

Board of Management

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Primary Contact	Stuart Thompson, VP Corporate Services
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Action	For Noting

1. Recommendations

The Board is asked to note the External Audit Annual Report 2020-21 as endorsed at the Audit and Assurance Committee meeting held on 6 December 2021.



City of Glasgow College

2020/21 Annual Audit Report to the Board of Management and the Auditor General for Scotland

December 2021



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Key messages

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This report concludes our audit of the City of Glasgow College (“the College”) for 2020/21.

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

Financial statements audit

<p>Audit opinion</p>	<p>Our draft independent auditor’s report includes:</p> <ul style="list-style-type: none"> • An unqualified opinion on the financial statements; • An unqualified opinion on regularity; and • An unqualified opinion on other prescribed matters. <p>We are also satisfied that there were no matters which we are required to report by exception.</p>
<p>Key findings on audit risks and other matters</p>	<p>Our key findings are included in the financial statements audit section of this report.</p> <p>COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and our audit opinion. We are pleased to report those risks identified did not materialise.</p> <p>City of Glasgow College had adequate administrative processes in place to prepare the annual report and accounts and the required supporting working papers. However, we encourage the College to review its year end timetable to ensure all key aspects of the annual report and accounts are prepared in a more timely manner.</p>
<p>Audit adjustments</p>	<p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We identified one material adjustments to the financial statements with three unadjusted differences identified.</p> <p>We also identified some disclosure and presentational adjustments during our audit and these have been reflected in the finalised financial statements.</p>
<p>Accounting systems and internal controls</p>	<p>We have applied our risk based methodology to your audit. This approach requires us to document, evaluate and assess the College’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

Wider scope audit

Auditor judgement



The College has adequate arrangements in place for short and medium-term financial planning. The College continues to face significant challenges and uncertainty over the medium term, operating within tight financial parameters. The College continues to work towards the achievement a long term, sustainable financial position.

The Board approved a Financial Plan in June 2021 which presented an underlying deficit of £0.704million. The updated 2021/22 forecast received in September 2021 outlined a worsening position with an underlying deficit of £1.327million. The main cause continues to be the significant negative impact on non SFC income sources due to COVID-19 restrictions. We also observed the challenge of increased staff and IT costs.



Financial Sustainability

The College's FFR forecasts the underlying operating deficit position to continue in 2022/23 with a small underlying surplus predicted for 2023/24. There is a significant degree of uncertainty across the sector however, and management recognise an increasing reliance on SFC income. Staff costs continue to be a key area of pressure and small changes in pay assumptions could have a significant impact on the underlying operating position of the College. We will continue monitor the financial position of the College as an area of focus for our 2021/22 audit.

Auditor judgement



The College reports an operating deficit of £4.359million for the year end 31 July 2021, with an adjusted underlying surplus of £0.072million. The College received additional funding of £1.351million from the SFC to support its response to the COVID-19 pandemic, however the majority of this funding has been carried forward into 2021/22.



Financial Management

Work continues to address the recommendations raised in 2019/20 through the two independent reviews we undertook in response to the fraud identified in 2019: review of the effectiveness of the finance function and review of IT effectiveness. Across both reports, we note that 28 out of 30 recommendations are now complete with the two remaining IT actions in progress. Due to the COVID-19 pandemic 11 of these actions were completed later than originally planned and delayed by as much as a year in some cases. We acknowledge that the past year has been extremely challenging, especially for the IT service, resulting in additional urgent priorities and delays to addressing outstanding actions. We encourage management to continue addressing the outstanding recommendations as an area of priority.

Auditor judgement



Governance & Transparency

Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge. An external review of the effectiveness of the College's governance arrangements also concluded that there are no significant weaknesses, noting six actions to support continuous improvement.

Formal assurances from senior management on the systems of internal controls in place throughout the year had not been completed until November 2021, after the drafting of the governance statement. We deem this to be a key source of assurance to inform the preparation of the governance statement and encourage the College to review their year-end timetable to ensure these are completed in a timely manner.

Auditor judgement



Value for Money

The College approved its new Strategic Plan 2021-2030 and supporting strategies within 2020/21. These clearly outline eight consistent priorities and a number of strategic aims for the College to strive towards.

However, further work is required to develop a robust and fit for purpose performance management framework with tailored and relevant key performance indicators which are better aligned to new strategies. This should be addressed as an area of high priority in 2021/22.

Definition

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



Introduction



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



Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Assurance Committee at the outset of our work. The core elements of our work include:
 - an audit of the 2020/21 annual report and accounts and related matters:
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
 - monitoring the College’s participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



Responsibilities

2. The College is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
3. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank management and staff for their co-operation and assistance during our audit.

Auditor independence

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

Openness and transparency

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

Adding value through the audit

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

Feedback

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

Financial statements audit

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

Overall conclusion

11. The annual report and accounts are due to be considered by the Audit Committee on 23 November and by the Board of Management on 15 December 2021. We intend to report unqualified opinions within our independent auditor’s report, subject to the outstanding areas of testing.

the provision of some working papers, a revised audit timetable was set and we received information broadly in line with this agreed audit timetable. Our thanks go to staff at the College for their assistance with our work.

13. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 31 December 2021 deadline.

Administrative processes / timescales

12. We received the unaudited annual report and accounts of an adequate standard. Whilst delays were faced in

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.</p> <p>Our findings / conclusion to inform our opinion are set out in this section of our annual report.</p>	<p>We intend to issue unqualified audit opinions, subject to the outstanding areas of testing.</p>
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the College’s functions.</p>	<p>We reviewed the financial forecasts for 2021/22. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
	<p>Our wider scope audit work considers the financial sustainability of the College.</p>	
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion in all material respects the expenditure in the financial statements was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Funding Council and Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the audited part of the remuneration and staff report has been prepared in accordance with directions from the Scottish Funding Council. • the information given in the performance report has been prepared in accordance with directions from the Scottish Funding Council and is consistent with the financial statements. • the information given in the Governance Statement has been prepared in accordance with directions from the Scottish Funding Council and is consistent with the financial statements.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit. 	We have no matters to report.

An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Assurance Committee in May 2021. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
- 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.
- In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a

reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas

- Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
- The significant risk areas described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and

not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is

not modified with respect to any of the risks described below.

Significant risk areas

1. Management override

Significant risk description

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

Risk to the audit: High

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the College's controls for specific transactions.

Audit procedures

- Review of the College's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description

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

Risk to the audit: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for funding received from the Scottish Funding Council (SFC) due to a lack of incentive and opportunity to manipulate transactions.

Audit procedures

- Evaluate the significant revenue streams and review the controls in place over accounting for revenue.
- Consideration of the College's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

Key observations

We have gained reasonable assurance on the completeness and occurrence of income, and we are satisfied that it is fairly stated in the financial statements.

