepared in accordance with the SFC Accounts Direction and that the content is consistent with the financial statements.

The Board has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Board's accounting and internal control systems throughout the year or as a result of remote working during the COVID-19 pandemic.

GCRB has taken action to improve regional governance arrangements. However, opportunities to improve information sharing and greater collaboration across the region should continue to be explored to ensure the GCRB can continue to fulfil their role as a regional strategic body.

Financial sustainability



GCRB has adequate arrangements in place for short and medium term financial planning, although it continues to face significant challenges and is operating within tight financial parameters. Effort and activity continues to reach a long term sustainable financial position across the college region.

The FFR for GCRB and the Glasgow region was submitted to the SFC in June 2020 and approved by the Board in September 2020. For GCRB a breakeven position has been forecast throughout the planning period to 2022/23. The Glasgow region forecasts an adjusted operating deficit of £6,480k in 2020/21 (surplus of £202k in 2019/20) and a steadily improving, but still challenging position across the remaining planning period. We recognise that this is based on information available in June 2020 and that the GCRB has continued to work with the region to evolve and improve financial forecasts.

SFC reported their review of GCRB in October 2020. This recognised the significant progress made by GCRB and highlighted three key recommendations, including the need to explore options for improving collaboration across the region. The Glasgow region is continuing to face significant financial challenges and the approach to addressing these, such as staffing cuts and one-off funding, is not sustainable. We are encouraged by GCRB's approach to exploring other delivery models with the region and will continue to monitor the steps taken as part of our 2020/21 audit. Strategic decision making needs to be more effective at the regional level to support the financial viability and sustainability of the three assigned colleges and the region over the medium to long term.

Our approach to the wider scope audit

63. Our approach to the wider scope audit (as set out in our 2019/20 External Audit Plan) builds upon our understanding of the GCRB which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.

64. During our audit we also considered the following risk areas as they relate to the GCRB

- EU withdrawal
- Fraud and corruption in respect of the procurement function.

65. Overall, we concluded that the GCRB has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal	<p>Whilst the direct impact on the GCRB is likely to be relatively small compared to some other parts of the public sector, the GCRB anticipate that the indirect effects would be much more significant in the medium and longer term.</p> <p>We are satisfied that the GCRB has undertaken appropriate consideration on the potential impacts of EU withdrawal and that this assessment is continuing.</p>
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Fraud and corruption in respect of the procurement function	<p>GCRB undertake a minimal level of procurement activity, with the majority of the budget comprising staff and Board costs. Where procurement activity is undertaken, GCRB utilises corporate contracts available to the college sector and specialist support from the Advanced Procurement for Universities and Colleges (APUC) as applicable.</p> <p>The risk of fraud and corruption in respect of the GCRB's procurement function is deemed to be low.</p>
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Governance statement

Our audit opinion considers whether the Governance Statement has been prepared in accordance with the Government Financial Reporting Manual and the SFC Accounts Direction and is consistent with the financial statements.

66. We are satisfied that the Governance Statement for the year to 31 July 2020 is consistent with the information gathered during the course of our audit work. We have confirmed that the disclosures made are in line with the Government Financial Reporting Manual and the SFC Accounts Directions.
67. GCRB's Governance Statement confirms that the Board was compliant with the principles of the 2016 Code of Good Governance for Scottish Colleges throughout the year ended 31 July 2020. This is deemed to be in accordance with the requirements outlined in the 2019/20 Accounts Direction.
68. The Board is satisfied that the system of internal control complies with the required regulatory standards. We have not identified any issues from our audit work to contradict this.

Impact of COVID-19

69. With national lockdown announced on 23 March 2020, all GCRB and college activity moved to being delivered remotely and this has continued to some degree throughout the period.
70. The Board, its committees and management have continued to meet during the COVID-19 pandemic with all meetings taking place online. Additional meetings were held as required to support timely decision making.

71. The internal control system has continued to operate throughout the remote periods of the year. The GCRB conducted an annual review of their system of internal control, reporting to the Board in October 2020. No significant issues, weaknesses or failings were identified in this report.
72. We requested that management reflect on the impact of Covid-19 within the Governance Statement to confirm that the impact of this has been considered as part of the self-assessments and assurances.

