# Board of Management
# Audit Committee

**Date: 19 September 2018** | **Time: 2 pm** | **Room: 2009**

## A G E N D A

| | | | | Presented by |
|---|---|---|---|---|
| 1 | Welcome and Apologies | | | HC |
| 2 | Declaration of Interest | | | HC |
| 3 | Minute of Meeting of 18 May 2018 | | (attached) | HC |
| 4 | Matters Arising | | | |
| | 4.1 | GDPR e-learning training | (verbal) | AG |
| | 4.2 | GDPR Policy – interim approval from the Board Meeting held on 5 June 2018 | (verbal) | AG |
| 5 | *Internal Audit Reports | | | |
| | 5.1 | Action Tracking Spreadsheet | (report attached) | KH |
| | 5.2 | GDPR Audit | (report attached) | PC |
| | 5.3 | Student Support Funds | (report attached) | PC |
| | 5.4 | Student Activity Data | (report attached) | PC |
| | 5.5 | Progress Report | (report attached) | PC |
| | 5.6 | Annual Internal Audit Report & Opinion 2017-18 | (report attached) | PC |
| 6 | Audit Scotland Reports | | | |
| | 6.1 | Scotland's Colleges 2018 | (report attached) | KH |
| | 6.2 | 2016/17 Audit of Edinburgh College | (report attached) | KH |
| | 6.3 | 2016/17 Audit of New College Lanarkshire | (report attached) | KH |
| 7 | 2017-18 Draft Audit Committee Annual Report | | (report attached) | HC |
| 8 | Cyber-Security | | (report attached) | AG |
| 9 | APUC Shared Services changes | | (paper attached) | AG |
| 10 | Strategic Risk Register | | (report attached) | CT |
| 11 | Any Other Business | | | |
| 12 | Date and Time of Next Meeting – Tuesday, 13 November 2018 at 2pm | | | |
| 13 | Good Governance - Annual discussion with internal auditors without members of college staff | | | HC |

*Individual Internal audit reports are not published on the website; they are included in the published annual internal audit report

Dumfries & Galloway College

# Board of Management-Audit Committee

**Minute of the Meeting of the Audit Committee of the Board of Management of Dumfries and Galloway College held on 19 September 2018 at 2 pm in Room 1074b**

| | | |
|---|---|---|
| **Present:** | Hugh Carr (Chair)<br>Naomi Johnson (via telephone) | Robbie Thomas (via facetime)<br>Carol Turnbull |
| **In attendance:** | Andy Glen (Vice Principal)<br>Brian Johnstone (Regional Chair)<br>Ann Walsh (Board Secretary) | Karen Hunter, Head of Finance<br>Philip Church (RSM) |
| **Minute Taker** | Heather Tinning (Executive Team Assistant) | |

## 1 Welcome and Apologies

The Chair welcomed all to the meeting.

Apologies were intimated on behalf of Stuart Martin, Pat Kirby.

The Secretary to the Board confirmed the meeting was quorate.

## 2 Declaration of Interest

Members agreed to indicate declarations of interest as appropriate throughout the meeting.

## 3 Minute of Meeting of 18 May 2018

The Minute of the meeting of 18 May 2018 was approved.

## 4 Matters Arising

### 4.1 GDPR e-learning training

The Vice Principal Business Development & Corporate Services reported that from a headcount of 320 staff, 33 were still to undertake the training. The breakdown of this includes 11 new employees who are working through their induction training, 7 employees who have circumstances that explain why they have not yet completed and 5 where the college is awaiting approval of new licences. The remaining employees are being followed up via their line manager.

Members noted that all Board Members had completed the GDPR e-learning training.

### 4.2 GDPR Policy – (Interim approval from the Board Meeting on 5 June 2018)

The Vice Principal Business Development & Corporate Services reported that the Data Protection Officer had suggested some minor changes to the policy, around data disposal and data management.

**Action:** The revised GDPR Policy to be brought back to the Committee for approval

## 5 Internal Audit Reports

**The Internal Audit Reports are included in the published annual internal audit report**

### 5.1 Action Tracking Spreadsheet

The Head of Finance presented the spreadsheet, reporting that the Action Tracking Log is reviewed at the monthly College Leadership Team meeting. From 11 actions, 6 have been completed with 3 in progress. Two actions have recently been added.

## 5.2 GDPR Audit

Philip Church (RSM) spoke to the GDPR Audit, the first report on finalisation of 2017/18 work. Overall the college has progressed well in terms of compliance. In answer to a question Philip Church reported that the college was on a par with other colleges.

The Principal reported that the Business Systems Manager is liaising with the Data Protection Officer in terms of advice and guidance for Board Members with regard to GDPR. In terms of any slippage with the implementation date, the Principal advised that the senior member of staff identified for the risk ownership is responsible for ensuring that actions are complete in advance of the target date or to advise of reasons for slippage.

**Actions:**

**Detailed Findings**

- **Data Ownership -** the implementation date identified as 31st August to be checked by the Business Systems Manager
- **Data Security System Level Controls** – the Vice Principal Business Development and Corporate Services to check if Office 365 is on an annual licence

Members noted the report and agreed good progress in terms of GDPR. Philip Church (RSM) advised that a further review of GDPR can be provided when required.

## 5.3 Student Support Funds

Philip Church spoke to the report, an annual report as a requirement of the Scottish Funding Council. Philip reported on the two low priority management actions, and overall advised a substantial assurance report for the college.

Members noted the report.

## 5.4 Student Activity Data

Philip Church spoke to the report, an annual report as a requirement of the Scottish Funding Council. As part of the report, two medium management actions were raised, both relating to part-time students in terms of attendance criteria and course dates.

Members noted the report.

## 5.5 Progress Report

Philip Church spoke to the Progress Report, advising that the Internal Audit Plan was approved on 17th May 2018. The report allows progress against delivery in the Interim Audit Plan. Philip advised that since the previous meeting, three reports have been completed.

Members noted the Internal Audit Progress Report.

## 5.6 Annual Internal Audit Report & Opinion (2017-18)

Philip Church spoke to the report, which provides an annual opinion based on work undertaken 2017-18, covering eight reviews during that period. Philip advised that in terms of Risk Management the college received a positive assurance. The audit opinion is that the College has an adequate and effective framework for risk management, internal control and economy, efficiency and effectiveness. In terms of the six audits undertaken of the Control environment four reasonable and two substantial opinions were identified.

Members noted the report, and the reasonable assurance identified for the college.

**6 Audit Scotland Reports**

**6.1 Scotland's Colleges 2018**

The Head of Finance spoke to the report, highlighting key points to note:

Key Messages to college, including:

- Colleges underlying financial position
- Cost of pay harmonisation approximately £50m per year
- Audit Scotland have highlighted the risks to financial sustainability going forward and the lack of robust medium/long term financial plans

In terms of the Estates Condition Survey, the Scottish Funding Council stipulate that the capital maintenance has to be spent on addressing the areas identified in the Estates Condition Reports. All capital investment requests now go through Scottish Funding Council.

In terms of the SOSEP Projects, the majority of the costs are based on capital investment.

Members noted the Scotland's Colleges 2018 report.

**6.2 2016/17 Audit of Edinburgh College**

The Head of Finance presented the Audit of Edinburgh College 2016/17 for information, reporting on the findings that Edinburgh College is on track to return to a sustainable financial position.

**6.3 2016/17 Audit of New College Lanarkshire**

The Head of Finance presented the Audit of New College Lanarkshire 2016/17 for information, reporting on the financial difficulties incurred around pay costs and budgeting in terms of National Bargaining.

Members noted the Audit Reports.

**7 2017/18 Draft Audit Committee Annual Report**

The Chair of Audit spoke to the draft Annual Report, seeking comments from Audit Committee members.

The revised report to include:

- GDPR Review (section 4.3)
- Cyber Security, which has been achieved

**Action:** The Head of Finance to update for submission to the Board at meeting on 9th October

Members noted the report

**8 Cyber Security**

The Vice Principal Business Development and Corporate Services spoke to the report which had been issued, advising that the college achieved the Cyber Security certificate ahead of schedule in February 2018. A new ICT Manager is due to take up post in September, who will have responsibility for Cyber Security moving forward. The Vice Principal Business Development and Corporate Services asked all members to remember and update to the latest software version on the iPads when prompted.

Members noted the report.

**9 APUC Shared Services changes**

The Vice Business Development and Corporate Services asked members to note the paper for information only, which had been shared, following correspondence from APUC with regard to a transfer of shared service agreement from APUC Ltd to HEFESTIS Ltd.

Members noted the changes made by APUC, with respect to the provision of shared services to the college.

**10 Strategic Risk Register**

The Principal spoke to the report which had been issued, advising that over the summer period she undertook to revise the format of the Risk Register and together with the previous version of the Register, presented the revised register to the Committee for comment.

Discussion continued on the 'ownership' of the risk and the need to present the Strategic Risk Register at every Board Committee meeting. The Regional Chair advised that the benefit of presenting at each committee allows individual committees to focus on areas of interest, giving the committee an 'oversight' of relevant risks. The role of the Audit Committee is to give Board the assurance that the systems are working. The Principal advised that the Strategic Risk Register is discussed and reviewed monthly at the College Leadership Team meeting, then presented to each Board Committee and Board meeting.

**Decision:** The Committee approved the Framework and Strategic Risk Register with the addition of one more risk under Financial, around Student Support Funding which may be insufficient to meet our needs

**Actions:**

- The Principal to update the Strategic Risk Register to be presented at the Board meeting on 9th October

**11 Any other Business**

None.

**12 Date and time of Next Meeting**

The next meeting of the Audit committee is to take place on Tuesday 13 November 2018 at 2pm.

**13 Good Governance – (Annual discussion with Internal Auditors without members of college staff)**

To be carried forward to the next meeting.

# Board of Management-Audit Committee

**Minute of the Meeting of the Audit Committee of the Board of Management of Dumfries and Galloway College held on 18 May 2018 at 2 pm in Room 2009**

| | | |
|---|---|---|
| **Present:** | Hugh Carr (Chair)<br>Stuart Martin | Pat Kirby (via Facetime)<br>Naomi Johnson |
| **In attendance:** | Andy Glen (VP Planning & Performance)<br>Rob Barnett (RSM)<br>Brian Johnstone (Board Chair) | Karen Hunter, Finance Manager<br>David Eardley (Scott-Moncrieff)<br>Ann Walsh (Board Secretary) |
| **Minute Taker** | Ann Walsh (Board Secretary) | |

**1 Welcome and Apologies**

The Chair welcomed members to the meeting. Apologies were received from Carol Turnbull.

The Secretary to the Board confirmed the meeting was quorate.

**2 Declaration of Interest**

Members agreed to indicate declarations of interest as appropriate throughout the meeting.

**3 Minute of Meeting of 21 February 2018**

The Minute of the meeting of 21 February 2018 was approved.

**4 Matters Arising**

**4.1 New Audit Committee Member required**

There has been no response to the request for volunteers to join the committee. The Chair has approached a Board Member and is awaiting a response

**4.2 GDPR e-learning training for Board Members**

e-learning module is in place, with a request for all Board Members to complete this by 25 May 2018. To date, 4 Members have completed the training.

The Vice Principal, Planning and Performance advised that 53% of college staff have completed the training to date, with a target of 100% completing the training by 25 May 2018

**4.3 Internal Audit Contract**

The contract with the current internal auditor, RSM, has been extended for a further year pending the new contract guidance

**5 Internal Audit Reports**

**5.1 Follow-up on Previous Recommendations**

Rob Barnett (RSM) spoke to the report. This is a review that was undertaken as part of the 2017/18 internal audit plan, to provide assurance that all previously agreed management actions have been adequately implemented. The College has demonstrated reasonable progress, implementing the

three high actions, 9 of the medium action and in the process of implementing the remaining 5 medium actions. Outstanding actions have completion dates and will be followed up.
Members noted the report and were content that the college is making satisfactory progress towards the recommendations.

**5.1.1 Action Tracking Spreadsheet**

The Finance Manager presented this reporting spreadsheet reviews high and medium risk recommendations that are outstanding from internal audits. These will be followed up through the College Operational Team (COT) Meetings and monitored by the Audit Committee

Members noted the report and welcomed the reassurance of being informed of progress on management actions identified through internal audit

**5.2 Student Journey**

Rob Barnett (RSM) spoke to the report. The audit was provided to give assurance on the controls in place at the College to attract, identify and retain students at risk of leaving. He reported a good result, providing reasonable assurance with some improvement actions have been agreed around record keeping on AdminNet and provision of funding information to students.

Members noted the report.

**5.3 Complete Training solutions CTS**

Rob Barnett (RSM) spoke to the report. The audit was provided to give assurance on that robust and adequate controls are in place at CTS. The outcome is that the college can take reasonable assurance regarding the controls in place. Actions agreed include a review of the costing methodology, ensuring that the gross costs of staff are included and to ensure courses are not being priced too low and to develop an employer engagement strategy

Members noted the report.

**5.4 Internal Audit Plan 2017-20 (Updated)**

Rob Barnett (RSM) spoke to the report. This is a three year rolling plan developed with the College Principal, Finance Manager and Audit Committee along with the internal audit team/s, taking consideration of the strategic risk register. He advised that the audit fees have been held, with no change to the daily rate and that there are no conflicts of interest.

Members noted the Updated Internal Audit Strategy for 2017-20.

**5.5 Progress Report**

Rob Barnett (RSM) spoke to the Internal Audit Progress Report, providing an update regarding progress against the 2017/18 Internal Audit Plan. Of note is that the final internal audit of the year, Value for Money will be replaced by GDPR. The Value for Money opinion will be taken from the Procurement review. The GDPR review will be undertaken in June 2018 to ensure the college is compliant with responsibilities under the new regulation. This will be reported to the Audit Committee at the September 2018 meeting

Members noted the Internal Audit Progress Report

**5.6 Procurement 2017/18**

Rob Barnett (RSM) spoke to the report. The audit was conducted to ensure that for any expenditure over the threshold of services over the value of £50,000 or works over the value of £2,000,000, that the College was complying with the new regulations and its provisions. The internal audit concluded that the College has been compliant with all significant requirements of the Procurement (Scotland) Regulations 2016. Four low priority actions for improvement were identified.

Members noted the report.

## 6 External Audit

David Eardley (Scott-Moncrieff) reported on the Audit Scotland review of audit reports. Further information had been sought regarding severance packages. After conversations with the college and our external auditors, it was found that further review was not required.

This had no impact on our accounts. All comments within the external auditor's report still stand.

### 6.1 External Audit Plan

David Eardley (Scott-Moncrieff) presented the External Audit Plan, stating that the plan for auditing the 2017/18 accounts is presented as last year. He highlighted the following:

i) The key risks that Members need to note and be aware of are on page 12, regarding significant audit risks i.e.:
   - Management override of control
   - Revenue recognition
   - Risk of Fraud in Expenditure Recognition

   with the bigger scope of risk being on expenditure

ii) Section 6, page 17/18: Audit Fee. The fee to provide the contents of the plan will be slightly above the expected fee for the college as identified by Audit Scotland, this is to cover the attendance at the Board meeting when the accounts are to be approved by the Board. This attendance and associated fee, was approved by the Audit Committee.

The Regional Chair asked whether the risks identified go far enough with regard to assessing strategic risk. It was accepted that business risks were covered within the college's strategic risk register and management plan, and that the internal audit plan is developed in part using a cross reference to this plan.

**Decision:** Members accepted and approved the external audit plan

## 7 Business Insurance Derogation for the College Sector

The Vice Principal Planning and Performance reported that the Business Insurance Derogation for the college has been extended until July 2021.

Members noted the report

## 8 GDPR Policy

The Vice Principal Planning and Performance reported that the Data Protection Officer (DPO), one day a week for the college has been appointed and starts on 30 May 2018. The revised Data Protection Policy was approved by the Committee for recommendation to the Board for Approval at it's meeting on 5 June 2018

**Decision:** Members approved the data protection policy, to be recommended to the Board for approval at it's meeting on 5 June 2018

**9 Cyber Essentials Resilience Certificate and Update**

The Vice Principal Planning and Performance informed the Committee that good progress has been made since the last report to committee. The outstanding actions had been completed and the College has achieved the minimum standards required for Cyber essentials, meaning that we are fully compliant with the cyber resilience framework. The Certificate of Achievement formed part of the report. He reported that the College, over the next year, aims to achieve the voluntary and more advanced level of "Cyber Essentials Plus" by October 2019

Members noted the report

**10 Strategic Risk Register**

The Vice Principal Planning and Performance spoke to the Strategic Risk Register. He advised that as the Strategic Risk Register is now presented at each committee, with members asked to pay particular attention to risks pertaining to the work of that committee, the end column on the risk register has been amended to include the name of the Committee who would have 'oversight' of that risk so that members can focus on these in their discussions. There is still the opportunity to discuss other risks at full Board meetings.

He highlighted the following changes to the risks:

- **Risk No 1 – 'National Pay Bargaining'.** Likelihood reduced to 2 as indicative offer of grant indicates that costs of harmonisation for lecturers' salary will be included.
- **Risk No 3 – 'Flexibility of the college to manage financial and estates issues'.** Impact has been reduced to 3 as indicative offer of grant indicates there will be sufficient funding to deal with planned estates maintenance but does not allow for capital investment.
- **Risk No 4 – 'Unable to achieve credit (activity) target'**. It is recommended to reduce the Risk factor to 6 to reflect current position
- **Risk No 13 – 'Cyber Attack'**. No change to the risk factor, however updated to reflect current position
- **Risk No 14 – 'Non-compliance with GDPR'**. No change to figures but updated to reflect current position.

Members advised that the Audit Committee is not the risk owner for most of the risks on the register, but monitor that the risks are being managed. The only risks that should have the Audit Committee as owner are risk numbers 9, 13 and 14

**Decision:** Members approved the changes to the Strategic Risk Register, with the amendment as agreed to the Committee Risk owner column

**9 Any other Business**

None.

**10 Date and time of Next Meeting**

The next meeting of the committee is to take place on Tuesday 11 September 2018 at 2pm

# DUMFRIES AND GALLOWAY COLLEGE

## Annual Internal Audit Report and Opinion - Year ended 31 July 2018

## Presented at Audit Committee meeting of: 19th September 2018



RSM

# CONTENTS

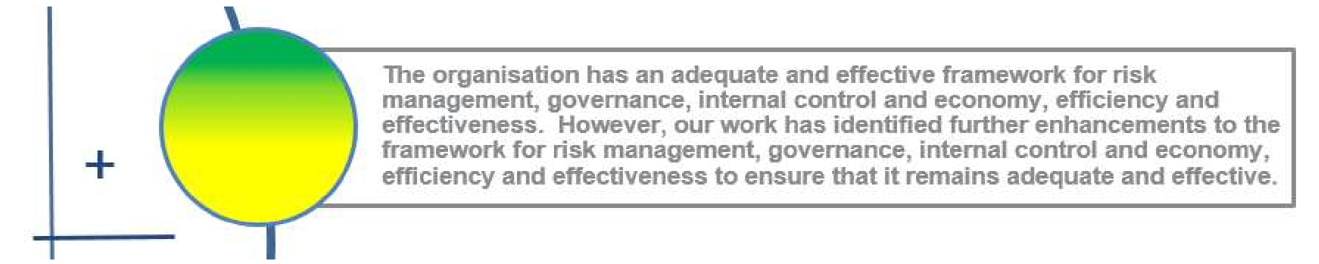
# 1 THE ANNUAL INTERNAL AUDIT OPINION

This report provides an annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the college's risk management, control, and value for money governance processes. The opinion should contribute to the college's annual governance reporting.

## 1.1 The opinion

For the 12 months ended 31 July 2018, the head of internal audit opinion for Dumfries and Galloway College is as follows:

**Head of internal audit opinion 2017/18**




Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

## 1.2 Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, our opinion is subject to inherent limitations, as detailed below:

- the opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation;
- the opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that the Governing Body takes into account in completing its annual governance reporting;
- the opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management / lead individual;
- the opinion is based on the testing we have undertaken, which was limited to the area being audited, as detailed in the agreed audit scope and report;
- where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;
- due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to our attention; and

- it remains management's responsibility to develop and maintain a sound system of risk management, internal control, governance and value for money, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be seen as a substitute for management responsibility around the design and effective operation of these systems.

## 1.3 Factors and findings which have informed our opinion

Based on the work we have undertaken on the systems of internal control, governance, risk management and value for money across the college, we do not consider that there are any issues that need to be flagged as significant internal control weaknesses. Our opinions on governance, risk management, control and value for money have been informed by the following:

**Governance**

We did not perform a specific governance review at the college, however we confirmed sufficient reporting had been undertaken in the following areas: GDPR Governance, Human Resource Management – Sickness Absence and Complete Training Solutions. We have also attended all Audit Committee meetings throughout the year and reviewed various minutes from meetings that contribute to the governance structure.

We concluded that the governance arrangements in place for the college were adequate and effective.

**Risk Management**

Our risk management opinion was informed by undertaking the following risk-based reviews:

- **Student Support Fund** - strategic risk: imbalance between demand for student support funds / bursaries and funds available.
- **Student Activity Data** - strategic risk: Unable to achieve credit (activity) target.
- **Student Journey** – strategic risk: failure to achieve attainment targets.

