

Meeting of Audit Committee

On Tuesday 8 October 2019

At 1.00 pm in the Board Room

A G E N D A

Number	Item	Presented By	Action Required: Decision, Discussion, For Noting
1.00 pm - 1.30 pm Closed Session with Committee Members and Internal Auditors			
A.19.3.01	(i) Resignations	Clerk	Noting
	(ii) Appointments		
A.19.3.02	Apologies for Absence	Clerk	Noting
A.19.3.03	Any Additional Declarations of Interest including specific items on this Agenda	Convenor	Noting
A.19.3.04	Draft Minutes of Audit Committee meeting held on 21 May 2019 *	Convenor	Decision
A.19.3.05	Draft Matters Arising/Action Sheet from Audit Committee meeting held on 21 May 2019 *	Clerk	Noting
A.19.3.06	Review of Risk		
	(i) Risk Register	Mr N Clinton	Discussion
	(ii) Deep Dive – Staff Training Update	Mr N Clinton	Noting and discussion
A.19.3.07	Internal Audit		
	(i) AY18/19 Progress and 19-20 Plan	HL	
	(ii) Final Procurement Report	HL	Decision
	(iii) Audit Register Review	Mr N Clinton	Noting
	(iv) Consideration of input to UHI Internal Audit Plan		
A.19.3.08	External Audit – verbal status update	EY Mr N Clinton	Noting

A.19.3.09	Review of Fraud matters *	Mr N Clinton	
	(i) National Fraud Initiative, update and final submission *		Decision and noting
	(ii) Annual Paper on Fraud *		Noting
A.19.3.10	College Policies	Mr D Duncan	Noting
	(i) Update/summary on status of review of College Policies *		
A.19.3.11	Audit Committee Planning	Convenor	Discussion
	(i) Audit Committee's Terms of Reference and alignment of Committee's workplan*		
	(ii) Annual Report to the November Board *	Convenor	Discussion
A.19.3.12	Reports from Auditor General on Colleges and Universities*	Convenor	Discussion
A.19.3.13	Emerging Issues	Convenor	Discussion
	(i) Meeting of UHI Audit Chairs November 2019	Convenor	
	(ii) Arrangements for the coming period to support the work of the Committee		
RESERVED ITEMS			
A.19.3.10	College Policies	Mr D Duncan	Noting
	(iii) GDPR Status Report *		
A.19.3.14	Draft Reserved Minutes from Audit Committee held on 21 May 2019 *	Convenor	Decision
A.19.3.15	Draft Reserved Matters arising from Audit Committee held on 21 May 2019 *	Clerk	Noting
A.19.3.16	Draft Response to letter from EY to those charged with Governance *	Convenor Mr N Clinton	Discussion and Decision
A.19.3.17	Update on Future Internal Audit Provision	Mr N Clinton	Noting
A.19.3.18	Date of next meeting – 26 November 2019	Clerk	Noting

BOARD OF MANAGEMENT

**Audit Committee
Draft Minutes of Meeting
held on
Tuesday 21 May 2019
at 1.30 pm in the Boardroom**

Present: Dr J McLeman (Convener)
Mrs D Newton
Ms Manon Jesus Wells (HISA)

In attendance: Mr N Clinton
Mr D Duncan
Ms Grace Scanlin (Ernst Young)
Mr D Archibald (Henderson Loggie (HL))
Mrs C Fair (Clerk)

		ACTION	DATE
A.19.2.01	Resignations and Appointments		
1.1	Resignations were received from: Mr J Yorston Mrs P Eddie No new appointments were reported.		
A.19.2.02	Apologies for Absence		
2.1	Apologies for absence had been received from: Mrs El Melton		
A.19.2.03	Any additional Declarations of Interest including specific items on Agenda		
3.1	Mr D Archibald , Henderson Loggie declared an interest in Agenda Item A.19.2.18 – renewal of internal audit services.		
A.19.2.04	Draft Minutes of Meeting of the Audit committee held on 19-2-2019		
4.1	The minutes were accepted as a true and accurate record and approved by the Committee: Proposed: Mrs D Newton Seconded: Dr J McLeman		
A.19.2.05	Matters Arising/Action Sheet from meeting of Audit committee on 19-2-2010		
	Mrs Fair confirmed the status of the actions arising the majority of which had been completed and closed or were on the Agenda for discussion. Only the following actions remain open/outstanding:		
5.1 Action	<u>7.2</u> - Final audit report on Procurement to be circulated to committee week commencing 3-6-2019	Mr Clinton	w/c 3-6-2019

