

## Audit Committee Meeting

Date of Meeting	Tuesday 3 October 2017
Paper Title	Accounts Direction – Financial Year 2016-17
Agenda Item	7
Paper Number	AC1-C
Responsible Officer	Jim Godfrey, Interim Finance and Resources Director
Status	Disclosable
Action	For noting

### 1. Report Purpose

- 1.1. This paper provides an update of the changes in respect of the Accounts Direction for 2016-17.

### 2. Recommendations

- 2.1. The Committee is invited to **note** this report.

### 3. Report

- 3.1. The Accounts Direction is issued on an annual basis by SFC to GCRB and sets out the obligations of GCRB in terms of its Financial Statements and Annual Report. Implementation of the Accounts Direction is a requirement to ensure compliance with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and the Government Financial Reporting Manual 2016-17 (FRoM).
- 3.2. The Accounts Direction is very similar to that issued for the previous financial year and has been updated for dates and references. The other changes that were noted are:
- Section 14 - An additional statement has been added to require GCRB to explain its “unique governance arrangements”.
  - Section 15 – This statement has been updated to reflect the 2016 Code of Good Governance and an additional obligation added to require that GCRB states that it complies with this Code.
  - Section 17 – Advises that the Performance Report will be included within the remit of the External Auditor. The Auditor will provide an opinion on the Performance Report and also whether the Performance Report, and Governance Statement, is compliant with the Accounts Direction.
  - Section 24 – The requirement to disclose “Expenditure on consultancy” and “Off-payroll engagements” has been removed from the Accounts Direction.

- Section 26 – A new sentence has been added to state that “It is not envisaged that the Parliamentary Accountability disclosures (i.e. section 25) will require to be completed by GCRB unless they are material.” The level of materiality is not defined which introduces an element of subjectivity.

#### **4. Risk Analysis**

- 4.1.** The Accounts Direction for GCRB provides instructions in terms of the preparation of the Board’s Financial Statements and Report. Implementation of the Accounts Direction ensures compliance with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and the Government Financial Reporting Manual 2016-17 (FReM).
- 4.2.** Implementation of the Accounts Direction contributes to the effective governance arrangements and mitigates the risk of a breach of legislation/guidance/code of practice.

#### **5. Legal Implications**

- 5.1.** There are no legal implications arising from this report.

#### **6. Resource Implications**

- 6.1.** There are no direct financial implications arising from this report.

#### **7. Strategic Plan Implications**

- 7.1.** The implementation of the Accounts Direction contributes to the aim within the Glasgow Region Strategic Plan to “meet its ambitions with sound governance”.



Scottish Funding Council

Promoting further and higher education

26 July 2017

Comhairle Maoinachaidh na h-Alba

A' brosnachadh foghlam adhartach agus àrd-ìre

Robin Ashton  
Executive Director  
Glasgow Colleges Regional Board  
City of Glasgow College  
60 North Hanover Street  
Glasgow  
G1 2BP

Dear Robin

## **2016-17 Accounts Direction**

I am writing to provide the 2016-17 Accounts Direction (attached to this letter) for the Regional Board for Glasgow Colleges, which is known as the Glasgow Colleges' Regional Board (GCRB).

### **Background**

The Post-16 Education (Scotland) Act 2013 defined GCRB as a regional strategic body on 1 May 2014 and Scottish Ministers by order assigned City of Glasgow College, Glasgow Clyde College and Glasgow Kelvin College to it on 1 August 2014.

You will be aware that the 2016-17 Accounts Direction for colleges was issued on 30 June 2017. The direction did not specifically cover regional strategic bodies (RSBs) but the Funding Council has in previous years written separately to RSBs to clarify requirements around the need for consolidated financial statements as well as disclosures within the corporate governance statement and these issues are covered in more detail in the following paragraphs.

### **Consolidated financial statements**

Under the relevant accounting standards, and given the wide ranging powers enshrined in the legislation that RSBs have over assigned colleges, it would appear likely that consolidated financial statements may require to be prepared by GCRB. However, we fully recognise that the decision on whether consolidated financial statements will need to be prepared, based on a review of the specific arrangements which have been in place during the year, rests with the RSB and its auditors.

## Corporate governance statement

The corporate governance statement should adequately explain GCRB's unique governance arrangements in describing the operation of the RSB during the year ending 31 July 2017.

As required by paragraph 17 of part 1 of the *Financial Memorandum with Fundable Bodies in the College Sector*, GCRB must comply with the principles of good governance set out in the *Code of Good Governance for Scotland's Colleges*. In line with the principles of comply or explain, an explanation should be provided in the event that GCRB's practices are not consistent with particular principles. Further information on corporate governance disclosures is set out in the Accounts Direction.