We identified deferred income of £113k that relates to an unresolved transaction with a public sector partner. Income was receipted in 2018/19 but continues to be deferred as at 31 July 2021 as the College has not fulfilled the relevant obligation. Whilst we deem the accounting treatment to be prudent and in line with the SORP, we recommend that the College takes appropriate steps to resolve this transaction to ensure income is either correctly recognised in the annual accounts or returned to the public sector partner.

Action Plan Point 1

We revisited our conclusion to rebut the risk of revenue recognition in relation to SFC funding throughout the audit and our conclusion remained the same.

3. Expenditure recognition

Significant risk description As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

Risk to the audit: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of the College's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

We identified two accruals where we deemed management's estimate to be overly prudent, overstating accruals and expenditure as a result. Given the low value of these accruals, we did not deem this to be an indicator of material misstatement but have recognised an unadjusted difference in relation to extrapolated error as detailed at Appendix 2. We encourage management to undertake a detailed review of accruals in 2021/22 to ensure that only accruals which are reasonable, relevant and supported are recognised.

4. Estates valuation (significant accounting estimate)

Significant risk description

The College holds a significant estate, with net book value of land and buildings of £186 million as at 31 July 2020. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional valuations, with the latest independent valuation completed at 31 July 2019. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates and small changes in estimates have the potential to result in a material change in asset valuation.

Risk to the audit: High

How the scope of our audit responded to the significant risk

Key judgements

Colleges are required to ensure properties are held at a carrying amount that does not differ materially from the current value at 31 July, including taking cognisance of changes in the asset base.

Audit procedures

- Review the reasonableness of assumptions used in determining the fair value of assets at 31 July 2021.
- Consider the accuracy and completeness of disclosures in the annual accounts.
- Where professional advice has been sought, consider the competence, capability and objectiveness of the internal valuer in line with ISA (UK) 500 *Audit Evidence*.

Key observations

The College's estate consists of two campuses, with combined net book value at 31 July 2021 of £180.711million, and the vacant Charles Oakley Building, with a net book value of £1.286million. The basis of valuation is depreciated replacement cost, recognising the specialised nature of these buildings.

The two campuses were last subject to professional valuation as at 31 July 2019. We reviewed the reasonableness of assumptions made by management when determining the fair value of these assets as at 31 July 2021. We considered the College's impairment exercise and engagement with the external valuer, Avison Young. Management have applied indexation of 5% to the value of buildings and 0% to the value of land, reflecting movements in the market since the last full valuation exercise. We deem these valuation assumptions to be appropriate and in line with our expectation. We have included an audit adjustment at Appendix 2 to reflect this valuation movement.

The Charles Oakley Building has not been subject to professional valuation since 31 July 2013. The College has engaged with their valuer Avison Young to obtain a desktop valuation of the building as at 31 July 2021. We have included an audit adjustment at Appendix 2 to reflect this valuation movement.

Management also included an estimate of irrecoverable VAT costs within their valuation of land and buildings. The impact of this has been reflected in the audit adjustment at Appendix 2.

In accordance with ISA (UK) 500 “Audit Evidence” we have considered the competence, capability and objectivity of the professional valuer and did not identify any items which gave us cause for concern over the suitability of the valuer.

Remaining useful life

Assets are depreciated over useful lives that reflect the College’s intended plan for the asset. Currently equipment is depreciated over a useful economic life of four years, or 20 years for specialised Engineering and Nautical equipment.

As at 31 July 2021, 80% of the College’s equipment by cost had been fully depreciated to nil (cost at 31 July 2021: £23.438million) whilst continuing to be in use. This suggests that the useful lives of these assets have not been updated to reflect the College’s changing plans. The College invested heavily in equipment in 2015/16 as part of the relocation to the two new College campuses. Reduced capital funding and prioritisation of replacement programmes means that these assets will be in use for longer than originally planned.

Management performed a high-level review of asset useful lives to be applied from 2021/22 onwards. If these revised useful lives were to be applied in 2020/21, this would result in a decrease to the depreciation charge of £234k. Offset by a decrease in income recognised from the release of deferred capital grants, the net impact on the Statement of Comprehensive Income would be to decrease the deficit by £52k.

Management have decided not to adjust for this in 2020/21 on the basis of materiality. We have recognised an unadjusted difference in Appendix 2 to reflect this. We encourage management to review and update the useful lives of its assets in 2021/22 to ensure these accurately reflect current asset plans.

Action Plan Point 3

5. Pension assumptions (significant accounting estimate)

Significant risk description An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on an 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 liabilities.

There is a risk that the assumptions used to inform this estimate are not appropriate, resulting in an increased risk of material misstatement in the financial statements.

Risk to the audit: High

How the scope of our audit responded to the significant risk

Key judgements

A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.

Audit procedures

- Review of the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate.
- Review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.
- Agree the disclosures in the financial statements to information provided by the actuary.
- Consider the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Key observations

The College participates in two pension schemes, being the Scottish Teachers Superannuation Scheme ('STSS') and Strathclyde Pension Fund, a Scottish LGPS.

STSS is an unfunded multi-employer defined benefit scheme. IAS 19 permits the scheme to be disclosed as defined contribution when the employer does not have sufficient info to account for as defined benefit. It is not possible to identify the College's share of assets / liabilities. This has been appropriately reflected in the accounts.

For the Scottish LGPS, the College showed a net pension liability of £15.208million, a decrease of £7.636million compared to the prior year.

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities (obligations) are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The 31 March 2020 formal valuations for Scottish LGPS Funds were concluded by 31 March 2021.

The accounting balance sheet position as at 31 July 2021 is based on the roll forward from the 2020 formal valuation. This differs to the balance sheet position as at 31 July 2020 which was based on a roll forward from the 2017 formal valuation. This 'step change' can lead to sizeable asset and obligation 'remeasurement experience' items in the reconciliation of the balance sheet from 31 July 2020 to 31 July 2021. Movements in price/salary increase assumptions and reductions in the discount rate as a result of reducing corporate bond rates also impact on the year end position.

We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data. These are within our expected range with the exception of the discount rate which we deem to be on the prudent end.

We reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data and identified no issues.