Our reviews of Student Support Fund, Student Activity Data and Student Journey resulted in positive assurance opinions, and we identified remedial actions were required to improve the control framework that were agreed by management.

Furthermore, through attendance at the Audit Committee we confirmed the college's risk management arrangements continued to operate effectively and were adequately reported and scrutinised by committee members.

**Control**

We undertook six audits of the control environment that resulted in formal assurance opinions. These six reviews concluded with four reasonable (positive) assurance and two substantial (positive) opinions. We identified the college had established controls frameworks in place for a number of the audits undertaken, however improvements in their application was required.

We also undertook one advisory review of the college's approach to addressing the changes required under the General Data Protection Regulation. Our review, undertaken in June 2018, highlighted the college had made significant process towards compliance with the regulation and we agreed 11 uncategorised management actions to address the issues from this review.

Furthermore, the implementation of agreed management actions raised during the course of the year are an important contributing factor when assessing the overall opinion on control. The college demonstrated **reasonable progress** towards the implementation of management actions made during 2016 / 2017.

**Value for Money**

The Scottish Further and Higher Education Funding Council requires internal audit to provide an appraisal each year on the college's arrangements for value for money.

We have considered the college's compliance with Procurement (Scotland) Regulations 2016 and undertook substantive testing to confirm its application, this resulted in a reasonable assurance opinion.

In addition, we considered the costing model and contribution targets for courses delivered by Complete Training Solutions. The audit resulted in a positive assurance opinion.

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

## 1.4 Topics judged relevant for consideration as part of your annual governance reporting

Colleges are required to include a Statement of Corporate Governance and Internal Control within their financial statements. As your internal audit provider, the assignment opinions and advisory reviews that we undertake and report on during the year are part of the framework of assurances that assist the Board (through the Audit Committee) prepare an informed statement and provide the opinions required.

Our overall opinion may be used by the Board in the preparation of the 2017/18 Statement.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of the Governing Body and senior management of Dumfries and Galloway College.

# 2 THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

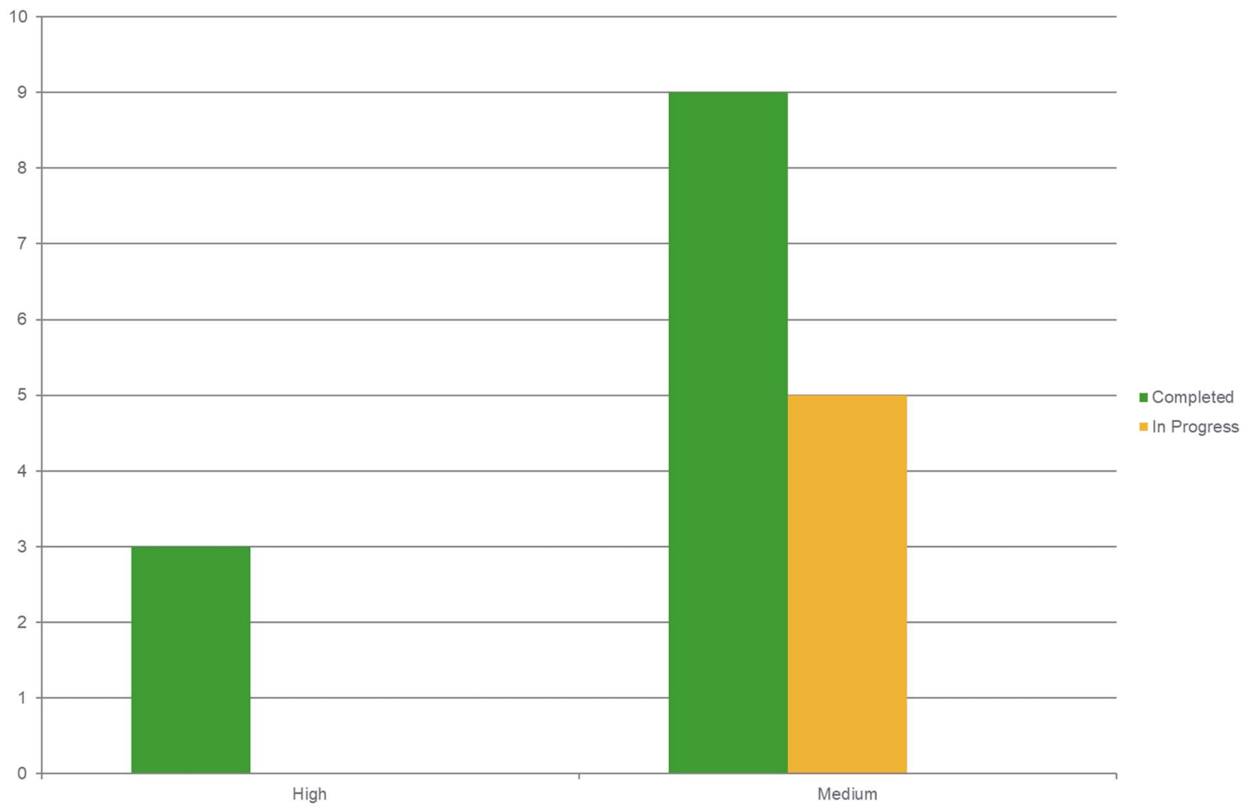
## 2.1 Acceptance of internal audit management actions

Management has agreed actions to address all of the findings reported by the internal audit service during 2017/2018.

## 2.2 Implementation of internal audit management actions

Where actions have been agreed by management, these have been monitored by management through the action tracking process in place. During the year progress has been reported to the Audit Committee, with the validation of the action status confirmed by internal audit,

Our follow up of the actions agreed to address previous years' internal audit findings shows that the organisation had made **reasonable progress** in implementing the agreed actions.




A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

## 2.3 Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

# 3 OUR PERFORMANCE

## 3.1 Wider value adding delivery

As part of our client service commitment, during 2017/18 through the following initiatives:

| Area | How this has added value |
|---|---|
| Internal audit benchmarking report | Our national benchmarking report to collate the outcomes from internal audit assignments undertaken during 2016/17 across all of our further education clients was issued to the college during 2017/18. This information helps audit committees answer a common question: “how are we doing compared to other further education colleges”. |
| Sector briefings and emerging issues | We issued our Further Education Risk Management 2018 analysis which assessed the risks facing the sector and drew out key themes for consideration.<br>During the year we have also provided information on those key issues affecting the sector and details of recent developments in this regard that are of interest to the college. This included briefing papers on gender pay gap reporting legislation and subsequent requirements and the apprenticeship levy. |

## 3.2 Conflicts of interest

RSM has not undertaken any work or activity during 2017/18 that would lead us to declare any conflict of interests.

## 3.3 Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the International Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) as published by the Global Institute of Internal Auditors (IIA).

Under the standards, internal audit services are required to have an external quality assessment every five years. Our Risk Assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the IPPF.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

## 3.4 Quality assurance and continual improvement

To ensure that RSM remains compliant with the International Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

## 3.4 Performance indicators

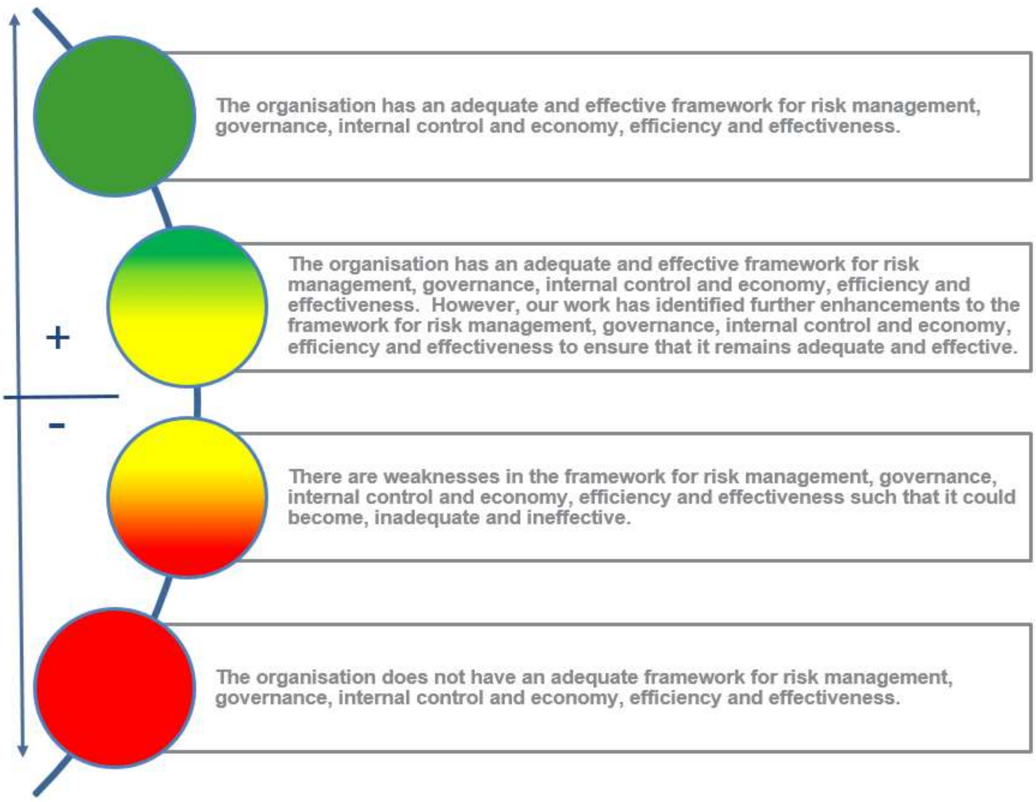
A number of performance indicators were agreed with the Audit Committee. Our performance against those indicators is as follows:

| **Delivery** | | | **Quality** | | |
|---|---|---|---|---|---|
| | **Target** | **Actual** | | **Target** | **Actual** |
| Draft reports issued within 10 working days of debrief meeting | 10 working days | *5 working days (average)* | Conformance with PSIAS and IIA Standards | Yes | *Yes* |
| | | | Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit | Yes | *As and when required* |
| Final report issued within 3 working days of management response | 3 working days | *3 working days (average)* | % of staff with CCAB/CMIIA qualifications | >50% | *75%* |
| | | | Turnover rate of staff | <10% | *No staff turnover in 2017 / 2018* |
| | | | Response time for all general enquiries for assistance | 2 working days | *2 working days (average)* |
| High and Medium recommendations followed up | Yes | *Yes* | Response for emergencies and potential fraud | 1 working days | *N/A* |

# APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

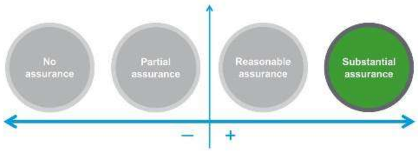
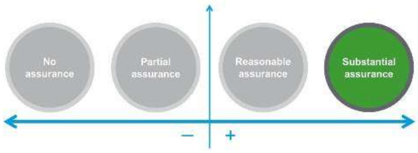
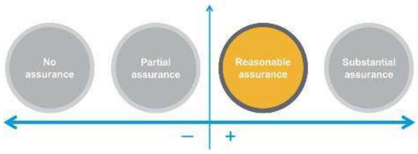
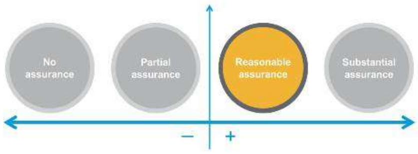
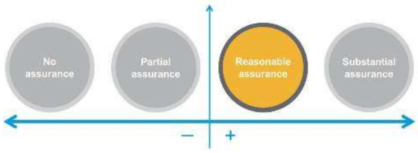
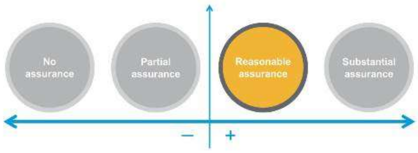
| Annual opinions | Factors influencing our opinion |
|---|---|




The factors which are considered when influencing our opinion include:

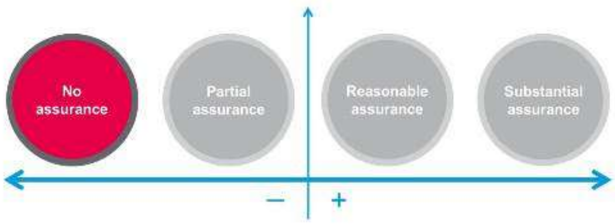
- inherent risk in the area being audited;
- limitations in the individual audit assignment reports;
- the adequacy and effectiveness of the risk management, governance, value for money and/or control framework;
- the findings from any advisory work undertaken;
- the impact of weakness identified;
- the level of risk exposure; and
- the response to management actions raised and timeliness of actions taken.

# APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2017/18

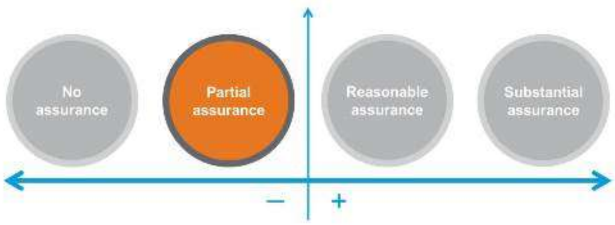
| Assignment | Assurance level | Actions agreed | | |
|---|---|---|---|---|
| | | L | M | H |
| Student Support Fund |   | 0 | 0 | 0 |
| Student Activity Data |   | 0 | 0 | 0 |
| Human Resource Management – Sickness Absence |   | 4 | 1 | 0 |
| Complete Training Solutions |   | 1 | 3 | 0 |
| Follow Up of Previous Internal Audit Management Actions | Reasonable progress | 0 | 5 | 0 |
| Procurement |   | 4 | 0 | 0 |
| Student Journey |   | 3 | 2 | 0 |
| General Data Protection Regulation (GDPR) Governance | No formal opinion provided. | 11 uncategorised management actions. | | |

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual Assignment Report.

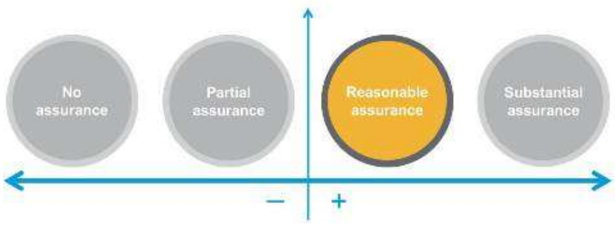
We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the Board can take:



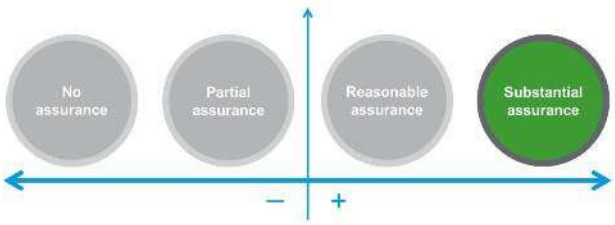

Taking account of the issues identified, the Board **cannot take assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.
Urgent action is needed to strengthen the control framework to manage the identified risk.




Taking account of the issues identified, the Board can take **partial assurance** that the controls to manage this risk are suitably designed and consistently applied.
Action is needed to strengthen the control framework to manage the identified risk.




Taking account of the issues identified, the Board can take **reasonable assurance** that the controls in place to manage this risk are suitably designed and consistently applied.
However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk.




Taking account of the issues identified, the Board can take **substantial assurance** that the controls upon which the organisation relies to manage the identified risk are suitably designed, consistently applied and operating effectively.

# FOR FURTHER INFORMATION CONTACT

**Rob Barnett, Head of Internal Audit**

RSM
St. James' Gate
Newcastle
NE1 4AD

M: 07809560103

Robert.Barnett@rsmuk.com

## rsmuk.com

# Scotland's colleges 2018

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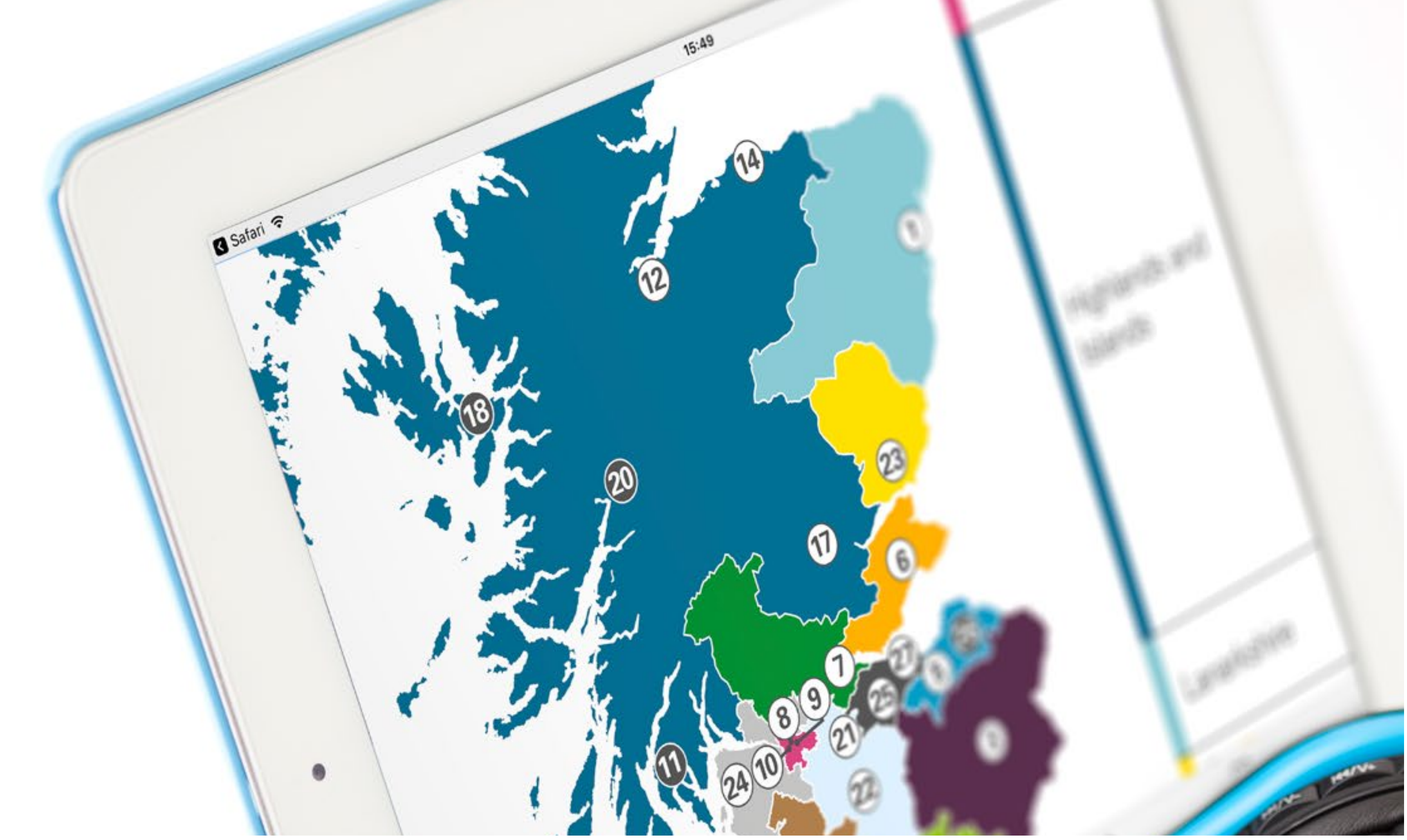
THURSDAY 21 JUNE 2018



AUDITOR GENERAL

**Prepared by Audit Scotland**
June 2018

# Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

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- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

# Contents



**Audit team**

The core audit team consisted of: Mark MacPherson, Mark McCabe, Fiona Diggle, Angus Brown, Gemma McNally and Sanya Ahmed, with support from other colleagues and under the direction of Angela Canning.

**Links**

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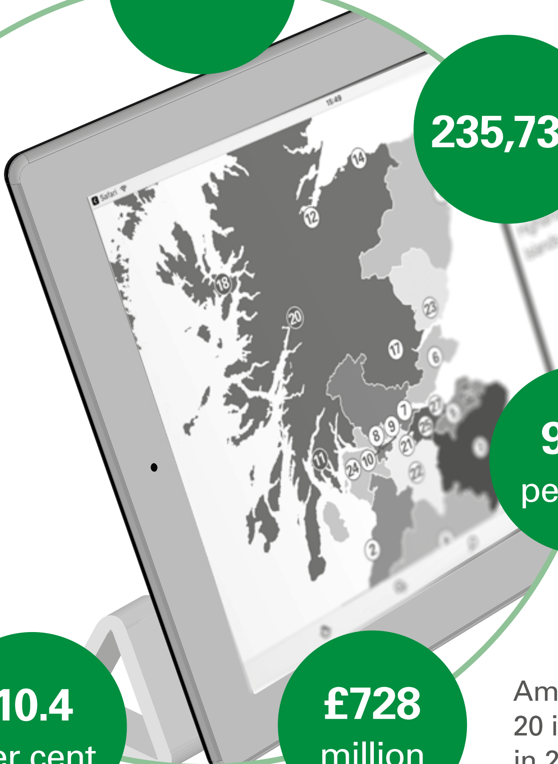
# Key facts



Colleges in Scotland

**26**

Estimated total cost of backlog of repairs and maintenance in the college sector

**£360 million**

Students studying at college in 2016-17

**235,737**

Estimated additional annual cost of national bargaining from 2019-20

**£50 million**

Overall student satisfaction in 2016-17

**90.2 per cent**

Real-terms increase in Scottish Government funding between 2016/17 and 2018/19

**10.4 per cent**

Amount spent by the 20 incorporated colleges in 2016-17

**£728 million**

# Summary

## Key messages

**1** The college sector's underlying financial position improved in 2016-17, but several colleges face significant financial challenges. Scotland's 20 incorporated colleges reported an overall underlying financial surplus for 2016-17 of £0.3 million. This compares to an underlying deficit of £8 million in 2015-16. Across the sector, the cash held by colleges increased by 13 per cent in 2016-17 and the net value of their assets – such as land and property, compared against financial liabilities such as pension costs – grew by ten per cent. However, these sector-wide increases mask significant variations between colleges.