I hope the above is helpful in preparing GCRB's annual report and accounts but please do not hesitate to contact Lorna MacDonald or Andrew Millar if you have any questions in relation to the foregoing.

Yours sincerely



**Martin Fairbairn**  
Chief Operating Officer

## **2016-17 Accounts Direction for the Regional Board for Glasgow Colleges**

- 1 It is the Scottish Funding Council's direction that the Regional Board for Glasgow Colleges, known as the Glasgow Colleges' Regional Board (GCRB), complies with the 2015 *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP) in preparing its annual report and accounts for the year ending 31 July 2017.
- 2 GCRB is also required to comply with the Government Financial Reporting Manual 2016-17 (FReM) where applicable.
- 3 GCRB is also reminded that it must send two copies of its annual report and accounts to the Auditor General for Scotland by 31 December 2017.
- 4 The annual report and accounts should be signed by the Chief Officer and by the Chair, or one other member of the governing body.
- 5 GCRB should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council  
26 July 2017

## **Introduction and structure of accounts direction**

### **Mandatory and corporate governance disclosures**

1. We draw your attention to the specific mandatory disclosures in **Appendix 1**, including required corporate governance disclosures.
2. The financial statements must be prepared so as to give a true and fair view of the income and expenditure and cash flows for the accounting period, and of the state of affairs as at the end of the accounting period.
3. GCRB must follow all applicable Financial Reporting Standards. GCRB is also required to comply with the FReM and the Scottish Public Finance Manual (SPFM).

### **Accounting for GCRB's transactions**

4. The GCRB accounts should reflect all income received and expenditure incurred by the entity including those transactions processed on GCRB's behalf through City of Glasgow College (CoGC). Any resulting assets, liabilities, gains or losses, should be faithfully represented in the financial statements.

### **Deadlines**

5. GCRB is required to provide its annual report and accounts, together with the associated audit reports, to us by 31 December 2017. The annual report and accounts should be prepared with a 31 July year-end.

### Mandatory disclosures

1. GCRB is required to comply with the Government Financial Reporting Manual (FReM) for 2016-17 as well as complying with the SORP. In cases where there is a conflict between the FReM and the SORP, the latter will take precedence.
2. The disclosures which GCRB **must** include in the annual report and accounts are set out in the following paragraphs.

### The Performance Report

3. Section 5.2 of the FReM requires GCRB to include a Performance Report in its annual report and accounts. The report will provide information on the organisation, its main objectives and strategies and the principal risks that it faces. The report should contain an Overview and also a Performance Analysis.
4. As a minimum, the Overview should include:
  - A short summary explaining the purpose of the overview section;
  - A statement from the Chief Operating Officer providing their perspective on the performance of the organisation over the period;
  - A statement of the purposes and activities of the organisation;
  - The key issues and risks that could affect the entity in delivering its objectives;
  - An explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities; and
  - A performance summary.
5. The purpose of the Performance Analysis is for GCRB to report on its most important performance measures and also provide longer-term trend analysis where appropriate. As a minimum the performance analysis must include:
  - Information on how the organisation measures performance ;

- A detailed analysis and explanation of the development and performance of the entity during the year; and
- Confirmation of compliance with Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009. The Schedule to the 2015 Order sets out the required content for the report to Scottish Government:

<http://www.legislation.gov.uk/ssi/2015/347/schedule/2/made>

### ***Payment practice***

6. A statement describing the payment practice code or policy adopted on payment of suppliers and performance achieved, together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998, or a statement that there were no matters to disclose.
7. The Performance Report should be signed and dated by the Chief Operating Officer.

### **The Accountability report**

8. The Accountability Report is required to have three sections: a Corporate Governance Report, a Remuneration and Staff Report and a Parliamentary Accountability report.

### ***Corporate Governance Report***

9. The purpose of the Corporate Governance report is to explain the composition and organisation of GCRB's governance structures and how they support the achievement of the organisation's objectives.
10. As a minimum, the Corporate Governance report must include a directors' report, a statement of the Board of Management responsibilities and a governance statement.

### ***Directors' report***

11. The directors' report should set out the membership of the Board of Management and also those members of the senior management team who influence the decisions of the organisation as a whole. Details should be given of any directorships or other interests which the members have or a link provided to the relevant Register of Interests.



Any information on personal data-related incidents reported to the Information Commissioners Office should also be disclosed.

#### *Statement of Board of Management's responsibilities*

12. The FReM requires government bodies to provide a Statement of Accounting Officer's responsibilities. However, the SFC Chief Executive is the Accountable Officer for the college sector and is required to provide a governance certificate of assurance covering all colleges and GCRB to the Principal Accountable Officer of the Scottish Government, based upon certificates of assurance provided. In light of this unique arrangement, GCRB should provide a Statement of Board's responsibilities within its Corporate Governance report.