Agenda Item: A.19.3.04

		ACTION	DATE
5.2	<u>9.1.2</u> - To clarify with Roger Sendall whether Risk Register should be published on website.	Mr Clinton	ASAP
5.3	<u>10.1.1</u> - Issue of whether a Whistleblower policy or equivalent exists for students – Ms Jesus Wells to check and report back to Committee.	Ms Jesus Wells	ASAP
5.4	<u>10.1.2</u> - To check on current arrangements for reporting and monitoring of theft. It was agreed that this should be discussed at SLT and report back to October Audit Committee.	Mr Clinton	October Audit
5.5	<u>19.1.11</u> - OSCAR Return to be on Agenda for future May Audit meetings and factored into Board/Committee Plan.	Mr Clinton Mrs Fair	May 2020 Audit, Committee Board Plan
A.19.2.06	Review of Terms of Reference of the Audit Committee		
6.1	Revised Terms of Reference of Audit Committee had been produced by Dr McLeman and circulated for consideration by Committee. These were also forwarded to Convenor of F&GP to check alignment with F&GP TOR. Await response. Dr McLeman confirmed that membership is as now, and the responsibilities are consistent with those of Inverness College with no additional responsibilities compartmented to those. Committee recommended the revised TOR be put forward to the Board meeting in June.		
Action	To include on Agenda for Board meeting 25-6-2019 as well as the F&GP meeting on 4-6-2019.	Mrs Fair Mr Clinton	4-6-2019 F&GP 25-6-2019 Board
A.19.2.07	Feedback from UHI Joint Audit Chairs' Meeting of 3-5-2019		
7.1	Minutes had been circulated for noting and Dr McLeman provided a verbal update on the UHI Joint Chairs' meeting highlighting the main points discussed including: <ul style="list-style-type: none"> • Audit Scotland Report to recommend work on longer term financial sustainability; • Governance Update on Partnership Assembly; • Student numbers Audit Certificate – status quo this year. There was a request for year-end reports from internal auditors more quickly than last year (EMA, FES, Student Support and Report to Audit Committee). Discussion took place with HL on feasibility. UHI Audit Committee has to provide assurances to Court in November.		
Action	HL to check whether timing of reports can be changed, in turn to allow earlier reporting to UHI and for Mr Clinton go back to Roger Sendall with response.	Mr D Archibald Mr N Clinton	ASAP

Agenda Item: A.19.3.04

		ACTION	DATE
7.2	Other issues highlighted included Academic Partnership Agreements which are out of date. Concern raised at Partnership Council over compliance issues. Business continuity Exercise planned for June. Dr McLeman raised scope for UHI sharing information on obligations to support the compliance framework.		
Action	Dr McLeman to raise scope for collaboration on compliance framework matters at next Audit Chairs' meeting.	Dr McLeman	Next Audit Chairs' meeting
A.19.2.08	Audit Scotland Update		
8.1	The Audit scope for Audit Scotland report for current year had been circulated for information. Report expected June 2019 before the June Board.		
Action	Audit Scotland Report to be circulated when available	Mrs Fair	ASAP
A.19.2.09	National Fraud Initiative Update		
9.1	A covering paper had been circulated along with a background paper and checklist explaining this initiative. Part A of the checklist provided by Audit Scotland is the relevant section for the Committee to complete. College is currently in the process of completing this, which once finalised shall then be passed to EY as a draft, pending review by the Committee, together with the other required sections. EY are required by Audit Scotland to submit a report covering the College's NFI governance arrangements and initial progress in reviewing matches by 30 June. Ms Scanlin was able to provide examples of potential matches (discrepancies).		
Action	Mr Clinton to complete the draft Part A and other sections of NFI return to EY early June, and thereafter provide report including draft Part A to the October meeting.	Mr Clinton	June October Audit
Action	Annual paper on fraud to Committee in October annually.	Mr Clinton	October Audit
Action	EY to provide a template for this for consideration.	EY	ASAP
A.19.2.10	Internal Audit 18-19		
	(I) Payroll		
	(II) Quality		
	(III) Health and Safety		
10.1	Payroll - Mr Archibald highlighted main points of internal audit report for Payroll which had an overall level of assurance of Good, and acknowledged that this was a very positive report with no issues nor recommendations. Committee questioned the controls used to ensure the existence of employees.		
10.2	Quality Assurance and Improvement – This report had been influenced by Education Scotland approach using the evaluative report and enhancement plans. The results		

