

## Board of Management

<b>Date of Meeting</b>	<b>Wednesday 14 December 2022</b>
<b>Paper No.</b>	<b>BoM3-J</b>
<b>Agenda Item</b>	<b>6.2.1</b>
<b>Subject of Paper</b>	<b>External Audit Annual Report 2021-22</b>
<b>FOISA Status</b>	<b>Disclosable</b>
<b>Primary Contact</b>	<b>Stuart Thompson, VP Corporate Services</b>
<b>Date of production</b>	<b>November 2022</b>
<b>Action</b>	<b>For Noting</b>

### 1. Recommendations

The Board is asked to note the External Audit Annual Report 2021-22 as submitted at the Audit and Assurance Committee meeting held on 29 November 2022.

## Board of Management

### Audit & Assurance Committee

<b>Date of Meeting</b>	<b>Tuesday 29 November 2022</b>
<b>Paper No.</b>	<b>AAC2-C</b>
<b>Agenda Item</b>	<b>5.1</b>
<b>Subject of Paper</b>	<b>External Audit Annual Audit Report 2021-22</b>
<b>FOISA Status</b>	<b>Non Disclosable</b>
<b>Primary Contact</b>	<b>External Auditor/ Stuart Thompson, VP Corporate Services</b>
<b>Date of Production</b>	<b>November 2022</b>
<b>Action</b>	<b>For Discussion</b>

#### Recommendations

- The Committee is asked to consider the content of the report and the management responses.

## **1. Purpose of report**

The purpose of this report is to provide the Committee with an update on the 2021-22 external audit of the College, undertaken by Azets for the year to 31 July 2022.

## **2. Context**

This report is presented to those charged with governance and the Auditor General for Scotland and concludes Azet's audit of the City of Glasgow College for 2021-22.

Azet's carry out the College's audit in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

At the City of Glasgow College, the Audit and Assurance Committee has been designated as "those charged with governance".

## **3. Impact and implications**

External Audit Report provides an unqualified audit opinion on the annual report and accounts including:

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



## City of Glasgow College

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

November 2022




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# Key messages



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

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

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## Financial statements audit

<p><b>Audit opinion</b></p>	<p>Our independent auditor’s report includes:</p> <ul style="list-style-type: none"> <li>• an unqualified opinion on the financial statements;</li> <li>• an unqualified opinion on regularity; and</li> <li>• an unqualified opinion on other prescribed matters.</li> </ul> <p>Our audit opinion is subject to the completion of the following areas of outstanding audit work:</p> <ul style="list-style-type: none"> <li>• review of revised accounts, including the audit of revisions and disclosure changes identified during the audit;</li> <li>• final checks and review, including for accuracy and consistency; and</li> <li>• consideration of events subsequent to the balance sheet date</li> </ul>
<p><b>Key findings on audit risks and other matters</b></p>	<p>We have reported our audit findings on pages 11-26. We identified one audit adjustment (shown in Appendix 2) which was communicated to you and corrected in the accounts.</p> <p>We are pleased to report that the audit progressed well and in accordance with the agreed timetable. The accounts provided by City of Glasgow College (“the College”) and working papers presented for audit were of a good standard.</p>
<p><b>Audit adjustments</b></p>	<p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We are pleased to report that there were no unadjusted misstatements to note.</p> <p>We identified some disclosure and presentational adjustments during our audit. These have been reflected in the finalised financial statements.</p>
<p><b>Accounting systems and internal controls</b></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. One significant deficiency was noted and is shown in Appendix 3.</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 of a long term sustainable financial position.

The financial position of the College is difficult as it is forecasting underlying operating deficits to 2024/25 and a break-even position for 2025/26 and 2026/27. There remain a number of uncertainties in relation to staff cost, inflation and sector wide issues which continue to increase financial risk and uncertainty to the College.



#### Financial Sustainability

The flat cash funding from the Scottish Government and required savings mean that the College is likely to require to make further reductions to its staff cost budget. The College forecasts that this could result in a reduction of approximately 17% of its workforce over the period of 2022/23 to 2026/27. The College's operating model may not be sustainable in the current economic climate and the College is likely to require to reduce activity levels and methods of teaching delivery if strategic ambitions for student attainment and positive destinations are to be achieved.

The College has budgeted for capital expenditure of £1.350million but has not developed a 2022/23 capital plan. We recommend that the College prioritises the development of a detailed capital plan to demonstrate how the 2022/23 capital budget will be spent as a matter of urgency.

### Auditor judgement



The College reports an operating deficit of £4.196million for the year end 31 July 2022, with an adjusted underlying deficit of £0.469million. The College received additional funding of £2.578million from the SFC in 2021/22 for delivering an additional 10,000 credits to support ongoing economic recovery from the COVID-19 pandemic.



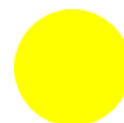
#### Financial Management

The cash position at 31 July 2022 was significantly high at £14.987million (2021: £12.250million). We would expect cash held by the College to reflect the amount required to cover working capital needs. We would encourage the College to reviews its cash management controls to ensure that funds are only drawn down as they are needed.



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## Auditor judgement



### Governance & Transparency

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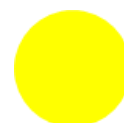
Governance arrangements at the College are deemed to be appropriate and have continued to operate effectively throughout the period. We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees.

Further work is required to fully action the six recommendations identified from the external review of the effectiveness of the College's governance arrangements. We encourage management to continue addressing the recommendations as an area of priority.

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## Auditor judgement



### Value for Money

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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.

During 2021/22 the College's Performance and Numeration Committee (PNC) developed a new balanced scorecard which incorporates a range of performance measures which are aligned to the strategic aims and designed to drive improvement across the College.

