

Glasgow Kelvin College

Budgetary Control / Financial Planning

Internal Audit report No: 2023/05

Draft issued: 9 May 2023

Final issued: 9 May 2023



Contents

		Page
Section 1	Management Summary	
	• Overall Level of Assurance	1
	• Risk Assessment	1
	• Background	1
	• Scope, Objectives and Overall Findings	2
	• Audit Approach	3
	• Summary of Main Findings	4 - 5
	• Acknowledgements	5
Section 2	Main Findings and Action Plan	6 - 11

Level of Assurance

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

Gradings are defined as follows:

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

Action Grades

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



Management Summary

Overall Level of Assurance

Good	System meets control objectives.
-------------	----------------------------------

Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Glasgow Kelvin College ('the College') Risk Register:

Risk 6 – Sustainable Funding (residual risk score: 20).

Background

As part of the Internal Audit programme at the College for 2022/23 we carried out a review of the systems in place for Budgetary Control and Financial Planning. Our Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Principal and the Audit and Risk Committee that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

A business partnering model is in place which provides ongoing support from Finance to budget holders. This is supported by standard working papers which drive the annual budget setting process and the production of the monthly management accounts and quarterly forecasts.

The College has adopted a transparent approach in reporting not only the scale of the financial challenges facing the College, but setting out in detail the impact which these financial constraints will have on both the academic and support functions across the College.

The College has been proactive in developing an Operating Plan which links to the College Strategy and Operational Plans. This has allowed the impact of any changes in the way resources are directed to be discussed and assessed in the context of future delivery of the agreed strategic and operational objectives.

Scope, Objectives and Overall Findings

This audit considered the key internal controls in place over the College's spend on staff costs of approximately £25m per annum. Our audit covered the procedures in place within both the HR and Payroll / Finance teams.

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

Objective	Findings			
The objective of our audit was to obtain reasonable assurance that systems are sufficient to ensure:		1	2	3
		No. of Agreed Actions		
1. the College has developed a long-term financial strategy, which includes long-term financial forecasts	Good	0	0	0
2. assumptions used in the financial forecasting returns submitted to the Glasgow Colleges' Regional Board (GCRB) and SFC are robust, realistic and applied consistently. Any departure from the SFC guidance on common sector assumptions is justified to the Board, GCRB and the SFC	Good	0	0	0
3. budgets are controlled in accordance with the Financial Regulations and Procedures	Good	0	0	0
4. budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved	Good	0	0	0
5. information is available to management in Faculties and Support Teams which is up-to-date and in a format that can be easily understood	Good	0	0	0
6. budget holders have the necessary skills for managing budgets	Good	0	0	0
7. budget variations are reported and acted upon	Good	0	0	0
8. there is accurate cash flow reporting	Good	0	0	0
9. senior management and the Board regularly review the College's overall financial position.	Good	0	0	0
Overall Level of Assurance	Good	0	0	0
		System meets control objectives.		

Audit Approach

Through discussion with the Principal, Vice Principal Operations, Vice Principal Curriculum and Quality, Head of Finance, Director of Digital and the Faculty Director for the Faculty of Health Studies, Care and Learner Development, and review of financial plans, forecasts and reports, we determined current working practices in financial planning and budget monitoring, and the information and training provided to budget holders.

The processes used to prepare cash flow reports for senior management, the Board, GCRB and the SFC were determined through discussion with Finance staff and review of supporting working papers.

We also established and reviewed the budget monitoring information provided to the College Senior Management Team and the Board.