Regional Governance arrangements

73. The GCRB has made progress in coordinating collaborative regional activity and continues to work with the assigned colleges to deliver all of the intended benefits of regionalisation. The impact of this on financial sustainability has been considered further below.
74. There is a financial memorandum in place between the GCRB and assigned colleges which ensures that the terms and conditions of grant funding are clear and understood.
75. Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between GCRB and the Glasgow colleges. From review of available committee minutes and papers, we are satisfied that GCRB routinely considers progress against the ROA.
76. We noted instances where GCRB had formally requested information from regional colleges but this was not provided in its entirety or in line with the timetable set by GCRB.
77. GCRB has continued to liaise with the colleges to obtain the outstanding information. However, without readily

available and open information, there is a risk that GCRB may be inhibited in effectively fulfilling its role as a regional strategic body. We have considered GCRB's approach to collaborative working below and encourage management to consider how their regional governance can support the timely sharing of information.



Financial sustainability

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

Significant audit risk

78. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

Financial sustainability

As is the case across the sector, the financial sustainability of the Glasgow college region remains challenging. Work is on-going to quantify the impact of the Covid-19 pandemic on 2019/20 year end projections and the development of a 2020/21 budget has been delayed as a result. The Glasgow college region has continued to face cost pressures around cost inflation, national pay bargaining implications and general pay uplifts. In addition, the sector recognises that the impact of Covid-19 on GCRB and its subsidiaries' service delivery will continue to impact its financial sustainability in the short- and medium-term; although the extent of this remains unknown.

As noted in the 2019/20 External Audit Plan

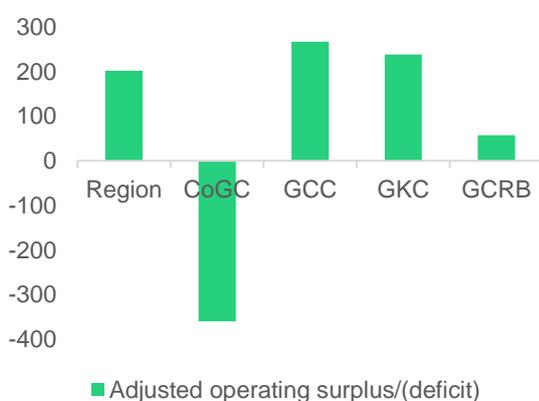
79. GCRB has prepared a three-year medium-term financial forecast for GCRB and the Glasgow region, as required by the FFR process. The latest FFR was approved by the Board in September 2020 based on the return submitted in June 2020, in line with SFC's deadline. This reported the forecasted year-end position for 2019/20, the budget for 2020/21 and forward forecasts for 2021/22 and 2020/23.

80. Our work and conclusions on the budget and financial forecasts for 2020/21 onwards is set out below and notes the ongoing challenges the GCRB and Glasgow college region continues to face.

2019/20 financial performance

81. The principal financial objective for the Glasgow region is to work within its annual budget, which includes an allocation from the SFC.
82. The GCRB reports a £7k operating surplus (2018/19: £28k operating deficit) and an adjusted operating surplus of £57k (2018/19: £6k adjusted operating deficit).
83. For the Glasgow region, an operating deficit of £9,618k (2018/19: £12,300k operating deficit) has been reported, compared to a budgeted deficit of £2,280k (September 2019 FFR).
84. Adjusting for technical accounting factors that are outwith the control of the region, such as pensions and net depreciation, the region reports an adjusted operating surplus of £202k (2018/19: £965k adjusted operating surplus). This is against a budgeted adjusted operating surplus of £4,331k (September 2019 FFR). The adjusted operating position at the single entity level is detailed below in Exhibit 2.