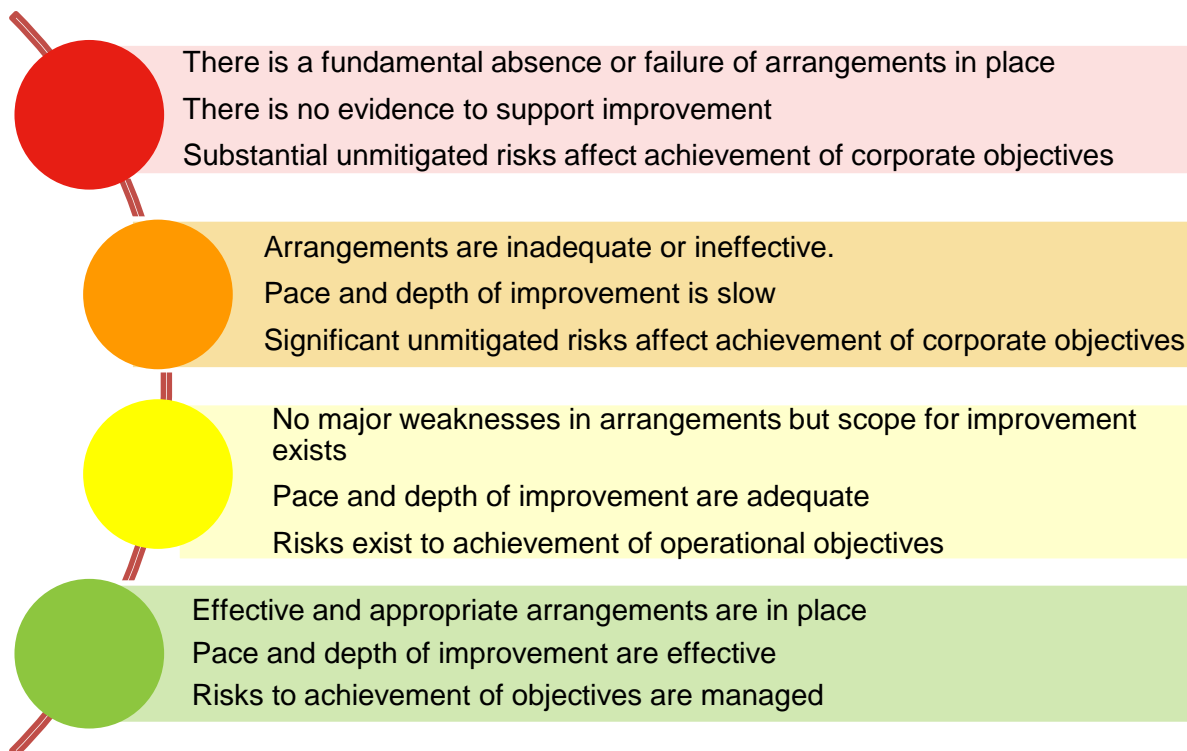
57 operational targets were set for 2021/22 and were assigned a red, amber or green status (RAG). 11 KPIs had no targets set for 2021/22. 51% of these targets carry green ratings, 35% were graded as amber, 7% as red and for the remaining 7%, there is incomplete information at the time of review.

Further work is required by the College to identify and report on the most specific measures which are relevant to the College's performance, with 57 operational targets representing a high number for corporate reporting. The College has committed to undertake an exercise over the next six months which involves each strategy owner reviewing performance measures to identify whether they best represent strategic operational performance.

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## 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

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

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

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

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## Scope

1. We outlined the scope of our audit in our Annual Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:
  - an audit of the 2021/22 annual report and accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
  - monitoring the College’s participation in the National Fraud Initiative; and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



## Responsibilities

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

## Auditor independence

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

## Openness and transparency

10. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://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 report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

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

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## Overall conclusion

11. The annual report and accounts are due to be considered by the Board of Management and Audit and Risk Committee by December 2022. Our independent auditor’s report is unqualified.
12. We received the unaudited annual report and accounts and supporting papers of a good standard. Our thanks go to staff at the College for their assistance with our work.

## 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 have issued an unqualified audit opinion on the 2021/22 financial statements.</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>Our wider scope audit work considers the financial sustainability of the College.</p>	<p>We reviewed the GCRB allocations for 2022/23. 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>
Regularity	<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 and income in the financial statements were incurred or applied in accordance with any applicable enactments and</p>

Opinion	Basis for opinion	Conclusions
<p>Opinions prescribed by the Auditor General for Scotland on:</p> <ul style="list-style-type: none"> <li>• Performance Report and Governance Statement</li> <li>• Remuneration and Staff Report</li> </ul>	<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 relevant legislation and regulations.</p>	<p>guidance issued by the 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"> <li>• the information given in the Performance Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council;</li> <li>• the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.</li> </ul>
<p>Matters reported by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>• adequate accounting records have not been kept; or</li> <li>• the financial statements and the audited part of the Remuneration and Staff</li> </ul>	<p>We have no matters to report.</p>



Opinion	Basis for opinion	Conclusions
	<p>Report are not in agreement with the accounting records; or</p> <ul style="list-style-type: none"> <li>we have not received all the information and explanations we require for our audit.</li> </ul>	

## An overview of the scope of our audit

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

#### How the scope of our audit responded to the significant risk

##### Key judgements

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

##### Audit procedures

- Reviewed the College's accounting records and audit testing on transactions.
- Adopted data analytics techniques in testing carried out.
- Reviewed 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.

Our audit did identify a potential weakness in segregation of duties controls relevant to online approval of journals. In addition, our audit identified a gap in the production of reports to support journals to reverse opening balances.

Our testing also identified a weakness in computer controls for locking out accounts with failed login attempts.

We have raised recommendations to address each of these areas.

**Action Plan Points 1 - 3**

## 2. Revenue recognition

### Significant risk description

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

**Risk assessment: High**

### How the scope of our audit responded to the significant risk

#### 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 revenue resource allocations from the Scottish Funding Council or GCRB due to a lack of incentive and opportunity to manipulate transactions.

#### Audit procedures

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

### Key observations

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

### 3. Expenditure recognition

#### Significant risk description

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

**Risk assessment: High**

#### How the scope of our audit responded to the significant risk

##### Key judgements

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

##### Audit procedures

- Evaluated the significant non-pay expenditure streams and reviewed the controls in place over accounting for expenditure.
- Considered the College's key areas of expenditure and obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Reviewed accruals around the year end to considered if there is any indication of understatement of balances held. Considered accounting estimates.

#### Key observations

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

#### 4. Pension assumptions (significant 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 a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

**Risk assessment: High**

##### How the scope of our audit responded to the significant risk

##### Key judgements

Given that small movements in the underlying assumptions may translate into significant changes of the pension liability we deem this area to be subject to a high risk of misstatement.

##### Audit procedures

- Reviewed the controls in place to ensure that the data provided from the pension fund is complete and accurate.
- Reviewed the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data.
- Agreed the disclosures in the financial statements to information provided by the actuary.
- Considered completeness and accuracy of the information provided by the College to the actuary.
- Ensured that we can rely on actuary's work as an expert by obtaining sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.