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		ACTION	DATE
	were Satisfactory and Good so overall grading Satisfactory. Whilst no significant issues had emerged, it was acknowledged there was still work to be done. Mr Archibald highlighted in particular better use was being made of information on attendance and student achievement, but staff would benefit from having access to real time information. A new database reporting tool currently under development should provide a solution.		
Action	Committee suggested that progress on this point be brought back to Committee as a matter arising at next meeting.	Mrs Yoxall	October Audit
10.3.1	Health and Safety – The rating for this report was Requires Improvement. Whilst it was acknowledged that there has been some progress, there is still work to be done especially in relation to developing a training matrix and ongoing training progress. Three recommendations for improvement had been made including two assessed as priority 2. The Report also recommended an annual report to the Board, via the Staff Governance Committee. The Committee agreed the recommended actions and timescales.		
Action	Committee requested that Health and Safety Audit be forwarded to Staff Governance Committee for information.	Mrs Fair	Immediate
10.3.2	Committee questioned whether health and safety is a possible candidate for a short follow up review in the coming year, as the workplan is continuing.		
	(iv) Internal Audit Plan for 18-19		
10.4.1	Committee requested a closed session with the Internal Auditors prior to the October meeting.		
Action	To include in Board Plan for 2019-20	Mrs Fair Committee EY HL	October Audit
10.4.2	Procurement Report to be discussed in October and if possible, the Annual Report, pending the outcome of above.	Mrs Fair Committee	October Audit
	(v) Review of Audit Register		
10.5	Mr Clinton provided an update on the status of the Audit Register. Committee noted this is a much better position than a year ago.		
A.19.2.11	External Audit 18-19		
11.1	Ms Scanlin explained the external audit plan for 18/19 setting out the responsibilities and wider scope audit as outlined in EY's plan.		

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		ACTION	DATE
	<p>The approach to Financial Statements Audit is largely as last year, with inherent risks noted in relation to forthcoming property valuation and possible valuation implications in relation to pension liabilities.</p> <p>Re the Wider Scope Audit, the auditors will look (i) at financial sustainability in relation to the medium-longer term, to determine if planning is effective to support service delivery; and (ii) governance and transparency, leadership and decision-making, transparency in reporting financial and performance information, quality of arrangements to support good governance including the results of the Board's self-effectiveness review. The adequacy of the College's preparations for EU withdrawal will also be considered in this context.</p>		
11.2	The timeline was considered by the Committee, which had been circulated by Mr Clinton and which mirrored last year.		
11.3	A letter to those charged with governance was expected imminently from EY. As the next meeting is in October, the Committee asked that the letter be made available and circulated to the Committee on receipt, and for Mr Clinton and Mrs Fair to prepare the draft response.		
11.4	Letter from EY to Those charged with Governance to be circulated to Committee and draft to come to October Audit.	Mr Clinton Mrs Fair	ASAP October Audit
11.5	An externally facilitated Board effectiveness review is required to take place in 2020, ie 3 years from the last review. The Board will need to decide how it wishes to undertake the review.		
Action	In view of the need to plan for the review at the Board, Mrs Fair to raise matter at the next meeting.	Mrs Fair	25-6-2019
A.19.2.12	Risk and Risk Register		
	(i) Updated Risk Management Policy		
12.1.1	The updated Risk Management Process was presented prior to formal approval by the Board. The Committee approved the document subject to a small editorial change.		
Action	To include on agenda for Board meeting in June	Mr Clinton Mrs Fair	25-6-2019
12.1.2	Discussion took place around the Risk Register and the merit of separating risks into key area by relevant committee.		
Action	To be raised at Board	Dr McLeman	25-6-2019

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		ACTION	DATE
	(ii) Risk Register Update		
12.2.1	The new format Risk Register had been circulated and it was noted that the Committee found this difficult to follow in its current format. Whilst the Committee appreciates the work done, and the new format is easier for management, it is currently not meeting the needs of the Committee.		
ACTION	Mr Clinton to summarise requirements and circulate to Committee prior to asking Roger Sendall to amend the tool to provide suitable reporting to meet the Committee's requirements.	Mr Clinton	ASAP
12.2.2	A new risk has been added, namely impact of EU withdrawal. Mr Duncan advised the Committee he had met the HR Director along with Government Ministers and discussed Brexit including the impact on costs eg IT the Erasmus programme. It was acknowledged there are likely to be challenges many of which are unknown at this stage.		
	(iii) Paper/presentation on Risk Register item Moray 18 (non-compliance with relevant statutory legislation)		
12.3.1	Mr Duncan had presented a paper providing an overview of Risk 18: Non-compliance with Relevant Statutory Regulations. The paper covered key statutory functions, discussed the mechanisms to mitigate risk and signposted improvements to further mitigate risk going forward. The Committee acknowledged the challenges in demonstrating compliance. Shared initiatives such as training schemes were discussed. Centralisation of resources was also considered as was setting up a practitioners' group. To take this forward, it was agreed that further reflection and a discussion with Fiona Larg and Roger Sendall would be appropriate.		
Action	Reflect further with UHI and bring back to February meeting with a possible framework. Mr Duncan and Mr Clinton to discuss with Mr Sendall	Mr Clinton Mr Duncan	Feb meeting
Action	Consider appropriate training going forward	Mr Duncan	Feb meeting
A.19.2.13	College Policies Update		
	(i) Update/summary on status of review of policies		
13.1	Mr Duncan had circulated a paper on the policy schedule update. This included an update on the single policy environment and progress of regional policies. Policies on hold were also highlighted with an explanation for reason.		
Action	Anticipated completion date to be added to the report.	Mr Duncan	Immediate