Exhibit 2: Adjusted Operating Position 2019/20 (£'000)



Source: 2019/20 Audited Financial Statements

Short term financial planning

85. Scotland's education sector is facing an extremely challenging financial situation during the next financial year from the impact of national bargaining harmonisation / job evaluation costs, cost of living pay award increases and pension increases. The Public Sector Pay Policy 2020/21 for example provides a guaranteed minimum of 3% pay increase to public sector workers who earn up to £80,000.
86. Notwithstanding, the sector has seen a reduction in non-SFC income and increase in expenditure as a result of the COVID-19 pandemic. The SFC has confirmed however that it will not recover funds for shortfall against core outcome agreement targets where these are related to COVID-19 in 2019/20 and 2020/21. The full financial impact of the COVID-19 pandemic is highly uncertain, putting the further education sector's financial sustainability at significant risk.
87. The SFC published indicative funding allocations in April 2020 and final allocations in June 2020. The GCRB subsequently provided a breakdown of allocations across the assigned colleges, including an allocation for the GCRB's running costs and collaborative projects.

GCRB Budget – 2020/21

88. The Board approved the GCRB budget for 2020/21 in June 2020. The budget forecasts a breakeven position against budgeted income of £442k, allocated from the Regional Grant.
89. Budgeted income is lower than the level expected in 2019/20 of £465k (actual income of £720k as a result of GCRB taking on an additional project in year) and lower again than the Scottish

Government forecast of regional running costs which was estimated as £540k in 2014.

90. The reduction in budget arises from a forecasted decrease in GCRB staff costs from £343k in 2019/20 to £303k in 2020/21. Additional costs associated with temporary staff cover in 2019/20 are not expected in 2020/21 and the secondment of the former Executive Director in 2019/20 resulted in additional costs which are no longer applicable.

Regional Budget – 2020/21

91. The regional FFR, inclusive of the Board and the three assigned colleges, was submitted to the SFC in June 2020 and presented to the Performance and Resource Committee in October 2020. This includes a forecast operating deficit of £4,792k and an adjusted operating deficit of £6,480k for 2020/21, which is down on the actual adjusted operating surplus of £202k incurred in 2019/20.

Medium term financial planning

92. The FFR is an established part of the SFC's financial health monitoring framework. The latest FFR, to be submitted in June 2020, required colleges to report the forecasted 2019/20 position and forecasts through to 2022/23.
93. The SFC has developed key assumptions with college finance Directors that should be used in the FFR to support consistency and comparability across the sector. There is no Scottish Government budget beyond 2020/21 so that assumptions are indicative.
94. Guidance and key assumptions were outlined in "SFC Call for Information: Financial Forecast Returns (FFR) for

further education institutes 2019/20 to 2022/23" as follows;

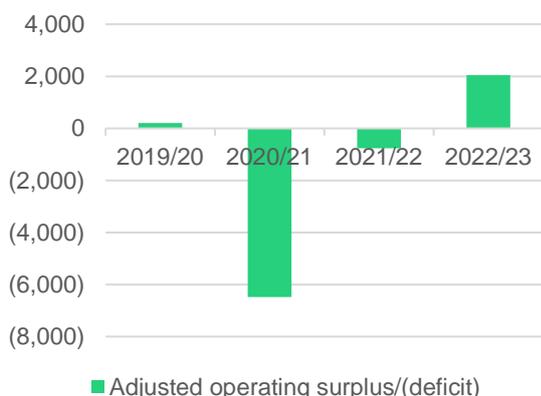
- Credits and teaching income: should be based on funding allocations announced in April 2020 for 2020/21. SFC anticipates a shortfall against student number credit targets as a result of COVID-19, however no recovery of funds in 2020/21. Assume no revision to activity targets for any region prior to 2022/23 when there will be a 2.7% reduction at sector level in activity
- Flexible Workforce Development Fund: assume funding will continue at the 2019/20 level
- Student support funding: assume that all requirements will be fully met
- Regional Strategic Bodies: will need to advise their assigned colleges of their funding assumptions over the forecast period to 2022/23.
- Capital maintenance: SFC funding should be based on the final 2020/21 allocations announced in April 2020.
- Non-SFC Income: assumptions should be prepared taking into account local circumstances and anticipated levels of demand.
- Staff costs: the impact of National Bargaining harmonisation / job evaluation costs for all staff and any workforce planning requirements should be incorporated into the FFR. Cost of living pay award increases for lecturing and support staff should also be factored in.
- Non-staff costs: assumptions should be prepared taking account of local circumstances.
- Estates: assumptions should be prepared taking account of local circumstances.

