

## Audit Committee Meeting

Date of Meeting	Monday 13 June 2016
Paper Title	Audit Scotland 2014/15 Audit of Glasgow Colleges' Regional Board
Agenda Item	10
Paper Number	AC3-F
Responsible Officer	Robin Ashton, Executive Director
Status	Disclosable
Action	For discussion

### 1. Report Purpose

- 1.1. Consider the Auditor General's section 22 report on the Glasgow Colleges' Regional Board's (GCRB) annual report, accounts and governance for 2014/15, a copy of which is included as an annex to this paper.

### 2. Recommendations

- 2.1. The Committee is invited to:
- **note** the Auditor General's section 22 report on GCRB's annual report, accounts and governance arrangements for 2014/15; and
  - **note** the actions taken by GCRB to address the weaknesses of governance arrangements in GCRB identified within the section 22 report.

### 3. Audit Scotland 2014/15 Audit of Glasgow Colleges' Regional Board

- 3.1. The Audit Scotland section 22 report on GCRB seeks to draw the Scottish Parliament's attention to the auditor's opinion on Glasgow Colleges' Regional Board's (GCRB) annual report and accounts for 2014/15 and the significant problems relating to GCRB's governance arrangements and its relationships with the three assigned colleges in Glasgow and the Scottish Funding Council during 2014/15.
- 3.2. The report highlights the fact that whilst GCRB's financial statements for 2014/15 were unqualified, the auditor's report contained an emphasis of matter with regard to weaknesses of governance in GCRB relating to an absence of key systems of assurance and internal control, namely:
- an appropriate risk management framework;
  - key committees such as an Audit Committee and Performance and Resources Committee;
  - an internal audit function;
  - an approved scheme of financial delegation, standing orders or standard financial instructions; and

- appropriate financial monitoring arrangements
- 3.3. Whilst not stated within the report, members will be aware that all of the above systems of assurance and internal control are now embedded within GCRB governance and accountability structures.
  - 3.4. A summary of events during 2014/15 is provided within the section 22 report, describing the development of GCRB in 2014/15 and its interactions with the Scottish Funding Council and the Scottish Government in relation to securing operational fundable body status.
  - 3.5. The report concludes that the Scottish Funding Council has not yet granted operational fundable body status to GCRB, and that it has failed to establish itself as a new organisation and become the focal point for the college sector in Glasgow.
  - 3.6. The report also notes that the situation has improved under the leadership of the Interim Chair and through the work of the Interim Chief Officer and that GCRB has now established some of the key systems of assurance and internal control necessary for proper management and oversight of a public body and that the appointment of a permanent Chair and Chief Officer should, following a period of effective operation, provide the Scottish Funding Council with the necessary assurances that it can transfer funding for the three assigned colleges to GCRB.
  - 3.7. The auditors of the Scottish Funding Council and GCRB have been asked to monitor progress as part of the 2015/16 audit.
4. **Risk Analysis**
    - 4.1. Consideration of this report contributes towards management of risks associated with GCRB's governance arrangements and achievement of operational fundable body status.
5. **Legal Implications**
    - 5.1. There are no specific legal implications arising from this paper.
6. **Financial Implications**
    - 6.1. There are no specific financial considerations arising from this paper.
7. **Regional Outcome Agreement Implications**
    - 7.1. Through the conditions of grant associated with the Regional Outcome Agreement, GCRB and the assigned colleges are required to conduct their affairs in accordance with the expected standards of good governance, which includes account being taken of relevant audit reports.

# The 2014/15 audit of Glasgow Colleges' Regional Board

AUDITOR GENERAL 

Prepared for the Public Audit Committee by the Auditor General for Scotland  
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000

March 2016

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.

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## Introduction

1. I am making this report under section 22 of the Public Finance and Accountability (Scotland) Act 2000 to draw the Scottish Parliament's attention to:
  - the auditor's opinion on Glasgow Colleges' Regional Board's (GCRB) annual report and accounts for 2014/15 (paragraphs 8 to 11); and
  - significant problems relating to GCRB's governance arrangements and its relationships with the three assigned colleges in Glasgow and the Scottish Funding Council during 2014/15 (paragraphs 12 to 19).<sup>1</sup>
2. GCRB formally came into existence on 1 May 2014 and so 2014/15 was the first year for which there are audited financial statements for this public body. To complement the auditor's work on the 2014/15 financial statements and to inform this report, Audit Scotland reviewed a large amount of documentary evidence and met a number of individuals involved with GCRB during 2014/15.