We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

Other risk factors

Impact of COVID-19 on the annual accounts

19. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including

public sector bodies. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
<p>Content of the annual report and accounts</p>	<p>In response to the continuing impact of COVID-19; HM Treasury issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report:</p> <ul style="list-style-type: none"> • The addendum permits, but does not require, bodies to omit 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. 	<p>The College took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.</p>

Area considered	Description	Conclusion
Access to audit evidence	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 inherent nature of carrying out our audit remotely.	<p>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.</p> <p>We will stay in close contact with College colleagues right up until the point of accounts signing, to ensure all relevant issues are satisfactorily addressed.</p>

Coronavirus Job Retention Scheme

- 20. The Coronavirus Job Retention Scheme is a UK wide scheme, managed by the UK Government. Only organisations that are not fully funded by public grants can consider accessing the scheme. However public bodies which rely extensively on commercial income can apply to access it.
- 21. In 2020/21 the College submitted furlough claims to HMRC totalling £842k.

Estimates and judgements

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

- 23. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations, and accruals. We identified three accounting estimates listed below.
- 24. Our audit work consisted of reviewing these keys areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Pension Assumptions

Prudent

Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hyman Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2021.

The assumptions of the actuary, Hyman Robertson, were within our expected range, with the exception of the discount rate. The assumptions were predominantly in the middle our expected range with the exception of the discount rate and the pension increase (CPI rate) which are both considered to be on the prudent end of the scale.

Estates Valuation

Balanced

Land and buildings are subject to professional valuation every five years, or where material changes are identified. The last professional valuation was undertaken at 31 July 2019. We considered the key assumptions made by management when determining the fair value as at 31 July 2021, including an indexation rate of 5% applied to all buildings, against other sources of evidence. Additionally, management have incorporated an estimate of irrecoverable VAT costs within their asset valuation. We are satisfied that key assumptions are reasonable and appropriately supported.

The Charles Oakley Building has not been revalued since 31 July 2013. Avison Young provided a desktop valuation for the Charles Oakley Building as at 31 July 2021. We confirmed that basis of valuation and reviewed the reasonableness of key assumptions, with no issues noted.

Materiality

25. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
26. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the College and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
27. Our initial assessment of materiality for the College's financial statements was £1.440million. On receipt of the unaudited financial statements, we reassessed materiality and were satisfied that this level remained appropriate. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£1.440million



100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£1.080million



75%

Work performed to capture individual errors at this level

Trivial threshold

£72,000



5%

All errors greater than this level are reported

Materiality

Our assessment is made with reference to the College's gross expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College.

Our assessment of materiality equates to approximately 1.5% of the College's gross expenditure as disclosed in the 2020/21 unaudited annual accounts.

In performing our audit we do apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.

Performance materiality

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

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

Trivial misstatements

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

Audit differences

28. We identified one material adjustment to the annual accounts relating to the valuation of land and buildings.
29. We identified three unadjusted differences and some disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

Internal controls

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

Area	Assessment	Comment
Control and process environment	Satisfactory	We consider the control environment within the entity to be adequate with scope for improvement to control environment. This includes the need to further strengthen the fixed asset register, as summarised at Appendix 3, and addressing the outstanding recommendations from our 2019/20 reports on the effectiveness of the finance function (paragraph 84) and the IT function (paragraph 89).
Quality of supporting schedules	Satisfactory	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	Satisfactory	Management's responses to our audit queries were appropriate. We developed a revised audit timetable with the College at the start of fieldwork and received working papers broadly in line with the agreed revised timescales.

Follow up of prior year recommendations

31. We followed up on progress in implementing the outstanding audit recommendations from the prior year. Detail on these is included in the action plan at Appendix 4.

Other communications

Accounting policies, presentation and disclosures

32. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by The College.
33. The accounting policies, which are disclosed in the annual accounts, are in line with the FE/HE SORP and SFC Accounts Direction, and are considered materially appropriate.
34. There are no significant financial statements 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.
35. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

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

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

Non-compliance with laws and regulations

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

Written representations

39. We will present the final letter of representation to the Board of Management to sign at the same time as the financial statements are approved.

Related parties

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

Confirmations from third parties

41. All requested third party confirmations in respect of legal confirmations have been received.

Financial sustainability

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



Auditor judgement



The College has adequate arrangements in place for short and medium-term financial planning. The College continues to face significant challenges and uncertainty over the medium term, operating within tight financial parameters. The College continues to work towards the achievement of a long term sustainable financial position.

The Board approved a Financial Plan in June 2021 which presented an underlying deficit of £0.704million. The updated 2021/22 forecast received in September 2021 outlined a worsening position with an underlying deficit of £1.327million. The main cause continues to be the significant negative impact on non SFC income sources due to COVID-19 restrictions. We also observed the impact of increased staff and IT costs.

The College's FFR forecasts the underlying operating deficit position to continue in 2022/23 with a small underlying surplus predicted for 2023/24. There is a significant degree of uncertainty across the sector however and management recognise an increasing reliance on SFC income. Staff costs continue to be a key area of pressure; small changes in pay assumptions could have a significant impact on the underlying operating position of the College. We will continue monitor the financial position of the College as an area of focus for our 2021/22 audit.

Significant audit risk

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

Financial sustainability

The College faces significant financial challenges and uncertainty over the next two years as the sector manages the impact of the COVID-19 pandemic. The College expects to operate within its budget in 2020/21 following the recent uplift to funding from the Scottish Funding Council (SFC) but forecasts underlying deficits for the subsequent two financial years. These projections are highly dependent though on the phasing of the College's return from lockdown restrictions and the recovery of non-SFC income which has been significantly impacted throughout the pandemic.

Work is ongoing to prepare the 2021/22 budget and update medium term financial plans, reflecting on the continued impact the COVID-19 pandemic has on service delivery and financial forecasts.

Noted in the 2020/21 External Audit Plan

43. The College has prepared a three-year medium-term financial forecast as part of the Financial Forecasting Return (FFR) process. The latest FFR, approved by the Board in September 2021, reported the forecasted year-end position for 2020/21, the budget for 2021/22, and forward forecasts for 2022/23 and 2023/24.
44. Our detailed findings on the College's financial framework for achieving long term financial sustainability are set out below and notes the challenges the College continues to face over the medium term.

Short Term Financial Planning

45. The SFC published indicative funding allocations in March 2021 and final allocations in May 2021. The GCRB subsequently provided a breakdown of allocations across the assigned colleges, including a top slice for the GCRB running costs and collaborative projects.
46. The Board approved the Financial Plan 2021/22 in June 2021, alongside the Strategic Plan 2021-30, projecting an operating surplus of £1.007million. Once adjusted for non-cash and exceptional items, the College forecasts an underlying operating deficit of £0.740million.
47. The College prepared its Financial Plan 2021/22 based on three sets of financial assumptions: realistic assumptions, optimistic assumptions

and pessimistic assumptions. If the pessimistic assumptions identified by the College crystallised rather than the realistic assumptions, this would increase the underlying operating deficit to £2.902million.