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		ACTION	DATE
Action	Committee requested a summary overview of the status of all policies.	Mr Duncan	October meeting
	(ii) GDPR Update		
13.2	This item is reserved and the minute held on confidence.		
	(iii) OSCR Return Submission		
13.3	The Committee noted the OSCR Return submission had been made on 26 April 2019 as an online submission.		
Action	This item to be a standing item on May Audit Committee agenda going forward.	Mr Clinton Mrs Fair	May 2020 meeting
A.19.2.14	Emerging Issues		
	(i) Update on Recruitment to Audit Committee		
14.1	Dr McLeman was pleased to confirm the appointment of two new Co-opted members to the Audit Committee – Grenville Johnston and Dawn McKinstrey, who would be starting in the new session. An induction session has been arranged for 30 May 2019. Caroline Webster has also been invited to attend Audit Committee in an advisory capacity. It was suggested that the incoming HISA rep be invited to attend the Induction session. It was also suggested that Miss Webster be invited to the Induction session.		
Action	To forward details of Induction session to Ms Jesus-Wells to pass on to incoming HISA rep.	Mrs Fair	Immediate
Action	To invite Miss Webster to join Induction session for Audit Committee	Dr McLeman	Immediate
	(ii) Update from UHI AP Secretaries' Group		
14.2	Mrs Fair reported on the UHI AP Secretaries Group which included an update to planned changes for the current FE Good Governance Checklist. Minor changes planned for August 2019 with further changes in 2021 including remuneration of Chair and Trade Union Representation on Boards.		
A.19.2.15	Board and Committee Effectiveness Review Report 2018-19		
15.1	Mrs Fair highlighted the main points from the conclusions of the Audit Committee Effectiveness Review and the Committee spent some time considering some of the main points highlighted.		
Action	Committee suggested an electronic survey tool be used to conduct next year's effectiveness review.	Mrs Fair	2019-20 Review
Action	It was suggested that a review of the Committee's work planning be undertaken, for subsequent incorporation into the Board Plan for Audit Committee next year, the draft workplan to be reviewed at the next meeting of the Committee.	Mrs Fair Mr Clinton	Next meeting of the Audit Committee and 2019-20 Board Plan

Agenda Item: A.19.3.04

		ACTION	DATE
RESERVED ITEMS			
A.19.2.14	Draft Reserved Minutes from Audit Committee held on 21 February 2019 *		
14.1	This matter is reserved and the minute held in confidence.		
A.19.2.15	Draft Reserved Matters Arising from Audit Committee held on 21 February 2019 *		
15.1	This matter is reserved and the minute held in confidence.		
A.19.1.16	Renewal of Contract for Internal Audit Services, overview and status.		
16.1	This matter is reserved and the minute held in confidence.		
A.19.1.17	Date of next meeting – 21 May 2019		
	<i>Meeting closed at 1740</i>		

Matters Arising from Audit Committee 21-5-2019

Agenda item: A.19.3.05

		ACTION	DATE	Update
A.19.2.05	Matters Arising/Action Sheet from meeting Audit Committee 21 May 2019			
5.1	<u>7.2</u> - Final Audit Report on Procurement to be circulated to Committee week commencing 3-6-2019	Mr Clinton	w/c 3-6-2019	Completed
5.2	<u>9.1.2</u> – to clarify with Roger Sendall whether Risk Register should be published on website	Mr Clinton	ASAP	Completed/ On Agenda
5.3	<u>10.1.1</u> Issue of whether a Whistleblower Policy or equivalent exists for students – Ms Jesus Wells to check and report back to Committee	Ms Jesus Wells	ASAP	Overtaken as Ms Wells tenure has ended
5.4	<u>10.1.2</u> – To check on current arrangements for reporting and monitoring theft. It was agreed that this should be discussed at SLT and report back to October Audit Committee.	Mr Clinton	October Audit	Follow up in February Audit Committee
5.5	<u>19.1.11</u> – OSCR Return to be on Agenda for future May Audit meetings and factoring into Board/Committee Plan	Mr Clinton Mrs Fair	May 2020 Audit Committee Board Plan	May Audit Committee
A.19.2.06	Review of Terms of Reference of the Audit Committee			
6.1	To include on Agenda for Board meeting on 25-6.2019 as well as the F&GP meeting on 4-6-2019	Mr Clinton Mrs Fair	4-6-2019 F&GP 25-6-2019 Board	Remains ongoing – review to go to October Board
A.19.2.07	Feedback from UHI Audit chairs' Meeting on 3-5-2019			
7.1	HL to check whether timing of reports can be changed, in turn to allow earlier reporting to UHI and for Mr Clinton to go back to Roger Sendall with response.	Mr D Archibald Mr N Clinton	ASAP	Not possible this year
7.2	Dr McLeman to raise scope for collaboration on compliance framework matters at next Audit Chairs' meeting.	Dr McLeman	Next Audit Chairs' meeting	?
A.19.2.08	Audit Scotland Update			
8.1	Audit Scotland Report to be circulated when available	Mrs Fair	ASAP	Completed
A.19.2.09	National Fraud Initiative Update			