##### Key observations

The College participates in two pension schemes, the Scottish Teachers Superannuation Scheme ('STTS') and the 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 information to account for it 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 asset of £21.443 million compared to a net pension liability of £15.208 million

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

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.

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## 5. Estates valuation (significant accounting estimate)

### Significant risk description

The College holds a significant estate, with net book value of land and buildings of £257 million as at 31 July 2022. In accordance with its accounting policies, the College measures these assets at either depreciated replacement cost or on an operational use basis through a programme of professional valuations, with the latest independent valuation completed at 31 July 2022. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates and small changes in estimates have the potential to result in a material change in asset valuation.

**Risk assessment: Medium**

### How the scope of our audit responded to the significant risk

#### Key judgements

There is the potential for management to use their judgement to influence the financial statements.

#### Audit procedures

- We ensured that assets are recorded in line with the Further Education Statement of Recommended Practice (FE SORP), Accounts Direction and the College's accounting policies, and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of COVID-19.
- We considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We considered the College's impairment review and communication with the valuer. In addition, we considered the scope of the valuer's work and the information provided to the valuer for completeness.

### Key observations

We have gained assurance that the carrying value of the College's estate in the annual accounts is in line with the report received from the external valuers (Avison Young). 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. We confirmed that the basis of valuation for assets is appropriate based on their usage and reviewed the reasonableness

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of valuation assumptions applied. Overall, the valuation movements  
were in line with our expectation.

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## Estimates and judgements

18. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
19. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, valuation of the pension asset, impairment, depreciation rates, provisions and accruals. We identified two accounting estimates listed below.
20. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

### Estimates and judgements

#### Present value of retirement obligations

Balanced

Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2022.

The assumptions of the actuary, Hymans Robertson, were overall within our expected range. The assumptions were predominantly in the middle of our expected range except for the discount rate which, while slightly out with of the expected range and towards its lower end, is considered to be on the prudent end of the scale.

#### Estates valuation

Balanced

We ensured that assets are recorded in line with the FE SORP and the College's accounting policies and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of COVID-19.

The last professional valuation was undertaken at 31 July 2022. We considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). The College performed an impairment review of the assets and did not identify any indication of impairment. The results of our subsequent review of the above evidence is that the estates net book value is not materially misstated.

## Materiality

21. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
22. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the College’s and

management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

23. We based our initial assessments of materiality levels on the information available at the time i.e. prior year’s audited accounts. For the College’s financial statements, the initial materiality was set at £1,496,000. We consider that our assessment has remained appropriate throughout our audit.

### Materiality

#### Overall materiality

£1,496,000



100%

Accounts materially misstated where total errors exceed this value

#### Performance materiality

£1,122,000



75%

Work performed to capture individual errors at this level

#### Trivial threshold

£74,800



5%

All errors greater than this level are reported

<b>Materiality</b>	<p>Our assessment is made with reference to the College's expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College.</p> <p>Our assessment of materiality equates to approximately 1.5% of the College's expenditure as disclosed in the 2021/22 unaudited annual accounts.</p> <p>The above approach and percentage used are consistent with the prior year.</p>
<b>Performance materiality</b>	<p>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.</p> <p>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.</p>
<b>Trivial misstatements</b>	<p>Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

## Audit differences

- 24. We identified one audit adjustment which was communicated to you and corrected in the accounts; there were no unadjusted misstatements to note. We list adjusted misstatements in Appendix 2.
- 25. We identified some disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

## Internal controls

- 26. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control

weaknesses, we report these to the College. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We identified one significant controls point as detailed in Appendix 3.

## Action plan and follow up of prior year recommendations

- 27. An action plan and our recommendations are included in Appendix 3. Our consideration of prior year recommendations is shown in Appendix 4.

Area	Assessment	Comment
Control and process environment	<b>Satisfactory</b>	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	<b>Satisfactory</b>	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	<b>Satisfactory</b>	Management's responses to our audit queries were appropriate and received on a timely basis.

## Other communications

### Accounting policies, presentation and disclosures

28. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.
29. The accounting policies, which are disclosed in the annual accounts, are in line with the FE SORP, and are considered appropriate.
30. 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.
31. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

### Fraud and suspected fraud

32. 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.
33. 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

34. 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

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

### Related parties

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

### Third party confirmations

37. We have received all third party confirmations required for the purpose of our audit.

# Financial sustainability

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



## Auditor judgement



The 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 financial position of the College is difficult as it is forecasting underlying operating deficits to 2024/25 and a break-even position for 2025/26 and 2026/27. There remain a number of uncertainties in relation to staff cost, inflation and sector wide issues which continue to increase financial risk and uncertainty to the College.

The flat cash funding from the Scottish Government and required savings mean that the College is likely to require to make further reductions to its staff cost budget. The College forecasts that this could result in a reduction of approximately 17% of its workforce over the period of 2022/23 to 2026/27. The College's operating model may not be sustainable in the current economic climate and the College is likely to require to reduce activity levels and methods of teaching delivery if strategic ambitions for student attainment and positive destinations are to be achieved.

The College has budgeted for capital expenditure of £1.350million but has not developed a 2022/23 capital plan. We recommend that the College prioritises the development of a detailed capital plan to demonstrate how the 2022/23 capital budget will be spent as a matter of urgency.

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

### Significant risk description

The College continues to face significant challenges and uncertainty over the medium term, operating within tight financial parameters. The College forecasts an underlying deficit of £3.400million in 2022/23, a deterioration against the initial budget position presented to the Board of Management in June 2021. The deficit position is forecast to continue to 2024/25 with a break-even position forecast for 2025/26 and 2026/27.

There are still significant uncertainties surrounding these projections, particularly in relation to the recovery of non-SFC income which has been significantly impacted throughout the pandemic. Staff costs also continue to be a key pressure which the College in continuing to reflect through its operational workforce planning.

The College continues to work towards the achievement of a long term, sustainable financial position, reflecting on the lasting implications of the COVID-19 pandemic. The emerging and uncertain impact on the College's finances and ability to deliver services in a sustainable manner remains a significant challenge and risk.

### Key observations

The latest FFR, reported the year-end position for 2021/22, the budget for 2022/23 and forward forecasts for and up to 2026/27. The FFR reported forecasted underlying operating deficits to 2024/25 and a break-even position for 2025/26 and 2026/27.