48. With a high level of uncertainty across several major items of income and expenditure, management believed it was difficult to plan a robust budget near to break even for the year 2021/22. The budget was subject to further review and an update was presented to the Finance & Physical Resources Committee in September 2021.
49. The Board reviewed and approved the updated budget in September 2021. As a result of additional staff costs, increased estimated pay award and additional IT costs, the updated financial plan forecasted an underlying operating deficit of £1.327million, an increase of £0.587million compared to the original budget.
50. The Financial Plans highlights an increasing reliance on SFC income. Overseas student tuition fees and commercial fees are budgeted to reduce by 30% in 2021/22 (£1.700million), with the College facing a decrease in demand following the COVID-19 pandemic. The College is continuing to review teaching models and courses offered to try to minimise the reduction in income.
51. Related expenditure has also been reduced, but there is limited scope to reduce staff costs which make up 61% of the 2021/22 expenditure budget. The budget assumes a 2% pay rise in line with the public sector annual pay award guidance. The 1.25% increase in national insurance costs, as announced by the Government, have

not been incorporated into the forecast; the College is awaiting confirmation as to whether this cost will be covered similarly to the recent teachers' pension increases.

Capital Expenditure

52. The College has budgeted for capital expenditure of £1.840million, of which £1.253million relates to lifecycle maintenance. This will be funded by SFC grants of £0.840million and a contribution of £1.000million funded by the City of Glasgow Foundation.

Medium Term Financial Planning

53. The College has prepared a three-year financial forecast as part of the SFC's FFR process. The SFC published guidance in August 2021 and the FFR was approved by the Board in September 2021.
54. The FFR is an established part of the SFC's financial health monitoring framework. The FFR allows the SFC to monitor and assess the medium-term financial planning and health of colleges. The latest FFR required colleges to report actual year-end performance for 2020/21 and forecasts through to 2023/24.
55. The SFC's Call for Information outlined a set of common, indicative assumptions for Colleges to use in the aim of achieving consistency and comparability across the sector. Assumptions include:
 - Flexible Workforce Development Funding will continue at 2020-21 levels.
 - Student Support Funding requirements will be fully met.

- Capital Maintenance Funding should be based on the final 2021-22 funding allocations.
 - Institutions should include estimated income from the Coronavirus Job Retention Scheme.
 - Staff costs will reflect agreed cost of living increases, public sector pay policy, no assumed increase in social security costs, known or expected increases in employer pension contribution rates.
 - Funding will not be provided for voluntary severance schemes.
56. Using the above assumptions, the College has prepared an FFR which forecasts underlying operating deficits to 2022/23 and a small underlying surplus in 2023/24.

Exhibit 2: Medium-term financial forecasts	2021/22 £'000	2022/23 £'000	2023/24 £'000
Total income	94,321	97,524	99,410
Total expenditure	(93,655)	(96,504)	(97,172)
Operating surplus / (deficit)	666	1,020	2,239
Adjusted operating surplus / (deficit)	(1,327)	(1,056)	68

Source: Financial Forecast Return 2021/22 to 2023/24

57. The FFR also requires to set out material risks to income and expenditure. The College has identified five risks, in line with 2020/21, being:
- Failure to achieve a sustainable model and level of grant funding within the Glasgow region
 - Failure to maximise income via diversification
 - Negative impact of Brexit
 - Failure to achieve operating surplus via control of costs and achievement of income targets
 - Failure to obtain funds from College Foundation
58. There are still significant uncertainties surrounding these projections,
59. Staff costs continue to be a key pressure which the College is continuing to reflect on through its operational workforce planning. For example, an increase in staff costs of 1% would result in additional annual costs of at least £0.570million, amounting in an underlying operating deficit in all three years of the FFR.
60. The Board approved the College's Strategic Plan 2021-2030 in June 2021, and subsequently published on the College's website. The strategy

Strategic Planning

identifies eight priorities, two of which relate to Finance;

- To maintain our long-term financial stability; and
- To secure diversity of income and sustainable development.

61. The Strategic Plan is underpinned by five supported strategies. The two Finance related priorities are explored further in the Sustainability Strategy 2021-2030 which identifies the following aims;

- To ensure Financial Sustainability meeting all statutory and governance requirements and supporting a positive and innovative student experience
- To secure diversity of income and sustainable development
- To integrate environmental and social considerations into procurement, reducing adverse impacts on society and the environment and making savings for the College and the community
- To ensure that the College maintains and enhances sound environmental management policies and practices, working to improve its environmental impact.

62. We will continue to monitor the delivery of the Sustainability Strategy and the financial position as part of our 2021/22 audit.

Financial management

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



Auditor judgement



The College reports an operating deficit of £4.359million for the year end 31 July 2021, with an adjusted underlying surplus of £0.072million. The College received additional funding of £1.351million from the SFC to support its response to the COVID-19 pandemic, however the majority of this funding has been carried forward into 2021/22.

Work continues to address the recommendations raised in 2019/20 through the two independent reviews we undertook in response to the fraud identified in 2019: review of the effectiveness of the finance function and review of IT effectiveness. Across both reports, we note that 28 out of 30 recommendations are now complete with the two remaining IT actions in progress. Due to the COVID-19 pandemic 11 of these actions were completed later than originally planned and delayed by as much as a year in some cases. We acknowledge that the past year has been extremely challenging, especially for the IT service, resulting in additional urgent priorities and delays to addressing outstanding actions. We encourage management to continue addressing the outstanding recommendations as an area of priority.

Financial Performance

63. The College reports an operating deficit of £4.359million for the year ended 31 July 2021. Adjusting the operating position for technical accounting factors that are outwith the control of the College, such as pensions and net depreciation, the College shows an adjusted underlying surplus of £0.072million
64. The College's reserve position improved to £28.521million at 31 July

2021 (2020: £19.898million). The Income & Expenditure Reserve deficit decreased by £9.227million to £6.539million as at 31 July 2021 primarily due to actuarial gains in respect to the LGPS pension scheme.