**2** Staff costs remain the highest area of spending and are forecast to increase, mainly as a result of the costs associated with harmonising staff pay and other conditions. Colleges' representative body, Colleges Scotland, has estimated the total cost of harmonisation as £50 million a year from 2019-20. This would absorb all of the Scottish Government's projected savings from college reform. The Scottish Government is providing funding to cover the additional costs up to the end of academic year 2018-19. But it has not yet specified funding for academic year 2019-20, when the costs will increase most significantly.

**3** The Scottish Funding Council's (SFC's) 2017 estates condition survey indicates that college buildings require urgent and significant investment. The survey estimates a backlog of repairs and maintenance over the next five years of up to £360 million. The SFC is providing £27 million of capital funding to colleges in 2018-19 to cover the very high priority needs identified in the condition survey.

**4** Several factors pose a risk to colleges' financial sustainability, including: the future impact of national bargaining for support staff; uncertainties around long-term funding of improved employment terms; the cost of maintaining buildings and land; and the potential impact of leaving the European Union. Differences in the assumptions colleges use for their forecasts mean they do not provide a reliable picture of future financial sustainability for the sector. The SFC and colleges are working to address this from 2018.

**5** The college sector exceeded its targets for learning activity and full-time equivalent student places in 2016-17. Student numbers increased by around four per cent, with most of the increase being students in part-time learning, particularly those under 16 years of age. At least 82.7 per cent of all successful full-time college leavers entered positive

the sector's underlying financial position improved and learning targets were exceeded destinations, such as training, employment and higher education. This is largely unchanged from last year. Student satisfaction remains high at over 90 per cent and improved slightly compared to last year.

**6** The proportion of credits (units of learning) delivered to students from deprived areas, from ethnic minorities, with care backgrounds or with disabilities all continue to increase. Despite this, the gap in attainment between students from the least and most deprived areas is growing.

**7** Colleges have made notable progress in addressing the large gender imbalance on engineering courses but have had less success in other courses. The SFC shares good practice as part of its gender action plan and expects to see more progress from 2017-18 onwards. Some college boards also continue to have significant gender imbalances in their membership that would fall short of the new statutory gender representation objective.

**8** The regional strategic bodies (RSBs) in the three multi-college regions are fulfilling their core statutory duties, but their progress in meeting the wider aims of regionalisation varies. The University of Highland and Islands (UHI) Court has made good progress and is now working with four of its incorporated colleges to explore opportunities for greater integration. The Glasgow Colleges' Regional Board (GCRB) is making progress in coordinating collaborative regional activity, but needs to do more work with its assigned colleges, to deliver all of the intended benefits of regionalisation. The current regional arrangements in Lanarkshire add little to the aims of regionalisation.

## Key recommendations

The Scottish Government and the SFC should:

- publish the criteria within the Infrastructure Strategy for prioritising capital investment in the college sector (paragraph 27)
- work with colleges to examine why the attainment gap between students from deprived areas and the wider student population is growing and identify actions to reduce the gap (paragraph 53)
- assess and report publicly on the extent to which the regional strategic bodies are meeting the aims of regionalisation in multi-college regions (paragraphs 69–83).

The SFC should:

- revise its accounts direction to ensure colleges calculate their underlying financial position consistently (paragraph 9)
- progress its work with colleges to improve common assumptions for future financial forecasting returns, including clarifying when departing from the assumptions would be justified (paragraph 31)

- determine what other actions are required to tackle the greatest gender imbalances in subjects to deliver its gender action plan (paragraph 60)
- agree with regional strategic bodies in multi-college regions the most appropriate way of collecting information on college activities and clarify both why and when it needs to engage with, or collect information from, assigned colleges (paragraph 84).

Colleges should:

- work with the SFC to further develop their approach to long-term financial forecasting (paragraph 31)
- focus on reducing the attainment gap and improving student performance (paragraph 53)
- where appropriate, examine opportunities for getting a better gender balance on their boards to meet new statutory targets (paragraph 61).

GCRB and its assigned colleges should:

- address concerns among senior staff and college board members about its role to further improve collaborative working across the region (paragraph 78).

The Lanarkshire Board should:

- develop a clear plan for improving collaborative working across the region (paragraph 83).

## Background

**1.** This report provides an overview of the college sector in Scotland. It gives an update on college finances and analyses learning activity. We have set out our methodology in Appendix 1. Our previous reports have commented on:[1]

- the sector's ability to meet the national target for learning
- the changes that have taken place in the sector in recent years including regionalisation, college mergers and reclassifying colleges as public bodies.

**2.** Scotland's colleges play an important role in helping to achieve sustainable economic growth by developing a highly educated and skilled workforce. In 2016-17, there were 235,737 students. Colleges are the main providers of further education (FE) in Scotland. They also provide a significant amount of higher education (HE), with around 47,937 students (around 20 per cent) studying at HE level at college in 2016-17.

**3.** The college sector in Scotland comprises 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions (Appendix 2).[2] Ten of these regions consist of one college. The three remaining regions (Glasgow, Highlands and Islands, and Lanarkshire) have more than one college. The individual colleges in Glasgow and in Highlands and Islands are assigned to the relevant regional strategic body, ie Glasgow Colleges' Regional Board (GCRB) or University of Highlands and Islands (UHI). In Lanarkshire, New College Lanarkshire is the regional body and South Lanarkshire College is assigned to the Lanarkshire Board.

**4.** In this report we look at all colleges in the sector and Scotland's Rural College (SRUC), to present a comprehensive picture of the sector and its performance. In Part 1 of this report, How Scotland's colleges are managing their finances, we focus on incorporated colleges, as non-incorporated colleges are not subject to the same requirements as incorporated colleges (as public bodies). In Part 2, How Scotland's colleges are performing, the participation data used excludes information about students studying higher education through UHI or SRUC.

**5.** Colleges prepare their accounts based on the academic year (1 August to 31 July).[3] This differs from the Scottish Government's financial year, which runs from 1 April to 31 March. We use the following conventions in this report:

- 2016-17 when referring to figures from colleges' accounts, or figures relating to the academic year
- 2016/17 when referring to funding allocations made in the Scottish Government's financial year.

**6.** Financial figures in real terms are adjusted for inflation. The base year for this report is 2016-17. The GDP deflator provides a measure of general inflation in the domestic economy. We have used the GDP deflator from December 2017 to calculate the real-terms figures for other years.[4]

**7.** Where appropriate, our report draws on separate reports by the Auditor General for Scotland (section 22 reports) on *Edinburgh College* and *New College Lanarkshire* that were published in April 2018.

# Part 1

## How Scotland's colleges are managing their finances

### Key messages

1. The overall financial position of the college sector has improved since last year. The 20 incorporated colleges reported an overall underlying financial surplus of £0.3 million for 2016-17. This compares to an underlying deficit of £8 million in 2015-16. Individual college financial positions varied. Five incorporated colleges had an underlying deficit in 2016-17, compared with 11 in 2015-16. Scotland's six non-incorporated colleges reported an overall underlying surplus of £249,000 in 2016-17, with no college having an underlying deficit.

2. The Scottish Funding Council (SFC) first required colleges to include their underlying financial position in their accounts in 2016-17. Individual colleges have interpreted the SFC's accounts direction differently, making it difficult to compare the financial positions of different colleges.

3. Net assets increased by ten per cent (to £230 million). The level of cash held across the sector increased by 13 per cent (to £49 million). Despite the overall increase in cash held, nine colleges held less cash than last year. This means they have less flexibility to meet unanticipated changes in income or expenditure. Some colleges face particular financial challenges.

4. The Scottish Government has provided revenue funding to the college sector of £570.7 million in 2018/19, a real-terms increase of five per cent on 2016/17. Most of this is to meet increased costs associated with national bargaining. Colleges Scotland has estimated the total cost of harmonisation as £50 million a year from 2019/20. This would absorb all the Scottish Government's projected savings from college reform.

5. Colleges now prepare six-year financial forecasts. Differences in the assumptions colleges use for their forecasts mean they do not provide a reliable picture of future financial sustainability for the sector. The SFC and colleges are working to address this from 2018.

6. The SFC's 2017 estates condition survey indicates that college buildings require urgent and significant investment. The survey estimates a backlog of repairs and maintenance over the next five years of up to £360 million. The SFC is providing £27 million of capital funding in 2018-19 to address very high priority repairs and maintenance.

the estimated additional annual cost of harmonising pay and other conditions would absorb the projected savings from college reform

## Colleges' underlying financial position improved in 2016-17

**8.** Incorporated colleges had income of £711 million, and expenditure of £728 million, in 2016-17. The main areas of income and expenditure (and changes from 2015-16) are presented in Exhibit 1.

## Exhibit 1

### Income and expenditure for incorporated colleges 2016-17

Colleges had income of £711 million and expenditure of £728 million.


- SFC income (up 6% from 2015-16)
- Tuition fees/contracts (down 3% from 2015-16)
- Other income, including research grants and investment income (up 10% from 2015-16) and donations and endowments, inc funding from arm's length foundations (ALFs) (down 71% from 2015-16, due to large changes at individual colleges)

- Staff costs including exceptional staff costs[1] (up 1% from 2015-16)
- Other operating expenses including exceptional costs (down 3% from 2015-16)
- Depreciation/interest/other finance (up 26% from 2015-16, mainly due to depreciation on new assets)
- Donations to ALFs (no donations made to ALFs in 2015-16)

Note: 1. Exceptional staff costs include severance payments.

Source: College accounts

**9.** For 2016-17, the SFC required incorporated colleges to include a calculation of their underlying financial position in their accounts. Colleges did not all interpret the SFC's guidance consistently. This required further work by the SFC to calculate an underlying financial position. The SFC is working to improve the direction for 2017-18.

**10.** Incorporated colleges had an underlying surplus of £0.3 million in 2016-17. This is an improvement on the £8 million underlying deficit we reported for 2015-16 (Exhibit 2, page 11).

**11.** The six non-incorporated colleges recorded an underlying surplus of £249,000 in 2016-17, compared to £69,000 in 2015-16. Information for incorporated and non-incorporated colleges is not directly comparable.

## Exhibit 2
### College sector financial performance 2014-15 to 2016-17
Incorporated colleges reported an underlying financial surplus in 2016-17.

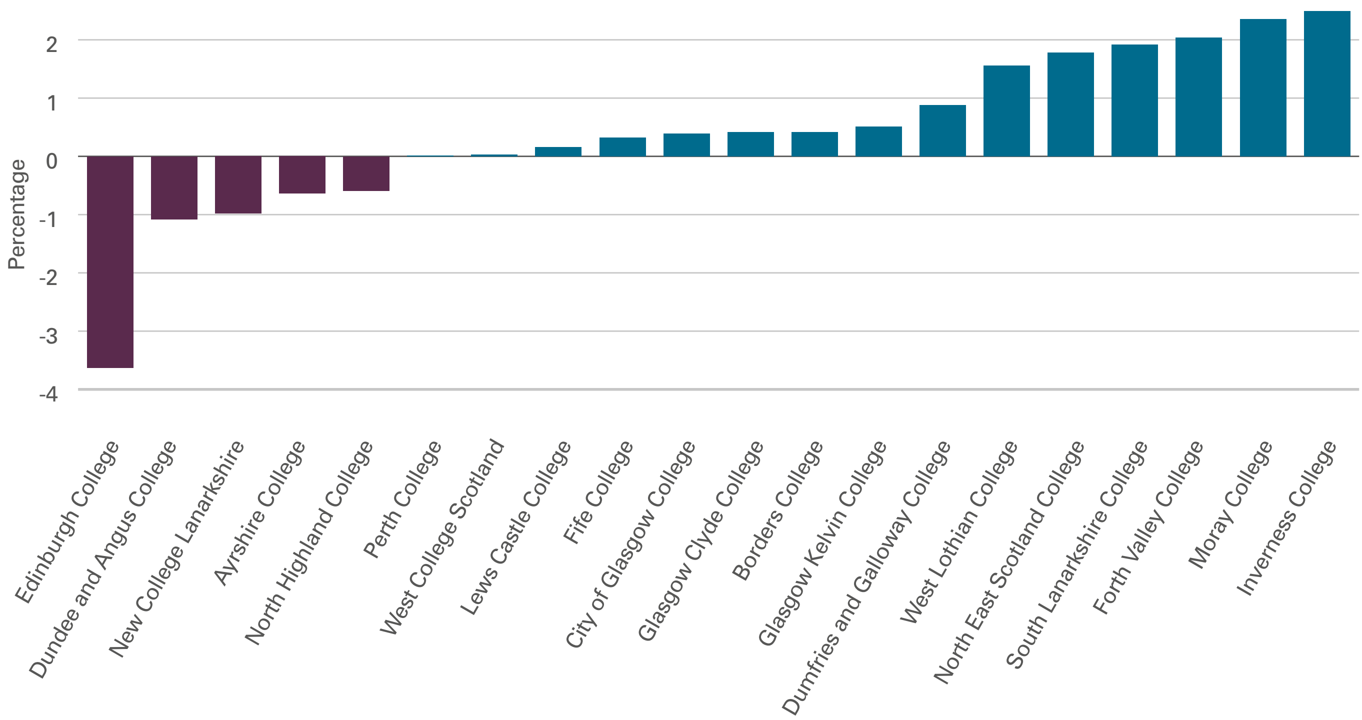
| | 2014-15 (£m) | 2015-16 (£m) | 2016-17 (£m) |
|---|---|---|---|
| Sector underlying surplus or (deficit) | 1 | (8) | 0.3 |
| Number of colleges with an underlying deficit | 7 | 11 | 5 |

Note: Analysis does not include Scotland's six non-incorporated colleges.

Source: College accounts

**12.** Five incorporated colleges had an underlying deficit in 2016-17, compared with 11 in 2015-16. Financial positions varied from a surplus of £0.9 million at North East Scotland College to a deficit of £2.5 million at Edinburgh College. Exhibit 3 shows individual college underlying deficits and surpluses as a percentage of their annual expenditure.

## Exhibit 3
### Underlying deficits and surpluses as a percentage of expenditure, 2016-17
The underlying financial position of incorporated colleges varies.




Source: College accounts and SFC

## Total cash held in the sector increased in 2016-17 but almost half of all colleges held less cash

**13.** Incorporated colleges held £49.2 million in cash in 2016-17, an increase of £5.5 million (13 per cent) from 2015-16 (Exhibit 4). While the overall cash held by the sector increased, the amounts each college held vary significantly:

- Eleven colleges increased their cash balances by a total of £11.2 million in 2016-17. Four colleges accounted for £8.5 million (76 per cent) of this increase: City of Glasgow, Edinburgh, Forth Valley and North East Scotland colleges. The SFC has indicated that some colleges are holding cash to repay loans in future.
- Cash balances decreased in nine colleges, by a total of £5.7 million. This means these colleges have less flexibility to meet unanticipated future expenditure or reductions in income.

## Exhibit 4
### College sector financial performance 2014-15 to 2016-17
Cash balances and net assets across the sector both increased in 2016-17.

| | 2014-15 (£m) | 2015-16 (£m) | 2016-17 (£m) |
|---|---|---|---|
| Cash balances | 55 | 43.7 | 49.2 |
| Net assets | 255 | 209 | 230 |
| Number of colleges in a net liabilities position | 3 | 5 | 5 |

Source: College accounts

## Net assets increased by around ten per cent in 2016-17

**14.** Comparing the value of the assets an organisation holds against its financial liabilities – its net asset or liabilities position – provides an indicator of financial health. The sector's net asset position has improved by around ten per cent compared to 2015-16 (Exhibit 4). However, this does not reflect the significant variation across colleges:

- Glasgow Clyde College accounts for the vast majority of the sector-wide increase in the net value of assets. Its net asset position increased by around £20 million to £58 million. This was the result of the value of its land and buildings significantly increasing.
- Five colleges reported a net liability position in 2016-17: Borders, Forth Valley, Inverness, North Highland and West Lothian. These colleges also reported a net liability position in 2015-16. In 2016-17, the level of liability remained relatively unchanged in three of these colleges. North Highland College's liability more than halved, from £5.5 million to £2.4 million as a result of asset revaluations. Forth Valley College's liability increased

significantly to £17 million due to significant devaluations of its existing assets. This will change as the college builds its new Falkirk campus.

## The funds held by arm's-length foundations (ALFs) fell again in 2016-17

**15.** Colleges can apply for funds from arm's-length foundations (ALFs). These are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges donate money into ALFs and can also apply to ALFs for funding. Other organisations can also donate to, and apply for funding from, ALFs. ALFs held £57 million in 2016 and £50 million in 2017.

**16.** Two colleges transferred a total of £3.4 million into ALFs in 2016-17. Eight colleges received grants totalling £15.1 million from ALFs in 2016-17, mainly to improve their buildings and other parts of their estate. Nine colleges propose to apply for around £8 million of ALF funding in 2017-18. The biggest planned use of ALF funding is at Glasgow Clyde College. The college plans to use over £10 million over the next five years, mainly for estate improvements. The other two Glasgow colleges plan to use ALF funding for estates projects in 2017-18. Glasgow Kelvin College plans to spend £2 million and City of Glasgow College £1.1 million. Some ALFs have very little funds left and others have never had significant funds donated to them.

**17.** The Scottish Government is considering how the sector might best continue to use ALFs to help with long-term financial planning and future investment decisions.

## There was little change in staff costs and numbers in 2016-17

**18.** Colleges continue to spend most of their money on staff. Staff costs and numbers remained relatively unchanged in 2016-17. Staff costs rose by £14 million to £457 million (Exhibit 5, page 14).[5] Total full-time equivalent (FTE) staff numbers decreased by 75 (0.7 per cent) to 10,850:

- Teaching staff decreased by 56 (0.8 per cent)
- Non-teaching staff decreased by 19 (0.5 per cent).

**19.** In 2016-17, 162 staff left incorporated colleges through voluntary severance at a total cost of £3.6 million. Of these, 81 were from Edinburgh College. Auditors reported that severances were subject to appropriate approval and in line with the existing severance schemes approved by the SFC.

## The Scottish Government has announced further real-terms increases in revenue funding in 2018/19

**20.** The Scottish Government's revenue funding for the college sector for 2018/19 is £570.7 million. This represents a real-terms increase of £28 million (five per cent) in the revenue budget from 2016/17 (Exhibit 6, page 14). This is the highest real-terms settlement in the last five years.

## Exhibit 5

### Staff costs and numbers 2015-16 to 2016-17

Staff numbers fell slightly and staff costs increased slightly in 2016-17.

| | 2015-16 | 2016-17 |
|---|---|---|
| Staff numbers (FTE) | 10,925 | 10,850 |
| Staff costs (£m) | 442 | 457 |
| Total expenditure (£m) | 692 | 728 |
| Staff costs as percentage of total spend | 64 | 63 |
| Exceptional staff costs (£m)[1] | 7 | 6 |
| Exceptional staff costs as percentage of staff costs | 2 | 1 |

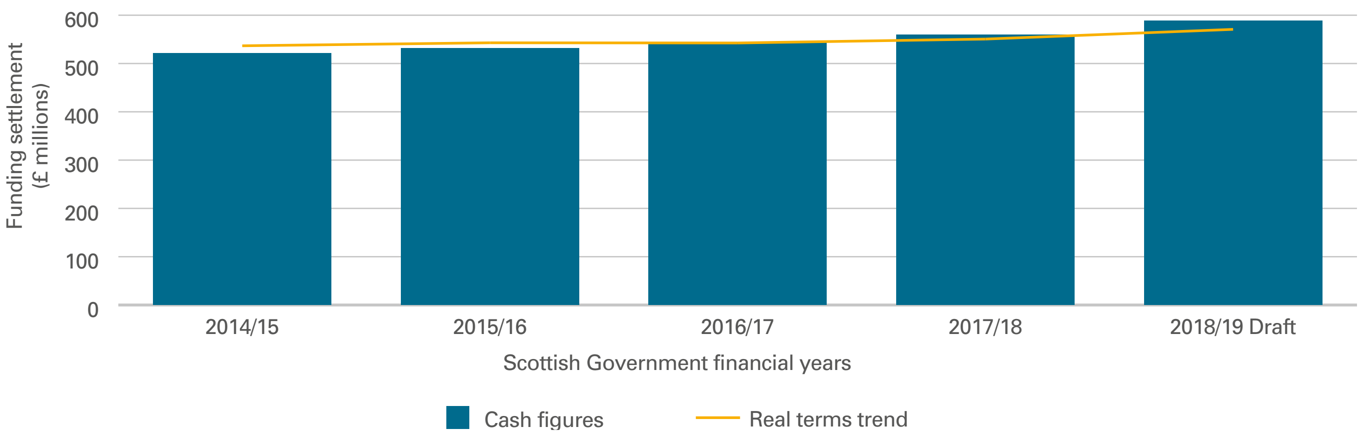
Note: 1. Exceptional staff costs include severance costs.

