

Board of Management Audit & Assurance Committee

Date of Meeting	Tuesday 12 September 2023
Paper No.	AAC1-H
Agenda Item	5.4.2
Subject of Paper	Internal Audit Report – Budgetary Control (incl Scenario Planning)
FOISA Status	Disclosable
Primary Contact	Henderson Loggie
Date of production	14 August 2023
Action	For Discussion and Decision

1. Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

2. Purpose of report

The purpose of this review is to provide management and the Audit and Assurance Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

3. Key Insights

This internal audit of Budgetary Control (incl Scenario Planning) provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

4. Impact and implications

Refer to internal audit report.

Appendix – Internal Audit Report – Budgetary Control (incl Scenario Planning)

City of Glasgow College

Budgetary Control (incl. Scenario Planning)

Internal Audit report No: 2023/06

Draft issued: 4 August 2023

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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk, and which requires to be brought to the attention of management and the Audit and Assurance Committee.
Priority 2	Issue subjecting the organisation to significant risk, and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.



Management Summary

Overall Level of Assurance

Good	System meets control objectives.
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Risk Assessment

This review focused on the controls in place to mitigate the following risks on the City of Glasgow College ('the College') Strategic Risk Register as at March 2023:

- Failure to achieve operating surplus via control of costs and achievement of income targets (net risk score: 25 - high)
- Failure to maximise income via diversification (net risk score: 20 – high)
- Failure to obtain funds from College Foundation (net risk score: 4 – low)
- Failure to agree a sustainable model and level of grant funding within Glasgow Region (net risk score: 12 – medium)

Background

As part of the Internal Audit programme at the College for 2022/23, we carried out a review of the budgetary control arrangements. The Audit Needs Assessment, agreed with management and the Audit and Assurance Committee in March 2022, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management (BoM) and the Principal that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The College has Financial Regulations and procedures in place to support budget holders to fulfil their roles and responsibilities. Budgets are set annually, with the staffing budget collated centrally based on the resources required to deliver the agreed curriculum, and non-staffing budgets being agreed between budget holders, Finance staff, and the Executive Team, to determine an adequate overall budget position. The budget is considered by the Finance and Physical Resources Committee (FPRC) in advance of formal consideration and approval by the Board of Management (BoM).

Regular reports on budget variances and forecast outturn are provided to the Executive Team, the Senior Management Team (SMT), and delegated budget holders, by Finance. There is also regular reporting to the FPRC and the BoM.



Budgetary Control (incl. Scenario Planning)

Scope, Objectives and Overall Findings

This audit examined the College's budgetary control practices and protocols. It specifically considered budget monitoring procedures in place centrally and within a sample of Curriculum Areas and Support Teams, as well as cash flow reporting to senior management, the Board and to the SFC.

The table below notes the objective for this review and records the results:

Objective	Findings			Actions already planned	
The objectives of the audit were to ensure that:	1	2	3		
	No. of Agreed Actions				
1. the College has developed a long-term financial strategy, which includes long-term financial forecasts.	Good	-	-	-	
2. scenario budget planning is utilised, based on differing business and financial assumptions.	Good	-	-	-	✓
3. budgets are controlled in accordance with the Financial Regulations and Procedures.	Good	-	-	-	
4. budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved.	Good	-	-	-	✓
5. information is available to management in Faculties and Support Services which is up-to-date and in a format that can be easily understood.	Good	-	-	-	
6. budget holders have the necessary skills to allow them to effectively manage their budgets.	Good	-	-	-	
7. budget variations are reported and acted upon.	Good	-	-	-	
8. there is accurate cash flow reporting.	Good	-	-	-	
9. senior management and the Board regularly review the College's overall financial position.	Good	-	-	-	✓
Overall Level of Assurance	Good	-	-	-	System meets control objectives



Audit Approach

Through discussions with Finance staff and a sample of budget holders in Curriculum Areas and Support Teams, and review of relevant reports, we determined current working practices in budget monitoring, and the information and training provided to budget holders.

We also established and reviewed the budget monitoring information provided to the College senior management team and to the FPRC and to the BoM.