95. Using the above assumptions, GCRB has prepared their FFR and one consolidated return for the region. The

use of these assumptions helps support consistency and comparability across the region.

96. For GCRB, a breakeven position has been forecast throughout the current planning period. GCRB deem the risk level associated with this forecast to be low, given the predictable cost structure of the Board and we are satisfied that key assumptions have been applied appropriately.
97. The Glasgow region forecasts an increased adjusted operating deficit in 2020/21 and an improving position over the remaining years, as set out in Exhibit 3 below.

Exhibit 3: Glasgow region forecast adjusted operating position (£'000)



Source: 2019/20 Audited Financial Statements & 2020 Glasgow Region FFR

98. We recognise that the FFR was prepared in June 2020 and that some of the forecasts will have evolved since this date.
99. The FFR and supporting commentary highlight a number of key risks to the region's financial sustainability.

Savings plans & staff costs

100. The FFR budgets for staff costs to reduce by £2million in actual terms

between 2019/20 and 2022/23. Staff costs in 2022/23 are budgeted at £4million lower than the level set in the 2019 FFR. Assuming an average cost of £50,000 per FTE, this is equivalent to a reduction of 80 FTE posts, however when factoring in the potential cost of pay awards this reduction could be even greater.

101. Glasgow Clyde College and Glasgow Kelvin College plan to implement restructuring programmes and some reductions have already been realised in 2019/20. The scale of potential reduction required at City of Glasgow College appears to be lower. Further work is needed across the region to achieve the staffing levels outlined in the FFR.
102. Savings across the region have predominately been achieved through reductions in staff costs, both historically and as outlined above. These perennial cuts can present a risk to the delivery of education across the region if the delivery model remains unchanged. The current model and level of staffing cuts is unsustainable and the region would benefit from developing a more collaborative approach to service delivery to achieve shared efficiencies.

Going concern and cash balances

103. The 2020 FFR forecasts a net zero cash balance for the region as at 31 July 2021, representing a £9million reduction in the level of cash held.
104. The cash position for Glasgow Kelvin College was seen to be critical with a forecast cash shortfall between £2.3million and £3.1million from 2020/21 to 2022/23.
105. As this is not sustainable, the GCRB engaged with the College at an early stage to revisit forecasts and agree a

transformation plan that would support an improve cash position. Glasgow Kelvin College has produced an updated forecast that reduces their cash need and they are no longer projecting a cash deficit.

Arms' Length Foundations (ALFs)

106. ALFs can provide financial support to colleges through funding allocations. The estimated balance held by ALFs as at 1 August 2019 was £15.9million.
107. The FFR forecast this balance to reduce to £5.7million as at 31 July 2023, with colleges relying on £10.2million of one-off ALF funding over the planning period to support their financial position.
108. Reliance on this funding is not sustainable and as a result, colleges are less resilient to future challenges.

SFC review of Regional Strategic Bodies

109. SFC initiated a review of Scotland's three Regional Strategic Bodies (RSBs) in 2019, looking to assess their effectiveness in meeting their core strategic duties and wider aims of regionalisation. The review was structured around the following four key themes;
 - Planning provision within the region
 - Funding and performance monitoring
 - Efficiency of the RSB, and its colleges
 - Consultation and collaboration
110. GCRB was initially asked to undertake a self-evaluation of its performance which has been published

on the GCRB website¹. SFC completed their review through engagement with stakeholders, evidence sessions and review of the self-evaluation. They published their conclusions in October 2020².