Source: College accounts

## Exhibit 6

### Scottish Government revenue funding to the college sector 2014/15 to 2018/19

The Scottish Government has increased funding for colleges in real terms each year.




Notes:
1. The above allocations do not include additional amounts provided to the college sector to support NPD unitary charges (£6 million in 2015/16; £24 million in 2016/17; £29 million in 2017/18; and £28 million in 2018/19, all in real terms).
2. Between 2014/15 and 2016/17, the Scottish Government has made in-year adjustments to transfer an element of the capital allocation to revenue (£12 million in 2014/15; £10 million in 2015/16; £17 million in 2016/17, all in real terms). We have not incorporated these changes in the exhibit.

Source: Scottish Government

**21.** The Scottish Government has agreed to pay for the additional costs of the national bargaining agreement up to the end of 2018-19. This excludes cost-of-living increases. This accounts for most of the increased funding for 2018-19. The Scottish Government has yet to indicate how costs associated with national bargaining will be funded beyond 2018-19. Colleges Scotland estimates that changes to pay and terms and conditions from national bargaining will cost about £50 million each year from 2019-20. This would absorb all the £50 million of annual financial savings that the Scottish Government and SFC expected the reform programme to deliver from 2015-16.

**22.** The SFC allocated £409 million to colleges for teaching in 2017-18. It is also allocating £455 million in 2018-19, an increase of £46 million (ten per cent). This increase reflects additional teaching costs and associated funding as a result of national bargaining.

## Despite the improved financial position in 2016-17, colleges continue to face significant financial challenges

**23.** Several colleges currently face significant financial challenges:

**New College Lanarkshire**

- Last year, we reported that New College Lanarkshire (NCL) had experienced cash flow difficulties during 2015-16. Those difficulties continued into 2016-17 and the Auditor General published a separate report, under section 22 of the Public Finance and Accountability (Scotland) Act 2000, in April 2018. The report noted that the college received an advance of £1.9 million from the SFC in July 2017 (subsequently deducted from its 2017-18 funding allocation), as well as specific, one-off funding of £1.1 million between November 2017 and February 2018 to run a voluntary severance scheme (not repayable). The college made savings of £2 million during 2016-17 and reported an underlying deficit of £560,000 (equivalent to one per cent of income). It is working with the SFC to deliver a plan intended to return it to financial sustainability. The latest draft of the plan indicates the college will report an underlying operating surplus in 2019-20.

**Edinburgh College**

- Edinburgh College received £2.9 million of financial support from the SFC in 2016-17 that it will have to repay. It had an underlying deficit of £2.5 million in 2016-17 (equivalent to around four per cent of income). While the college still needs to deliver some aspects of its plan to return to financial stability, it has made good progress and its deficit for 2016-17 was below its original estimate of £3.8 million. The Auditor General published a separate statutory report on progress at Edinburgh College in April 2018.

**Ayrshire College**

- The college had forecast a net surplus each year between 2013-14 and 2017-18. However, increased staff costs have resulted in the college experiencing financial deficits, which it has covered to date by using cash reserves.

- The college has indicated that ongoing PFI costs are contributing to its financial challenges. As part of the merger that created Ayrshire College, the college inherited a Private Finance Initiative (PFI) scheme from the former James Watt College for its Kilwinning campus. The 25-year PFI scheme started in 1999-2000, with annual payments of £2.1 million until 2024-25. The PFI costs equate to around four per cent of the college's annual expenditure.

- Ayrshire College identified that making the annual payments was a financial risk at the point of merger. The college has indicated that it will find it difficult to meet the ongoing PFI costs. While the Scottish Government agreed that the college could use money raised from selling land towards the PFI costs in 2018-19, there is currently no further funding commitment from the Scottish Government or the SFC.

- The college is considering other options for meeting the PFI costs as part of its overall expenditure.

**UHI incorporated colleges**

- Last year, we reported that Lews Castle College had not met its learning activity targets over an extended period. This could have resulted in both a reduced level of funding and the SFC recovering funding for activity the college did not deliver. UHI, as the regional strategic body, has since agreed a reduced target and funding with the college. Despite this change, at June 2017, the college was still forecasting deficits for the next five years. As explained in paragraph 30, colleges' most recent forecasts in July 2017 do not reliably reflect current financial positions or the challenges now facing the sector.

- Last year, Moray College had to urgently draw down an advance on its funding allocation from UHI as it did not have enough money to meet its operational costs in 2015-16. The auditor concluded that the current financial position was not sustainable and that the college needed to take action to achieve financial balance. The college implemented an improvement plan and reported an improving financial position in 2016-17 with:

  - a lower operating deficit
  - an underlying surplus
  - increased cash
  - lower net current liabilities.

- The appointed auditor concluded that achieving financial sustainability represents a significant challenge for North Highland College. It reported a £523,000 deficit in 2016-17 and is forecasting a deficit of £857,000 for 2017-18. College management is of the view that the current arrangements will become unsustainable without significant changes, and has recommended that the college board considers steps to ensure it remains financially sustainable. The college will continue to require financial support from UHI to manage its ongoing financial pressures.

- UHI has started to look at the potential for greater integration between four of its five incorporated colleges during 2018 (not currently including Perth College). The aim is to improve joint working, education and the sustainability of their financial positions in the medium to longer term.

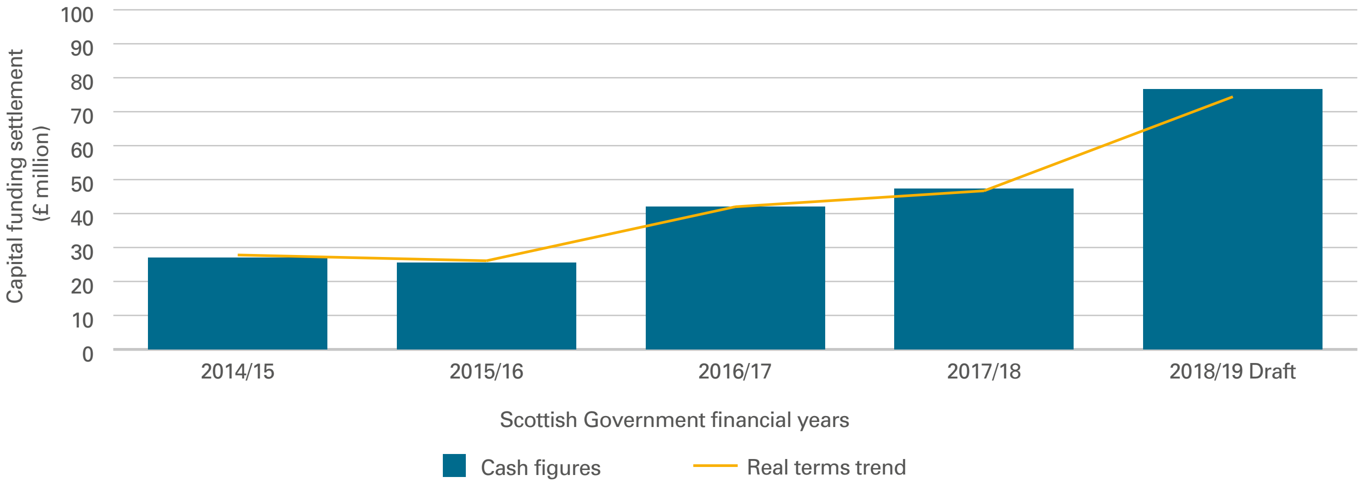
## College estates require urgent and significant investment

**24.** In 2018/19, the Scottish Government has allocated colleges £74.4 million of capital funding to spend on things such as improving buildings and buying new equipment (Exhibit 7, page 17). This represents a real-terms increase of £32 million (77 per cent) on 2016/17. Of the 2018/19 capital allocation, almost £42 million is funding for Forth Valley College's new campus at Falkirk. The remainder has been allocated to meet lifecycle maintenance costs and high-priority backlog repairs.

## Exhibit 7

### Scottish Government capital funding to the college sector 2014/15 to 2018/19

The Scottish Government has increased capital funding for colleges in real terms.




Source: Scottish Government

**25.** In December 2017, the SFC published its college sector estates condition survey. This identified a backlog of repairs and maintenance of £163 million over the next five years across the sector. Once fees, inflation and other costs associated with these works are included, the repairs and maintenance could cost up to £360 million. These figures exclude the six campuses that have been financed in recent years through public-private partnerships: Ayrshire College's Kilmarnock and Kilwinning campuses; City of Glasgow College's Riverside and Cathedral Street campuses; and Inverness College's main campus and the School of Forestry. West College Scotland has the biggest repairs and maintenance backlog of £49 million over the next five years. This is equivalent to almost a fifth of the value of all its assets in 2016-17. A further five colleges have backlogs of over £20 million: North East Scotland, Dundee and Angus, Edinburgh, Fife and Scotland's Rural College (SRUC).

**26.** Of the £360 million total backlog, £31 million was identified as very high priority work needing to be addressed within one year, and a further £77 million as high priority within two years. The SFC identified two colleges where the very high backlog had been overstated, which reduced the 'very high' need to £27 million. The SFC is allocating £27 million to the sector in 2018-19 to allow it to address those very high needs.

**27.** In our report ***Scotland's colleges 2017***, we recommended that the Scottish Government and the SFC complete the national estate condition survey and use the results to prioritise future capital investment. Based on the estate condition survey, the SFC produced criteria for managing the competing demands for major capital investment as part of its Infrastructure Strategy in December 2017. It has yet to publish these criteria.

## The SFC is working with colleges to improve financial forecasting across the sector

**28.** Having longer-term financial plans in place will allow colleges to better prepare for future challenges. In response to recommendations we made in our report *Scotland's colleges 2016*, the SFC now requires colleges to prepare six-year financial forecasts. The current forecasts run from 2016-17 to 2021-22. Colleges are forecasting that their annual expenditure will increase faster than their annual income and that the financial deficit across the sector will grow to £21 million by 2021-22. Only South Lanarkshire College is not forecasting to be in deficit at any point over this six-year period.

**29.** In line with our recommendations last year, the SFC worked with sector representatives to develop a set of common assumptions that colleges should use for longer-term financial forecasting. For example:

- Colleges should plan that their teaching grant will stay the same in 2018-19 and 2019-20, then increase by two per cent for 2020-21 and 2021-22.
- Colleges should assume that capital maintenance funding will be held at 2017-18 levels over the forecast period.
- Colleges should assume the costs of national bargaining will be supported by specific grants in 2018-19 and 2019-20 that will reflect the costs in particular colleges. They should also assume that the 2019-20 specific grant reduces to 67 per cent in 2020-21, 33 per cent in 2021-22 and then to nil in 2022-23.
- Colleges should factor in a one per cent increase for pay awards for support staff for all years and for lecturing staff from 2020-21 onwards, based on public sector pay policy. In September 2017, the Scottish Government announced its intention to remove the public sector pay cap from 2018, so this assumption is no longer realistic.

**30.** Despite the SFC providing these assumptions, some colleges used different assumptions, for example, for funding levels and pay awards, believing them to be more realistic. The differences in the assumptions used by colleges mean that their financial forecasts, submitted to the SFC in June 2017, are not fully comparable and do not provide a reliable picture of the sector's future financial sustainability.

**31.** It is important that colleges are basing their financial forecasts on realistic and consistent assumptions to help them make informed decisions about their operations. Reliable forecasts will also support effective SFC funding decisions. At the time of this audit, the SFC was working with colleges to significantly strengthen financial forecasts from 2018 onwards.

## Withdrawing from the European Union will have implications for colleges

**32.** The SFC administers and part funds the Developing Scotland's Workforce (DSW) Programme funded by the European Social Fund. Funding for this totalled £4.8 million in both 2016-17 and in 2017-18. This programme is scheduled to run until 2022-23. The decision to leave the EU should not affect this programme, and colleges should work with the SFC to plan for when it comes to an end.

**33.** The sector has also been able to draw on money from the European Regional Development Fund (ERDF) to support capital programmes. The European Investment Bank (EIB) has also been a major funder of the Scottish Government's Non-Profit Distributing (NPD) programme, including college campuses in Glasgow, Ayrshire and Inverness. It is not clear to what extent EIB funds will be available post Brexit.

**34.** Colleges Scotland research suggests around three per cent of teaching staff are from the EU, and it expects that figure to be higher for support staff.[6] Colleges Scotland and the SFC are working to analyse and model the impact of Brexit on the college sector.

# Part 2

## How Scotland's colleges are performing

### Key messages

1 Student numbers increased by around four per cent in 2016-17. This is mainly due to an increase in part-time learners, particularly those under 16 years of age. Colleges exceeded the Scottish Government's learning target in 2016-17. They delivered 117,502 full-time equivalent (FTE) places against the Scottish Government’s target of 116,269. Colleges overall also exceeded the SFC's activity target and delivered more credits than in 2015-16.

2 In 2016-17, attainment rates dipped slightly for higher education courses and full-time further education (FE) courses but increased for part-time FE courses. The percentage of students who complete their course was broadly static across all categories. Latest data covering 2015-16 shows that at least 82.7 per cent of successful full-time leavers entered a positive destination such as training or employment. Student satisfaction across the sector remains high and increased slightly in 2016-17. Attainment, retention, positive destinations and student satisfaction all vary widely by college.

3 There is evidence that colleges are widening access to learning. Across the sector, the proportion of credits delivered to students from deprived areas, from ethnic minorities, who have been in care or who have disabilities all continue to increase. Despite this, the gap in attainment between students from the least and most deprived areas is growing.

4 The gender balance across students in the sector has remained broadly even. However, more work is required to tackle the most significant gender imbalances on some courses and on some college boards.

in October 2017, the minister confirmed that colleges no longer need to prioritise full-time education for 16-24 year olds

### Colleges exceeded the Scottish Government's learning target in 2016-17

**35.** The volume of learning that colleges deliver is measured in full-time equivalent (FTE) student places, or in units of learning known as credits. Each credit broadly equates to 40 hours of learning. Since 2012-13, the Scottish Government has set a national target for the college sector to deliver 116,269 FTE student places. Colleges delivered 117,502 FTE places against this target in 2016-17. The SFC set colleges a core activity target of 1,690,618 credits in 2016-17. Colleges delivered 1,699,760 credits against this target. They also delivered additional European Structural Fund (ESF) credits, giving a total of 1,762,032. This represents an increase in credits delivered of 0.5 per cent compared to 2015-16. This means that 2016-17 was the first year that activity has increased since 2013-14.

**36.** To meet the national target, the SFC agrees targets with the college regions, Newbattle Abbey College, Sabhal Mòr Ostaig and SRUC.[7] In 2016-17, all the colleges met their credit target except Newbattle Abbey College, which delivered 833 credits compared with its target of 926 credits. Newbattle Abbey College accounts for 0.05 per cent of Scotland's college activity.

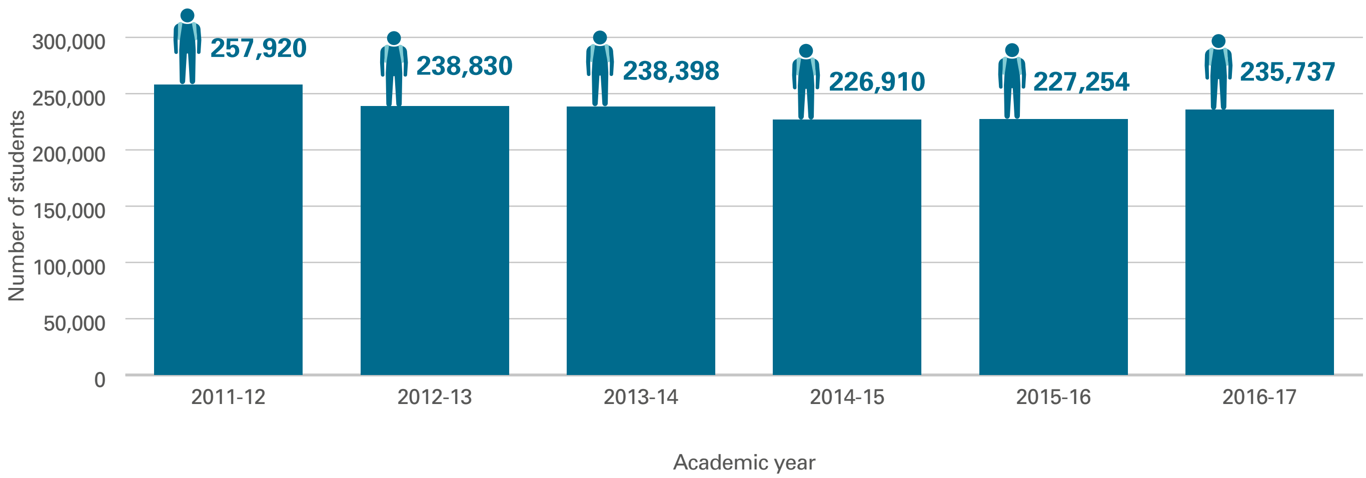
## Student numbers increased by around four per cent in 2016-17

**37.** The number of college students increased by four per cent (8,483) in 2016-17, to 235,737 (by headcount). This is the largest number of students to attend Scotland's colleges since 2013-14 (Exhibit 8). For more information on how we present student numbers in this report, please see Appendix 1.

## Exhibit 8

### Student population analysed by headcount 2011-12 to 2016-17

The college student population in 2016-17 was the highest since 2013-14.




Source: SFC's Infact database

## The largest increases in student numbers were in those taking part-time courses, particularly those aged under 16

**38.** In our report *Scotland's colleges 2017*, we reported that decreasing numbers of young people and more school leavers going on to work and university would make it harder for colleges to continue to achieve the national target. At that time, the Scottish Government's focus was on full-time courses and students aged 16-24. This had led to significant decreases in part-time and older students.

**39.** It is clear that colleges have now changed their focus and in October 2017, the Minister for Further Education, High Education and Science confirmed that colleges no longer need to prioritise full-time education for 16-24 year olds. Full-time student numbers remained almost unchanged in 2016-17 at 78,311. Enrolments to part-time courses increased for the first-time since 2013-14:

- Part-time student numbers increased in 13 colleges, by a total of 13,464 students. Fife College accounts for more than half of this increase (7,066).

- Part-time student numbers decreased in 12 colleges, by a total of 5,536. The most significant decreases were in Ayrshire College (part-time students fell by 1,390) and North East Scotland College (part-time students fell by 1,433).

- Overall the number of part-time students increased by 7,452 (five per cent) to 166,520.

**40.** More school-age students are attending college (Exhibit 9). The Developing the Young Workforce (DYW) programme means colleges are now offering more vocational courses to school pupils from S4-S6. The number of students aged under 16 attending college increased by 6,495, making up over 70 per cent of the total increase. Over two-thirds of students aged under 16 were taking courses not leading to a recognised qualification. This was the second year that the number of students under 16 increased, following a trend of decreases since 2011-12. Of students aged under 16:

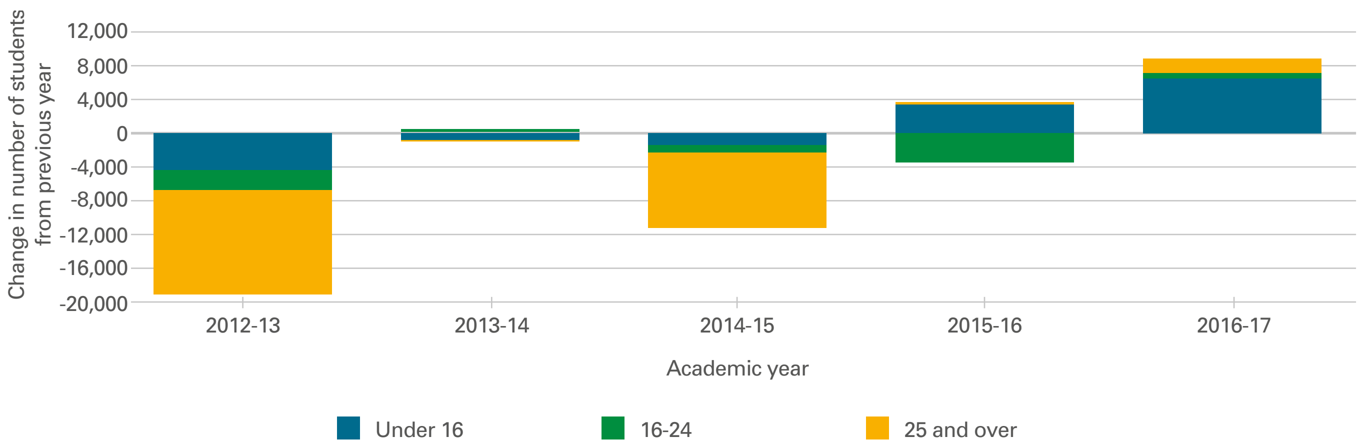
- more now study at college than in 2011-12 (28,334 in 2016-17 compared to 24,976 in 2011-12)

- most attend college part time, with only 391 under-16 students studying full time in 2016-17.