Matters Arising from Audit Committee 21-5-2019

Agenda item: A.19.3.05

9.1.1	Mr Clinton to complete the draft Part A and other sections of NFI return to EY early June, and thereafter provide report including draft Part A to the October meeting.	Mr Clinton	June October Audit	On Agenda
9.1.2	Annual paper on fraud to Committee in October annually	Mr Clinton	October Audit	On Agenda
9.1.3	EY to provide a template for this for consideration.	EY	ASAP	Overtaken
A.19.2.10	Internal Audit 18-19			
10.2	Quality Assurance and Improvement - Committee suggested that progress on this point be brought back to Committee as a matter arising at next meeting.	Mrs Yoxall	October Audit	Verbal update will be provided
10.3.1	Committee requested that Health and Safety Audit be forwarded to Staff Governance Committee for information	Mrs Fair	Immediate	Completed
10.4.1	Internal Audit Plan for 18-19 – To include a closed session with the Internal Auditors prior to the October meeting	Mrs Fair HL	October Audit	Completed
10.4.2	Procurement Report to be discussed in October and if possible, the Annual Report, pending the outcome of above.	Mrs Fair Committee	October Audit	On Agenda
A.19.2.11	External Audit 18-19			
11.4	Letter from EY to Those Charged with Governance to be circulated to Committee once available and draft response to go to October Audit	Mr Clinton Mrs Fair	ASAP October Audit	On Agenda
11.5	In view of need to plan for the externally facilitated Board Effectiveness Review at the Board, Mrs Fair to raise matter at the next meeting.	Mrs Fair	25-6-2019	Requested update on this from Roger Sendall
A.19.2.12	Risk and Risk Register			
12.1.1	To include Risk Management Process on agenda for Board meeting in June.	Mr Clinton Mrs Fair	25-6-2019	Completed and approved
12.1.2	Merit of separating risks into key area by relevant committee to be raised at Board.	Dr McLeman	25-6-2019	?
12.2.1	Mr Clinton to summarise requirements and circulate to Committee prior to asking Roger Sendall to amend the tool to provide suitable reporting to meet the Committee's requirements.	Mr Clinton	ASAP	On Agenda

Matters Arising from Audit Committee 21-5-2019

Agenda item: A.19.3.05

12.3.1	Reflect further with UHI and bring back to February meeting with a possible framework. Mr Duncan and Mr Clinton to discuss with Mr Sendall.	Mr Clinton Mr Duncan	Feb meeting	Continued
12.3.2	Consider appropriate training going forward.	Mr Duncan	Feb meeting	Feb Committee
A.19.2.13	College Policies Update			
	(i) Update/summary on status of review of policies			
13.1.1	Anticipated completion date to be added to the report	Mr Duncan	Immediate	On Agenda
13.1.2	Committee requested a summary overview of the status of all policies	Mr Duncan	October meeting	On Agenda
	(ii) OSCR Return Submission			
13.3	OSCR return submission to be a standing item on May Audit Committee agenda going forward.	Mr Clinton Mrs Fair	May 2020 meeting	May 2020 meeting
A.19.2.14	Emerging Issues			
	(i) Update on Recruitment to Audit Committee			
14.1.1	To forward details of Induction session to Ms Jesus-Wells to pass on to incoming HISA rep	Mrs Fair	Immediate	completed
14.1.2	To invite Miss Webster to join Induction session for Audit Committee	Dr McLeman	Immediate	Completed
A.19.2.15	Board and Committee Effectiveness Review Report 2018-19			
15.1.1	Committee suggested an electronic survey tool be used to conduct next year's effectiveness review	Mrs Fair	2019-20 Review	Completed – electronic survey ready to go
15.1.2	It was suggested that a review of the Committee's work planning be undertaken, for subsequent incorporation into the Board Plan for Audit Committee next year, the draft workplan to be reviewed at the next meeting of the Committee	Mr Clinton Mrs Fair	Next meeting of the Audit Committee and 2019-20 Board Plan	Nothing further forthcoming

Cover Paper – Review of Risk Register
Agenda Item A.19.3.06 (i)