## Background

3. Across Scotland, there are three regions with more than one college: Glasgow, Highlands and Islands and Lanarkshire.<sup>2</sup> In contrast to the regional strategic bodies in the Highlands and Islands and Lanarkshire, GCRB was an entirely new organisation. The other two regional strategic bodies with more than one college in the region were incorporated into existing organisational structures.
4. In 2014/15, the three colleges in Glasgow (City of Glasgow, Glasgow Clyde and Glasgow Kelvin) spent a total of £119 million and trained over 50,000 students. Over two-thirds of the Glasgow colleges' funding comes from the Scottish Funding Council. Spending by the three Glasgow colleges accounts for nearly a fifth of all expenditure by Scotland's colleges and the number of students equates to just over a fifth of all college students in Scotland.
5. GCRB is the regional strategic body for the Glasgow region. Its role is to oversee the delivery of high quality further and higher education from Glasgow's three assigned colleges. It is responsible for:
  - strategic planning of college provision across the Glasgow region;
  - allocating funding to the three assigned colleges;
  - monitoring performance of the three assigned colleges; and
  - overseeing delivery of the Glasgow regional outcome agreement.<sup>3</sup>
6. The creation of GCRB meant a change in the financial and accountability relationships between the Scottish Funding Council and the three assigned colleges in Glasgow. Rather

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<sup>1</sup> The financial statements and auditor's report for 2014/15 cover the 15-month period from 1 May 2014 when GCRB formally began operation to 31 July 2015.

<sup>2</sup> *Scotland's Colleges 2015*, Audit Scotland, April 2015.

<sup>3</sup> Regional outcome agreements set out what colleges in a region will deliver in exchange for funding.

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than receiving funding directly from the Scottish Funding Council, the three assigned colleges would receive funding from GCRB as the regional strategic body, which in turn would receive funding from the Scottish Funding Council. In terms of accountability, the three assigned colleges would be accountable to GCRB and GCRB would be accountable to the Scottish Funding Council.

7. The establishment of GCRB as the regional strategic body for the three Glasgow colleges marked the latest stage in a period of major transformation in the college sector in Glasgow. The three assigned colleges had been formed from nine predecessor colleges.<sup>4</sup> Two of these colleges had come into existence during the second half of 2013. Furthermore, the college sector as a whole was managing the effects of significant budget reductions and the implications of the reclassification of all colleges as public bodies from 1 April 2014.<sup>5</sup>

## The auditor's opinion

8. GCRB's financial statements for 2014/15 are unqualified but the auditor's report contains an emphasis of matter with regard to weaknesses of governance in GCRB.<sup>6</sup> This relates to an absence of key systems of assurance and internal control, namely:

- an appropriate risk management framework;
- key committees such as an Audit Committee and Performance and Resources Committee;
- an internal audit function;
- an approved scheme of financial delegation, standing orders or standard financial instructions; and
- appropriate financial monitoring arrangements.

9. The auditor's annual report further notes that:

*"[...] there were, and continue to be, a range of issues and challenges in relation to setting up the new organisation and attaining fully operational fundable body status. We understand that these challenges, particularly in relation to achieving a shared understanding of the relative roles and responsibilities of the GCRB, the SFC and the assigned colleges in the governance of further education provision in Glasgow in part, explain why full governance arrangements were not fully developed or implemented."*

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<sup>4</sup> City of Glasgow College began operation in September 2010 following the merger of Central College Glasgow, Glasgow Metropolitan College and Glasgow College of Nautical Studies. Glasgow Clyde College began operation in August 2013 following the merger of Anniesland, Cardonald and Langside colleges. Glasgow Kelvin College was formed by the merger of John Wheatley, North Glasgow and Stow colleges and began operation in November 2013.

<sup>5</sup> *Scotland's Colleges 2015*, Audit Scotland, April 2015.

<sup>6</sup> An emphasis of matter in an auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

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10. To operate fully as the regional strategic body for the Glasgow region and its three assigned colleges, GCRB has to have operational fundable body status ([Exhibit 1](#)). Without operational fundable body status, the Scottish Funding Council will not allocate funding to GCRB, and GCRB cannot take responsibility for the allocation of funding to the three assigned colleges.
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## Exhibit 1

### Scottish Funding Council's criteria for the granting of operational fundable body status to regional strategic bodies

The Scottish Funding Council has set criteria which it uses to assess whether to grant operational fundable body status to regional strategic bodies, including GCRB. These criteria include:

- composition of the board;
- the board's committee structure;
- the board's effectiveness, including its oversight of the assigned colleges;
- strategic planning;
- financial management;
- risk management; and
- internal audit.

The Scottish Funding Council assesses progress against these criteria through a combination of:

- document review and assessment;
- interviews with the chair, board members and the chairs of the assigned colleges; and
- observation of board meetings.