Summary of Main Findings

Strengths

- Version 1.0 of the College Operating Plan 2022/23 – 2026/27 was presented to the Board of Management (BoM) meeting on 10 October 2022;
- A College Operating Plan Update paper was submitted to the 12 December 2022 meeting of the BOM. This paper highlighted some significant changes which had happened since the initial version 1.0 had been produced. Some of these changes were positive and some negative but the overall impact reported in December 2022 was a positive one;
- The College Operating Plan was developed collaboratively and our discussions with budget holders in both academic and non-academic areas confirmed that the challenging financial position had been outlined to managers in the summer of 2022 and that there had been ongoing dialogue regarding the need to revise operational plans in 2022 following the publication of the new Glasgow Kelvin College Strategy 2022 – 2027 in January 2022;
- The College Operating Plan sets out the wider economic context, the financial position of the College (and the Arm's Length Foundation), the need for a radical change management approach across the College, and a detailed Operating Plan showing the Objectives, Actions and Targets required to achieve the required financial position in the future;
- The document clearly demonstrates alignment of College Strategic Ambitions (SAs) and Strategic Priorities (SPs) with College Operating Plan (COP) Targets and Faculty / Department Operational Plans (F/DOPs);
- A summary of Income, Expenditure and the Underlying Cash result was also provided to provide absolute transparency regarding the forecast position for the next five years;
- It is our view that the approach taken by the College is an exemplar approach in terms of generating a long term financial strategy which demonstrates the impact on strategic and operational priorities, whilst clearly setting out the action required across the College to achieve the financial results required to achieve a viable operating model which fits with forecast resource constraints;
- A calculation has been conducted and our review of this “FT analysis” confirmed that this is a comprehensive spreadsheet model which calculates the maximum number of classes which will be allowed to run in academic session 2023/24. A working group was convened to examine the FT analysis and the document has been shared with the trade unions;
- The FFRs submitted to the SFC in 2022 reflect the assumptions provided by the SFC, while the College Operating Plan adopts the assumptions generated by the Director of Finance Group, where these are deemed to provide a more meaningful basis for forecasting;
- The College Operating Plan has been developed in collaboration with the Finance and Resources Director in GCRB and we were advised that a good working relationship has been developed which allows open dialogue around the assumptions built into the financial modelling;
- A Management Accounts timetable is in place, which was updated following the appointment of the Vice Principal Operations. The responsibility of budget holders is clearly set out and this is reinforced through the ongoing engagement with Finance staff through the business partnering model;
- An annual Budget timetable is also in place which sets out the timelines for completion of the steps required to prepare the draft Annual Budget, including engagement with stakeholders;
- The positive impact of the Monthly Finance meetings, which are chaired by the Vice Principal Operations, was highlighted by budget holders. These meetings provide the opportunity to discuss what is changing and what needs to be done to collectively react to these changes. This ensures that budget holders have a much wider view of the financial position across the College and no longer view the position with a “silo mentality”;
- It was apparent from our discussion with senior management and budget holders that there is now a collective understanding of the financial challenges facing the College and a shared commitment to delivering the changes required to achieve the targets set out in the Operating Plan. This has been achieved through the trust placed in staff, in sharing the Operating Plan with them confidentially, and in communicating effectively the responsibility of all budget holders to work together to deliver the change required;

Summary of Main Findings (Continued)

Strengths (Continued)

- Both of the budget holders interviewed were very positive regarding their engagement with Finance. It was highlighted that these discussions were not focused solely on exploring any significant variances between YTD and YTD actuals but also allowed for open and frank discussions around funding for investment;
- There is a specific section on cash flow within the Finance report produced by the Vice Principal Operations and the Head of Finance for the Finance and Resources Committee. The cash budget for priorities is shown as part of the overall analysis of income and expenditure in order to arrive at an Adjusted Operating Result (AOR);
- The Finance reports submitted to Committee and the Board are extremely comprehensive and set out the summary position, the quarterly forecast, the latest management accounts, the bad debt position, the student funds position, a procurement update, VAT recovery progress and the cashflow position; and
- In conducting this review it is clear that there has been a concerted effort to be as transparent as possible in reporting the financial challenges facing the college and the steps required to achieve a more financially stable position. This has included transparency in reporting to staff, students and trade unions, which has allowed a shared understanding to be developed.

Weaknesses

- No weaknesses were identified during our review.

Acknowledgments

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

Main Findings and Action Plan

Objective 1 - the College has developed a long-term financial strategy, which includes long-term financial forecasts

Version 1.0 of the College Operating Plan 2022/23 – 2026/27 was presented to the Board of Management (BoM) meeting on 10 October 2022. The paper advised that approval would only be sought *“only when necessary to secure College operations and conversely allow time for any external changes or impacts, be they positive or negative, to take shape. The Executive will present items for approval by “milestone” where essential actions or activities must take place to progress towards a successful outcome”*.