Committee:	Audit Committee			
Subject/Issue:	Review of Risk Register			
Brief summary of the paper:	<p>An updated Risk Register (“RR”) is enclosed for the Committee’s attention.</p> <p>Recently added/updated risks for the Committee to be aware of included:</p> <ul style="list-style-type: none"> • Brexit (Moray/28); and • Revision of the risk Moray/20 (Financial failure/operating loss. Inability to achieve a balanced budget). <p>The Brexit risk was included on the previous version of the RR provided to the Committee.</p> <p>In light of the College’s budget for AY19/20 and 5 year FFR recently prepared and submitted to SFC the risk rating for Moray/20 has been revised (gross score of 25, and net score of 20).</p>			
Action requested/decision required:	Feedback from Audit Committee on the current position of the Risk Register.			
Status: (please tick ✓)	Reserved:	X	Non-reserved:	
Date paper prepared:	2 October 2019			
Date of committee meeting:	8 October 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with:	<p>compliance</p> <p>partnership services</p> <p>risk management</p> <p>strategic plan/enabler</p>			

Cover Paper – Review of Risk Register
Agenda Item A.19.3.06 (i)

other activity (e.g. new opportunity) – please provide further information.	
Equality and diversity implications:	N/A
Resource implications: <i>(If yes, please provide detail)</i>	N/A
Risk implications: <i>(If yes, please provide detail)</i>	That key risks to the College are not captured and suitable mitigating actions put in-place.

INTRODUCTION

The development of the new UHI partnership Risk Register is currently ongoing, and has not progressed due to other priorities across the partnership. As such, the extracts provided at the May 2019 Committee meeting have not been revised.

As discussed at the May meeting, the current management information (“MI”) does not meet the needs of the Committee (or Management/SLT) – primarily due to the current parameters set at a partnership level.

In order to provide the Committee with the full/overall picture an excel version of the College Risk Register has been provided for the Committee to review/provide feedback on.

DEVELOPMENT OF RISK REGISTER

From recent discussion with Roger Sendall (UHI) I understand that the next steps in the development of the Risk Register include:

- Addition of Power BI to the RR reporting capabilities – which would be reviewed at a partnership level in order to gain best value when it comes to licence costs;
- Agree (across the UHI Partnership) a standard set/suite of reports to meet the needs of the UHI Partnership in respect of risk management.

In order to make best use of the new RR, and the development of the standard set/suite of reports the Committee (and Management) recommendations should be forwarded to Roger Sendall at UHI.

OTHER MATTERS

In respect of the clarity sought by the Committee at the May meeting regarding publishing the College Risk Register with Committee papers (i.e. via the College web-site), I have received verbal assurance that there is no requirement to do this.

CONCLUSION/ACTIONS

Further to any comments/feedback the Committee may have in respect of the current version of the College’s Risk Register, I would appreciate feedback from the Committee on key requirements of the new Risk Register so that that can be fed back to UHI and aid the development of risk register reports.

Cover Paper – Deep Dive (Staff Training Update)
Agenda Item A.19.3.06 (ii)



Committee:	Audit Committee			
Subject/Issue:	Deep Dive – Staff Training Update			
Brief summary of the paper:	<p>The enclosed paper includes the following:</p> <ul style="list-style-type: none"> • Overview of all staff training/development run in the calendar year 2019 (i.e. Jan 2019 to Aug 2019); and • An overview of all mandatory staff training/development run in the calendar year 2019 <p>In AY18/19 the College invested additional financial resources in its staff development budget (c£50k).</p> <p>In addition to the above in AY18/19 the College (for the first time) was able to claim £15k of funding towards staff development under the provision of FWDF.</p>			
Action requested/decision required:	Feedback from Audit Committee on the current position of the Risk Register.			
Status: (please tick ✓)	Reserved:		Non-reserved:	X
Date paper prepared:	2 October 2019			
Date of committee meeting:	8 October 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with:	<p>compliance</p> <p>partnership services</p> <p>risk management</p> <p>strategic plan/enabler</p> <p>other activity (e.g. new opportunity) – please provide further information.</p>			

Cover Paper – Deep Dive (Staff Training Update)
Agenda Item A.19.3.06 (ii)

Equality and diversity implications:	N/A
Resource implications: <i>(If yes, please provide detail)</i>	N/A
Risk implications: <i>(If yes, please provide detail)</i>	Risk of recent internal audit actions/recommendations relating to staff training requirements are not being fully engaged with by relevant staff.

INTRODUCTION

A theme from the recent internal audit reviews highlighted staff training requirements in several of the recommendations (i.e. reviews from AY18/19).

Each academic year the College runs several staff training/development events, and has for the first time in AY18/19 been able to access the Flexible Workforce Development Fund (“FWDF”) – a maximum of £15k towards staff training.

In previous years all colleges had been excluded from being able to claim this, despite being an apprenticeship levy payer. This has helped compliment the training the College has been able to offer.

In addition to the FWDF funds, during AY18/19 the College made a conscious decision to invest (more than in previous years) in staff development – with a budget of c£50k made in addition to the FWDF claim.

STAFF DEVELOPMENT SESSIONS

The enclosed schedule(s) show:

- All staff development which the College has provided in the current calendar year; and
- All mandatory staff development which the College has provided in the current calendar year.

On an annual basis the College provides based on the needs and requirement of the staff and the College, and these tend to be 3 times per year, to coincide with the breaks in academic year.