#### *Governance Statement*

13. GCRB is required to include in its annual report and accounts a statement covering the responsibilities of its governing body in relation to corporate governance. This statement is required to indicate how the organisation has complied with good practice in this area.
14. The corporate governance statement should adequately explain GCRB's unique governance arrangements in describing the role and operation of the RSB during the year ended 31 July 2017.
15. As required by paragraph 17 of Part 1 of the *Financial Memorandum with Fundable Bodies in the College Sector*, GCRB must comply with the principles of good governance set out in the 2016 *Code of Good Governance for Scotland's Colleges*. GCRB is required to include a statement confirming compliance with the Code. In line with the principles of comply or explain, an explanation should be provided in the event that the organisation's practices are not consistent with particular principles.
16. We recognise that GCRB will have its own system of corporate governance, reflecting its particular objectives and management processes. However, in preparing their governance statement, GCRB should take account of the guidance set out in the Governance Statement section of the SPFM (<http://www.gov.scot/Topics/Government/Finance/spfm/govstate>) and in the following paragraphs.
17. GCRB should be aware that its external auditors are required to review the information in the Performance Report and the corporate

governance statement and express an opinion in the independent auditor's report on whether:

- The information given in the Performance Report / corporate governance statement is consistent with the financial statements; and
  - The Performance Report / corporate governance statement has been prepared in accordance with the accounts direction.
18. GCRB is required to demonstrate robust governance, maintain a sound system of internal control and to ensure that the following key principles of effective risk management have been applied. Effective risk management:
- covers all risks – including those of governance, management, quality, reputation and finance – but focuses on the most important risks;
  - produces a balanced portfolio of risk exposure;
  - is based on a clearly articulated risk appetite, policy and approach;
  - requires regular monitoring and review, giving rise to action where appropriate;
  - needs to be managed by an identified individual and involve the demonstrable commitment of the governing body and the executive leadership; and
  - is embedded into normal business processes and aligned to the strategic objectives of the organisation.
19. GCRB is required to review at least annually the effectiveness of its system of internal control.

### **Remuneration and staff report**

20. GCRB is required to include within its annual report and accounts a Remuneration and staff report in accordance with Section 5 (Paras 5.3.15 to 5.3.27) of the FReM. Further information is available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/577272/2016-17\\_Government\\_Financial\\_Reporting\\_Manual.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577272/2016-17_Government_Financial_Reporting_Manual.pdf)

21. GCRB should also refer to further guidance contained in Employers Pension Notice (EPN) 492 which is available on the Civil Service Pensions website at:  
<http://www.civilservicepensionscheme.org.uk/employers/employer-pension-notice/epn-492-resource-accounts-2016-17/>
22. Although EPN 492 deals specifically with the Civil Service Pension Scheme it does contain a standard format for disclosure and explanations of what should be included in the report in order to comply with the FReM. The Remuneration report should set out the remuneration and accrued pension benefits of senior officials of the organisation and this will include those set out in the Directors report (see paragraph 11 above).
23. An example remuneration report is attached at **Appendix 2**. It is important to note that individuals should be informed in advance of the intention to disclose their salary information in this report. There is a presumption that information about named individuals will be given unless there is specific justification for not disclosing this (see FReM paragraph 5.3.17 for circumstances where non-disclosure is acceptable). In other cases it would be for the staff member to make a case for non-disclosure which should be considered by the organisation on a case by case basis. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.
24. The Staff report must include the following information:
  - The number of senior staff by band (of £5,000);
  - Staff numbers and costs distinguishing between permanent contract staff and agency/contract staff;
  - Staff composition – the number of persons of each sex who were directors or employees of the company;
  - Sickness absence data;
  - Staff policies applied during the year:
    - (a) For giving full and fair consideration to applications for employment by the organisation made by disabled persons, having regard to their particular aptitudes and abilities;
    - (b) For continuing the employment of, and arranging appropriate training for, employees of the organisation who have become

disabled persons during the period they were employed by the organisation; and

(c) Otherwise for the training, career development and promotion of disabled persons employed by the organisation; and

- Exit packages (as approved by SFC under Severance Guidance).

### ***Parliamentary Accountability report***

25. The FReM requires the inclusion of a Parliamentary Accountability report and, for Scottish government bodies, the requirements are reflected in the SPFM. The disclosures required are:

- Fees and charges for each service where the full annual cost is £1 million or more, or (if lower) where the amount of the income and full cost of the service are material to the financial statements:
  - Financial objective performance against that objective. The standard approach to setting charges for public services is full cost recovery but the SPFM lists some exceptions e.g. subsidised services;
  - Full cost of the service;
  - Income from charging for the service; and
  - Surplus or deficit.
- Disclosure of contingent liabilities, specifically enforceable undertakings given in the form of a guarantee or indemnity which would bind the body into providing the resources in the event of the guarantee or indemnity maturing; or a letter or general statement of comfort which could be considered to impose a moral obligation; and
- Disclosure of total losses exceeding £250,000 and total special payments exceeding £250,000.