Summary of Main Findings

Strengths

- Financial Regulations are in place which outline budget setting and budget monitoring requirements and responsibilities;
- The annual budget is prepared and approved in line with the Financial Regulations;
- The College has identified budget performance improvements in its annual expenditure, which includes reduction in staff costs through organisational restructuring and voluntary severance, and other operational efficiencies. Further contingencies have been identified in case the financial situation deteriorates during the 2023/24 academic year;
- There were quarterly budget reforecasts performed during 2022/23, in response to continued inflationary cost pressures, changes to student numbers, and Credits, SFC funding announcements, and the level of non-SFC income generated;
- Budget reports are provided to budget managers quarterly, to allow them to monitor progress, with quarterly consolidated reports also provided to management. Budget managers also have access to real time information via the Finance system;
- Progress against the budgets is reported and discussed at Executive Team meetings, and at the FPRC and the BoM. Throughout 2022/23 the financial governance arrangements were maintained with reporting to the FPRC and the BoM being transparent around the financial issues identified by management and the impact and implications for College budgets and cashflow;
- Support is provided for budget holders by Finance staff, with regular meetings held with budget holders to discuss financial performance;
- Our review confirmed that the monthly cash flow reports submitted to the SFC are accurate and are submitted on a timely basis; and
- Budget managers advised that they had the necessary skills required to effectively manage their assigned budgets.

Weaknesses

No significant weaknesses in the College's budget setting, forecasting, or monitoring processes were identified during our review.

The College, in line with the wider HE/FE sector, faces substantial financial challenges due to continued and persistent inflationary costs pressures, flat cash funding from the SFC, and uncertainty regarding the outcome of future staff pay settlements (particularly if final settlements are above the increases which have been factored into the approved College budget for 2023/24). Whilst the College has undertaken scenario planning and sensitivity analysis to identify potential impacts on budgets, and actions have already been approved to improve future budget outcomes (including organisational restructuring, voluntary severance, and operational efficiency measures) the College must continue to maintain vigilance, through a dynamic review process over the financial position, as it has demonstrated over the last 12 months.



Acknowledgments

We would like to take this opportunity to thank the staff at the College who helped us during our audit.



Main Findings and Action Plan

Objective 1: The College has developed a long-term financial strategy, which includes long-term financial forecasts.

In accordance with the requirements of the Financial Memorandum between the SFC and fundable bodies in the college sector, and to comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges, the College is required to plan and manages its activities to remain sustainable and financially viable. The College has a Sustainability Strategy, which focuses on both financial and environmental sustainability, which seeks to deliver the aims of strategic priorities 1, 6, 7 and 8 in the College Strategic Plan 2021-2030, where strategic priority 7 is '*to maintain our long-term financial stability*'.

Strategic Aim 1 of the Sustainability Strategy is '*to ensure Financial Sustainability meeting all statutory and governance requirements and supporting a positive and innovative student experience*', which is supported by the following objectives:

1.1 - We will deploy robust planning, monitoring and risk management techniques to ensure financial sustainability in line with the requirements of the Scottish Funding Council (SFC) and the Glasgow College's Regional Board (GCRB).

1.3 - We will provide a balanced resource budget annually at 31st March, allowing the College to fund its current estates commitments alongside making appropriate funding contributions towards future identified estates developments.

1.5 - We will maintain appropriate minimum cash balances, and where appropriate transfer funds to the College's Foundation.

Long term financial forecasts have not been developed by the College. Under the current SFC funding model, college sector funding decisions are announced annually which does not allow the College to formally agree budgets beyond the next academic year. The financial forecast return (FFR) is an established part of SFC's financial health monitoring framework for the sector. Financial projections are a key source of information in enabling SFC to monitor and assess the medium-term financial planning and health of colleges. In August 2022, the SFC issued a call for information requesting that colleges complete a medium term FFR for the 5-year period 2021/22 to 2026/27. Whilst funding decisions had not been announced for the period covered by the FFR, the FFR request included indicative funding assumptions to assist colleges in their financial planning and completion of the FFR. We noted that the College submitted the FFR in June 2022 based on the SFC assumptions as requested, however the SFC mandated assumptions were later challenged by the College, and the wider sector, and a revised FFR for the 5-year period was submitted to the SFC in September 2022, with the revised set of assumptions based on the College's updated planning assumptions.