## Exhibit 9

### Change in number of students from the previous year, by age

The number of students aged under 16 has increased for the second year in a row.




Source: SFC Infact database

## Attainment and retention, positive destinations, and student satisfaction rates were similar to the previous year

**41.** Attainment rates measure how many students successfully completed their course and gained the appropriate qualification. In 2016-17, attainment rates dipped slightly, that is, by less than one per cent, for HE courses and full-time FE courses. But they increased for part-time FE courses, from 74 per cent in 2015-16 to 77 per cent in 2016-17.[8]

**42.** Retention measures the percentage of students who complete their course. In 2016-17, retention remained relatively static, changing by less than one per cent across all courses.

**43.** The SFC tracks successful full-time college leavers after they qualify, and publishes this information in its College Leaver Destination report. The most recent data shows the following:[9]

- For those qualifiers whose destinations could be confirmed, 94.9 per cent went into positive destinations (for example, work or further learning). Of all qualifiers, 82.7 per cent went into positive destinations compared to 82.6 per cent in 2014-15.
- Of all qualifiers, 66 per cent stayed in education or training. This is down from 69 per cent in 2014-15. For those remaining in education, 85 per cent progressed to a higher level of study, 11 per cent stayed at the same level, and four per cent dropped a level.[10]
- At least 17 per cent of all qualifiers went into employment. This is up from 14 per cent in 2014-15. Over two-thirds were in a job related to their course.
- Of all qualifiers, 4.4 per cent were unemployed or unable to work. This was a slight increase from 3.8 per cent in 2014-15.

**44.** Over the past two years, the SFC has coordinated a Student Satisfaction and Engagement Survey. This asks college students about their experience. Overall, satisfaction remains high:

- 90.2 per cent for full-time students (90.1 per cent in 2015-16).
- 94.6 per cent for part-time students (93.1 per cent in 2015-16).
- 92.7 per cent for distance learners (88.1 per cent in 2015-16).

**45.** The SFC is aiming for a 50 per cent response rate for the survey. While it did not achieve this in 2016-17, the response rate improved on the previous year. The response rate for full-time students was 41 per cent, compared to 16 per cent for part-time students and nine per cent for distance learning.

## Outcomes for students vary significantly by college

**46.** Changes in attainment, retention, satisfaction and destinations have been relatively small for the sector as a whole, but the variation across colleges is significant. For full-time students in further education:[11]

- Attainment rates in 2016-17 ranged from 78.7 per cent (Orkney College) to 57.4 per cent (Fife College).
- Retention rates ranged from 86 per cent (Orkney College) to 65.6 per cent (New College Lanarkshire).
- Overall satisfaction ranged from nearly 100 per cent to 81 per cent at Fife College.[12] Response rates to the satisfaction survey varied widely, from 80 per cent at Lews Castle College to eight per cent at North Highland.

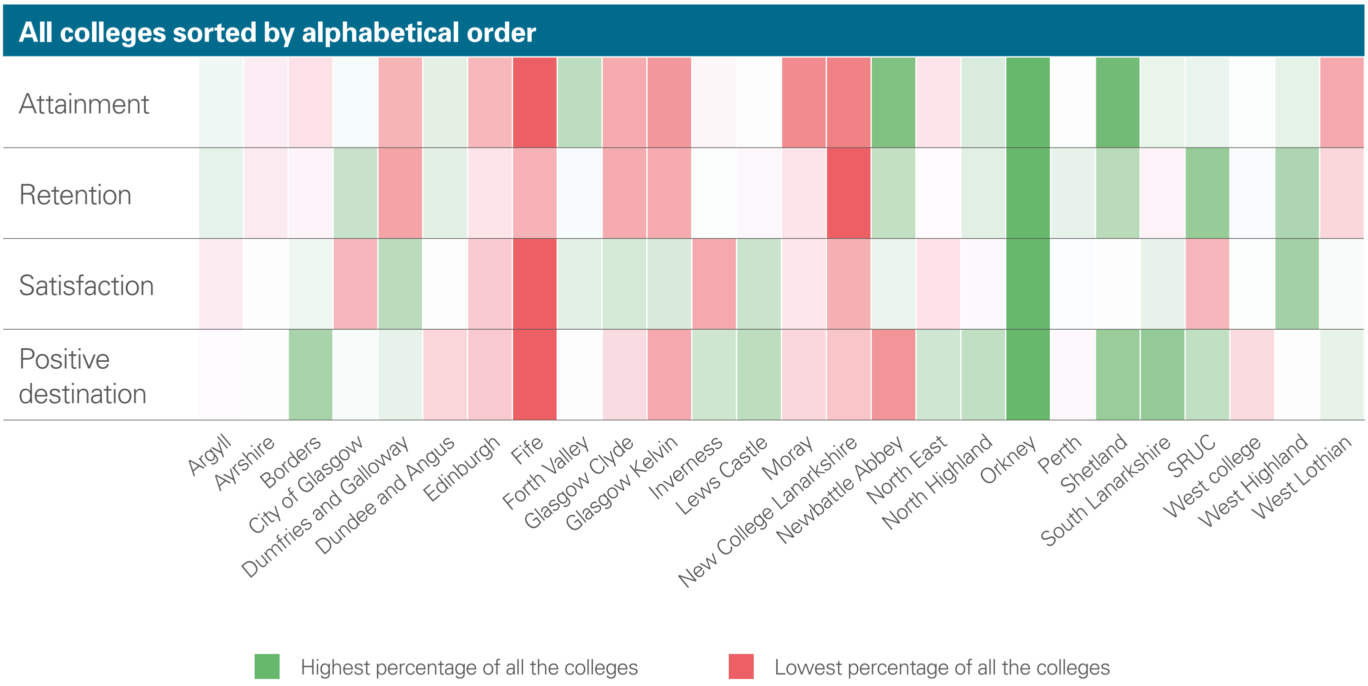
- Positive destinations for all full-time leavers ranged from 95 per cent at Orkney College, to 71.2 per cent at Fife College. The proportion of leavers whose destination could not be confirmed also varies. The unconfirmed rate ranges from 1.3 per cent (North Highland College) to 21 per cent (Fife College).

**47.** Most colleges seem to be stronger on some performance indicators for full-time FE courses than on others (Exhibit 10). The reasons for the variation in performance outcomes are complex and will be influenced by factors such as local deprivation levels in the communities served, ever more flexible learner pathways – influencing increasing numbers of early withdrawals – and improved employment opportunities, particularly for young learners.

## Exhibit 10

### Performance measure for full-time FE courses, by college

Outcomes for students vary significantly by college.




Note: Sabhal Mòr Ostaig does not have FE full-time students.

Source: SFC data

**48.** The SFC does not currently identify the factors that contribute to the trends identified or whether there are any significant relationships between the published measures. The Scottish Government is working on a project to improve attainment and retention at colleges. This may provide an opportunity to further investigate relationships within the data.

**49.** Another potential performance measure would be articulation rates, that is, the number of students who progress from college to university. Up-to-date information is not currently available on this, though the SFC is developing a national articulation database.

## Students from a wider range of backgrounds are going to college

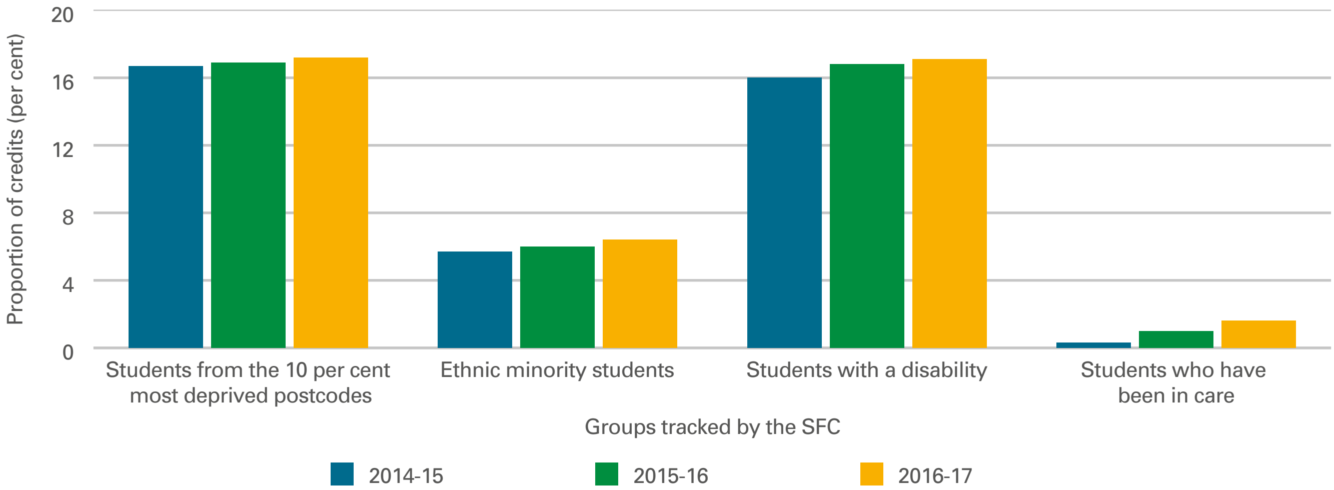
**50.** Working in partnership with schools, universities and employers, colleges offer an important route to gaining skills, improving employability or going into higher education. Colleges play an important role in widening access to education for those in deprived communities or with additional needs by increasing their career prospects and helping them to achieve their individual potential.

**51.** The SFC has national priorities to increase the proportion of credits delivered to students from deprived areas or who have been in care. They also track progress on the proportion of credits delivered to students from ethnic minorities or who have a disability. Exhibit 11 shows progress by the sector. The number of students from these groups has increased since 2011-12, despite large drops in overall student numbers.

## Exhibit 11

### Proportions of credits delivered to students from selected groups

The proportions of credits to students from these groups have been increasing.




Source: SFC

**52.** Colleges play a key part in encouraging students from a wider range of backgrounds to stay on in education, particularly in providing HE courses. Higher education courses taught in Scotland range from HNC and HND courses to post-graduate qualifications: 68 per cent of college HE entrants were on HNC or HND programmes. In 2016-17, around 1,000 students at Scottish colleges (excluding UHI) were studying at degree level. Students entering HE courses at college are more likely to be from deprived areas than those entering courses at HE institutions such as universities. Students from the 20 per cent most deprived areas account for 23 per cent (over 8,000 students) of HE entrants to Scotland's colleges. This compares to 12 per cent at HE institutions. In 2016-17, HE entrants at colleges accounted for 28 per cent (38,495 students) of all HE entrants in Scotland.

### Students from the most deprived areas tend to have lower levels of attainment

**53.** In general, students from the least deprived areas do better than those from the most deprived areas. This gap has increased since 2011-12:

- For FE students, the gap in attainment between the ten per cent least deprived and ten per cent most deprived areas has increased from five percentage points in 2011-12 to seven percentage points in 2016-17. In 2016-17, attainment for students from the ten per cent most deprived areas was 62 per cent, compared to 70 per cent for students from the ten per cent least deprived.

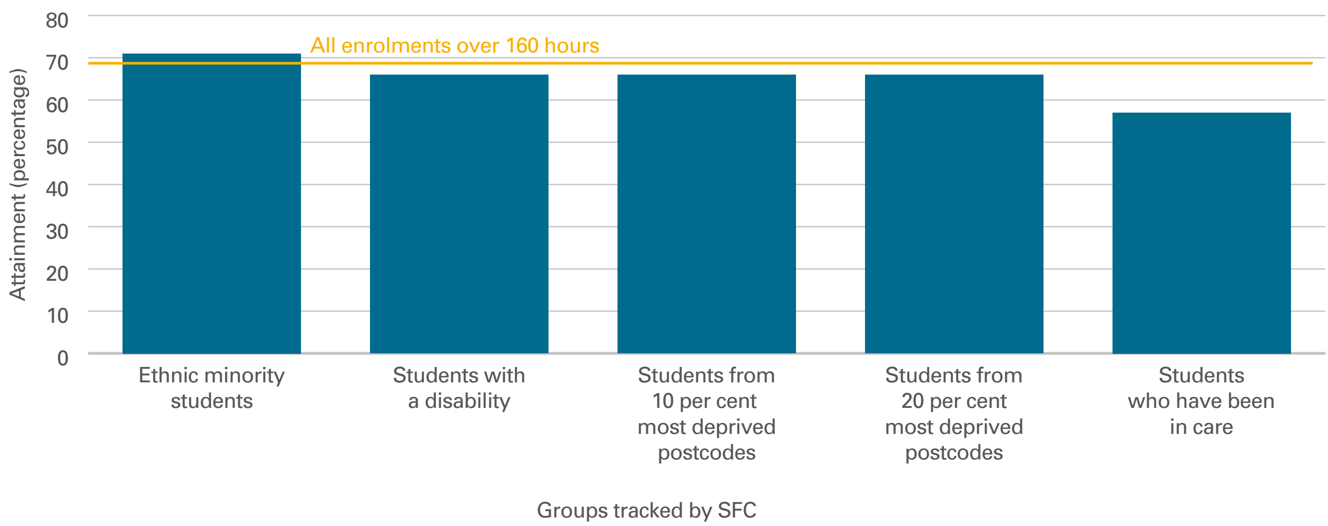
- For HE students, the gap in attainment between these groups increased from 7.5 percentage points in 2011-12 to 7.7 percentage points in 2016-17. The attainment gap narrowed between 2015-16 and 2016-17. In 2016-17, attainment for students from the ten per cent most deprived areas was 68.5 percent, compared to 76.2 per cent for students from the ten per cent least deprived.

**54.** The SFC reports that, for all courses over 160 hours, 69 per cent of students achieved their qualification in 2016-17. Attainment was higher for ethnic minority students, but lower for students with a disability or who have been in care. Students from all of the groups identified in Exhibit 12 are also less likely to move into work once they leave college.

## Exhibit 12

Attainment on courses over 160 hours for students from selected groups 2016-17

There is an attainment gap for students from deprived areas, with a disability or who have been in care.




Source: SFC

**55.** Students from deprived areas are more likely to face barriers to attending college; for example, they might struggle to cover the transport costs, or struggle to afford food. Colleges have developed new approaches to tackle these problems. For example: Glasgow Kelvin College has dedicated staff to provide support for disadvantaged students; Dumfries and Galloway College provides transport to students from remote areas; and South Lanarkshire College has been providing free counselling for students and free sanitary products to all female students.

**56.** An independent review of the student support system in Scotland published its findings in November 2017.[13] This review proposed:

- changing the structure of student support funding for college students
- moving to one common funding system across both further and higher education with local face-to-face support.

**57.** The Scottish Government, SFC and Student Awards Agency for Scotland (SAAS) are currently considering the review's recommendations.

## Colleges have made limited progress in reducing gender imbalance in certain courses

**58.** The gender balance across students in the sector has remained broadly even, as was the case last year. Female students represent 51 per cent of the student population (120,187), and males 49 per cent (115,320).[14]

**59.** Both male and female part-time students increased in 2016-17. The number of male students increased by eight per cent to 83,817 and the number of female students by two per cent to 82,529. Since 2011-12, female part-time student numbers have dropped by 35 per cent (45,074 students), compared to 24 per cent for males (26,405 students). Part-time students are now split almost evenly between male and female for the first time.

**60.** There continue to be large gender imbalances across subject groups (Exhibit 13, page 28). The SFC is committed to increasing the minority gender share in the most imbalanced subjects through sharing identified good practice and its gender action plan. It has made good progress in attracting female students to engineering, and some progress attracting male students into social work. But it needs to do more to improve gender imbalance in other subjects. Childcare courses are particularly imbalanced. The SFC expects to see more progress from 2017-18 onwards.

## Colleges are trying to improve gender balance on college boards

**61.** In January 2018, the Scottish Parliament passed the Gender Representation on Public Boards (Scotland) Act 2018 to improve the gender representation on boards of Scottish public authorities. At February 2018, 16 colleges had more men on their boards than women. Six college boards had twice as many men as women, with the greatest gender imbalance at Orkney College (16 men to three women).[15, 16] Seven colleges had more women than men on their boards, with the largest gender imbalance being Borders College, with ten women and six men. Three colleges had an equal balance: New College Lanarkshire, Edinburgh College and Moray College.

## Exhibit 13
### Subjects with greatest gender imbalances
Changes in the gender balance of some courses is relatively small.

| Subject | Male students in 2016-17 % | Female students in 2016-17 % | Percentage point change in minority gender from 2015-16 |
|---|---|---|---|
| Engineering | 78 | 22 | ▲ 7 |
| Transport | 93 | 7 | ▼ -4 |
| Construction | 89 | 11 | — 0 |
| Health | 24 | 76 | ▼ -1 |
| Social Work | 14 | 87 | ▲ 1 |

Source: SFC

**62.** We recognise that the gender balance of members of college boards is not entirely under the control of colleges as some members are elected to their position.

**63.** UHI has taken steps to improve the gender balance in the members of its governing body (Case study 1, page 29).

## Case study 1

**UHI is addressing its gender balance**

UHI had difficulty attracting female candidates to its governing body. Its recruitment process in late 2017 saw 70 per cent of applicants being men. One female governor was recruited through this process, but to supplement this UHI ran another recruitment process using a different approach. This included:

- changing the role description and person specification significantly to make it accessible to a much wider audience, for example removing the requirement that applicants must have served on boards before, and focusing on the skills needed for the role
- specifying that candidates should be able to demonstrate a commitment to equality and diversity
- encouraging appropriate candidates by sharing the vacancy with local women's groups, for example the Highland Business Women's Club.

This resulted in better quality applicants, a greater number of female applicants and, ultimately, to three further female appointments to the UHI Court. When all three new governors have joined, the Court membership will be 11 men and eight women.

Source: Audit Scotland

# Part 3

## Progress in the multi-college regions

### Key messages

**1** The three multi-college regional strategic bodies (RSBs) are fulfilling their statutory duties by setting targets for individual colleges and distributing funding. But the extent to which they are delivering the anticipated benefits of regionalisation varies.

**2** The University of Highland and Islands (UHI) Court has made good progress in delivering the anticipated benefits of regionalisation. Since it became the RSB in 2014, it has focused on changing cultures and developing effective relationships among its assigned colleges. The RSB is helping colleges to balance income and expenditure over the medium-to-long term in a more sustainable way by re-allocating learning activity and funding in the region. It is now planning more effective shared working and is working with four of its incorporated colleges to explore opportunities for greater integration.

**3** After a difficult start, the Glasgow Colleges' Regional Board (GCRB) is making progress on coordinating collaborative regional activity. Both GCRB and its assigned colleges recognise that they need to do more work to deliver a fully effective regional partnership. It will benefit from longer-term leadership stability to be more effective, particularly with the regional arrangements following significant merger activity in Glasgow.

**4** The benefits of regionalisation in Lanarkshire have come about mainly through the merger of colleges to create New College Lanarkshire. Under the regional structure, New College Lanarkshire and South Lanarkshire College are working together to meet core statutory requirements, but the regional arrangements are not delivering any significant regional benefits.

regional strategic bodies are fulfilling statutory duties but regional benefits vary

### The regional strategic bodies (RSBs) in the three multi-college regions are fulfilling their statutory duties

**64.** As part of its reform of post-16 education, the Scottish Government established a regional approach to further education. The aim was to make the sector more efficient and responsive to the needs of students and local economies. Across Scotland, 13 regions were created. Three of these contain more than one college: Glasgow, Highlands and Islands, and Lanarkshire. In these three multi-college regions, RSBs oversee the assigned colleges.[17] They are responsible for:

- strategically planning college education across the region
- allocating funding to assigned colleges
- monitoring how their assigned colleges perform
- overseeing the delivery of the regional outcome agreement, which sets out what colleges in a region will deliver in exchange for funding.

**65.** All three RSBs in the three multi-college regions are structured and operate differently:

- The Court of the University of Highlands and Islands (UHI) existed before regionalisation, but was established as the RSB in August 2014. It secured operational fundable body status in April 2015. To carry out its regional body role, UHI established a committee of its Court, called the Further Education Regional Board (FERB). The RSB function within the university requires a small number of dedicated staff and its operating budget in 2017-18 is around £325,000. Nine colleges are assigned colleges of UHI:
  - five incorporated colleges: Inverness, Lews Castle, Moray, North Highland and Perth.
  - four non-incorporated colleges: Argyll, Orkney, Shetland and West Highland.

  Uniquely to UHI, assigned colleges are also academic partners of UHI for delivering higher education.

- Glasgow Colleges' Regional Board (GCRB) was established in May 2014. GCRB has three assigned colleges: City of Glasgow, Glasgow Kelvin and Glasgow Clyde Colleges. It employs three staff and its operating budget for RSB activities in 2017-18 is around £430,000. After some problems which were highlighted in a statutory report by the Auditor General, it achieved operational fundable body status in April 2017.[18]

- The Lanarkshire Board is the board of the New College Lanarkshire (NCL) as well as the RSB. It secured operational fundable body status in August 2016. With no separate regional governance arrangements or additional staff, the RSB incurs relatively little additional cost. This is estimated to be in the region of £50,000 a year and is shared between the two colleges, with NCL funding 60 per cent and South Lanarkshire College 40 per cent.