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

39. Overall, the further education sector has received a 3.3% decrease on revenue budgets for 2022/23 which represents a flat cash settlement from

the baseline 2021/22 budget and excludes additional COVID-19 consequential funding received in 2021/22. In addition, Scotland's further education sector continues to face a challenging financial situation in future

- years from the impact of national bargaining/job evaluation costs, cost of living pay award increases and general inflation.
40. The SFC published final colleges funding allocations in May 2022. The Glasgow Colleges Regional Board (GCRB) subsequently provided a breakdown of allocations across the assigned colleges, including a top slice for the GCRB running costs and collaborative projects.
  41. The budget for the year 2022/23 was approved by the Board in May 2022, projecting an underlying operating deficit of £2.000million. The Board reviewed and approved the updated budget in September 2022. As a result of a more challenging external environment including increases in the cost of utilities and rising rates of general inflation, the updated financial plan forecasted an underlying operating deficit of £3.400million, an increase of £1.400million compared to the original budget.
  42. The College is heavily reliant on SFC Grants which currently represents circa 75% of the College's total income (excluding non-cash deferred capital grants) and a small movement in grant funding has a significant impact on the College's financial position. The College has recognised that a key factor influencing mitigation of its financial challenge will be the development of substantial and sustainable income growth through both existing and new non-SFC income streams.
  43. The updated budget identified an in-year savings target of £4.000million. A savings plan to support the £4.000million target was presented to the Financial & Physical Resources Committee in September 2022 and highlighted that the achievement of savings targets is highly dependent on staff cost savings due to 62% of 2022/23 total budgeted expenditure (inclusive of NPD commitments) consisting of staff costs. We explore the risks in relation to reductions in staff costs and numbers in the medium term financial planning section of this report.
  44. The 2022/23 budget is based on a range of underlying assumptions. There remains a level of uncertainty around inflation and potential impact of any pay rises and, as such, the College will be required to keep the budgetary assumptions under review on an ongoing basis and update its forecasts to reflect any changes which may become apparent as the academic year progresses.
- ### Capital Planning
45. The College has budgeted for capital expenditure of £1.350million, however, at the time of writing, the College had not developed a 2022/23 capital plan. The College has recognised in their approved 2022/23 budget that there is a high demand for capital project expenditure for both replacement and new technology and teaching facilities. A detailed plan on how the capital budget will be spent is expected to be presented to the Finance and Physical Resources Committee in December 2022.
  46. Without a capital plan in place, the College will not be able to identify and appropriately plan for the priority areas where capital investment is required and demonstrate how they will deliver the aims and objectives contained with their Digital Strategy 2021-2030.



47. We recommend that the College develops a detailed capital plan to include approval of the activities which they are planning to spend their 2022/23 capital budget on as a matter of urgency. We encourage management to review their timetable for developing capital plans to ensure that these are better aligned to the College's budget setting process.

#### Action Plan Point Four

48. The Charles Oakley building has continued to remain largely unused. The College undertook an options appraisal proposal which was presented to the Finance and Physical Resources Committee Finance in March 2022. The College are at early stages of taking forward the development of a business case to support the use of the site as student residencies.

### Medium Term Financial Planning

49. The Financial Forecast Return (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 of the colleges. The latest FFR required colleges to report performance for the session 2022 and forecasts through to 2026/27.
50. The SFC has developed a set of common, indicative assumptions for Colleges to use in the aim of achieving consistency and comparability across the sector. There is no Scottish Government budget beyond the year 2021/22 so the assumptions are indicative. The SFC have taken into account the results from the Scottish

Government's Spending Review, published on 31 May 2022, and the subsequent impact on grant funding, pay costs and inflation when setting the FFR assumptions.

51. Assumptions include:
- Credit targets will remain stable.
  - Flexible Workforce Development Funding will continue but with a likelihood of a reduced budget from 2023/24.
  - Student support funding requirements will be fully met.
  - SFC capital maintenance funding should be based on the final 2022/3 funding allocations.
  - Funding for digital poverty will not continue at 2022/23 levels.
  - Staff costs will reflect; agreed cost of living increases, public sector pay policy, no assumed increase in social security costs and any known or expected increases in employer pension contribution rates.
  - Funding will not be provided for voluntary severance schemes.
52. We confirmed that the College has applied these assumptions when preparing the FFR.
53. Using the above assumptions, the College has prepared an FFR which forecasts underlying operating deficits to 2024/25 and a break-even position for 2025/26 and 2026/27, as shown in Exhibit 2. The forecasts within the FFR are based on an assumption of achieving recurring savings, mainly from the voluntary severance scheme.

Exhibit 2: Medium term financial forecasts	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Total income	93,970	90,640	90,640	90,640	90,640
Total expenditure	(96,325)	(92,375)	(90,190)	(88,765)	(88,735)
<b>Operating surplus/(deficit)</b>	<b>(2,355)</b>	<b>(1,735)</b>	<b>450</b>	<b>1,875</b>	<b>1,905</b>
<b>Adjusted operating surplus/ (deficit)</b>	<b>(3,400)</b>	<b>(3,200)</b>	<b>(1,300)</b>	<b>0</b>	<b>0</b>

Source: Financial Forecast Return 2022/23 to 2026/27

54. These deficits assume future flat cash SFC funding, only small staff cost increases which are offset by reduction in staff numbers through voluntary severance schemes and additional staff savings which are still to be identified by the College.
55. The main cost driver is staff costs and 1% change to staff cost equals to c.£2.652million cumulative increase in cost over the period of 2022/23 to 2026/27. The College has run a number of scenarios around the staff costs including the impact on the College if the pay award was increased to 5% or 10%. These more realistic scenarios highlight that a 5% cost growth per annum over a two year period would increase the annual pay bill by £6.000million and an increase of 10% per annum over a two year period would increase staff costs by £12.000million annually. The College has recognised that if a 10% pay award was implemented, in line with union requests, then this would not be a position which the College would be able to afford and sustain.

### Key medium-term financial challenges

56. The further education sector has a number of key challenges, including:
- Flat cash budgets requiring continuing savings to match the inflationary pressures;
  - Uncertainty over funding levels due to short term nature of the Scottish Government budgets;
  - National Bargaining and national support staff job evaluation scheme, with the costs being estimates; and
  - Increasing levels of pay and general inflation.
57. The College, as any other further education institution, delivers its services to the public via teaching therefore its teaching and support staff are crucial to the College fulfilling its key role. We note that due to the above financial constraints the College is under pressure to identify savings and often the main area impacted is staff costs.