111. The SFC confirmed that GCRB is meeting its core statutory requirements and has made good progress in delivering the additional benefits expected through regionalisation. It notes that significant progress has been made in developing the governance structures, capacity and expertise, and relationships needed to support a regionalised college system.
112. Overall SFC conclude that GCRB has delivered consistently and responded to the needs in the Glasgow region. Governance arrangements have bedded in and have started to deliver regional benefits and add value for student and other stakeholders.
113. However, the review highlights that the GCRB continues to face challenges in agreeing funding allocations across the region and that the four board arrangement (i.e. the boards of the three assigned colleges alongside the regional board) is seen to be cumbersome.
114. The SFC propose that this is an appropriate stage in the development of the GCRB for them to consider further reformation of the structures to facilitate the continued efficient and effective deliver of education across the Glasgow region.
115. The report makes three recommendations under the following themes;

¹ <https://www.gcrb.ac.uk/sites/default/files/GCRBSelf-EvaluationReportRegionalEffectivenessFINAL.pdf>

² http://www.sfc.ac.uk/web/FILES/corporatepublications_sfccp052020/GCRB_RSB_Review_report.pdf

- Maintaining effective relationships
- Further develop and ensure that the region's running/operating costs are appropriate and efficient
- Explore other organisational options.

GCRB's response

116. The report and recommendations were welcomed by the Board, deeming the third recommendation to need the most focused attention.

117. The SFC recommend that GCRB and the colleges explore other organisational options that build on pan-regional planning, further efficiency gains, the financial viability of each college, and a Glasgow front door for students, employers and other stakeholders. These options may lead to reformation of the regional structure and further consolidation that will fulfil regional and policy objectives and support the achievement of shared efficiencies.

118. To inform the GCRB's response, they have engaged with key stakeholders and asked them to respond on a range of questions related to the report. GCRB is expecting responses in December 2020 and will report on this collated insight in January 2021.

119. In February/March 2021, GCRB intend to hold focused workshops with key stakeholder groups to further explore the response and potential organisational options. This will include engagement with Chairs and Principals of associated Colleges, staff representatives, student representatives and external stakeholders.

120. In Spring, GCRB intend to conclude on this engagement, preparing a more detailed report that outlines alternative organisational options and delivery

models which they can present to and discuss with the SFC.

121. We deem this to be a pragmatic and practical approach that supports open and pro-active communication, collaboration and joint-working.

122. Our review of medium term financial forecasts reiterates the need for GCRB to explore alternative and more collaborative delivery models as a priority to support the financial sustainability of the further education sector across the Glasgow region.

123. Whilst all parties agree on the need for collaboration, there is disagreement of the cost and region-level processes of GCRB. Engagement with stakeholders should focus on establishing what further education across the Glasgow region should look like and then consider the options for delivering this.

124. GCRB's response must identify opportunities to achieve shared efficiencies across the region and consider the benefits of taking a pan-region approach to transformation and restructuring planning. Strategic decision making needs to be more effective at a regional level to support the financial viability and sustainability of the three constituent colleges over the medium to long term.

125. We will continue to monitor the steps taken by GCRB as part of our 2020/21 audit.

Appendices



Appendix 1: Respective responsibilities of GCRB and the Auditor

Responsibility for the preparation of the annual report and consolidated financial statements

It is the responsibility of the GCRB and the Executive Director, as Accountable Officer, to prepare group financial statements in accordance with the Higher and Further Education Statement of Recommended Practice, the Government Financial Reporting Manual (FReM) issued by HM Treasury and the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

In preparing the annual report and consolidated financial statements, the GCRB is required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have not been followed where the effect of the departure is material;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that GCRB will continue to operate; and
- ensure the regularity of expenditure and income.

The GCRB is also responsible for:

- keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of GCRB and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992 and;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

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

- they give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the College's affairs as at 31 July 2020 and of its surplus for the year then ended;
- they have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2019);
- they have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of the Charities Accounts (Scotland) Regulations 2006;
- The College has not disclosed in the financial statements any identified material uncertainties that may cast doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- 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;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish 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 and that report has been 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 Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.

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

- adequate 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;
- 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.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

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

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Independence

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

Non-audit services

GCRB has purchased non-audit services from our business in 2019/20 with an expected fee of £3,000 (excluding VAT). We provide advisory services to the College on tax matters. The work will be undertaken by a separate team from the audit team and the audit team will have no involvement in this work.

Confirmation of independence

We confirm that we have complied with the FRC's Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets, GCRB, its Board members or senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Action Plan

We did not identify any actions during our 2019/20 audit. In addition, there are no actions outstanding from prior year.



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