At that time, in October 2022, two milestones were set out:

- Approval of Voluntary Severance Scheme arrangements.
- Authorisation to progress actions relating to the future of the College’s West Campus.

A College Operating Plan Update paper was submitted to the 12 December 2022 meeting of the BOM. This paper highlighted some significant changes which had happened since the initial version 1.0 had been produced. Some of these changes were positive and some negative but the overall impact reported in December 2022 was a positive one.

This allowed a version 1.1 of the College Operating Plan 2022/23 – 2026/27 to be presented to the BOM, with the following key changes highlighted:

- Additional narrative setting out a commitment to Strategic Priorities and Ethos.
- A financial modelling update.
- Changes to the workforce reduction forecast

The College Operating Plan was developed collaboratively and our discussions with budget holders in both academic and non-academic areas confirmed that the challenging financial position had been outlined to managers in the summer of 2022 and that there had been ongoing dialogue regarding the need to revise operational plans in 2022 following the publication of the new Glasgow Kelvin College Strategy 2022 – 2027 in January 2022.

The College Operating Plan sets out the wider economic context, the financial position of the College (and the Arm’s Length Foundation), the need for a radical change management approach across the College, and a detailed Operating Plan showing the Objectives, Actions and Targets required to achieve the required financial position in the future. The document clearly demonstrates alignment of College Strategic Ambitions (SAs) and Strategic Priorities (SPs) with College Operating Plan (COP) Targets and Faculty / Department Operational Plans (F/DOPs). A summary of Income, Expenditure and the Underlying Cash result was also provided to provide absolute transparency regarding the forecast position for the next five years.



Objective 1 - the College has developed a long-term financial strategy, which includes long-term financial forecasts (Continued)

The College Operating Plan has been developed in collaboration with the Finance and Resources Director in GCRB.

It is our view that the approach taken by the College is an exemplar approach in terms of generating a long term financial strategy which demonstrates the impact on strategic and operational priorities, whilst clearly setting out the action required across the College to achieve the financial results required to achieve a viable operating model which fits with forecast resource constraints.

We reviewed the curriculum analysis conducted by the Vice Principal Curriculum and Quality and observed that the previous focus around increasing efficiency has effectively exhausted any “quick wins”. Controls were put in place around the use of temporary staff to cover sickness absence, with Faculty Director sign off required to deploy temporary staff beyond that window. However, the flat cash position for 2023/24 will necessitate a more radical change to achieve efficiencies across both curriculum and support functions. The College is aiming to reduce the curriculum by 14%, with the remaining 6% reduction delivered through efficiencies. The key to reducing the curriculum is consolidation through a reduction in class sizes, which will underpin voluntary severance arrangements going forward. Incremental targets have been included in the College Operating Plan for class sizes. A calculation has been conducted and our review of this “FT analysis” confirmed that this is a comprehensive spreadsheet model which calculates the maximum number of classes which will be allowed to run in academic session 2023/24. These changes are not intended to reduce the number of places available. The focus is on reducing the number of courses available. The approach envisaged for support staff is focused around the creation of multi-skilled roles moving forward.

A working group was convened to examine the FT analysis and the document has been shared with the trade unions. There is a shared recognition that the Credit figures in the model may need to be revisited should there be any further changes to the Credits target for 2023/24 by the SFC.

A plan is now in place which closely tracks the requirement for temporary staff, recognising the proportion of Credits which are delivered through part time activity. The successful delivery of this plan is reliant on joined up working between Finance, HR and MIS and the creation of a data warehouse will allow enhanced reporting in the future.