Mandatory training is also provided for staff, which for 2019 is highlighted on the enclosed schedule.

CONCLUSION/ACTIONS

While the College is pro-active in ensuring relevant training is provided to all staff, there appears to be an issue with registers being taken and returned – which is a theme on the enclosed schedules, and a matters which requires to be addressed internally.

However, when reviewing the mandatory training (excluding the items which did not run and where no register was returned), there is c88% attendance rate for 2019.

While there is clearly room to improve this, with the ultimate aim being to get to an attendance rate of 100%, addressing the ‘house-keeping’ issue of attendance registers would significantly aid the overall position and help the College then understand what other factors are impacting attendance at mandatory sessions.

Staff Development Sessions 2019

Session Title	Date Delivered	Teaching/Support	Mandatory Yes/No	Number of Attendees booked	Actual Number of Attendees	Comments
ETHOS Training	07/01/2019	Support	No		19	
Embedding Career Management Standards	07/01/2019	Teaching	No		12	
Understanding Self-Harm	07/01/2019	All Staff	No		50	
Smartboard Training	07/01/2019	Teaching	No		23	
New FE Admissions Policies and Procedures	07/01/2019	Teaching	No		53	
Assessment if For Learning (AiFL)	07/01/2019	Teaching	No		16	
Using support mechanisms to raise standards for all	07/01/2019	Teaching	No		16	
Mindfulness	11/02/2019-15/04/2019	All Staff	No	13	13	Ran weekly for 8 weeks from 11/02/2019-15/04/2019
Managing People	28/03/2019	Management Staff	No	5	3	Ran external by Elite Training. Max 12.
CORE VALUES: Coaching Skills for Managers	29/03/2019	Management Staff	No			Cancelled. To be rescheduled through FWDF
CORE VAUES: Promoting positive behaviours and responding to conflict	29/03/2019	All Staff	No	5	5	Ran external by Elite Training. Max 12.
Brightspace Overview	29/03/2019	All Staff	No	60		Ran by EDU/LTA. No register received
Brightspace Drop In sessions	29/03/2019	All Staff	No	21		No register received
Brightspace; Quizzes/Assessment/Feedback	29/03/2019	All Staff	No	36		No register received
Brightspace; Migration and Creating Content	29/03/2019	All Staff	No	41		No register received
Brightspace; Templating	29/03/2019	All Staff	No	42		No register received
HR Policies and Staff Review	29/03/2019	Managers	No	5	5	
Universal Credit for Students	02/04/2019	Support	No	11	11	Ran external for Student Services Staff.
Performance Management	16/04/2019	Management Staff	No	5	4	Ran external by Elite Training. Max 12.
CORE VAUES: Promoting positive behaviors and improving working relationships	17/04/2019	All Staff	No	6	5	Ran external by Elite Training. Max 12.
Mental Health First Aid	26/6+27/6/2019	All Staff	No	12	12	2 Day course. Ran external by the Moray Wellbeing Hub. Max 12
Moray College Enhancement Themes	20/8+22/8/2019	Teaching	Yes	189		No register received
Influencing Skills and Securing Agreement	20/8+22/8/2019	All Staff	No	22	14	
Prepared for Brightspace	20/8+22/08/2019	All Staff	No	68		Cancelled.
Assessment if For Learning (AiFL)	22/08/2019	Teaching	No	38	23	
Educational Visits and out of college activities		Staff that are involved with EVOCA	Yes	60	64	
Completing Risk Assessments	22/08/2019	For those that complete Risk Assessments	Yes	33	13	
Safeguarding Briefing	20/8+22/8/2019	All Staff	Yes	182	0	Cancelled - To be rescheduled.
GDPR and Data Protection	20/8+22/8/2019	All Staff	Yes	188	180	Ran by James Nock DPO
Learner Support Procedures	20/8+22/8/2019	LDW's and PAT's	No	29	12	
Budget Management	20/8+22/8/2019	Budget Holders only	Yes	33	17	Two sessions. Session 1 (15 of 18 attended). Session 2 (4 of 12 attended)
CRM Software	20/8+22/8/2019	L1, 2 and 3 Teaching Staff	No	21		No register received
Managing Risks	20/8+22/8/2019	All Staff	No	15	11	2nd session Cancelled.
SWAP (Scottish Wider Access Programme)	22/08/2019	For staff involved in new SWAP programme	Yes	5	8	Ran external by Lesley Dunbar
Excel Introductory	05/09/2019	All Staff	No	12	10	Ran through FWDF. Max 12.
Excel Intermediate	12/09/2019	All Staff	No	13	6	Ran through FWDF. Max 12.
Excel Advanced	23/10/2019	All Staff	No	9	TBC	Ran through FWDF. Max 12.