58. When looking at the range of the scenarios considered by the College, we identified that the College's savings plan, approved by the Finance & Physical Resources Committee in September 2022, assumed a reduction of approximately 200 FTE over the period of 2022/23 to 2026/27. This equals nearly 17% of the College's workforce.
59. The scale of savings required to enable the College to achieve a financially sustainable position indicate that the College's current operating model may not be sustainable. The College is likely to require to reduce activity levels and methods of teaching delivery if strategic ambitions for student attainment and positive destinations are to be achieved.

### Exhibit 3: City of Glasgow College Successful Completion and Withdrawal Rates

Successful Completion Rate	2020/21	2021/22
FE FT	62%	52%
HE FT	77%	63%

Withdrawal Rates	2020/21	2021/22
FE FT	28%	31%
HE FT	16%	21%

Source: 2021/22 Annual Accounts and further analysis.

60. In 2021/22, the College's average number of full time equivalent staff increased by 5% to 1,162. However, as illustrated in exhibit 3, the successful completion rates decreased for full time students and

the withdrawal rates increased compared to the 2020/21 position. This presents the risk to the College that by further reducing staff levels this may further negatively impact this trend in performance.

61. It is important that the College closely monitors the delivery of savings identified to ensure that achievement of savings does not impact on the College's ability to deliver curriculum activity or support students and staff in future years.
62. In November 2022, an update on the College's workforce plan was presented to the Board which concluded that a number of system, resources and financial constraints were continuing to prevent the College from progressing with their workforce planning. We do recognise that external factors such as increasing pay levels are not entirely in the College's control however, due to the staff cost challenges noted above, we would encourage the College to develop and implement robust workforce plans which consider existing and future skills needs and action plans to achieve projected future resource demands.

# Financial management

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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 £4.196million for the year end 31 July 2022, with an adjusted underlying deficit of £0.469million. The College received additional funding of £2.578million from the SFC in 2021/22 for delivering an additional 10,000 credits to support ongoing economic recovery from the COVID-19 pandemic.

The cash position at 31 July 2022 was significantly high at £14.987million (2021: £12.250million). We would expect cash held by the College to reflect the amount required to cover working capital needs. We would encourage the College to reviews its cash management controls to ensure that funds are only drawn down as they are needed.

## Financial Performance

63. The College reports an operating deficit of £4.196million for the year ended 31 July 2022. After adjusting the operating position for non-cash items that are out with the control of the College, such as pensions and net depreciation, the College shows an adjusted underlying deficit of £0.469million.

64. The College's reserves position improved to £141.027million at 31 July

2022 (2021: £73.645million). The Income & Expenditure Reserve increased by £39.558million to £32.558million as at 31 July 2022 primarily due to actuarial gains in respect to the LGPS pension scheme.

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

### Exhibit 4- Financial Performance of City of Glasgow against budget

	Budget £'000	Actual 2021/22 £'000	Variance £'000
Scottish Funding Council grants	71,474	71,456	(18)
Tuition fees and education contracts	16,911	17,353	442
Other income	3,683	4,531	848
Endowments and donations	0	1,590	1,590
<b>Total income</b>	<b>92,068</b>	<b>94,930</b>	<b>2,862</b>
Staff costs	56,541	63,101	(6,560) <sup>1</sup>
Other expenditure (including depreciation, interest and other finance costs)	36,267	36,025	242
<b>Total expenditure</b>	<b>92,808</b>	<b>99,126</b>	<b>(6,318)</b>
<b>Operating (deficit) for the year for the year ended 31 July 2022</b>	<b>(740)</b>	<b>(4,196)</b>	<b>(3,456)</b>

<sup>1</sup> Expenditure included in financial performance reporting does not include year- end adjustments included in the financial statements.

Source: Financial Plan 2021-22 and subsequent analysis

66. The College's main source of income continues to be grant funding from the SFC (75% of total income in 2021/22). The College received additional funding of £2.578million in 2021/22 for delivering an additional 10,000 credits to support ongoing economic recovery from the COVID-19 pandemic.
67. The primary variance between budget and actual income was in relation to other income of £0.848million and foundation grant of £1.590million more than budget. The increase in other income against budget was largely due to the easing of COVID-19 restrictions which increased the occupancy rate for student accommodation. In addition, additional foundation grant income was sought to support the blended learning fund and the Virtual Learning Environment (VLE) project.
68. The 2021/22 budget for commercial and international fees was set at 70% of pre COVID-19 levels to reflect the uncertainty in travel and general international restrictions. Greater recovery of this source of income was achieved by the College with the outturn for Tuition fees and education contracts being £0.442million above budget.
69. 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.
70. Staff expenditure is significantly affected by the exclusion of these costs. The largest element of this is the LGPS pension adjustment (£5.245million) which is included in the actual figures but not in the budget.
71. Excluding this adjustment, staff costs are £1.315million higher than budget and staff costs continue to be the highest area of spend for the College accounting for 64% of total expenditure. The increase in staff costs against budget was largely due to higher than budgeted pay award and increase in employer national insurance contributions, effective from April 2022, and an increase in staff pressures to deliver the additional 10,000 funded activity credits.

### Cash Position

72. The College has a reserves cash key performance target within their balanced scorecard of maintaining free cash for 30 days, based on the underlying cash balance. At the year end the underlying closing cash balance was 27 days.
73. Based on the total cash balance, at the year end the closing cash balance was 59 days. The College expects the cash position to materially reduce in 2022/23 to £4.000million (16 days).
74. The cash position at 31 July 2022 was significantly high at £14.987million (2021: £12.250million). In general we would expect cash held at year end to only be the amount required to cover working capital needs. We would encourage the College to reviews it's cash management controls to ensure that funds are only drawn down as they are needed.

## Action Plan Point Five

### Budget Process

75. 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.
76. The GCRB is responsible for leading the regional funding allocation process, however college input is necessary.
77. 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.
78. The budget preparation process is built upon contributions from budget holders to ensure meaningful and achievable estimates are agreed.
79. The control of income and expenditure within an agreed budget is the responsibility of the delegated 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.
80. The financial projection of the year and position to date is presented to the FPRC in September, November, February and May each year, with updates provided with 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

81. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the College's arrangements for the prevention and detection of fraud and other irregularities to be adequate.
82. Regular updates on fraud related matters and the National Fraud Initiative (NFI) are presented to the Audit & Assurance Committee.