Performance against budget

65. The table below sets out the College's 2020/21 income and expenditure budget against results for the year as disclosed within the financial statements:

Exhibit 3 – Financial Performance of City of Glasgow College against budget

	Budget £'000	Actual £'000	Variance £'000
Scottish Funding Council grants	67,215	68,852	1,637
Tuition fees & education contracts	16,017	16,638	621
Other income	3,793	3,769	(24)
Investment income	15	-	(15)
Endowments and donations	1,000	312	(688)
Total income	88,040	89,571	1,531
Staff costs	54,315	59,387	(5,072)
Other operating expenses	12,795	11,646	1,149
Depreciation	4,886	6,138	(1,252)
Premises Costs	17,350	16,760	590
Total expenditure	89,346	93,932	(4,586)
Operating surplus / (deficit) for year ended 31 July 2021	(1,306)	(4,359)	(3,053)

Source: Financial Plan 2020-21 and subsequent analysis

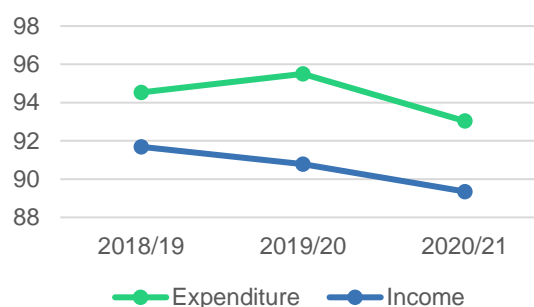
66. Additional SFC funding announced in year accounts for the primary variance between budgeted and actual income. Most significantly, the College received additional funding of £1.351million for delivering an

additional 5,000 credits and a non-recurring COVID support grant of £1.255million. A significant proportion of this additional funding will be carried forward to 2021/22 to support ongoing recovery.

- 67. Tuition fees and education contracts was £0.621million above budget following an increase in demand and the successful move to delivering courses online. There was a reduction in Foundation grants of £0.688million; capital investment was primarily funded by SFC grants and therefore less income was required in 2020/21.
- 68. Expenditure included in financial performance reporting does not include year-end adjustments included in the financial statements resulting in a significant variance in reported forecast financial position compared with the financial statements. This is done to aid scrutiny of costs the College can control, as year-end adjustments can be hard to forecast.
- 69. Staff expenditure is significantly affected by the exclusion of these costs. The largest element of this is the LGPS pension adjustment (£4.347million) which is included in the actual figures but not in the budget.
- 70. Excluding this adjustment, staff costs are in line with budget. Additional costs incurred to due to COVID-19 (£1.181million) were matched by staffing efficiencies (£1.188million).
- 71. In addition, with COVID-19 restrictions continuing throughout the year and substantially fewer staff and students accessing the building than originally

forecast, the College reported reduced expenditure across operational and premises costs. Whilst additional costs were incurred to ensure the campus remained a safe environment, this was funded through additional SFC grants.

Exhibit 4: Income and expenditure analysis (£'m)



Source: Annual Report and Accounts¹

- 72. Income has declined by 2.5% over the past three years, whereas expenditure has only decreased by 1.5% over the same period. Exhibit 4 shows the continued gap between income and expenditure which has increased by 30% since 2018/19.

Budget Process

- 73. The Financial Memorandum between the GCRB and the assigned Glasgow colleges sets out the formal relationship between the GCRB and the College and the requirements with which the College must comply in return for payment of grant by the Regional Strategic Body.
- 74. The GCRB are responsible for leading the regional funding allocation

¹ 2018/19 – Exception costs of £9.530million incurred in the sale of the College’s property North Hanover Street have been excluded from this graph

process, however college input is necessary

75. The Vice Principal Corporate Services is responsible for preparing an annual revenue and capital financial plan, aligned to the College's strategic and operational plan, for consideration by the Finance and Physical Resources Committee (FPRC) before submission to the Board.
76. The budget preparation process is built upon contributions from budget holders to ensure meaningful and estimates are agreed.
77. The control of income and expenditure within an agreed budget is the responsibility of the designated budget manager, who must ensure that day-to-day monitoring is undertaken effectively. The Head of Finance undertakes continuous monitoring to allow for forecasts to be updated accordingly.
78. The financial projection for the year and position to date is presented to the FPRC in September, November, February, and May each year, with updates provided to the subsequent Board meeting. We are satisfied that the papers submitted are clear and allow for appropriate scrutiny and challenge.

Prevention and detection of fraud and irregularity

79. Since the start of the pandemic, there has been the potential for the risk of fraud and error to increase as the control environment and internal controls have changed.
80. We found the College's arrangements for the prevention and detection of fraud and other irregularities to be

adequate. We reviewed Audit Scotland's report on COVID-19 Emerging Fraud Risks and satisfied ourselves that where there have been changes in the control environment, appropriate mitigating controls have been implemented.

Update on 2018/19 fraud

81. During 2018/19 the College identified an alleged fraud involving the fraudulent procurement and subsequent theft of IT equipment. The fraudulent activity, undertaken by an individual in the College's IT function, commenced in August 2016 and continued until February 2019. The gross value of the IT equipment stolen was £720k
82. The individual involved was successfully prosecuted in 2021. Recovery of the stolen equipment has been limited to date but the College continues to work closely with Police Scotland to action this.
83. In 2020/21 the College agreed to an insurance payment of £97k based on legal advice which deemed this to be a reasonable settlement. In addition, the College received a credit of £109k from the supplier, hence the overall loss to the public purse is in the region of £514k.

Review of the effectiveness of the finance function

84. The fraud raised questions over the appropriateness of the financial control environment, including potential weaknesses in the structure and management of the finance team.
85. As we reported in 2019/20, we undertook an independent review of the effectiveness of the finance department to consider the

arrangements for the financial management of the College and evaluate the effectiveness of the College's financial control environment.

86. The report found that the College has a well-established Finance team that demonstrated a level of control in all key areas. However, the College finance team was insufficiently integrated with the overall strategic management of the College and was often viewed as a siloed function by other departments. We reported a clear need to review cultures, behaviours and approach within the finance team to better integrate financial management into the operational management of the College.
87. We raised 12 recommendations which were all agreed by management. An update on delivery has been reported to the Audit & Assurance Committee periodically throughout 2020/21.
88. An update will be presented to the Audit & Assurance Committee in November 2021, which will report all 12 actions as complete. Five of these actions have been completed within the last quarter, a delay of at least six months to the due date set in the original action plan. The latest actions to be completed include:
- Demonstrating the financial plan delivers best value and explaining how this will be measured
 - Development of an operational finance risk register which is subject to regular review
 - Development of a project management handbook and

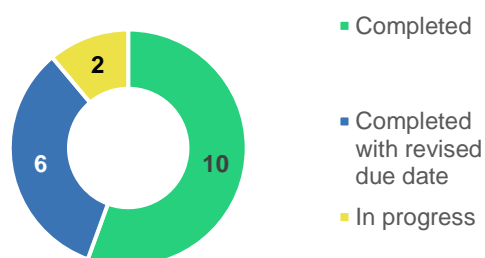
guidance to support consistent and robust methodology

- Introduction of consolidated project reporting to all relevant groups summarising all ongoing activity; and
- Review of the finance team structure to ensure there is a sufficiently senior, dedicated finance resource in place to support engagement with wider management team.