26. It is not envisaged that the Parliamentary Accountability disclosures will require to be completed by GCRB unless they are material.

27. The Accountability report should be signed and dated by the Chief Operating Officer and Chair of the Board.

### **Notes to the accounts**

28. The audit fees and non-audit fees paid to external and internal auditors.

29. The total number of higher paid staff, including senior postholders, in bands of £10,000 above a threshold of total emoluments (**excluding pension contributions and compensation for loss of office**) of £60,000. The number of senior postholders within each band should be separately identified.

## Appendix 2

### Template for Remuneration Report

#### Remuneration Policy

GCRB should outline here the details of its remuneration policy for its senior managers and also outline the operation of the Remuneration Committee.

#### Remuneration including salary and pension entitlements

##### *Salary entitlements<sup>1</sup>*

The following table provides detail of the remuneration and pension interests of senior management.

	Year ended 31 July 2017			Year ended 31 July 2016		
	Salary £'000	Pension Benefit £'000	Total £'000	Salary £'000	Pension Benefit £'000	Total £'000
Name A - Actual						
Name B - Actual						

Where applicable, performance pay or bonuses payable, and non-cash benefits should also be disclosed in the above table.

#### ***Median Remuneration***

GCRB is required by the FReM to disclose the relationships between the remuneration of the highest paid official and the median remuneration of its workforce.

The banded remuneration of the highest paid official in the organisation in the financial year 2016-17 was £xxx (2015-16 £xxx ). This was x times (2015-16 x times) the median remuneration of the workforce which was £xx (2015-16 £xx).

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<sup>1</sup> Note:

- The salaries in the above table represent the amount earned in the financial period and include salary, bonuses, overtime and other allowances (as applicable)
- The value of pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The x20 multiplier aims to bring public bodies in line with other industries in disclosing an assessed cumulative pension benefit for a standard 20 year period which is the estimated life span following retirement.
- The details in this table are subject to audit

### ***Accrued Pension Benefits***

GCRB should outline here the pension schemes in operation and give a brief explanation of how benefits accrue for the employees.

### ***Senior Officials Pension***

Pension benefits are provided to senior officials on the same basis as all other staff. The accrued pension benefits for senior officials are set out in the table below, together with the pension contributions made by the organisation.

<b>Name</b>	<b>Accrued pension at pension age at 31 July 2017</b>	<b>Accrued lump sum at pension age at 31 July 2017</b>	<b>Real increase in pension 1 August 2016 to 31 July 2017</b>	<b>Real increase in lump sum 1 August 2016 to 31 July 2017</b>	<b>CETV at 31 July 2017</b>	<b>CETV at 31 July 2016</b>	<b>Real increase in CETV</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Name A							
Name B							

### ***Cash equivalent Transfer Value (CETV)***

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

The value of the accrued pension benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service and not just their current appointment.

In considering the accrued pension benefits figures the following contextual information should be taken into account:

- (i) the figures for pension and lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement.
- (ii) the accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

***Real increase in CETV***

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

***Compensation for loss of office***

xx left under voluntary exit terms on xx/xx/xx. They received a compensation payment of £'xxx.

x left under Voluntary redundancy terms on xx/xx/xx. They elected to take early retirement. The cost to the organisation of buying out the actuarial reduction on their pension £xx. They did not receive any additional compensation.

The table below summarises the exit packages by cost band.

<b>Exit package cost band</b>	<b>Number of compulsory redundancies</b>	<b>Number of other departures agreed</b>	<b>Total number of exit packages by cost band</b>
<b>&lt;£10,000</b>			
<b>£10,000 - £25,000</b>			
<b>£25,000 - £50,000</b>			
<b>£50,000 - £100,000</b>			
<b>£100,000 - £150,000</b>			
<b>£150,000 - £200,000</b>			
<b>Total no. of exit packages</b>			
<b>Total cost (£)</b>			



***Salaries and Related costs***

	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2016</b>
	<b>Directly employed staff</b>	<b>Seconded and agency staff</b>	<b>Total</b>	<b>Total</b>
<b>Wages and salaries</b>	x	x	x	x
<b>Social security costs</b>	x	x	x	x
<b>Other pension costs</b>	x	x	x	x
<b>Total</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>
<b>Average number of FTE</b>	x	x	x	x

The organisation employed xx females and xx males as at 31 July 2017.