### Review of the effectiveness of the finance function

83. 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.
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. We raised 12 recommendations which were agreed by management. An update was presented to the Audit & Assurance Committee in November 2021 which reported all actions were completed with five actions having a delay of at least six months to the due date set in the original action plan.

### Review of IT effectiveness

87. We also undertook a review to the effectiveness of the IT function and control environment across IT services.
88. We raised 18 recommendations in our report, which management agreed to action, reporting progress to the Audit & Assurance Committee alongside the Finance function report. An update was presented to the Audit & Assurance Committee in September 2022 which reported that the remaining two recommendations have been closed off throughout the procurement service desk software system. The system is expected to be fully implemented and operational by December 2022.
89. On request from the Scottish Funding Council, the College contributed to a fraud lessons learned sectoral document. The purpose of this review

was to provide sufficient detail on the College's control weaknesses, how these may have contributed to the fraud, and additional procedures that the College had put in place to address these weakness in order to enable the sector to understand and consider their own procedures. This was presented to the Audit & Assurance Committee in September 2022.

### National fraud initiative

90. The 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.
91. The most recent NFI exercise commenced in January 2021. These were investigated by the end of September 2021 and the NFI portal updated with outcomes by the deadline of 31 March 2022. The results of the exercise were presented to the Audit & Assurance Committee in March 2022.
92. NFI exercise did not identify any fraud or error. Overall, we concluded that the College's arrangements with respect to NFI are satisfactory.



# Governance and transparency

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



## Auditor judgement



Governance arrangements at the College are deemed to be appropriate and have continued to operate effectively throughout the period. We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees.

Further work is required to fully action the six recommendations identified from the external review of the effectiveness of the College's governance arrangements. We encourage management to continue addressing the recommendations as an area of priority.

## Regional Governance arrangements

93. 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.
94. 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.
95. 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

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

97. The Audit and Assurance Committee approved the College's assurance framework in February 2021. In line with best practice, a full review of the framework was undertaken in September 2022 by the Compliance Auditor and no significant changes were made to the framework. However, the College identified that further work is required to evaluate whether the sources of assurance contained within the Sources of Assurance document remain sufficient in supporting effective management and monitoring of good governance within the College.

## Governance arrangements during COVID-19

98. The College adapted its governance arrangements in response to the pandemic. Board and Committee meetings have continued to be held virtually without significant disruption during 2021/22. The first in person Board meeting is scheduled for November 2022.
99. The Board continued to receive and consider all standing agenda items during 2021/22 including risk register updates, finance reports and committee updates. We are satisfied that the Board received sufficient and timely information throughout the period to support the effective scrutiny, challenge and decision making.

## Certificates of Assurance

100. The SFC's Accounts Direction requires colleges to comply with the Government Financial Reporting Manual (FRoM) 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.

101. Senior staff prepare certificates of assurance on an annual basis to inform the College's governance statement. In our 2020/21 annual audit report we highlighted that the certificates of assurance were not prepared until November 2021.
102. In 2021/22 we are satisfied that certificates of assurance have been prepared in October 2022 alongside the drafting of the Governance Statement. No significant issues were noted and we deem the disclosures in the governance statement to be appropriate.

## Effectiveness review

103. 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.
104. The College Development Network (CDN) completed their external effectiveness review in 2020/21, publishing their report in February 2021.
105. Six recommendations were noted from the CDN review structured under the following headings:
  - Strategy
  - Succession planning
  - Training and development
  - Stakeholder engagement strategy
  - Ambassador role

- Board Effectiveness

106. The College has made sufficient progress in addressing all six of the recommendations, however, recognise that further work is required to fully action the CDN recommendations. Activities are planned for 2022/23 to allow full achievement of the recommendations which include development of more formal reporting and discussion of succession planning, identification of individual training and development needs and the further development of papers and information tabled at the Board.
107. The Board has been kept aware of the activities and actions which have contributed to the College's progress against the recommendations. However, formal progress against the recommendations has not been reported to the Board in 2021/22.

## Fairness and equality

108. In April 2021, the College set the following five equality outcomes for the period 2021-2025:
  - Staff and Student diversity is increased across all protected characteristics.
  - Students and staff- across all protected characteristics- experience and contribute to all culture of dignity and respect.
  - Students and staff can confidently access relevant facilities and support.
  - Equality and Diversity is accounted for in the design and delivery of learning and teaching.
  - Successful student course completion- across targeted

protected characteristics- is increased.

109. The College is required to report on progress made against these equality outcomes at least every two years. The latest Mainstreaming Equality Report was published in April 2021 and is available on the College's website.
110. Management recognise the importance of mainstreaming and integrating equality in day to day processes and decision making. The Mainstreaming Equality Report details a number of initiatives that the College has implemented or plans to implement.
111. The key group in place within the College to support mainstreaming fairness and equality is the Staff Students Equalities Committee. The Committee meets quarterly and oversees the strategic direction of the College's Equality Agenda including monitoring the implementation of the College's policies on equality and diversity and ensuring full compliance with statutory requirements are reflected in the College's strategic and operational plans.
112. We are satisfied that appropriate arrangements are in place to oversee and report on delivery of the College's five equality outcomes.

# Value for money

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



## Auditor judgement



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.

During 2021/22 the College's Performance and Numeration Committee (PNC) developed a new balanced scorecard which incorporates a range of performance measures which are aligned to the strategic aims and designed to drive improvement across the College.

57 operational targets were set for 2021/22 and were assigned a red, amber or green status (RAG). 11 KPIs had no targets set for 2021/22. 51% of these targets carry green ratings, 35% were graded as amber, 7% as red and for the remaining 7%, there is incomplete information at the time of review.

Further work is required by the College to identify and report on the most specific measures which are relevant to the College's performance, with 57 operational targets representing a high number for corporate reporting. The College has committed to undertake an exercise over the next six months which involves each strategy owner reviewing performance measures to identify whether they best represent strategic operational performance.

113. During the year we have identified significant risk in relation to value for money under our wider scope responsibilities:

### Significant risk description

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. Whilst they acknowledge the National Performance Framework, no key performance indicators had been identified within these documents and management continued to monitor the previous 68 operational targets during 2020/21.

The College has committed to developing a streamlined set of performance indicators in 2021/22 and as part of this exercise will review the efficiency, effectiveness and robustness of its reporting to the Board.