**66.** To operate fully, RSBs in multi-college regions had to meet the SFC's requirements to be 'fundable bodies'. The creation of multi-college RSBs has led to a change in the financial and accountability relationships between the SFC and the assigned colleges in these regions.

**67.** In *Scotland's Colleges 2016*, we reported that none of the three multi-college RSBs was operating as intended. The regional arrangements are still relatively new. As they have been established alongside significant reform in college mergers, we expect that it will take some time for RSBs to be operating fully effectively. We are seeing the culture in assigned colleges is beginning to change.

## Progress in meeting the aims of regionalisation varies

**68.** All three multi-college RSBs now fulfil their core statutory duties. But the extent of their progress in meeting the wider aims of regionalisation varies. The remainder of this section considers what each RSB has done since it was created.

### UHI

**69.** UHI has made good progress in meeting the wider aims of regionalisation. It has invested a lot of time and effort in building relationships between the assigned colleges, and establishing a more collaborative culture. Colleges are now more willing to share best practice and services to generate greater efficiency. For example, Inverness College recently appointed a Director of Finance on the basis of her becoming the joint Director of Finance at both Inverness and Moray colleges.

**70.** UHI has been developing a clear sense of purpose, with a regional strategy for further education. It has invested in staff and revised structures to reflect its wider responsibilities and deliver its aims. This has included appointing a Vice-Principal of further education and other dedicated staff. It has also been developing regional policies and management information systems. For example, it is:

- making progress in developing a single set of policies for further education, covering admissions, the content of courses and student procedures
- delivering significant increases in foundation apprenticeships and pilot graduate apprenticeships by planning and delivering apprenticeships on a regional basis through its work-based learning hub
- using data better to help it report more effectively against its plans.

**71.** UHI has been strengthening the accountability of its assigned colleges by developing more effective performance monitoring arrangements. This has been prompted by the lessons learned from previous financial difficulties in Moray College. Its audit committee and financial and general purposes committee now both look in detail at the performance of all individual colleges across a range of measures. As a result, committee members are better informed about long-and short-term performance issues and about the colleges' financial sustainability. UHI recognises though that there is scope for further improvement, particularly in securing timely information from assigned colleges to form a more joined-up approach to risk and performance management.

**72.** Over the past two years, some of UHI's colleges have found it difficult to meet their activity targets. This has presented a risk to their ability to continue to balance their income and expenditure in the medium to long term. In November 2017, UHI agreed a funding model for allocating further education credits between colleges in a way that maintains financial stability at individual colleges and meets the regional targets agreed with the SFC.

**73.** UHI is working with four of its five colleges to explore options for greater integration. Its aims are to simplify UHI's structure and governance arrangements, deal more effectively with future financial pressures, and deliver benefits for staff and students. The agenda is at an early stage, with UHI yet to consult colleges on specific proposals or the potential benefits from greater integration.

### GCRB

**74.** Following its creation, GCRB had weaknesses in governance arrangements, highlighted in a statutory report in 2014/15. This contributed to it taking three years to achieve fundable body status. GCRB has also experienced instability in its leadership, with three permanent and two interim chairs in four years, with its current chair being appointed in January 2018. GCRB is now benefiting from greater collaboration and integration in the areas outlined below. However, the current chair acknowledges that greater stability is needed to make GCRB more effective than it has been, and she is working with the three assigned colleges and their boards to agree a joint vision.

**75.** GCRB reviewed the region's curriculum in 2014 prior to publication of the *Glasgow College Region Curriculum and Estates Plan 2015-2020*. This led to changes in the number and content of courses, the closure of a campus that was no longer fit for purpose and a transfer of credits between colleges.

**76.** GCRB launched Glasgow's Regional Strategy for College Education in October 2017, which sets out the regional priorities for 2017-22. This strategy sets an overarching ambition of building an inclusive, responsive and effective regional college system. To deliver this, GCRB and its assigned colleges are taking forward a number of regional initiatives:

- Coordinating the way school students move into further education across the Glasgow region and developing ways for students to move easily from the three colleges to Glasgow University.

- Coordinating curriculum hubs that jointly plan the courses colleges provide, to match economic and employer needs. This approach gives learners a better chance of getting a job when they leave college. The hospitality hub, for example, is run by operational managers across the colleges and shares teaching materials, assessments and students.

- Supporting Glasgow's colleges to develop individual college and regional science, technology, engineering and mathematics (STEM) strategies. The colleges now work together with employers and higher education partners to develop effective ways for school pupils to go to college and university and into jobs.

- Establishing regional leads, in the form of senior college staff, for curriculum planning, organisational development, student experience, developing the young workforce (DYW) and student data systems. Individual colleges fund this work, with senior staff concentrating on regional work, on average, for one day a week.

- Distributing capital funding to colleges against an agreed set of criteria, linked to regional priorities.

- Monitoring and scrutinising colleges' finances and performance on an ongoing basis.

**77.** Prior to the creation of GCRB, the colleges in Glasgow established the Glasgow Colleges Group in response to the regionalisation agenda. This group still exists for the three colleges to take forward operational issues on a city-wide basis. GCRB staff are members of this group and contribute to the work of the group. GCRB staff membership also provides a link back to the regional board.

**78.** Senior staff and board members we spoke to from GCRB's assigned colleges expressed mixed views about the additional benefits the regional body brings. The majority acknowledge the benefits of having a regional body to support collaborative working, but some see it as an unnecessary additional cost and layer of bureaucracy. If GCRB is going to become more stable and add more value, it needs to address these concerns.

**Lanarkshire**

**79.** The benefits of regionalisation in Lanarkshire have come about mainly through the merger of three of the four Lanarkshire colleges (Coatbridge, Cumbernauld and Motherwell colleges) to create New College Lanarkshire. For example, it has been able to review and rationalise the courses provided by its predecessor colleges and harmonise policies and ways of working. New College Lanarkshire provides courses across the Lanarkshire region, including in South Lanarkshire.

**80.** The current regional structure, with South Lanarkshire College being assigned to New College Lanarkshire, adds very little value to regional college provision. Both colleges are working together to meet core statutory requirements, such as having a Regional Outcome Agreement (ROA), but, beyond this, significant cooperation or integration between the colleges has been limited.

**81.** Most members of the RSB that we spoke to recognise that the current arrangement is not ideal, creating duplication without delivering any benefits. They also share concerns about making further efforts to create a regional approach to learning. South Lanarkshire College performs well, has a relatively healthy financial position and its board members see no additional benefit to be gained from any changes across the region. New College Lanarkshire has been through a difficult period in merging its three predecessor colleges and is focusing on addressing its current financial difficulties page 15.

**82.** The colleges have indicated that demographics and infrastructure are also a barrier to greater cross-Lanarkshire course rationalisation. Distances between New College Lanarkshire's campuses and South Lanarkshire College are greater than the distance to colleges in Glasgow. There are also relatively poor transport links across Lanarkshire compared with good transport links to Glasgow. Both colleges share concerns that shifting courses between the colleges could potentially encourage more local students to look at courses in Glasgow than within the region.

**83.** There is limited evidence that the Lanarkshire Board has sought to address the issues described above or that its colleges have explored opportunities for more effective regional working. Since 2015-16, the board and its finance committee have been committed to developing a five-year plan for the region to 'form strategies to minimise negative impact and maximise opportunities which arise'. The board has yet to confirm when this will be developed and approved. There is some evidence that the colleges are beginning to look at other ways of working together more efficiently. For example, the remit for a review of regional finance structures will be taken to the regional finance committee in June 2018. However, these developments are still at an early stage.

## Despite the regional arrangements, assigned colleges must also report to the SFC

**84.** Assigned colleges are accountable to their RSB for the local delivery of further education and meeting locally agreed targets. Each RSB is accountable to the SFC for delivering further education across the region. Despite the introduction of RSBs, the SFC still requires assigned colleges in multi-college regions to submit a number of specific data requests directly to them. It has required college-level responses to new initiatives, such as gender action plans and to its condition survey, rather than asking for regional responses. Assigned colleges tell us that this not only creates confusion around accountability, but that the requirement to provide data to both their RSB and the SFC can place an additional burden on them.

# Endnotes

1 *Scotland's colleges 2017*, Audit Scotland, June 2017; *Scotland's colleges 2016*, Audit Scotland, August 2016; *Scotland's colleges 2015*, Audit Scotland, April 2015.

2 Until 1992, all publicly funded colleges were run by local authorities. Under the Further and Higher Education (Scotland) Act 1992, most of these colleges established their own corporate body and boards of management. The boards of management took over responsibility for the financial and strategic management of the colleges. These colleges are referred to as incorporated colleges and produce accounts subject to audit by the Auditor General for Scotland. The remaining six colleges are generally referred to as non-incorporated colleges. Scotland's Rural College (SRUC) is classed as a higher education institution but counts towards the achievement of the national target for colleges.

3 Orkney College and Shetland College are controlled by the respective local authority, and prepare their accounts for the same financial year end as the local authority.

4 These are produced by HM Treasury and published on the www.gov.uk website.

5 Incorporated colleges only.

6 Written evidence submitted by Colleges Scotland to the Scottish Affairs Committee, March 2018.

7 The other non-incorporated colleges (Orkney, Shetland, West Highland and Argyll) are part of the Highlands and Islands region.

8 Attainment and retention figures are derived from the SFC's Performance Indicators for 2016-17.

9 Positive destinations are from the most recent data available (2015-16), and represent only known destinations. The destination data is for all full-time students (including both HE and FE), except for UHI and SRUC where the HE data is not available. 87 per cent of leavers' destinations could be confirmed (86 per cent in 2014-15).

10 Based on SCQF level. SCQF level progression information was available for 87 per cent of college leavers.

11 HE figures have been excluded here as HE data for UHI colleges and SRUC is reported differently.

12 2016-17 was only the second year that the SFC has collected satisfaction data across all colleges and modes of study. The SFC publishes student satisfaction results on a sector-wide basis but not currently for individual colleges due to the variation in response rates to college surveys. It is working with colleges to improve their survey response rates.

13 *A New Social Contract for Students: Fairness, Parity and Clarity*, Student Support Review in Scotland, Autumn 2017.

14 230 students did not give their gender or described it as 'other'.

15 North East College Scotland, City of Glasgow College, Glasgow Kelvin College, North Highland College, Orkney College and Shetland College.

16 Orkney College is one of two colleges run by the local council (the other being Shetland). The college board members are determined by the council. The Accounts Commission's recent Best Value report identified a gender imbalance across councillors for Orkney Islands Council. (*Best Value Assurance Report: Orkney Islands Council*, Accounts Commission, December 2017).

17 Under the Further and Higher Education (Scotland) Act 2005 every incorporated college is either designated as a regional college or assigned to a regional strategic body.

18 *The 2014/15 audit of Glasgow Colleges' Regional Board*, Auditor General, March 2016.

# Appendix 1

## Audit methodology

### Our audit involved the following:

- Analysing relevant Scottish Government budget documentation, colleges' audited accounts and auditors' reports covering the financial periods ending July 2017.
- Analysing information held by the SFC, including performance and activity data.
- Interviewing a wide range of stakeholders. These included college principals, senior college staff, regional chairs, Colleges Scotland, staff and student unions, trade unions, the SFC and the Scottish Government.
- Data we requested from colleges' local external auditors.

This report focuses on incorporated colleges. We state clearly where we include data relating to non-incorporated colleges.

**Detailed methodology for specific sections in the report:**

Underlying financial position (paragraph 10)

Incorporated colleges reported an overall deficit of £20.5 million in their 2016-17 audited accounts. This compares with an overall deficit of £19.4 million in 2015-16 audited accounts. In reporting the underlying financial position we have used the SFC's data for each college based on the accounts direction it issued in 2017.

Calculating student numbers (paragraph 37)

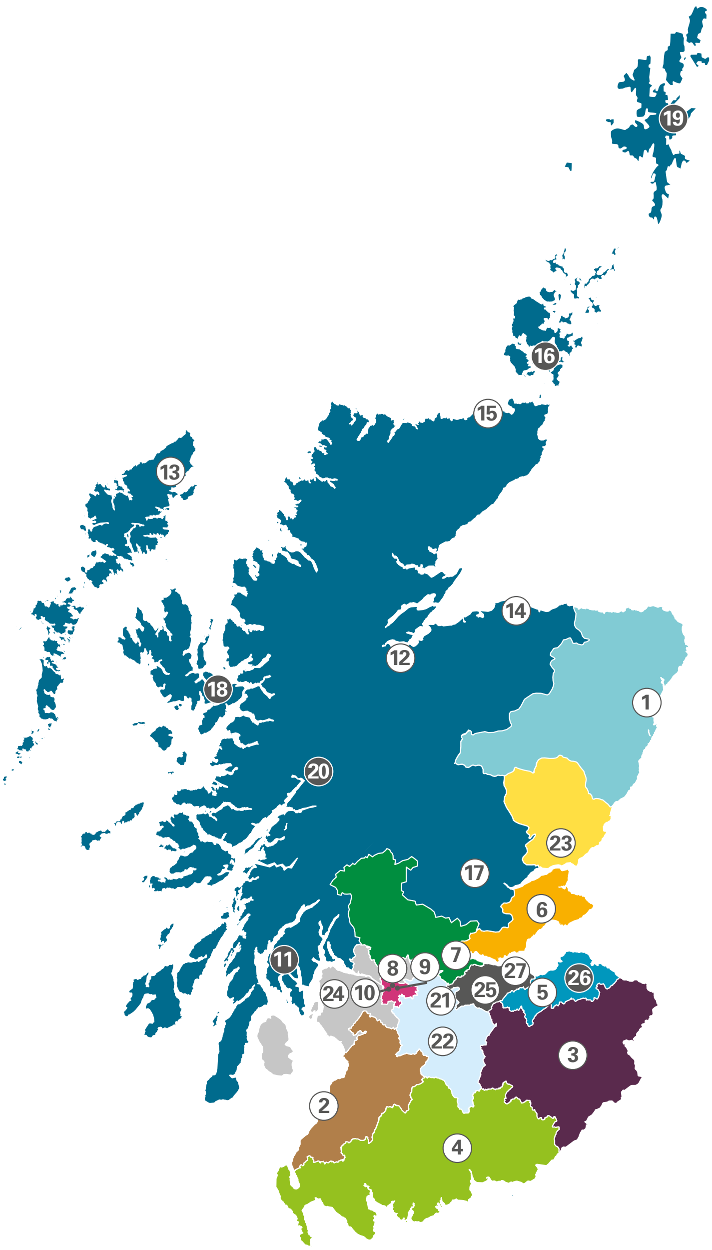
In this report we present student numbers by headcount, drawn from the SFC's Infact database. Where possible, this headcount excludes any multiple enrolments, meaning if a student had been enrolled at two colleges in 2016-17 they would only be counted once. Where we show full-time and part-time student numbers this will include multiple enrolments.

In previous college overview reports, we have presented student numbers for incorporated colleges only. For Scotland's colleges 2018, we have expanded our analysis to include non-incorporated colleges and SRUC to give a comprehensive picture of performance against the Scottish Government's national target for learning activity. If we analyse only the incorporated colleges in line with our approach last year, we see that headcount has increased by four per cent, and the trend is the same as for the whole sector.

The student population data from the SFC's Infact database includes the data for Argyll and West Highland Colleges within the figures for North Highland College, so we are unable to identify trends in the student numbers data for these colleges separately.

# Appendix 2

## Scotland's college landscape 2018




| Region | | College |
|---|---|---|
| Aberdeen and Aberdeenshire | 1 | North East Scotland College |
| Ayrshire | 2 | Ayrshire College |
| Borders | 3 | Borders College |
| Dumfries and Galloway | 4 | Dumfries & Galloway College |
| Edinburgh and Lothians | 5 | Edinburgh College |
| Fife | 6 | Fife College |
| Central | 7 | Forth Valley College |
| Glasgow | 8 | City of Glasgow College |
| | 9 | Glasgow Clyde College |
| | 10 | Glasgow Kelvin College |
| Highlands and Islands | **11** | **Argyll College** |
| | 12 | Inverness College |
| | 13 | Lews Castle College |
| | 14 | Moray College |
| | 15 | North Highland College |
| | **16** | **Orkney College** |
| | 17 | Perth College |
| | **18** | **Sabhal Mòr Ostaig** |
| | **19** | **Shetland College** |
| | **20** | **West Highland College** |
| Lanarkshire | 21 | New College Lanarkshire |
| | 22 | South Lanarkshire College |
| Tayside | 23 | Dundee and Angus College |
| West | 24 | West College Scotland |
| West Lothian | 25 | West Lothian College |
| n/a | **26** | **Newbattle Abbey College** |
| n/a | 27 | SRUC |

Note: The map shows the 20 incorporated colleges, the six non-incorporated colleges in Scotland (in bold) and Scotland's Rural College (SRUC) which is classed as a higher education institution but counts towards the achievement of the national target for colleges.

Source: Audit Scotland

# Scotland's colleges 2018

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# The 2016/17 audit of Edinburgh College

AUDITOR GENERAL

Prepared for the Public Audit and Post-Legislative Scrutiny Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
April 2018

## Auditor General for Scotland

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- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

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- NHS bodies
- further education colleges
- Scottish Water
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

# Contents

## Introduction

1. I have received the audited accounts and the independent auditor's report for Edinburgh College for 2016/17. I am submitting these financial statements and the independent auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

2. I have prepared two previous reports on Edinburgh College under section 22(3), for 2014/15 and 2015/16, to draw Parliament's attention to concerns about the financial sustainability of the college.

3. In my 2015/16 report (March 2017) I concluded that the college had put in place more robust governance arrangements and while there was an overall picture of progress and improvement, the college's financial position remained challenging.

4. The purpose of this report is to draw Parliament's attention to the progress Edinburgh College has made towards financial sustainability. My report is based on information provided through the 2016/17 audit of Edinburgh College and additional work undertaken by the auditor.

## 2016/17 audit opinion

5. The auditor issued an unqualified opinion on Edinburgh College's financial statements for 2016/17. The college reported an operating deficit of £2.479 million for 2016/17 (2015/16 £7.035 million deficit) which compared well with the business transformation plan (BTP)[1] forecast deficit of £3.814 million.

6. Colleges' accounts include an analysis of the underlying financial position which removes items such as pension and depreciation adjustments and other exceptional items. Excluding these items and the £2.9 million additional financial support provided by the Scottish Funding Council (SFC), the underlying position for Edinburgh College for 2016/17 was a £2.544 million deficit (2015/16 £3.862 million deficit). The £2.9 million additional financial support provided by the SFC will be repayable through adjustments to future grant funding.

7. The auditor highlighted that the college exceeded the target agreed with the SFC for learning activity in 2016/17 and that the college met its financial targets for 2016/17. The auditor also noted that the college will need to ensure that the savings achieved to date are sustained in future years.

## Current financial position and future sustainability

### Financial position

8. The auditor confirmed that the college has established good monitoring processes for the BTP which involves regular monitoring group meetings involving the college's Executive Team and the SFC.

[1] The college developed its business transformation plan to help it move to a sustainable financial position by improving operations and the delivery of core activity.

9. As noted, the college's financial position had improved by the end of 2016/17. For 2017/18, the BTP forecast a deficit of £0.546 million, followed by a surplus of £0.584 million in 2018/19. In the college's management accounts for the six months to January 2018, the projected deficit for the year had increased to £0.56 million, slightly above the BTP forecast.

10. In November 2016, the SFC provided written assurances to the college that it will continue to support the college through to 2018/19, when the transformation plan is due to be fully implemented. The £2.9 million additional financial support provided by the SFC will be repayable through adjustments to future grant funding.

## Activity targets

11. The financial sustainability of Edinburgh College is dependent on its ability to deliver its annual activity target. The college's activity target for 2016/17 was 186,028 credits. It delivered a total of 186,978 credits. This is the first time since the college merger in 2012 that the college has achieved its activity target.

12. The SFC and the college agreed an increased total activity target of 187,742 credits for 2017/18. The college reports that it had delivered 188,476 credits by mid-February 2018. This means that the college has met its activity targets for 2017/18 and is now in discussion with the SFC to secure additional funding. The college plans to continue to seek modest increases to its activity target. Growth will depend on the availability of SFC funding and on successful delivery of the college's new curriculum.

## Planned savings

13. The BTP is now in its third and final year. At the February 2018 meeting of the college's Policy and Resources Committee, management advised members that the majority of projects were either closed or in their final stages, and that the college was preparing formal project closure reports and lessons learned reviews. Formal closure of the BTP has still to take place; this is likely to be later in 2018 and will require SFC approval.

14. The college planned for four voluntary severance schemes from 2015/16 to 2017/18, with a target reduction of around 134 FTE staff. The college anticipates that, in total, these schemes will deliver recurring savings of £4.6 million by the end of 2018/19. The SFC is providing £3.3 million of support for these schemes. The three schemes implemented to date have resulted in 112 FTE staff leaving which delivered savings of £3.55 million.

15. The fourth scheme was launched in March 2018 with a target saving of £0.35 million. Achieving this saving will be challenging. Total savings from the voluntary severance schemes will not achieve the original anticipated target. The college is considering alternative options to achieve the necessary savings.

16. In addition to savings generated from the three voluntary severance schemes to date, the college has achieved savings from other sources. These other savings include deleting posts from the establishment and operational savings such as property and IT costs. These other

savings exceeded the target for 2016/17, generating £1.34 million against a target of £0.38 million.