Objective 2 - Assumptions used in the financial forecasting returns submitted to the Glasgow Colleges' Regional Board (GCRB) and SFC are robust, realistic and applied consistently. Any departure from the SFC guidance on common sector assumptions is justified to the Board, GCRB and the SFC

The assumptions utilised in developing the College Operating Plan 2022/23 – 2026/27 represent a balance between the SFC assumptions and the assumptions developed by the Director of Finance Group (which contains finance representation from all Scottish Colleges). This was a conscious decision taken by the college recognising that the financial forecasting returns (FFRs) submitted to the SFC in 2022 were based on assumptions provided by the SFC, which did not provide a meaningful picture, particularly around pay awards and energy costs.

Therefore, while the FFRs submitted to the SFC in 2022 reflect the assumptions provided by the SFC, the College Operating Plan adopts the assumptions generated by the Director of Finance Group, where these are deemed to provide a more meaningful basis for forecasting.

As highlighted above, the College Operating Plan has been developed in collaboration with the Finance and Resources Director in GCRB and we were advised that a good working relationship has been developed which allows open dialogue around the assumptions built into the financial modelling.



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

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

A Management Accounts timetable is in place, which was updated following the appointment of the Vice Principal Operations. This sets out the activities required for the non SFC elements of the budget. The responsibility of budget holders is clearly set out and this is reinforced through the ongoing engagement with Finance staff through the business partnering model. A suite of standard working papers are in place and the Head of Finance confirmed that consistency in the use of the standard working papers continues to improve month on month.

We were advised that this approach has resulted in the submission of much more robust evidence to Finance in relation to income generation, with enhanced buy-in from commercial areas of the College.

The staffing budget is built up individually for each area to reflect salary and oncosts and represents approximately 80% of the annual revenue budget. The January Payroll spreadsheet forms the basis for the Quarter 2 forecast. This allows analysis of the year to date (YTD) budgets versus YTD actuals and allows any adjustments to be made. So for example, during 2022/23 it was noted that student numbers had increased and the cost of materials had also increased. Therefore the costs of teaching materials was higher than originally budgeted for. This necessitated the addition of another £50k to the original budget of £270k.

An annual Budget timetable is also in place which sets out the timelines for completion of:

- A review of the current year budget
- Review of the Q2 forecast
- Consideration of original assumptions and any changes
- Consideration of scenarios and sensitivities
- Production of the Draft Budget

The timeline for engagement with SMT and budget holders is also set out (including discussion at the monthly Finance Group meetings), as well as the timeline for reporting to the Principalship, SMT and budget holders in advance of consideration by the Finance and Resources Committee and formal approval by the BOM.

The engagement with budget holders also allows the opportunity to capture any new projects or new initiatives envisaged for the coming financial year. We confirmed with budget holders that the budget process does connect with the operational planning process so that the impact of any changes to the budget can be discussed and quantified. Budget holders described this as a very open and inclusive process.

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

Objective 6 - budget holders have the necessary skills for managing budgets

Objective 7 - budget variations are reported and acted upon

The SMT and the Executive Team are provided with the same analysis at the monthly Finance Meeting and the detailed Finance & Resources Committee Finance Report is also shared with this monthly group. Budget holders receive cost centre level reports with reporting on payroll down to individual employee level.

The positive impact of the Monthly Finance meetings, which are chaired by the Vice Principal Operations, was highlighted by budget holders. These meetings provide the opportunity to discuss what is changing and what needs to be done to collectively react to these changes. This ensures that budget holders have a much wider view of the financial position across the College and no longer view the position with a “silo mentality”. So for example the way forward around the closure of the West Campus was generated from these discussions in a way which allowed the impact on operational delivery to be assessed and discussed openly. This informed the West End Campus Feasibility and Engagement Report, which was submitted to the BOM in December 2022. Therefore, the consensus from our discussions with budget holders was that there are now much richer discussions around the way in which resources are directed in order to achieve strategic and operational objectives.

No issues were raised regarding the accuracy of the information provided to budget holders. It was highlighted that from October onwards reports are provided to budget holders on staffing and other expenditure. The format of the reporting was praised by budget holders interviewed and they also highlighted the input provided by fiancé in the monthly one to one sessions which are held to discuss the staffing report and then separately the non-staffing report. This has allowed for much richer monthly discussions around staff expenditure and the ability to drill down into the figures, where deemed necessary. No issues were highlighted regarding the timeliness of reporting and budget holders highlighted that the timing of receipt of monthly financial reporting is much improved in financial year 2022/23.