Given the context of the operational and financial challenges faced across the sector, the ability to robustly assess performance or delivery of strategic priorities is of particular importance and will be an area of audit focus.

### Key observations

During 2021/22 the College's Performance and Numeration Committee (PNC) developed a new balanced scorecard which incorporates a range of performance measures which are aligned to the College's strategic aims and designed to drive improvement across the College.

Further work is required by the College to identify and report on the most specific measures which are relevant to the College's performance, with 57 operational targets representing a high level. The College has committed to undertake an exercise over the next six months which involves each strategy owner reviewing performance measures to identify whether they best represent strategic operation.

Our detailed findings on the development of College's performance framework and the College's ability to robustly assess performance and delivery of strategic priorities are set out below.

## Performance management arrangements

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

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

115. 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.

116. The College has VfM objectives in place, which sits 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.

## Performance framework

117. 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

118. 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.

119. 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.

120. During 2021/22 the College's Performance and Numeration Committee (PNC) developed a new balanced scorecard which incorporates a range of performance measures which are aligned to the above referred strategic aims and designed to drive improvement across the College.

121. The balanced scorecard consists of four quadrants which each represent an area of strategic priority in alignment with the College's Strategic

Plan. The College has developed a streamlined set of corporate level KPI's, attributed to each quadrant of its balanced scorecard where each of these measures have been populated with 3-5 year targets and where known meaningful benchmarks to monitor performance against.

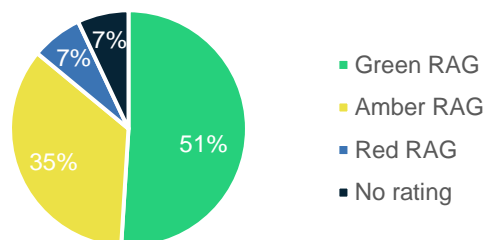
- 122. Performance continues to be monitored routinely throughout the year by committees as appropriate. As part of the College's revisions to their performance framework, going forward annual reporting will involve a dedicated end of year review with Senior Management (SMT) to inform a further and final annual review with the Board. Recommendations from both exercises will be used to update measures, targets and in year operational plans.
- 123. Work is ongoing within the College to identify whether there is a need for the performance cycle to occur more frequently going forward, such as every six months. This would allow more closely monitoring of whether the College is on track to meet the aims and objectives within their Strategic Plan and to adjust plans for the year ahead and address any material deviations to plans in a timely manner.

## Performance results

- 124. The 2021/22 Annual Performance Report was presented to the Performance & Nominations Committee in October 2022. The report provided an overview of the College's performance against the four quadrants of the new balanced scorecard.

- 125. Where appropriate, targets for 2021/22 and the longer term were set and the status of the College's performance in relation to these targets monitored.
- 126. 57 operational targets were set for 2021/22 and were assigned a red, amber or green status (RAG). 11 KPIs had no targets set for 2021/22.
- 127. As illustrated in exhibit 5, 51% of these targets carry green ratings, 35% were graded as amber, 7% as red and for the remaining 7%, there is incomplete information at the time of review.

**Exhibit 5 – City of Glasgow College performance against key performance indicators**



Source: College Performance AY2021-22

- 128. Further work is required by the College to identify and report on the most specific measures which are relevant to the College's performance, with 57 operational targets representing a high level. The College has committed to undertake an exercise over the next six months which involves each strategy owner reviewing performance measures to identify whether they best represent strategic operation.



# Appendices

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## Appendix 1: Respective responsibilities of the College and the Auditor

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

### The College’s responsibilities

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

Area	The College’s responsibilities
<b>Corporate governance</b>	<p>The Board of Management and Chief Financial Officer (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<b>Financial statements.</b>	<p>The Board have responsibility for:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li> <li>• maintaining proper accounting records; and</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the College.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the</p>

Area	The College's responsibilities
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entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

The Board of Management and the Chief Financial Officer are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

<b>Standards of conduct for prevention and detection of fraud and error</b>	The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.
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## Auditor responsibilities

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

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

### Wider scope of audit

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

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

## Independence

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

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

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

### Audit and non-audit services

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

	Current year £	Prior year £
Audit of College (Auditor remuneration)	39,996	37,570
Pooled cost	2,030	2,300
Contribution to Audit Scotland costs	1,820	1,500
<b>Total audit</b>	<b>43,846</b>	<b>41,370</b>
Non-audit services	11,400	6,000
<b>Total fees</b>	<b>55,246</b>	<b>47,370</b>

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

### Audit quality

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

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

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

## Appendix 2: Adjusted and unadjusted errors identified during the audit

### Corrected and uncorrected misstatements

We did not identify any uncorrected misstatements during our audit of the College's annual report and accounts.

Adjusted misstatements are presented in the table below.

Adjusted items - current year						
No.	Detail	SoCNE		Balance Sheet		Impact on SoCNE
		Dr	Cr	Dr	Cr	
1	Other income	£700,000				-£700,000
	Other operating expenditure		£700,000			£700,000
	<i>(Being correction of overages receipt)</i>					
	<b>Total impact on the Statement of Comprehensive Net Expenditure</b>					<b>£0</b>

### Disclosure amendments

No	Detail
1	Amendments were required to the related party disclosures in order to accurately reflect the underlying transactions.
2	A number of additional disclosures were identified for inclusion in the annual report.
3	Amendments were required to the remuneration report in order to accurately reflect the median remuneration disclosures.

## Appendix 3: Action Plan

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

### Action plan grading structure

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

The recommendations are categorised into three risk ratings:

**Key:**

**Significant deficiency**

**Other deficiency**

**Other observation**

#### Action Point One – Opening Balances Report

<b>Observation</b>	It was noted as part of our journals testing that the client was unable to run an opening balances report as at 01/08/2021. We were therefore unable to obtain complete comfort over the opening I&E balances.
<b>Implication</b>	As the I&E codes are manually reconciled at the start of the new accounting period, there is the potential for an error resulting in a brought forward balance not being identified.
<b>Recommendation</b>	We suggest reviewing year-end processes to incorporate the use of system reports where possible.
<b>Rating</b>	<b>Other deficiency</b>
<b>Management Response</b>	The College shall review year-end processes to better align with available system reports. Where necessary the College will work with Symmetry (provider of finance system) to develop report that provides clean view of opening balances.