Budgetary Control (incl. Scenario Planning)

Objective 2: Scenario budget planning is utilised, based on differing business and financial assumptions.

In June 2022, the College submitted the original FFR to the SFC, where the assumptions used in completing the FFR reflected the College Strategic Plan and the SFC's guidance and standard assumptions. The original FFR was aligned with the College's original budget for 2022/23 which was approved by the BoM in June 2022. Also in June 2022, the Vice Principal Corporate Services presented to the BoM an updated 5-year financial projection setting out three financial scenarios and key assumptions, dependencies and sensitivities potentially impacting the College's long-term financial sustainability. Financial projections for income, expenditure, underlying operational surplus/deficit, and cash balances were developed for the period 2022/23 to 2026/27 under three scenarios – realistic (baseline), better and worse. In the worst scenario it was projected that the College would experience a cash deficit during 2025/26. Under each scenario, changes in key assumptions were noted and their impact on the College sustainability. We noted that under the worst-case scenario, assumptions included a 3% increase in staff costs, which is below the offer of 10% increase over two years which was factored into the revised budget for 2022/23.

In September 2022, an updated FFR was submitted to the SFC which covered the period 2022/23 to 2026/27 and reflected the College's own updated planning assumptions. Supporting commentary was reported to management and the FPRC which highlighted material differences between the College's financial planning projections and SFC mandated FFR assumptions.

A key component of the delivery of the short to medium term financial plans is the reduction in the College's staffing budget over years 2022/23 to 2024/25 to be achieved through organisational restructure and voluntary severance. Further non-staff cost reductions and savings have been identified over the same period in the FFR, which are to be achieved through implementation of efficiency measures identified by management, including cost savings achieved through procurement activity, reduced materials expenditure linked to reduction in Credits activity, and operational efficiencies resulting from changes to support department and teaching delivery processes.

The revised FFR included two alternative scenarios in relation to levels of teaching grant. The first reflected the final college sector funding allocations and a reduction in the Credits target. The second scenario utilised the college Finance Directors Network alternative set of assumptions in relation to reductions in Flexible Workforce Development Fund (FWDF) income, higher pay award increases, higher inflation levels, and larger increases in gas and electricity unit prices, which increased the forecast deficits significantly.

The original budget for 2022/23 was approved by the BoM in June 2022. A revised budget for 2022/23 was then presented to the BoM in August 2022, which reflected adjustments to costs arising from the continued economic inflationary pressures, projected increases in staff costs arising from future pay settlements, and in-year adjustments to SFC funding which were confirmed after the original budget was approved in June 2022. The update also set out how the College aimed to deliver further cost reductions and achieve financial sustainability considering those challenges. A progress update on the revised budget position for 2022/23 was reported to the BoM in November 2022.

As part of the monitoring of the updated budget for 2022/23, financial forecasts were revisited quarterly, and amendments were made to both the expenditure cost base and the estimated non-SFC income figures as reported to the FPRC during 2022/23. This resulted in a forecast underlying financial position for the third quarter in 2022/23 (latest confirmed position at the time of our audit), including staff restructuring, of £6.2m deficit. The updated FFR presented to the BoM in September 2022 reported a forecast deficit budget position for 2022/23 of £3.4m.



Budgetary Control (incl. Scenario Planning)

Objective 3: Budgets are controlled in accordance with the Financial Regulations and Procedures.

The BoM and the Executive Team set budget objectives for the College, which in turn informs the work of the Vice Principal Corporate Services in preparing detailed financial plans for the College. The BoM is responsible for ensuring that:

- total income is not less than sufficient to meet its total expenditure;
- a reasonable level of net current assets is maintained;
- a reasonable level of capital expenditure is made each year to maintain the value of the College's fixed assets; and
- it has sufficient financial resources to meet its needs in the form of cash and other liquid assets or borrowing facilities.