It was apparent from our discussion with senior management and budget holders that there is now a collective understanding of the financial challenges facing the College and a shared commitment to delivering the changes required to achieve the targets set out in the Operating Plan. This has been achieved through the trust placed in staff, in sharing the Operating Plan with them confidentially, and in communicating effectively the responsibility of all budget holders to work together to deliver the change required. Once again we would highlight the approach taken to financial reporting and engagement with budget holders as an exemplar approach, which has delivered a level of understanding of the whole College financial position across budget holders which we have not observed in any other college we work with.

Both of the budget holders interviewed were very positive regarding their engagement with Finance. It was highlighted that these discussions were not focused solely on exploring any significant variances between YTD and YTD actuals but also allowed for open and frank discussions around funding for investment. The focus on reducing expenditure on temporary staff costs (linked to the policy decision regarding sickness cover) has required careful monitoring by budget holders and the quality of information available to budget holders has meant that in some cases budget holders are tracking this expenditure on an ongoing basis, which then allows a sense checking against the information provided for each month by Finance. This proactive management by budget holders demonstrates a willingness to be accountable for expenditure and income relating to the budgets they are responsible for.



Objective 8 - there is accurate cash flow reporting

Objective 9 - senior management and the Board regularly review the College's overall financial position.

There is a specific section on cash flow within the Finance report produced by the Vice Principal Operations and the Head of Finance for the Finance and Resources Committee. The cash budget for priorities is shown as part of the overall analysis of income and expenditure in order to arrive at an Adjusted Operating Result (AOR). The inclusion of movements in relation to the Arm's Length Foundation (ALF) also ensures that there is absolute transparency on the cash position of the College in reporting to committee. Our discussions with the Principal confirmed that the future cash position of the College is an area which will be kept under close scrutiny given the reduction in funding which will be accessible through the ALF.

The Finance reports submitted to Committee and the Board are extremely comprehensive and set out the summary position, the quarterly forecast, the latest management accounts, the bad debt position, the student funds position, a procurement update, VAT recovery progress and the cashflow position. As highlighted above, the Monthly Finance Group provides the opportunity for senior management to review the College's overall financial position. In addition we were advised that the Principalship are regularly discussing the financial position of the college in the context of sector developments. These discussions are greatly enriched by the intelligence gathered by the principal through his involvement on the Colleges Scotland Finance Committee and the sounding group which has been created by the SFC to conduct horizon scanning and identification of workable mitigating actions. This allows these wider sectoral issues to be brought into the senior management discussions within the College.

In conducting this review it is clear that there has been a concerted effort to be as transparent as possible in reporting the financial challenges facing the college and the steps required to achieve a more financially stable position. This has included transparency in reporting to staff, students and trade unions, which has allowed a shared understanding to be developed. Again, we could commend this approach and have already encouraged other Colleges to follow this approach in communicating the actions required to manage the cuts in funding, and the cost pressures, which are projected.



Aberdeen 45 Queen's Road AB15 4ZN
Dundee The Vision Building, 20 Greenmarket DD1 4QB
Edinburgh Ground Floor, 11-15 Thistle Street EH2 1DF
Glasgow 100 West George Street, G2 1PP

T: 01224 322 100 **F:** 01224 327 911
T: 01382 200 055 **F:** 01382 221 240
T: 0131 226 0200 **F:** 0131 220 3269
T: 0141 471 9870

Henderson Loggie LLP is a limited liability partnership registered in Scotland with registered number SO301630 and is a member of PrimeGlobal, a global association of independent accounting firms, the members of which are separate and independent legal entities. Registered office is: The Vision Building, 20 Greenmarket, Dundee, DD1 4QB. All correspondence signed by an individual is signed for and on behalf of Henderson Loggie LLP. Reference to a 'partner' is to a member of Henderson Loggie LLP. A list of members' names is available for inspection at each of these addresses.