Review of IT effectiveness

89. We also undertook a review to the effectiveness of the IT function and control environment across IT services.
90. We reported that improved controls had been implemented over the purchasing, recording and deployment of IT assets in response to the incident in 2019. However, constant change in senior management and the structure of the team had impeded the maturity of arrangement and we reported a need to develop a more strategic approach to IT service provision.
91. We raised 18 recommendations in our report, which management agreed to action, reporting progress to the Audit & Assurance Committee alongside the Finance function report.

Exhibit 5: Review of IT function



Source: IT effectiveness report update – Audit & Assurance Committee, May 2021

92. As summarised in Exhibit 5, management deem 16 of the actions to be complete, as will be reported to the Audit & Assurance Committee in November 2021. Six of these actions were completed with a date delayed by up to nine months compared to the original action plan.
93. Two actions remain in progress and due for completion in July 2022. These recommendations relate to:
- Improvements to the core IT service management processes of incident, change and problem management
 - Asset management functionality should be included in the requirements for the proposed new service desk tool

National fraud initiative

94. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
95. The exercise produces data matches by comparing a range of information held on various public sector bodies' systems to identify potential fraud and error. Bodies are required to investigate these matches and record appropriate outcomes based on their investigations.
96. The most recent exercise commenced in January 2021 with matches to be investigated by 30 September 2021.
97. Based on our review to date, we have concluded that NFI arrangements are satisfactory and that the Board has taken a reasonable and proportionate approach to investigating matches.

Governance and transparency

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



Auditor judgement



Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge. An external review of the effectiveness of the College's governance arrangements also concluded that there are no significant weaknesses, noting six actions to support continuous improvement.

Formal assurances from senior management on the systems of internal controls in place throughout the year had not been completed until November 2021, after the drafting of the governance statement. We deem this to be a key source of assurance to inform the preparation of the governance statement and encourage the College to review their year-end timetable to ensure these are completed in a timely manner.

Regional governance arrangements

98. The GCRB is making progress in coordinating collaborative regional activity and continues to work with the assigned colleges to deliver all of the intended benefits of regionalisation.
99. 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.
100. Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between the GCRB and the Glasgow colleges. From review of available committee minutes and papers, we are satisfied that the College routinely considers reports on the development and implementation of the ROA.

Governance arrangements

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

- Audit and Assurance Committee
- Development Committee
- Finance and Physical Resources Committee
- Learning & Teaching Committee
- Performance & Nominations Committee
- Remuneration Committee; and

- Students, Staff and Equalities Committee

Governance arrangements during COVID-19

102. With national lockdown announced on 23 March 2020, all College activity moved to being delivered remotely, with a hybrid of on and off campus working introduced in line with Government restrictions.
103. Governance arrangements have continued as normal. The Board and its committees continued to meet throughout the period, albeit remotely, with an uninterrupted schedule of meetings.
104. The Board continued to receive and consider all standing agenda items during 2020/21 including finance reports, a review of the risk register and committee updates. We are satisfied that the Board received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.
105. The College recognised a specific risk in relation to the COVID-19 pandemic to reflect the significant potential impact it could have on the College's operation. The Board, Audit & Assurance Committee and senior management have continued to closely monitor this risk throughout 2020/21, assessing the risk as 'amber' in September 2021.

Assurance Framework

106. In 2018/19 we recommended that an assurance framework, addressing all requirements of the Audit Committee Handbook 2018, should be drafted and approved by the Audit and Assurance Committee and Board.

107. The Audit and Assurance Committee have closely monitored the development of the assurance framework and this was approved in February 2021. It was agreed that the assurance framework matrix would be subject to interim reviews every six months, and a full review in September 2022 in line with best practice.

Certificates of Assurance

108. The SFC's Accounts Direction requires colleges to comply with the Government Financial Reporting Manual (FReM) and the Scottish Public Finance Manual when preparing their governance statement. The Scottish Public Finance Manual states that this should be informed by assurances from senior staff, amongst other key sources of information.
109. Senior staff prepare certificates of assurance on an annual basis to inform the College's governance statement. However, these had not been prepared until November 2021 at the request of the audit team and the governance statement was drafted without assurances from senior staff.
110. We are satisfied that these certificates of assurance have now been prepared. No significant issues were noted and we deem the disclosures in the governance statement to be appropriate.
111. We encourage management to review their year-end timetable to ensure certificates of assurance are completed sufficiently early enough to support the College's assessment of the effectiveness of the system of internal control and governance arrangements.

Action Plan Point 4

Risk management

112. Public sector bodies face increasing demand for quality service at a time of significant operational change and financial pressure. Well-developed risk management arrangements help bodies to make effective decisions and secure better use of resources.
113. The College has an established risk management framework in place. The risk management policy (approved April 2021) outlines the College's approach and the roles of the Board and senior management, while the risk management procedure outlines how this is delivered.
114. The Audit & Assurance Committee have been delegated responsibility for risk management arrangements. The Committee reviews updates to the risk register at every meeting, receiving risk management action plans for all high scoring risks.
115. The risk register was updated alongside the Strategic Plan 2021-30 in June 2021 to ensure these continue to be aligned. No new risks were added in 2020/21.
116. We are satisfied that risk management arrangements have remained appropriate throughout 2020/21 and that sufficient information is presented to the Audit & Assurance Committee to support effective scrutiny and decision making.

Effectiveness review

117. The Code of Good Governance for Scotland's Colleges (the Code) requires college Boards to keep its effectiveness under annual review, with an externally facilitated review completed at least every three years.

118. The College Development Network (CDN) completed their external effectiveness review in 2020/21, publishing their report in February 2021.
119. Overall CDN concluded that there were no significant weaknesses in the Board’s effectiveness, praising the professionalism, performance and level of scrutiny displayed by the Board.
120. A number of areas for improvement were noted by the CDN and agreed with management. The agreed recommendations are summarised in Exhibit 6. We will continue to monitor delivery of these as part of our 2021/22 audit to support the continuous improvement of governance arrangements.

Exhibit 6: Review of Board effectiveness – recommendations

Strategy	Ensure the Board has more time and opportunities to critically think through, test and challenge the strategic context, issues and direction of the College
Succession planning	Must be more visible and there is a need for better understanding of succession planning in a strategic and operational context
Training and development	Develop a programme tailored to collective needs of the Board and individual members in their different roles
Stakeholder engagement strategy	More Board involvement in the development of the new stakeholder engagement strategy
Ambassador role	Develop and define the role of Board members as ambassadors for the College
Board effectiveness	<p>Consider and agree on a series of measures to help the Board work smarter and be more data 'savvy'. This should include measures on:</p> <ul style="list-style-type: none"> • Streamlined and smarter Board papers • How the Board gains a better understanding of the data it needs and uses for more informed scrutiny and decisions • How the Board better inform the information/papers that need to go to the Board and Board meeting agendas

Source: CDN’s Externally Facilitated Effectiveness Review (February 2021)

Value for money

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



Auditor judgement



The College approved its new Strategic Plan 2021-2030 and supporting strategies within 2020/21. These clearly outline eight consistent priorities and a number of strategic aims for the College to strive towards.