*Source: Scottish Funding Council*

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11. The Scottish Funding Council has not yet granted operational fundable body status to GCRB due in part to the absence of key systems of assurance and internal control. This meant that GCRB's total expenditure during 2014/15 amounted to £278,617 (over two-thirds of which were the chair's remuneration and staff costs), and its financial transactions had to be handled by other organisations. During 2014/15, three different organisations handled GCRB's financial transactions. From 1 May 2014 to 31 December 2014, the Scottish Funding Council was responsible; from 1 January 2015 to 31 March 2015, Glasgow Caledonian University had this responsibility; and from 1 April 2015 to the present, City of Glasgow College had this role.

## Summary of events during 2014/15

12. The chair of GCRB had been the "regional lead" for the Glasgow region since the summer of 2012. Scottish Ministers appointed him as chair, following a public appointment process, on 1 May 2014 (see [Appendix](#) for a timeline of key events). Membership of GCRB includes the chairs of the three assigned colleges, staff and student members from the assigned colleges and other members. The principals of the three assigned colleges attend GCRB meetings but



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are not members. During 2014/15, GCRB was supported by two members of staff: an advisor to the board and an executive assistant, both of whom were secondees from two of the Glasgow colleges. The advisor to the board had been supporting the chair in his capacity as "regional lead" since February 2013. Before 1 May 2014, the Scottish Funding Council had offered support from an independent and experienced further education professional to assist the "regional lead" in developing induction materials for GCRB members.

13. GCRB first met on 28 May 2014. On 1 August 2014, Scottish Ministers formally assigned the three Glasgow colleges to the GCRB under the Further and Higher Education (Scotland) Act 2005. On 8 August 2014, the Scottish Funding Council wrote to GCRB stating its requirements for granting operational fundable body status to GCRB. It also set out its expectations around the permanent staffing arrangements that it viewed as essential for the effective operation of GCRB. The Scottish Funding Council considered that these staffing arrangements needed to be in place by October 2014, if it was going to be able to grant operational fundable body status by its intended date of 31 March 2015.
14. During 2014/15, the main focus of GCRB's work was to establish the necessary organisational and governance systems which would secure operational fundable body status. During 2014/15, this formed the primary focus for discussions at GCRB meetings. In late 2014, after an assessment of GCRB's progress, the Scottish Funding Council offered additional assistance to GCRB in the form of part-time support from its then director of finance to review and design key governance systems. In parallel to this activity, there was a major strategic review of the Glasgow colleges' curriculum and estate. This review was intended to ensure the optimal provision of college education and training in Glasgow for all students. The three assigned colleges carried out this review, with support from the Scottish Funding Council, through the Glasgow Colleges Strategic Partnership, largely independently of GCRB.
15. On 5 November 2014, the then Cabinet Secretary for Education and Lifelong Learning met the principals of the three assigned colleges and, separately, the chair of GCRB. Following these meetings, the Cabinet Secretary wrote to the chair of GCRB outlining three areas where he considered greater progress was required from GCRB. These three areas were:
  - permanent staffing arrangements to support GCRB;
  - the review of curriculum and estates; and
  - GCRB's accommodation.
16. Over the next few months, there were tensions in the relationships between the assigned colleges and, in particular, their principals and GCRB's chair and advisor to the board.<sup>7</sup> The chief executive of the Scottish Funding Council commented on the deterioration in relationships between GCRB and the three principals in a letter to the chair of GCRB sent on 5 March 2015. In addition, he observed there had been no progress in resolving permanent staffing and office accommodation for GCRB as required by the Cabinet Secretary. He also criticised the extent of GCRB's progress as an organisation more generally. He offered to

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<sup>7</sup> I have prepared a separate report on the 2014/15 audit of Glasgow Clyde College, focussing on governance issues that arose following the suspension of the principal by the chair in February 2015.

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second a senior director from the Scottish Funding Council to act temporarily as its chief officer.

17. The chair and chief executive of the Scottish Funding Council followed up this letter by attending a meeting of GCRB on 16 March 2015. At this meeting, the chief executive of the Scottish Funding Council, in his capacity as accountable officer for the college sector, criticised GCRB strongly in terms of:
- its overall progress;
  - its governance arrangements;
  - the support provided to it by the advisor to the board; and
  - the relationships between the principals of the assigned colleges and the chair and advisor to the board.

This criticism contrasted with comments made by the chair of the Scottish Funding Council at a GCRB meeting on 15 December 2014 when she recognised the progress made by GCRB towards operational fundable body status and praised the work of the colleges in the Glasgow region in completing the curriculum and estates review.