## Action Point Two – Finance System Access

**Observation** It was noted as part of review of IT general controls that there is no account lockout in place with regards to failed login attempts on the Finance System.

**Implication** Without an account lockout control, there is an increased risk of an unauthorised user gaining access to the system.

**Recommendation** We suggest implementing an account lockout control.

**Rating** **Other observation**

**Management Response** The current settings on the Finance system is for increasing delay (5 seconds per attempt) to subsequent failed log-in attempts up to 60 seconds. There is no lock-out functionality currently enabled. The College shall work with the system provider to understanding log-in configuration options and to implement an appropriate protocol.



### Action Point Three – Journal Authorisation

**Observation** It was noted as part of testing that one journal was created and approved by Alex Stewart. Confirmed with Alex that changes were made to the Symmetry system during lockdown which allows authorisers to post COB journals without any review by a second individual.

**Implication** There is an increased risk of fraudulent journals being posted to the system if an individual can post without review by a second individual.

**Recommendation** We suggest contacting the software provider to rectify this issue.

**Rating** **Significant deficiency**

**Management Response** As a point of clarification, it was the creation of a new journal type set up to allow online/remote approval that created this new approval workflow. This was not a configuration setting consciously selected by Finance team when setting-up the new journal approval workflow

The College shall review the approval workflow, settings and permissions of all journal types to ensure robust controls and separation of responsibilities.

## Action Point Four – Capital Planning

**Observation** The College has budgeted for capital expenditure of £1.350million, however, College has not yet approved a 2022/23 capital plan. The College has recognised in their approved 2022/23 budget that there is a high demand for capital project expenditure across the College for both replacement and new technology and teaching facilities.

**Implication** Without a capital plan in place, the College will not be able to identify and appropriately plan for the priority areas -where capital investment is required and demonstrate how they will deliver the aims and objectives contained with their Digital Strategy 2021-2030.

**Recommendation** We recommend that the College further develops its multi-year capital plan and bring forward for approval the activities which they are planning to spend their 2022/23 capital budget on as a matter of urgency. In addition, we encourage management to review the visibility of the capital plan within the integrated annual operational planning process to ensure alignment of the College’s revenue and capital budget setting process.

**Rating** **Other deficiency**

**Management Response** The College maintains a rolling plan detailing the necessary asset replacement and enhancement over the next three-year and estimated into the longer term. This was first presented to F&PRC in November 2021 and due for representation in November 2022. What remains clear is that the need for annual replacement of assets (£3m-£5m pa) far exceeds the existing funding envelope provided by SFC (2022/23: £1.35m).

Given the scarcity of funding it is increasing critical to ensure that the in-year expenditure is aligned to the College’s highest priority needs. Towards the end of 2022/23, following the positive management interventions on the College’s in-year financial performance, the College was able to approve a significant additional investment in the Ship Simulators at the end of 2021/22. In so doing bring forward and addressing the most crucial demand previously highlighted for 2022/23.

Furthermore, in the context of the short to medium term funding and financial challenges, commitment of the scarce capital funding has been re-phased to best align with and allow additional time for a clearer understanding of any possible changes to the College’s structures and services.

## Action Point Five – Cash Management

<b>Observation</b>	From our audit work we identified that the cash balance at 31 July 2022 was significantly high at £14.987million.
<b>Implication</b>	There is a risk that funds are drawn down in advance of need which may result in the College breaching the terms of the SFC grant funding.
<b>Recommendation</b>	We would recommend that the College reviews its cash management controls to ensure that funds are only drawn down as they are needed going forward.
<b>Rating</b>	<b>Other deficiency</b>
<b>Management Response</b>	<p>The high year-end cash balance is a momentary high-point and reflective of the following factors:</p> <ol style="list-style-type: none"><li>1. The College is required to draw-down all SFC funds pertaining to that year by the financial year-end (31<sup>st</sup> July), with a sector-wide established mechanism and timeline for any claw-back due.</li><li>2. The proactive management of the College's financial position throughout the year to minimise the deficit to under £0.5m (in comparison with mid-year forecast in excess of £2m), also had the effect of preserving the College's cash position.</li></ol> <p>Other timing issues include:</p> <ol style="list-style-type: none"><li>1. Payment of the annual award (effective date: September 2021) was not made until after the year-end (August 2022), following final agreement in June 2022; c£1.4m.</li><li>2. Capital expenditure commitment towards the end of 2021/22 not paid until early 2022/23; c£2.2m.</li><li>3. A single large creditor balance that remained in dispute as at 31<sup>st</sup> July; c£0.9m.</li><li>4. Receipt of overage in relation to a legacy property the utilisation of which remains in discussion with SFC; £0.7m.</li></ol>

## Appendix 4: Follow up of prior year recommendations

We have followed up on progress in implementing the outstanding action raised in the prior years. The recommendations are categorised into three risk ratings:

**Key:**

Significant deficiency

Other deficiency

Other observation

### Actions first raised in 2020/21

#### 1. Management of deferred income

<b>Recommendation</b>	The College should develop a policy to ensure aged deferred income is subject to regular review, investigated and refunded/recognised appropriately.
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<b>Rating</b>	<b>Other deficiency</b>
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<b>Complete</b>	The accounting policy for deferred income was approved in May 2022 and was applied at year-end with regards to existing balances as well as any new deferrals to be created.
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## 2. Asset register

**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.

**Rating** **Other deficiency**

**Ongoing** The fixed asset register has been updated to include information on asset type, useful life and date of last revaluation. Work is ongoing as part of implementing the College's new Asset Management System which is expected to be in use by the end of the calendar year.

## 3. Review of economic useful lives

**Recommendation** Management should review the useful lives of assets during 2021/22 to ensure these accurately reflect current asset plans and replacement programmes.

**Rating** **Other deficiency**

**Complete** The accounting policies were amended in 2021/22 to create an additional standardised asset category in order to provide a useful life more closely aligned with the anticipated lifespan at the point of capitalisation.

#### 4. Year-end timetable

**Recommendation** 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.

**Rating** **Other deficiency**

**Complete** The College reviewed their year-end timetable for 2021/22, providing information in a timely manner and maintaining regular communication with the audit team.

#### 5. Performance management framework

**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.

**Rating** **Significant deficiency**

**Ongoing** The College has developed a set of KPIs to measure performance against both strategy and targets. Annual reporting will now involve an end of year review where the KPIs will be evaluated by the Board.