However, further work is required to develop a robust and fit for purpose performance management framework with tailored and relevant key performance indicators which are better aligned to new supporting strategies. This should be addressed as an area of high priority in 2021/22.

Value for Money Framework

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

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

122. As included within the College's Financial Regulations, securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board.

123. The College has VfM objectives in place, which sit within the College's sustainability strategy. The sustainability strategy, which aligns to the College's overall Strategic Plan 2021-30, focuses on three key themes: financial, social and environmental.

Strategic and Operational planning

124. The Board approved their new Strategic Plan in June 2021 which is underpinned by five supporting (delivery) strategies:

- Student Academic Experience
- People & Culture
- Corporate Development

- Digital (formerly System Integration), and
- Sustainability

125. The Strategic Plan outlines eight priorities which are consistent across the supporting strategies:

- To be an inspirational place of learning
- To enable individuals to excel and realise their potential
- To live our values, value our people and innovate in partnership
- To be a valued partner in the city region, supporting the national economy and the international learning community
- To deliver excellence in performance
- To be efficient, effective, innovative and vigilant
- To maintain our long term sustainability
- To secure diversity of income and sustainable development.

126. Underneath each strategic priority a number of aims have been identified, 33 in total, detailing the actions the College proposes to undertake to achieve its strategic priorities.

127. Delivery of the Strategic Plan and supporting aims will be managed through Operational Plans. The College has reviewed its cycle of operational planning and outlined an amended process that it believes will support better alignment with strategic

planning and a greater role in performance approval. The operational planning process is underway across the College, with recent workshops held to support their development.

Performance indicators

128. Whilst the Strategic Plan acknowledges the National Performance Framework, no key performance indicators have been set within the Strategic Plan or supporting strategies. These are currently under review for 2021/22 and management have continued to monitor the previous operational targets during 2020/21.
129. The current operational plans have recently been approved; the performance team will now extract key deliverables from each plan to support progress reporting. The new Strategic Plan and supporting strategies with associated performance indicators are due for Board approval in 2021/22 (exact date has not been confirmed).
130. In 2019/20, the College monitored a total of 68 operational targets. Management have viewed 2020/21 as a transitional year whilst the new Strategic Plan was implemented and as such these targets have continued to apply.
131. Operational performance has been monitored at a Committee and

Executive level. The Board is due to receive an annual outturn report on performance in November 2021, outlining performance against targets.

132. We strongly encourage the College to develop a set of strategic and operational performance indicators as an area of high priority in 2021/22. There should be sufficient breadth of indicators to support effective scrutiny and decision making across all areas of the College, whilst being limited enough in volume to allow for directed and prioritised performance reporting.
133. As part of this exercise, the College should reflect on whether current performance reporting arrangements remain fit for purpose. Performance is only reported to the Board on an annual basis (outside committee updates), four months after the year end for 2020/21 and after the annual report has been drafted. Selection of prioritised strategic indicators, supported by a suite of operational indicators, would allow for more focused and streamlined performance reporting to the Board, providing them with sufficient and regular information to support effective decision making. We will consider the development of the performance management framework under the Strategic Plan 2021-2030 as an area of focus during our 2021/22 audit.

Action Plan Point 5

Appendices



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Appendix 1: Respective responsibilities of the Board of Management and the Auditor

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

Board of Management responsibilities

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

Area	Board of Management's responsibilities
Corporate governance	<p>The Board of Management is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.</p>
Financial statements.	<p>The Board of Management has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the College. <p>The Board of Management is responsible for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable</p>

Area	Board of Management's responsibilities
	<p>financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Board of Management is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The Board of Management 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.</p>
<p>Financial position</p>	<p>The Board of Management is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Auditor responsibilities

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

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

Wider scope of audit

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

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

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the IJB's best value arrangements has been integrated into our audit approach, including our work on the wider scope dimensions.

Independence

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

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

Audit and non-audit services

The total fees (VAT inclusive) charged to City of Glasgow College for the provision of services in 2020/21 (with prior year comparators) are as follows:

	Current year	Prior year
	£	£
Audit of City of Glasgow College (Auditor remuneration)	37,570	39,413
Pooled costs	37,570	39,413
Non-audit services	6,000	4,500
Total audit	41,370	43,413

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We undertake the certification of the College's student funds claim. We obtained clearance from our Ethics Partner and Audit Scotland prior to commencing the engagement. The work has been undertaken by a separate team from the audit and the audit teams has had no involvement in this certification work.

Audit quality

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

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at the College since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Adjusted and unadjusted errors identified during the audit

Corrected misstatements

We identified one corrected misstatement during our audit of the College's annual accounts. Management is in the process of reflecting this in the annual accounts

No	Detail	Assets	Liabilities	Reserves	SOCI
Details of corrected audit differences		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£m	£m	£m	£m
1.	Revaluation movements – land & buildings	44.909	0.270	(45.583)	0.404
Net impact on (income) / expenditure					0.404

Uncorrected misstatements

We identified two uncorrected audit difference, as detailed below, which we have discussed with management and confirmed that these are individually and collectively immaterial.

No	Detail	Assets	Liabilities	Reserves	SOCI
Details of unadjusted audit differences		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£m	£m	£m	£m
1.	Reversal of overstated accruals (extrapolated error)	0.155			(0.155)
2.	Amendment of asset useful lives	-			(0.052)
3.	Presenting gross tuition fee income and expenditure rather than net				-
Net impact on (income) / expenditure					(0.207)

Disclosure amendments

No	Detail
1	Remuneration & Staff Report – additional disclosures to align with the requirements of the SFC’s Accounts Direction
2	Related parties – disclosure of College’s Scotland as a related party
3	Cashflow Statement – amendments to align presentation with the requirements of the SFC Accounts Direction
4	Financial Instruments – remove note as no longer required by FRS 102
5	Notes to the Accounts – amendments to support true and fair presentation, including the disaggregation of ‘Other’ lines where material