18. As a result of the meeting on 16 March 2015, GCRB made a formal complaint about the conduct of the chief executive of the Scottish Funding Council on 1 April 2015. The 16 March 2015 meeting of GCRB was followed by special meetings of GCRB on 25 March 2015 and 13 April 2015. The two significant items of business at these two special meetings were correspondence between GCRB and the Scottish Funding Council and developments at Glasgow Clyde College.
19. In the next few weeks, there were significant changes in personnel. On 25 March 2015, GCRB agreed to the secondment of a senior director from the Scottish Funding Council to act as interim chief officer.<sup>8</sup> The secondment of the advisor to the board from City of Glasgow College ended on 31 March 2015. On 2 April 2015, two members of GCRB resigned citing concerns about its leadership. On 7 April 2015, the two student members resigned. On 1 May 2015, the chair of GCRB resigned. Following these resignations, the Scottish Government appointed a board member of the Scottish Funding Council to act as interim chair from 1 May 2015.

## Conclusion

20. It is now 22 months since GCRB formally began operation. It has failed to establish itself as a new organisation and to become the focal point for the college sector in Glasgow. It has not secured operational fundable body status from the Scottish Funding Council, which means it is not able to act fully as the regional strategic body. It experienced tensions in its relationships with the Scottish Funding Council and with the three assigned colleges and saw a number of resignations, including that of its chair.

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<sup>8</sup> This was not implemented until 11 May 2015 to allow related aspects of the arrangement to be agreed.

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21. Since the end of 2014/15, the situation has improved under the leadership of the interim chair and through the work of the interim chief officer. GCRB has now established some of the key systems of assurance and internal control necessary for proper management and oversight of a public body. GCRB's relationships with the Scottish Funding Council and the three assigned colleges have improved. The Scottish Funding Council's Audit and Compliance Committee considered operational fundable body status for GCRB at its meeting on 2 December 2015. It concluded that although GCRB had made significant progress, it was not yet able to recommend the granting of operational fundable body status. The three assigned colleges continue to receive funding directly from the Scottish Funding Council.
  22. The appointment of a permanent chair and the anticipated appointment of a permanent chief officer in the near future should, following a period of effective operation, provide the Scottish Funding Council with the necessary assurances that it can transfer funding for the three assigned colleges to GCRB. At present, the Scottish Funding Council and GCRB are working towards 1 August 2016 for granting operational fundable body status. Once this has been secured, GCRB should be in a position to start adding value to the Glasgow college sector.
  23. I have asked the auditors of the Scottish Funding Council and GCRB to monitor progress as part of the 2015/16 audit.

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## Appendix: Timeline of key events during 2014/15

1 May 2014	GCRB formally established. The Scottish Government appoints the chair and members of GCRB.
28 May 2014	First meeting of GCRB.
1 Aug 2014	City of Glasgow, Glasgow Clyde and Glasgow Kelvin colleges assigned to GCRB under the Further and Higher Education (Scotland) Act 2005.
5 Aug 2014	The Scottish Funding Council writes to GCRB outlining its requirements for the granting of operational fundable body status.
5 Nov 2014	The then Cabinet Secretary for Education and Lifelong Learning meets: (1) principals of three assigned colleges and (2) chair of GCRB to discuss progress with the establishment of the GCRB.
13 Nov 2014	Cabinet Secretary for Education and Lifelong Learning writes to chair of GCRB outlining three areas where progress is required.
15 Dec 2014	Chair and chief executive of Scottish Funding Council attend meeting of GCRB.
5 Mar 2015	The chief executive of Scottish Funding Council writes to chair of GCRB outlining significant concerns over GCRB's progress.
16 Mar 2015	Chair and chief executive of Scottish Funding Council attend meeting of GCRB and outline concerns over GCRB's progress.
25 Mar 2015	Special meeting of GCRB. GCRB agrees to accept secondment of a senior director from the Scottish Funding Council to act as interim chief officer.
31 Mar 2015	Advisor to board's secondment to GCRB ends.
1 Apr 2015	GCRB makes formal complaint to Scottish Funding Council about conduct of its chief executive at GCRB meeting on 16 March 2015.
2 Apr 2015	Two members resign from GCRB.

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7 Apr 2015	The two student members resign from GCRB.
8 Apr 2015	Chair and some members of GCRB meet chair and chief executive of the Scottish Funding Council.
13 Apr 2015	Special meeting of GCRB.
1 May 2015	Chair of GCRB resigns.
1 May 2015	The Scottish Government appoints interim chair of GCRB.
11 May 2015	Interim chief officer begins work.