17. The BTP sets out total forecast savings (including voluntary severance savings) of £5.43 million over the three years to the end of 2017/18. At the end of 2016/17, savings had exceeded the target of £4.63 million by £0.26 million. The college is looking to achieve further savings of £0.54 million in 2017/18.

18. By the end of January 2018, the college reported savings of £0.15 million. This leaves a gap of £0.39 million to be achieved in the second half of the financial year. The college is confident that the savings will be achieved.

19. In September 2017, the college's Board of Management approved the new Strategic Plan for 2017-22 and associated 'Blueprint'. The Blueprint describes how the college will deliver the vision, mission and strategic aims of the Strategic Plan, and will be managed by a portfolio board made up of Executive Team members and the college Programme Management Office.

## Conclusion

20. The college has made good progress in its BTP with the majority of projects closed or in the final stages of completion. Learning activity targets for 2017/18 have been met. Management are confident that the planned financial position will be achieved. They acknowledge that while further action is required and that risks remain, the college is on track to return to a sustainable financial position.

21. The College Principal has announced that she intends to retire from September 2018. The principal has led the college through its transformation. A new Chair of the Board was appointed in March 2018, replacing the current chair who had held the position since incorporation in 2012. The new chair has been the Principal and Vice Chancellor of Aberdeen University for eight years. The challenge for the new leadership team is to continue the process of transformation to secure the college's future financial sustainability.

22. As with other colleges, Edinburgh continues to face financial pressures. For example, it will need to meet the costs arising from the national pay awards and increased employer pension contributions.

23. It is imperative that the college continues to closely monitor its financial performance to ensure that targets are met and that financial sustainability is achieved. Leadership capacity and the momentum for transformation need to be continued and maintained over this period of change.

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# The 2016/17 audit of New College Lanarkshire

AUDITOR GENERAL

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Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
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2. The purpose of this report is to draw Parliament's attention to the financial challenges New College Lanarkshire faces and the potential impact on its longer-term financial sustainability.

## The auditor's opinion

3. The auditor gave an unqualified opinion on New College Lanarkshire's financial statements for 2016/17 but has highlighted concerns about the college's financial sustainability. In 2016/17, the Scottish Funding Council (SFC) provided the college with £1.9 million advance funding from the college's 2017/18 allocation. The college's underlying deficit in 2016/17 was £560,000 (one per cent of total income).

## Background

4. New College Lanarkshire is an independent body with charitable status as defined by the Further and Higher Education (Scotland) Act 1992. The college was established in November 2013 by the merger of Cumbernauld College and Motherwell College. Coatbridge College then joined in April 2014.

5. New College Lanarkshire is a regional college governed by the Lanarkshire Board. The Lanarkshire Board is the Regional Strategic Body. As well as being responsible for the governance of New College Lanarkshire, the Lanarkshire Board has statutory responsibilities in relation to South Lanarkshire College. The Lanarkshire Board has responsibility for ensuring that both colleges provide high-quality further and higher education.

6. In 2016/17, there were 16,385 learners at New College Lanarkshire and it employed 1,007 staff. Income for 2016/17 was £55.1 million.

7. Scotland's colleges 2017 reported that New College Lanarkshire had faced cash flow pressures during 2015/16.[1] The college's cash flow problems continued during 2016/17 and the college required financial support from the SFC.

## Financial difficulties

8. New College Lanarkshire's financial difficulties became apparent in 2015/16. As Scotland's colleges 2017 noted, the college indicated its cash flow problems were due to a combination of lower than expected levels of fee income and higher than expected costs associated with

[1] Scotland's colleges 2017, Audit Scotland, June 2017. Exhibit 8, page 20.

national bargaining, pensions and national insurance contributions. Despite the college taking steps to address these pressures, the financial difficulties continued during 2016/17.

9. Colleges generally operate on narrow margins. This means that relatively small changes in income or expenditure can push a college from a surplus into a deficit position and vice versa. New College Lanarkshire has indicated that a number of factors contributed to it setting a very tight budget in 2015/16. As well as the cost increases for pensions and national insurance contributions, there were unexpected costs associated with Coatbridge College. While the costs presented the college with challenges, it had incorporated these into its financial plans for 2015/16 and had forecast a break-even position for that year.

10. The college's budget for 2015/16 included a target of £6.1 million for Fee and Educational Contract Income. However, this proved to be overly ambitious and the college received only £5.2 million. The college also did not plan fully for some of the costs associated with national bargaining. After 20 years of locally negotiating staff pay, terms and conditions, the Scottish Government reintroduced national bargaining to the college sector. In March 2016, the National Joint Negotiating Committee agreed pay increases for all college staff for 2015/16 (backdated to April 2015) and 2016/17. Scotland's colleges 2016 highlighted national bargaining as a cost pressure and recommended that colleges develop long-term financial strategies, underpinned by medium-term plans, which take account of significant financial pressures.[2]

11. Negotiations on national bargaining were ongoing when New College Lanarkshire set its budget, so the college could not have predicted a precise cost for this. However, it did not include any cost in its budget and the final additional cost was £400,000.

## Initial action to address cash flow problems

12. During 2015/16, the college tried to manage its cash flow problems. It delayed payments to creditors and sought to receive quicker payments from debtors, but this did not address the underlying problems. In the summer of 2016, the Chair of the Lanarkshire Board and the college principal were concerned that there had been significant fluctuations in the college's financial position late in the financial year, when it was too late to take corrective action. In July 2016, at the same time as making internal enquiries of staff, the college began discussions with the SFC about these concerns. The college indicated that it was forecasting a deficit position for 2015/16 and that it was likely to experience cash flow problems. The SFC and New College Lanarkshire continued to discuss the financial position over the following months.

13. At the September 2016 meeting of the college's Finance Committee, the Chair of the Lanarkshire Board and college's principal informed members about financial reporting concerns. They also informed the committee of their decision to commission an external review of the college's finance function, including skills and reporting arrangements. The committee supported this action. The Board's Chairs' Committee considered the report in

[2] Scotland's colleges 2016, Audit Scotland, June 2016.

November 2016 and established a sub-committee to oversee the college's response to the findings.

14. The college's internal auditors also reviewed its budgetary controls processes. The internal audit identified major weaknesses in systems. The college's Audit Committee considered the internal audit findings in November 2016. The college put in place an action plan and has addressed the eight recommendations, including improving its financial reporting.

15. College management informed the Lanarkshire Board in October 2016 that the impact of the 2015/16 cost pressures would result in a forecast deficit for 2016/17. In December 2016, the college forecast that the cash shortfall would be £2 million by March 2017 and made a formal request for financial support to the SFC in January 2017. The SFC provided £1.9 million to the college in July 2017. This was advance funding, and the SFC reduced the college's 2017/18 funding by the same amount. The SFC provided the advance funding on the condition that the college develop a Business Scenario Plan to address the underlying cost pressures

## Future financial sustainability

16. Since we reported our concerns in *Scotland's colleges 2017*, the college has been working closely with the SFC on its Business Scenario Plan. This proposes a number of actions to reduce costs over the period 2017/18 to 2021/22. Options include changes to operating structures and to infrastructure, all of which would require significant capital and revenue funding in the first instance.

17. Developing the plan has been an iterative process, with the SFC providing feedback to the college on the options. The college submitted a draft plan to the SFC for review in May 2017. A second draft was submitted in August 2017, and a further draft was submitted in April 2018. The college is starting to implement some approved elements of the plan. For example, in November 2017, the SFC agreed to provide the college with strategic funding of £866,000 for a voluntary severance scheme and, in February 2018, it agreed a further £225,000.These are one-off payments that the college does not have to repay.

18. The college's underlying deficit in 2016/17 was £560,000 (one per cent of total income), compared to an underlying deficit of £2.2 million in 2015/16 (four per cent of total income). While the college has yet to finalise the Business Scenario Plan, it implemented some cost saving measures in 2016/17, including reducing both its estate and its information and communication technology costs. This delivered savings of around £2 million. The draft Business Scenario Plan forecasts underlying deficits of £657,000 in 2017/18 and £346,000 in 2018/19. It is forecasting a surplus of £1.1 million in 2019/20, and surpluses of £997,000 in 2020/21 and £916,000 in 2021/22.

## Conclusion

19. In Scotland's colleges 2017, I commented on the issues New College Lanarkshire faced during 2015/16. The college had to absorb a number of unexpected costs in 2014/15, which led to it setting a very tight budget for 2015/16. However, the college did not plan effectively

for all known additional costs and was overly optimistic in its assumptions for generating income in 2015/16. While the college made some savings these were not enough and its financial difficulties continued in 2016/17. It received an advance of its 2017/18 allocation from the SFC. The college also received additional strategic funding from the SFC in 2017/18 and expects it will require further additional funding to bring it to a stable financial position. At the time of this report, the SFC and the college had yet to agree the amount of funding. The college has taken steps to improve the quality of financial performance monitoring and forecasting. It is working with the SFC to deliver a sustainable business model. I have asked the auditor to keep the position under review.

# The 2016/17 audit of New College Lanarkshire

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**DRAFT – ANNUAL REPORT OF THE AUDIT COMMITTEE 2017-18**

## 1 PURPOSE OF REPORT

1.1 To advise the Board of Management of the activities and decisions of the Audit Committee during Financial Period 2017-18 and to provide opinions on matters specified by the Code of Audit Practice.

## 2 BACKGROUND TO REPORT

2.1 It is a requirement of the Code of Audit Practice and the College's Standing Orders and Financial Regulations that the Audit Committee provides the Board with an Annual Report so that all members of the Board can be fully informed of, amongst other things, aspects of the system of Internal Control.

## 3 ADMINISTRATIVE MATTERS

3.1 The period covered by this report is the twelve-month period 1 August 2017 to 31 July 2018.

3.2 The membership of the Committee during the period was:

Hugh Carr, Chair
Delia Holland
Pat Kirby
Stuart Martin
Naomi Johnson

3.3 Other attendees at Audit Committee meetings include:

Brian Johnstone, Chair of the Board of Management
Carol Turnbull, Principal
Andy Glen, Vice Principal Planning & Performance
Helen Pedley, Vice Principal Corporate Services (until December 2017)
Ann Walsh, Secretary to the Board
Karen Hunter, Finance Manager
Representative from RSM, Internal Auditors
Representative from Scott Moncrieff, External Auditors

3.4 During the relevant period, the Committee's formal meetings were as follows:

| Date of Meeting: | Board members present: |
|---|---|
| 19 September 2017 | Hugh Carr<br>Delia Holland<br>Pat Kirby<br>Stuart Martin<br>Naomi Johnson |
| 21 November 2017 | Hugh Carr<br>Pat Kirby<br>Stuart Martin<br>Naomi Johnson |
| 21 February 2018 | Hugh Carr<br>Pat Kirby<br>Stuart Martin<br>Naomi Johnson |
| 18 May 2018 | Hugh Carr<br>Pat Kirby<br>Stuart Martin<br>Naomi Johnson |

There was an average attendance of 4.25 members (85%).

## 4 INTERNAL AUDIT

4.1 RSM acted as internal auditors throughout the year.

4.2 RSM have provided their Annual Audit Report for 2017-18. The opinion for the 12 months ended 31 July 2018 was as follows:

'***Head of internal audit opinion 2017-18***

*The organisation has an adequate and effective framework for risk management, governance, internal control and economy, efficiency and effectiveness.*

*However, our work has identified further enhancements to the framework for risk management, governance, internal control and economy, efficiency and effectiveness to ensure that it remains adequate and effective.'*

A copy of the full report is detailed in RSM's Annual Internal Audit Report - Year ended 31st July 2018.

4.3 A summary of the internal audit undertaken, and the resulting opinions, is provided below:

| Assignment | Assurance level | Actions agreed H | M | L |
|---|---|---|---|---|
| Student Activity Data | Substantial assurance | 0 | 0 | 0 |
| Student Support Fund | Substantial assurance | 0 | 0 | 0 |
| HR Management Sickness Absence | Reasonable assurance | 0 | 1 | 4 |
| Complete Training Solutions | Reasonable assurance | 0 | 3 | 1 |
| Student Journey | Reasonable assurance | 0 | 2 | 3 |
| Procurement | Reasonable assurance | 0 | 0 | 4 |
| Follow-up of Previous Internal Audit Recommendations | Reasonable progress | | | |
| **Total (2017-18)** | | **0** | **6** | **12** |
| Total (2016-17) | | 3 | 17 | 11 |

4.4 The recommendations are categorised by the auditors according to the level of priority – High, Medium and Low, and are prioritised to reflect the auditors' assessment of risk associated with the control weaknesses.

In addition, Suggestions may be included as part of the Action Plan reported. These are not formal recommendations that impact the overall audit opinion, but used to highlight a suggestion or idea that management may want to consider.

6 of the recommendations made during the year were categorised as Medium Priority, with 12 categorised as Low Priority.

No High Priority management actions were made during the year.

4.5 Where a recommendation is not accepted this is documented in the individual audit reports considered by the Audit Committee. In general, recommendations may not be accepted where it is considered that the benefits of implementation are outweighed by the costs.

4.6 Assurance on the adequacy of internal controls within the College arises only from the results of reviews that have been completed during the period in accordance with the programme approved by the Audit Committee. In this context it is important to note that:

- It is management's responsibility to maintain internal controls on an ongoing basis;
- The internal audit function forms part of the overall internal control structure of the Board; and

- Whilst the Internal Auditors have planned their work so that they have a reasonable expectation of detecting significant control weakness, internal audit procedures do not guarantee that fraud will be detected.

It is the responsibility of internal audit to assess the adequacy of the internal control arrangements put in place by management and to perform testing to ensure that these controls were operating for the period under review.

**5 EXTERNAL AUDITORS**

5.1 The external auditors throughout the period were Scott Moncrieff Chartered Accountants, Exchange Place 3, Semple Street, Edinburgh.

5.2 The external auditors were appointed by Audit Scotland for the five-year period 2016-17 to 2020-21.

5.3 The fundamental objective of the planning, approach and execution of the audit is to enable the auditors to express an opinion on whether or not the financial statements, as a whole, give a true and fair view of the activities of the College since the last audit and of its state of affairs as at the Balance Sheet date.

5.4 We confirm that the external auditors have been approved by the Auditor General in accordance with the Code of Audit Practice and the letter from the Auditor General dated 20 April 2000 for provision of external audit services for the financial period 2017-18.

5.5 The external audit of the financial statements for the period ended 31st July 2018 commenced in September 2018, and Scott Moncrieff are expected to issue their report 'Dumfries and Galloway College 2017-18 Annual Audit Report to the Board of Management and the Auditor General for Scotland' in November.

**6 THE FINANCIAL STATEMENTS**

6.1 The External Auditors will provide their Annual Report to the Board of Management following completion of their work as noted above

## 7 VALUE FOR MONEY PROGRAMME (VFM)

7.1 RSM did not perform a specific value for money review at the College, but considered the value for money arrangements as part of the Procurement and Complete Training Solutions (CTS) reviews.

7.2 Both reviews resulted in reasonable assurance opinions and management actions were raised to improve the control framework.

## 8 OTHER MATTERS

8.1 There are no matters arising from trusts, joint ventures, subsidiary or associated companies.

8.2 There were no issues of alleged fraud/irregularity investigated during the audit period.

8.3 There are no foreseeable events that will affect the work of the Audit Committee.

## 9 GOOD GOVERNANCE

9.1 In line with the 'Code of Good Governance for Scotland's Colleges' the College Internal and External Auditors have access to the Audit Committee members to discuss any issues without College staff being present.

9.2 At the Audit Committee meetings held on 19 September and 21 November 2017, the Chair asked members of the Executive Management Team and Finance Manager to withdraw from the meeting in order for the Committee to meet privately with internal and external auditors, in accordance with the Code of Good Governance for Scotland's Colleges. The Chair sought feedback from internal and external auditors on any matters they wished to raise without staff present. Both advised there were no concerns or observations that needed to be raised, and there was good transparent working between the Board and Operational Team.

## 10 OPINION

10.1 The Audit Committee's opinion will be reported for the final report following completion of the Financial Statements audit, when the External Auditors' reports are available.

## 11 RECOMMENDATION

11.1 It is recommended that the Board take note of the work of the Committee for the period August 2017 to July 2018.

**Audit Committee**

# Cyber Resilience Update

## 1 Purpose of the Report

The purpose of this report is to provide the Audit Committee with an update on Cyber Resilience following the previous meeting.

## 2 Requirements for Cyber Resilience

In November 2017 the Scottish Government launched the Cyber Resilience Public Sector Action Plan which provided set key actions and milestones for public sector bodies to further enhance their cyber resilience.
One of the key milestones was for public sector bodies to implement a minimum of Cyber Essentials by the end of October 2018.
Cyber Essentials is a Government back, industry supported scheme which will help organisations protect themselves against cyber-attacks. Cyber Essentials includes an assurance framework as well as simple security controls designed to protect from incoming attacks.
Cyber Essentials has 5 key requirements which must be met to gain certification as follows:

- Firewalls
- Secure Configuration
- User Access Control
- Malware Protection
- Patch Management

All areas must be satisfactorily assessed before certification is achieved.

## 3 College Position

The College undertook the Cyber Essentials pre assessment in February 2018 in partnership with Barrier Networks, cyber security specialists.
Through this pre assessment the College gained a better understanding of its operational position in terms on cyber resilience and gained some actions on which to improve prior to going for any certification.
Following the implementation of the actions the College applied for testing against the Cyber Essentials criteria. This testing was successful and as such the College was awarded the Cyber Essentials certification in April, 6 months ahead of schedule.

**4. Future Planning**

The College is now working on a plan to continue the work on cyber resilience and move forward and has identified two options.

Option 1 would be to review our Cyber Essentials measures and apply for re certification in April 2019.
Option 2 would be to implement actions which would see the College apply for and achieve Cyber Essentials Plus.
The difference between the 2 levels is where Cyber Essentials is through self-assessment Cyber Essentials plus involves the use of an independent assessment via a certifying body.
This does make Cyber Essentials plus more difficult to achieve however the certification is held in high regard across industry.

The Head of Corporate Services is currently working with the Chief Information Security Officer (Shared Service), and will work with the new ICT Manager once in post, to identify the actions required to achieve Cyber Essentials Plus with the aim of creating a plan of which certification would be the most realistic to aim for.
The options will be weighed up on cost implications, if it is deliverable within the current workload and also the impact the SoSEP project will have on this.

The Head of Corporate services will provide a further update for the next meeting

**5. Recommendations**

Members are asked to note the report.

Andy Glen
Vice Principal, Business Development and Corporate Services
10th September 2018

# Audit Committee

## Report Title

### 1 Introduction

This report updates the committee on the changes made by APUC with respect to the provision of college shared service.

### 2 The Report

The college received the following letter from the CEO of APUC notifying us of this changed and inviting us to become full members of the new organisation. We have agreed to this after ensuring that there were no additional costs. We currently use shared services in our Data Protection Officer and also with an Information Support Officer who recently audited our ICT systems for Cyber Essentials accreditation.

***Agreement to Transfer / Novation of Shared Service Agreement below from APUC Ltd to HEFESTIS Ltd***

*As you may be aware, the board of APUC Limited ("**APUC**") has been considering the best means of dealing with the potential challenges of operating a growing information services shared service within the more restricted business structure of APUC as a designated centre of procurement expertise (which has a particular organisational status).*

*Having considered these challenges, the Board of APUC has decided to demerge this service into a new company intended to operate as a stand-alone shared service company co-owned by the institutions which utilise its services. The arrangements are heavily aligned to the other businesses that are currently run for the sector by APUC, these being APUC Ltd itself, UCSS Ltd, and Universities and Colleges Shared Services Ltd, which have all been formed slightly differently and to deal with particular needs over recent years).*

*Accordingly, HEFESTIS Ltd, company number SC603511, registered address, Stirling Business Centre, Wellgreen, Stirling, FK8 EDZ ("**HEFESTIS**") has been formed as a company limited by guarantee to provide this service.*

*In the short term, APUC will manage an Interim Board of HEFESTIS while the first permanent formal Board is established over the coming months. Support services for the time being, will be provided to HEFESTIS by APUC at cost on the same basis as other shared services arrangements. This shall include the services of the CEO, and for Governance, HR, Finance, Payroll and ICT services.*

*Institutions who wish to join as full Members will be encouraged to do so over the next 3-4 months although they will still be free to join after this point.*

*Proposals for HEFESTIS board members will then be sought from the membership both directly and via Members on the Steering Group of the relevant shared services (those initially being DPO-Share and CISO-Share). It is envisaged that the initial board of directors shall comprise senior managers, Vice Principals / COOs etc of one each from both the University and college sectors, plus two directors* *appointed from staff of Members within each Steering Group. This Board shall in due course determine the permanent appointment / designation of a CEO and longer term arrangements for the supply of support services etc., including determining which of these may be received from APUC and which may be arranged by HEFESTIS itself.*

*(This will all be discussed in more detail at the next CISO-Share and DPO-Share Steering Group meetings in September 2018.)*

*As part of the transfer to HEFESTIS of information services shared service arrangements, it is necessary to transfer and novate the responsibility for the delivery of the CISO-Share services (and all financial liabilities and rights etc) covered by your agreement below with APUC to HEFESTIS with effect from 1st August 2018 ("**Transfer Date**").*

*With effect from the Transfer Date:*

*(a) APUC shall no longer provide services directly in respect of shared information services;*
*(b) obligations of APUC in your agreement with APUC shall be deemed to constitute obligations of HEFESTIS; and*
*(c) institutions receiving services shall, in addition to being clients, be given the status of Associate Members of HEFESTIS and may become full Members with rights to vote for the HEFESTIS Board and to have their staff stand for appointment to the company's Board.*

*As Associate Members and clients of the service, you will have the right to sit on the CISO-Share Steering Group (as is currently the case) to provide meaningful direction on how the shared services are delivered, thus ensuring that your access to the HEFESTIS shared service meets the legal requirements for a legally allowable shared service exempt from the public procurement regulations. Full members will benefit from more extensive exemptions from the public procurement regulations on the grounds of their ability to exercise control over HEFESTIS' functions.*

*Joining as a full Member is optional and not required to continue to receive services. Being a full Member means that in additional to the opportunity to vote for and potentially operate on the Board, the member institution accepts a nominal share of the liabilities of the company in the event of failure of up to £1 (one pound) in total, in the same way as the "limited by guarantee" arrangement the institutions currently have with membership of APUC operates). If you wish to join as a full Member, please let us know and we can send you the one page membership document to be signed.*

*Please reply to confirm that you agree to the novation of your agreement with APUC for the services transferred to HEFESTIS with effect from the Transfer Date. If we do not hear from you within 7 days of the date of this letter, or if you continue, after the Transfer Date, to use information services provided by HEFESTIS following the transfer of these functions from APUC, then you shall be deemed to have agreed to the novation.*

## 3 Recommendation

The Committee is asked to note the changes made by APUC with respect to the provision of shared services to our College.