The Vice Principal Corporate Services is responsible for preparing a financial plan annually for consideration by the FPRC, prior to submission to the BoM. The financial plan includes an income and expenditure account, capital budget, and balance sheet. The Vice Principal Corporate Services ensures that detailed budgets are prepared and that these are communicated to senior managers as soon as possible following their approval by the BoM. The Vice Principal Corporate Services is also responsible for submitting revised financial forecasts throughout the financial year. As noted above, the original budget for 2022/23 was approved by the BoM in June 2022, and was subsequently updated and approved by the BoM in August 2022. The budget for 2023/24 was approved by the BoM in June 2023.

We reviewed the Financial Regulations to identify the budgetary control requirements in place and noted that these include:

- a requirement for the Board to approve the financial plan and the capital plan;
- responsibilities for setting budgets, providing monitoring reports and undertaking any in-year budget revisions;
- specific budget monitoring requirements for senior post holders and budget managers, including the need to immediately highlight any significant budget variances to the Vice Principal Corporate Services and agreement on any corrective action where appropriate; and
- specific reporting on the capital programme.

From our review of the Financial Regulations, we found that the current provisions were in line with the College's operational processes. Through review of BoM and sub-committee papers, financial information reported to the SFC, and budget information prepared by Finance for management and budget managers during 2022/23, we found that budgets were being controlled in accordance with the process described in the Financial Regulations.



Budgetary Control (incl. Scenario Planning)

Objective 4: Budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved.

The College's Strategic Plan 2021 – 2030 sets out the eight strategic priorities for the College. There are also five supporting strategies, which are aligned with these priorities. Each department is responsible for preparing its own operational plan in a standard format, which ensures a direct alignment between key operational objectives and at least one of the eight Strategic Priorities, as well as linking to one of the five related supporting strategies.

As part of the College's budget planning process for 2022/23, meetings were held between Finance staff and budget managers. At those meetings, the current financial situation for the College, and for the wider HE/FE sector, was highlighted along with the potential funding shortfall and the need to identify efficiency savings. Finance developed each budget holder's draft annual budget based on actual financial performance from the previous year. Potential staffing costs, services, other income, and expenditure was reviewed. The completed budget for each budget holder formed the basis of the overall College budget presented to the BoM for approval.

A key element of the review and approval of the budget also ensures alignment to the College's strategic objectives. The paper accompanying the draft budget presented to the BoM in June 2022 summarised the budget setting process and outlined the financial context for the College and the wider HE/FE sector, as well as detailing the potential impact on delivery of the College's strategic objectives. The impact of inflationary cost pressures and future staff pay awards was discussed with sensitivity analysis highlighting the impact on the College budget.

To mitigate the uncertainty of the current financial situation, budget reforecasts were first completed in November 2022, and then quarterly thereafter, when the College had a clearer indication of student enrolments, student retention rates, and SFC grant funding levels. Budget reforecasts were included within the quarterly management accounts provided to the FPRC and BoM, with the first reforecast in 2022/23 being provided in the management accounts to November 2022 (three months into the financial year) which was considered appropriate given the inflationary cost pressures and delays in SFC funding announcements at that point in the year.



Budgetary Control (incl. Scenario Planning)

Objective 5: Information is available to management in Faculties and Support Services which is up-to-date and in a format that can be easily understood; and

Objective 6: Budget holders have the necessary skills to allow them to effectively manage their budgets.

Quarterly reports are issued to budget managers, which provide detailed information on income and non-staff expenditure for their assigned areas of budget responsibility. Reports include details of actual income, where relevant, and expenditure performance against budget, with significant variances highlighted. Budget managers also have real time read only access to financial information to ensure they have up-to-date budget information, which is required when approving purchase order requests and invoices.

As part of our audit fieldwork, we reviewed the format of the budget reports to assess whether they provide sufficient information to enable budget managers to effectively manage their allocated budgets. Based on our review, and discussions with a sample of budget managers, we consider that these reports do provide them with adequate information and that adequate and effective support is available from Finance to assist budget managers in discharging their duties.