Appendix 3: Action Plan

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

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

1. Management of deferred income

Other deficiency

Observation	<p>We identified deferred income of £113k that relates to an unresolved transaction with a public sector partner. Income was accumulated over several years up to 2018/19 but continues to be deferred as at 31 July 2021.</p> <p>There is no policy in place determining the College's approach to managing potential refunds.</p>
Implication	<p>If such transactions are not subject to regular review, there is a risk that the College will continue to inappropriately hold funds and recognise a liability, rather than returning the income in a timely manner.</p>
Recommendation	<p>The College should develop a policy to ensure aged deferred income is subject to regular review, investigated and refunded/recognised appropriately.</p>
Management response	<p>The College has continued to apply the same approach to reviewing and managing Deferred Income balances at year-end for 2020/21 as per previous years. The College remains content that the identified balance of £113k is best reflected as Deferred Income.</p> <p>As recommended the College shall review and, where necessary, develop the policy and its application regarding aged deferred income.</p> <p>Responsible officer: Finance Director</p> <p>Implementation date: 31 March 2022</p>

2. Asset register

Other deficiency

Observation	Asset registers would benefit from the inclusion of additional detail such as useful life (currently embedded in the depreciation calculation), the date of last buildings revaluation and balance on the revaluation reserve (where appropriate).
Implication	As identified in 2020/21, one asset was not subject to regular professional revaluation as the date of the last exercise was not visibly recorded. Clear and complete information within the fixed asset registers is key to supporting the appropriate and accurate accounting treatment.
Recommendation	Management should review their fixed asset register and ensure all necessary information is clearly recorded. This should include, for example, date of last revaluation, location and useful life.
Management response	<p>The College has continued to maintain and develop the information held within the Fixed Asset Register with increased controls and as per previous internal and external recommendations.</p> <p>As recommended the College shall review further enhance this information to specifically include asset type, useful life and, where appropriate, revaluation information (specifically for Land and Buildings).</p> <p>Responsible officer: Finance Director</p> <p>Implementation date: 31 January 2022</p>

3. Review of economic useful lives

Other deficiency

Observation	Reduced capital funding and reprioritisation of replacement programmes means that assets will be in use for longer than originally planned. The useful life of assets has not been updated to reflect this.
Implication	80% of the College's equipment by cost has been fully depreciated as at 31 July 2021 and held at nil value on the College's balance sheet.
Recommendation	Management should review the useful lives of assets during 2021/22 to ensure these accurately reflect current asset plans and replacement programmes.
Management response	<p>The College continues apply its well-established accounting policy on depreciation in line with previous years. The continuing low SFC annual capital funding and the significantly lower use of the College physically assets during the COVID-19 pandemic has contributed to extending the useful lives of many assets beyond their original planned lifespan.</p> <p>Following the launch of the Strategic Plan 2021-2030, the College shall be reviewing its asset base and further developing a Capital Plan that supports the long-term objectives of the College.</p> <p>As part of this enhanced Capital Plan the College shall review its existing asset-base, including review of useful economic life in line with the College's developing approach to asset replacement.</p> <p>Responsible officer: Finance Director</p> <p>Implementation date: 30 April 2022</p>

4. Year-end timetable

Other deficiency

Observation	<p>There were delays in obtaining the draft annual report and accounts for our 2020/21 audit, with separate sections and supporting working papers provided periodically throughout the audit.</p> <p>Certificates of assurance, which should be prepared by senior management to inform the statements made within the governance statement, had not been prepared at the time of writing and the governance statement was drafted without this input.</p>
Implication	<p>Preparing the governance statement without documented assurances from senior management is not in accordance with the requirements of the SFC Accounts Direction.</p> <p>In addition, the delays in providing a complete draft of the annual report and accounts put pressure on the College and the audit team to ensure timescales were sufficiently adhered to.</p>
Recommendation	<p>The College should review all aspects of their year-end timetable to ensure all necessary information is collated in a timely manner, in accordance with the SFC Accounts Direction, to support the preparation of the annual report and accounts, and an efficient audit process.</p>
Management response	<p>After a rapid and successful transition to digital processes in 2019/20, this was the second year the College supported an entirely remote/digital external audit. The College shall continue to learn and adapt to new ways of working, and in doing so review the year-end timetable for efficient, effective, timely and robust provision of information.</p> <p>To ensure a more comprehensive pack of papers are presented at the start of the audit a wider review of the Board calendar 2022-23, Credit audit & Student Support audit is also required. This shall be led by College Secretary/Planning Director (in consultation with VCCS/FD).</p> <p>Responsible officer: Finance Director</p> <p>Implementation date: 30 June 2022</p>

5. Performance management framework

Significant deficiency

Observation	No new key performance indicators have been identified within the Strategic Plan 2021-30 or supporting strategies. Until the new strategies are fully approved the College has continued to monitor a total of 68 operational targets which we deem to be too high; the College should ensure the new suite of performance indicators is sufficiently broad whilst remaining focused and targeted.
Implication	The College cannot robustly assess performance or delivery of strategic priorities without a robust suite of targeted indicators. This is of particularly importance in the context of the operational and financial challenges faced across the sector.
Recommendation	The College should develop a suite of strategic and operational performance indicators as an area of priority in 2021/22. We encourage the College to reflect on whether performance reporting arrangements, especially reporting to the Board, remains fit for purpose, and whether this can be streamlined or enhanced to support more focused and targeted performance monitoring.
Management response	<p>During 2020-21 the College continued to monitor and report performance against the 2017-2025 Strategic Plan as the new 2021-30 Strategic Plan was being developed. While providing continuity from the previous strategy we acknowledge that limited development of revised key performance indicators was achieved in 2020-21.</p> <p>We agree that a significant revision of performance indicators is required in alignment with the new Supporting Strategies and College Strategic Plan 2021-30. The new strategies were approved between August & November 2021. The College shall continue to review the efficiency, effectiveness and robustness of its reporting to Board on key performance indicators. As part of embedding the new strategies, the associated reporting framework and fully aligning the streamlined key performance indicators will be agreed and completed early 2022. We accept that this would add value to our existing performance reporting to the Board and its Committees.</p> <p>Responsible officer: Director of Excellence</p> <p>Implementation date: March 2022</p>

Appendix 4: Follow up of prior year recommendations

We have followed up on progress in implementing the outstanding action raised in the prior years. This action remains in progress.

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

Action first raised in 2018/19

1. Absence of assurance framework

Recommendation An assurance framework, addressing all requirements of the Audit Committee Handbook 2018 should be drafted and approved by the Audit Committee and Board.

Rating	Other deficiency	Implementation date	Latest: March 2020
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Complete	Assurance Framework has been developed and approved by the Audit & Assurance Committee and Board.		
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2. Publicly available policies and procedures

Recommendation A review of policies and procedures available on the College's website should be undertaken to ensure that all documents are up-to-date. The College may also wish to consider version control arrangements going forward.

Rating	Other deficiency	Implementation date	Latest: January 2020
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Complete	Policies and procedures reviewed during the audit were up to date with appropriate version controls.		
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