Andy Glen
Vice Principal, Business Development and Corporate Services
16/8/2018

Dumfries & Galloway College

**Audit Committee**

## Strategic Risk Register

### 1 Introduction
The purpose of this paper is to provide the Audit Committee with the opportunity to review the College's Strategic Risk Register.

### 2 The Report
The format of the Strategic Risk Register has been revised. Both the new, and the old versions are being presented to the committee to enable the Principal to explain the new version and how the current risks have been mapped across.

The Strategic Risk Register will continue to be presented at each committee and members asked to pay particular attention to risks pertaining to the work of that committee. There is still the opportunity to discuss other risks at full Board meetings.

### 3 Recommendation
It is recommended that members consider and, if so minded, approve the revised Strategic Risk Register.

Carol Turnbull
Principal
September 2018

# Strategic Plan 2017-2018 Risk Register

| Risk No. | Risk Description | Inherent Risk | | | Controls in Place | Assurances | Internal/ External | Residual risk | | | Further Action | Committee |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Likelihood | Impact | Total | | | | Likelihood | Impact | Total | | |
| 1 | National Pay Bargaining | **4** | **4** | **16** | 1. Detailed financial planning undertaken and approved by Finance and General Purposes Committee to ensure "affordability" of any offer.<br>2. National negotiation processes in place with recognised unions.<br>3. Government public sector pay guidance for 2017-18 is for maximum 1%, College budget will reflect this. | 1. Feedback to EMT and the Board<br>2. Included in budget which is monitored and reported through F&GP and Board<br>3. Sound internal planning and monitoring to ensure service continuity in event of industrial action<br>4. College adopts a pragmatic approach to budget and scenario planning. | Internal/ External | **2** | **4** | **8** | December 2017 - EIS have declared a formal dispute in respect of 2017/18 Cost-of-Living Pay Award.<br><br>May 2018<br>Indicative offer of grant indicates that costs of harmonization for lecturers' salary have been included.<br><br>September 2018<br>No further update. EIS are undertaking a consultative ballot with members in respect of dispute. | F&GP Board |
| 2 | Public sector funding cuts – forecast for session 2017-18 | 1 | 4 | **4** | 1. Scenario planning undertaken and measures to offset reduction identified which is then used to inform curriculum planning.<br>2. Annual review of provision undertaken through planning and budgetary process to ensure match of income and expenditure. | 1. Curriculum plans approved by EMT and L&T<br>2. Budget approved by the Board | Internal | **1** | 4 | **4** | November 2017 - Current Budget for 2017-18 forecast break-even position.<br><br>December 2017 - Recent budget announcement forecast flat cash settlement for colleges, however details unknown at this stage.<br><br>February 2018 - Break-even position forecast for 2017-18. | **F&GP Board** |
| 3 | Flexibility of the college to manage financial and estates issues and meet targets in the Outcome Agreement | 4 | 4 | **16** | 1. Executive Management Team and Finance Manager representation at relevant briefings and ongoing monitoring of changes<br>2. External audit advice | 1. Appropriate and robust internal planning and monitoring arrangements<br>2. Regular liaison with Scottish Funding Council | Internal/ External | **3** | 3 | **9** | The Board of Management and EMT continue to monitor the situation.<br>December 17 - Capital Funding remains a concern.<br><br>May 2018<br>Indicative offer of grant indicates sufficient funding to deal with estates maintenance but does not allow for capital investment. | **Board** |

# Strategic Plan 2017-2018 Risk Register

| Risk No. | Risk Description | Inherent Risk | | | Controls in Place | Assurances | Internal/ External | Residual risk | | | Further Action | Committee |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Likelihood | Impact | Total | | | | Likelihood | Impact | Total | | |
| 4 | Unable to achieve credit (activity) target | 2 | 4 | **8** | 1. Real time monitoring system.<br>2. Contingency plans in place to offer additional provision as required.<br>3. Annual review of staffing and provision to rebalance areas of growth with areas of decline.<br>4. Annual review carried out by internal | 1. Reviewed by EMT on a weekly basis<br>2. Curriculum areas looking to run additional courses to address shortfall.<br>3. KPI reported and discussed at each board meeting<br>4. Provision made in accounts for clawback<br>5. Marketing strategies for 18/19 recruitment | Internal/ External | **2** | 3 | **6** | May 2018 – We were unable to achieve childcare credit target of 268 additional credits but are currently 500+ over our core target<br><br>September 2018 – We are forecasting a shortfall of 90 credits on our childcare credit target which equates to approximately £20k of funding. This has been accounted for as a potential claw back in the 2018-19 budget. | **F&GP Board** |
| 6 | Failure to achieve attainment targets | 4 | 4 | **16** | 1. Real time monitoring systems in place<br>2. Strategies in place to improve retention.<br>2. Strategies in place to improve student success<br>3. Poorly performing programmes removed from the curriculum. | 1. Monitored at course level and review by Vice Principal (Learning and Skills)<br>2. Monitored through self-evaluation process and reported to ET and L&T committee | Internal/ External | **3** | 4 | **12** | Moving forward achieving attainment targets agreed with the SFC in the Regional Outcome may be a condition of grant. Low attainment can also be detrimental to college reputation.<br><br>September 2018 – Final figures are not yet available but indications are that attainment has reduced by 2%. Further analysis is being undertaken by VP L&S and curriculum teams. | **L&T Board** |
| 9 | Prevent Duty – disruption due to threat of extremism / risk of external influences | **3** | **4** | **12** | 1. Vice Principal attendance at local multi-agency CONTEST group<br>2. Regular reporting of Prevent issues at EMT.<br>3. Constant scanning to identify new potential threats. | 1. College Prevent Action Plan<br>2. CONTEST meetings/minutes<br>3. EMT meetings/minutes<br>4. 80% staff trained by Sept '17 | External/ Internal | **1** | **2** | **2** | Vice Principal leading on Prevent Action Plan, any issues would be identified through regular reporting at EMT. Immediate concerns to be raised with contact within Police Scotland. Review of evacuation procedures in relation to 'stay safe' has taken place. The College is kept updated through SOCCT Group and appropriate action taken | **Audit Board** |
| 10 | Imbalance between demand for student support funds/bursaries and funds available | **3** | **3** | **9** | 1. Detailed analysis and monitoring of spend undertaken on an ongoing basis by Finance Manager, discussed regularly with Principal<br>2. Allocation and amounts reviewed on an annual basis to ensure funding constrained within amount available.<br>3. Annual review carried out by internal audit | 1. EMT Meetings/Minutes<br>2. Internal Audit Report presented to Audit Committee | Internal/ External | **1** | **3** | **3** | February 2018 - College received additional student support grant that will meet demand.<br>September 2018 – changes have been made to student support funding for 2018-19 and impact will be monitored through the year. | **F&GP Board** |

# Strategic Plan 2017-2018 Risk Register

| Risk No. | Risk Description | Inherent Risk | | | Controls in Place | Assurances | Internal/ External | Residual risk | | | Further Action | Committee |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Likelihood | Impact | Total | | | | Likelihood | Impact | Total | | |
| 13 | Cyber attack | **3** | **4** | **12** | 1. Janet network (via JISC) provides secure connectivity.<br>2. Regular reporting at ET.<br>3. Constant scanning to identify potential attacks/network vulnerabilities.<br>4. VP CS&G and IT Manager meets regularly with JISC account Manager | 1. Janet secure network provides a high speed, highly reliable and secure, world-class network, enabling national and international communication and collaboration to the UK research and education community.<br>2. Regular updates from JISC on potential attacks/network vulnerabilities<br>3. EMT meetings/minutes<br>4. Internal Audit 2016/17 | External/ Internal | **1** | **4** | **4** | Jisc's Security Operations centre is responsible for monitoring and resolving any security incidents (detect, report, investigate) that occur on the network. They also provide an enhanced service for the detection and mitigation of Denial of Service (DoS) attacks that occur across the network.<br><br>May 2018<br>College received Cyber Essentials Compliance certificate in April 2018. | **Audit Board** |
| 14 | Non-compliance with GDPR | **3** | **4** | **12** | 1. Recruitment of specialist, 1 day per week in partnership with Ayrshire College and Conservatoire in Glasgow.<br>2. JISC undertaking audit of college current processes.<br>3. Internal check on systems and Processes. 4. Online training of staff. | 1. Standing agenda item on Audit Committee agenda. 2. Senior College Manager leading on development. | External/ Internal | **3** | **4** | **12** | College is well placed in terms of data protection but work is ongoing to measure gap and take appropriate actions<br>.<br>May 2018 – All staff to undertake online training by end of May 2018. DPO Officer appointed. | **Audit Board** |

# Strategic Plan 2017-2018 Risk Register

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# Strategic Plan 2017-2018 Risk Register

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| 6 | Failure to achieve attainment targets | 4 | 4 | **16** | 1. Real time monitoring systems in place<br>2. Strategies in place to improve retention.<br>2. Strategies in place to improve student success<br>3. Poorly performing programmes removed from the curriculum. | 1. Monitored at course level and review by Vice Principal (Learning and Skills)<br>2. Monitored through self-evaluation process and reported to ET and L&T committee | Internal/ External | **3** | 4 | **12** | Moving forward achieving attainment targets agreed with the SFC in the Regional Outcome may be a condition of grant. Low attainment can also be detrimental to college reputation.<br><br>September 2018 – Final figures are not yet available but indications are that attainment has reduced by 2%. Further analysis is being undertaken by VP L&S and curriculum teams. | **L&T Board** |
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# Strategic Plan 2017-2018 Risk Register

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| 14 | Non-compliance with GDPR | **3** | **4** | **12** | 1. Recruitment of specialist, 1 day per week in partnership with Ayrshire College and Conservatoire in Glasgow.<br>2. JISC undertaking audit of college current processes.<br>3. Internal check on systems and Processes. 4. Online training of staff. | 1. Standing agenda item on Audit Committee agenda. 2. Senior College Manager leading on development. | External/ Internal | **3** | **4** | **12** | College is well placed in terms of data protection but work is ongoing to measure gap and take appropriate actions<br>.<br>May 2018 – All staff to undertake online training by end of May 2018. DPO Officer appointed. | **Audit Board** |

**Dumfries and Galloway College** **Strategic Risk Register 2018-19**

| | | | | | | |
|---|---|---|---|---|---|---|
| Post Holders | Board | Board of Management | HoC | Head of Curriculum | HoSS&G | Head of Student Support & Guidance |
| | ELT | Executive Leadership Team | HoP&Q | Head of Planning & Quality | | |
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| Score | Impact | Likelihood |
|---|---|---|
| 1 | Routine | Remote |
| 2 | Minor | Unlikely |
| 3 | Significant | Possible |
| 4 | Major | Probable |
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| Risk Number | POTENTIAL CONTRIBUTING FACTORS<br>Risks | Impact | Likelihood | Score | TREATMENT<br>Mitigation Actions | POST MITIGATION EVALUATION<br>Impact | Likelihood | Score | Monitoring | Responsibility |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Strategic and Structural** | | | | | | | | | |
| **1.1** | Failure of College strategy to meet the needs of Dumfries and Galloway Region and/or national priorities (eg Employability, DYW, attainment, articulation) | 4 | 4 | 16 | • Robust strategic planning<br>• Effective environmental scanning<br>• Strong partnerships<br>• Clear links between strategy and practice<br>• Concerted demands for increased activity levels | 4 | 1 | 4 | • Robust monitoring via ROA<br>• Clear performance metrics<br>• Amendment of strategic direction/plans<br>• Rolling curriculum review | Board, ELT |
| **1.2** | College may be disadvantaged by changes to either UK or Scottish Government policies | 4 | 3 | 12 | • Effective environmental scanning<br>• Negotiation/influence at national level | 4 | 2 | 8 | • Review of changes and amendment of strategic direction/plans<br>• Financial strategy sensitivities | ELT |
| **1.3** | College disadvantaged by changes arising from UK leaving European Union | 3 | 4 | 12 | • Negotiation/influence at national level<br>• Review of activities/ projects<br>• Responsiveness to new opportunities | 2 | 2 | 4 | • Review of changes and amendment of strategic direction/plans/ curriculum<br>• Financial strategy not ESF dependent | ELT |

**Key to Risk Estimation/Score based on scale of 1 – 5 for impact/likelihood:** Green (1-8) = Minor Risk; Amber (9-15) = Significant Risk; Red (16-20) = Major Risk; Purple, (>21 - 25) = Fundamental Risk

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|---|---|---|---|---|---|---|---|---|---|---|
| | Risks | Impact | Likelihood | Score | Mitigation Actions | Impact | Likelihood | Score | Monitoring | Responsibility |
| **2** | **Financial** | | | | | | | | | |
| **2.1** | Change in SFC Funding Methodology and Allocation – Reduction in Funding | 3 | 3 | 9 | • Negotiation/influence at national level<br>• Contingency plans for reduced funding | 2 | 3 | 4 | • Advance modelling of new funding methodologies and allocations<br>• Monitoring impact of changes<br>• Amendment of strategic or operational direction/plans<br>• Financial strategy sensitivities | ELT |
| **2.2** | Failure to achieve institutional sustainability | 5 | 4 | 20 | • Protection of funding through dialogue with SFC<br>• Robust annual budget-setting and multi-year financial strategic planning (from 2018-19)<br>• Effective budgetary control<br>• Where required, swift action to implement savings | 4 | 3 | 12 | • Regular monitoring of budgets<br>• Regular review of financial strategy and non-core income sensitivity | CLT |
| **2.3** | Salary and conditions of service pressures outstrip ability to pay | 4 | 4 | 16 | • Influence within Employers Association<br>• Management of staffing expenditures | 4 | 3 | 12 | • Expenditure modelling<br>• On-going discussions with staff<br>• Financial strategy sensitivities | ELT<br>HoHR |

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| **2** | **Financial** | | | | | | | | | |
| **2.4** | Financial Fraud | 4 | 3 | 12 | • Strong financial controls: segregation of duties and review of transactions.<br>• Review of impact of any changes in structure or duties<br>• Whistleblowing arrangements | 3 | 2 | 6 | • Continuous review of financial controls<br>• Internal Audit programme | HoF |
| **2.5** | Scotlands Colleges Foundation refuses/withholds funding for key College priorities | 5 | 3 | 15 | • Appropriate bid arrangements in place | 3 | 2 | 6 | • Monitor and advise Board of Management | HoF |
| **2.6** | Failure to achieve credit (activity) target | 5 | 3 | 15 | • Real time monitoring system<br>• Identify & implement additional/alternative provision where required | 4 | 2 | 8 | • Continuous review of progress v targets.<br>• Make provision in budgets for clawback if required | ELT<br>HoC<br>HoP&Q |

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| | Risks | Impact | Likelihood | Score | Mitigation Actions | Impact | Likelihood | Score | Monitoring | Responsibility |
| **3** | **Organisational** | | | | | | | | | |
| **3.1** | Legal actions; serious accident; incident or civil/criminal breach | 4 | 5 | 20 | • Adherence to legislative and good practice requirements<br>• Positive Union relations and staff communication<br>• Effective management development programmes | 3 | 2 | 6 | • Monitoring and reporting in key areas – eg H&S, equalities, employee engagement<br>• Continuous professional development<br>• Internal audit programme<br>• Staff surveys | ELT |
| **3.2** | Reputational Risk – Loss of reputation with key stakeholders | 4 | 3 | 12 | • Marketing strategy<br>• Positive marketing approaches | 4 | 2 | 8 | • Stakeholder engagement<br>• Social media monitoring arrangements | PRIN<br>VPBD&CS<br>HoP&Q |
| **3.3** | Disasters – eg Fire, MIS Failure, Failure of Emergency Procedures | 5 | 4 | 20 | • Sound systems of administration<br>• Clear fire and disaster recovery arrangements<br>• Staff CPD | 5 | 1 | 5 | • Business Continuity Plan including scenario testing | VPBD&CS<br>VPL&S<br>HoCS |
| **3.4** | Failure to meet Prevent and related obligations | 5 | 3 | 15 | • Prevent training<br>• Staff awareness and contingency planning<br>• Engagement/practice sharing with local agencies | 5 | 1 | 5 | • Business Continuity Plan including scenario testing<br>• Information sharing with local agencies | VPBD&CS<br>HoCS |

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| **3** | **Organisational (cont.)** | | | | | | | | | |
| **3.5** | Industrial Relations Problems (including industrial action) | 4 | 5 | 20 | • Adherence to legislative and good practice requirements<br>• Positive Union relations and staff communication<br>• Effective management development programmes<br>• Industrial action continuity planning | 4 | 3 | 12 | • Regular union/management dialogue<br>• Regular employee engagement monitoring<br>• Open communication with staff | ELT<br>HoHR |
| **3.6** | Failure to achieve ambitions of ICT strategy; strategy and development is ineffective | 4 | 4 | 12 | • Planning, careful phasing of changes to processes and systems<br>• Effective management of ICT arrangements | 4 | 2 | 8 | • Regular review/reporting on milestones, systems effectiveness etc<br>• Regular CPD | VPBD&CS<br>HoCS |
| **3.7** | Breach of ICT/Cyber security | 4 | 3 | 12 | • Effective management of ICT arrangements<br>• Active ICT/data security monitoring and cyber security policy | 4 | 2 | 8 | • Staff CPD on cyber security issues<br>• Regular security monitoring/testing<br>• Cyber resilience plan | VPBD&CS<br>HoCS |

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|---|---|---|---|---|---|---|---|---|---|---|
| **3** | **Organisational (cont.)** | | | | | | | | | |
| **3.8** | Breach of data security / data protection | 5 | 4 | 20 | • Effective management of ICT arrangements and GDPR compliance<br>• Mandatory staff CPD and awareness raising on data protection (relative to role) | 4 | 2 | 8 | • Active data protection monitoring and auditing<br>• Effective information and data security policies in operation<br>• Regular data security monitoring/testing<br>• GDPR Action Plan | VPBD&CS, HoCS Data users |
| **3.9** | Failure to reach aspirational standards in learning, teaching and service delivery | 4 | 3 | 12 | • Clear quality arrangements and priority actions<br>• Continuous self-evaluation and action planning<br>• Rigorous CPD arrangements in place<br>• Regular classroom observation and learner feedback arrangements | 3 | 2 | 6 | • Comprehensive monitoring of key PIs and student/staff feedback<br>• Regular Stop and Review events<br>• External review and validation findings | VPL&S, VPBD&CS HoP&Q HoC |
| **3.10** | Failure to achieve/maintain compliance arrangements, e.g. contracts; awarding bodies; audit. | 4 | 3 | 12 | • Robust strategic planning and monitoring<br>• Effective environmental scanning<br>• Strong partnerships<br>• Clear links between strategy and practice | 2 | 2 | 4 | • Effective internal monitoring/review/verification arrangements<br>• External review findings | PRIN CLT |

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| | Risks | Impact | Likelihood | Score | Mitigation Actions | Impact | Likelihood | Score | Monitoring | Responsibility |
| **3** | **Organisational (cont.)** | | | | | | | | | |
| **3.11** | Failure to meet the deadlines in our successful bid to SoSEP regarding the provision of Hub and Spoke model for Engineering, Construction and Care | 3 | 4 | 12 | • Robust project planning in place and feedback via EMT to Board of Management<br>• Clear and consistent approach to the project with Borders College<br>• Independent scrutiny through clerk of works (for building works)<br>• SFC involvement at all stages of the project | 3 | 3 | 9 | • Curriculum development planning through L&T Committee<br>• Overall project through regular Board of Management updates<br>• Further scrutiny through SoSEP Board | PRIN<br>VP BD&CS<br><br>VP L&S<br><br>Board |