From our discussions with a sample of budget managers we noted that all of those we interviewed considered that they had the necessary skills required to allow them to effectively manage their budgets. Staff interviewed had many years of experience in roles with budget responsibility and were familiar with financial reporting and analysis.

During our discussions we confirmed with budget holders that if they had any issues, then they felt comfortable that they could approach members of the Finance team, and peers within their team if required, for ongoing advice and assistance.

Where new budget managers are identified, Finance provide training for them which is tailored to meet their needs. Finance staff have a rolling programme of meetings with budget managers which provides an opportunity for Finance staff to provide support and advice on budgetary control.



Budgetary Control (incl. Scenario Planning)

Objective 7: Budget variations are reported and acted upon.

Monitoring reports are provided to budget managers that show variances between budgeted and actual spend or income. From our discussions with a sample of budget managers we were advised that they identify items for follow-up, or Finance may identify these and raise with budget managers and line managers, if required (particularly if these are substantial amounts). In either case, staff advised that they would seek to understand the reason for variances and consider whether specific corrective action is required to be undertaken. Any significant variances are reported to the Vice Principal Corporate Resources in accordance with the Financial Regulations.

Finance staff have a programme of rolling meetings with budget managers to review budget performance, which includes review of variances and discussion of corrective action, where applicable.

Significant variances are highlighted, and supporting narrative provided, in line with good practice, within the management reports presented to the Executive Team, SMT, the FPRC and the BoM. As part of the monitoring of the updated budget for 2022/23, financial forecasts were revisited quarterly, and amendments were made to both the expenditure cost base and the estimated non-SFC income figures as reported to the FPRC during 2022/23. In response to the challenging financial situation experienced in 2022/23, management have identified opportunities for budgetary improvements to be achieved through voluntary severance and operational efficiencies.



Objective 8: There is accurate cash flow reporting.

Consideration of cash balances and cash flows are important to ensure that the College has sufficient funds to fulfil all its financial obligations as they fall due. At the start of every month a monthly Cash Flow Forecast Return is required to be completed and submitted to the SFC. This sets out the forecast expenditure for that month, as well as analysing actual expenditure and closing cash balances for the previous month. Monthly cash flow reporting also includes:

- Profile of SFC grant payments, including budget, current and forecast drawdown of grants for the year.
- Actual and forecast monthly cashflows for the financial and academic year, highlighting income sources and high-level expenditure headings such as wages and salaries, other operating expenditure, and NPD unitary charges.
- Explanations for net movements in cash for both the financial year to 31 March, and academic year to 31 July.

At the time of our audit fieldwork, the College had reported positive cash balances throughout 2022/23 with a closing cash balance of approx. £8.9m being forecast at 31 July 2023. Monthly negative net cash flows, arising from operating expenditure, were offset by drawdown of SFC grant funding in line with available budget. Through discussion with the Executive Finance Director, we confirmed that the College has not drawn SFC funding in advance of need, and that the high cash balance represents timing differences arising from SFC funds drawn down to meet expenditure as it falls due in the following month.

The FPRC receives the quarterly Financial Forecast Report and the latest cash flow that has been submitted to the SFC. We have concluded that the controls are operating effectively in this area.



Budgetary Control (incl. Scenario Planning)

Objective 9: Senior management and the Board regularly review the College's overall financial position.

In addition to the annual budget information and associated assumptions noted earlier in this report, management accounts comprising a summary of income and expenditure (including year to date and full year actual to budget) are prepared quarterly and provided to the members of the Executive Team and SMT. Updated financial forecasts are also reported in-year to the FPRC and the BoM. These are comprised of:

- Forecast and budget for full academic year, with variances and comments for movements.
- Balance sheet
- A cash flow showing actual and forecast closing monthly cash balances; and
- Student support.

These are supported by a paper setting out the reasons for main variances and describing the cash flow position.

In addition, there is also reporting of the capital plan to each meeting the FPRC and the BoM.

Our review confirmed that adequate financial information was reported to senior management, the FPRC and the BoM throughout 2022/23.



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