Staff Development Sessions 2019 - MANDATORY

Session Title	Date Delivered	Teaching/Support	Mandatory Yes/No	Number of Attendees booked	Actual Number of Attendees	Comments
Moray College Enhancement Themes	20/8+22/8/2019	Teaching	Yes	189		No register received
Educational Visits and out of college activities		Staff that are involved with EVOCA	Yes	60	64	
Completing Risk Assessments	22/08/2019	For those that complete Risk Assessments	Yes	33	13	
Safeguarding Briefing	20/8+22/8/2019	All Staff	Yes	182	0	Cancelled - To be rescheduled.
GDPR and Data Protection	20/8+22/8/2019	All Staff	Yes	188	180	Ran by James Nock DPO
Budget Management	20/8+22/8/2019	Budget Holders only	Yes	33	17	Two sessions. Session 1 (15 of 18 attended). Session 2 (4 of 12 attended)
SWAP (Scottish Wider Access Programme)	22/08/2019	For staff involved in new SWAP programme	Yes	5	8	Ran external by Lesley Dunbar

TOTAL (where course ran & register taken):	319	282
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TOTAL % (where course ran & register taken):	88.40%
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Moray College UHI

**Internal Audit Progress Report
2018/19 Annual Plan and
Proposed allocation of audit days for 2019/20**

8 October 2019

Now, for tomorrow

Internal Audit Progress Report

October 2019

Progress with the annual plan for 2018/19 is shown below.

Audit Area	Planned reporting date	Report status	Report Number	Overall Conclusion	Audit Committee	Comments
Annual Plan 2018/19	October 2018	Draft 03/10/18 2nd Draft 09/11/18 3rd Draft 20/11/18 Final 27/11/18	2019/01	N/A	09/10/18 27/11/18	
Health and Safety	May 2019	Draft 04/04/19 2nd Draft 10/05/19 Final 13/05/19	2019/04	Requires Improvement	21/05/19	
Quality Assurance and Improvement	May 2019	Draft 26/03/19 Final 17/04/19	2019/03	Satisfactory	21/05/19	
Payroll	May 2019	Draft 11/03/19 Final 30/04/19	2019/02	Good	21/05/19	
Procurement	October 2019	Draft 16/05/19 2nd Draft 31/05/19 Final 13/06/19	2019/05	Satisfactory	08/10/19	
Credits Audit	November 2019					Fieldwork commenced 18 September 2019
Student Support Funds Audit	November 2019					Fieldwork commenced 18 September 2019

Audit Area	Planned reporting date	Report status	Report Number	Overall Conclusion	Audit Committee	Comments
EMA Audit	November 2019					Fieldwork commenced 18 September 2019
Follow-Up Reviews	Each Audit Committee meeting	Audit Register updated	N/A	N/A	19/02/19 21/05/19 08/10/19	



Appendix 1 – Strategic Plan 2016 to 2020

We were re-appointed in November 2016 as internal auditors of the College for the period 7 November 2016 to 6 November 2019. An Audit Needs Assessment (ANA), based on the areas of risk that the College is exposed to, was prepared as part of our internal audit programme for 2016/17 (internal audit report 2017/01, issued February 2017). Following on from the ANA a Strategic Plan was formulated, covering the normal three-year internal audit cycle (2016/17 to 2018/19), and this was approved by the Audit Committee, together with the ANA, at its meeting on 15 March 2017.

In June 2019 the period of our appointment was formally extended to 31 July 2020 and it was agreed with College management that we would extend the 2016-2019 Strategic Plan to cover the financial year 2019/20.

From initial discussions with the Director of Finance and input received from the Convener of the Audit Committee potential areas for internal audit work in 2019/20 are noted in the following table, together with previous actual coverage during the period 2016/17 to 2018/19. The days allocated to 'Other Audit Activities' have been set at the same level as previous years (15 in total) and 2 days have been added for a specific follow-up of Health and Safety given that this area was categorised as 'Requires Improvement' in our 2018/19 review. This leaves a total of 16 days which would be sufficient for a further four assignments to be undertaken in 2019/20. Potential areas for review have been identified with a tick (✓) and Audit Committee members are asked for their input in selecting the four areas for review to ensure that the internal audit work is properly focused on current issues and key risks.

Proposed Allocation of Audit Days for 2019/20

	Category	Priority	Actual 16/17 Days	Actual 17/18 Days	Actual 18/19 Days	Potential 19/20 Days
Reputation						
<i>Communications and Marketing</i>	Gov	M				
<i>Health and Safety</i>	Gov	H			4	2
Student Experience						
<i>Curriculum</i>	Perf	H/M				√
<i>Quality assurance and improvement</i>	Perf	H/M			4	
<i>Student recruitment and retention</i>	Perf	H		5		
<i>Student support</i>	Perf	M				√
Staffing Issues						
<i>Staff recruitment and retention</i>	Perf	M/L				
<i>Staff development</i>	Perf	M		4		
<i>Voluntary severance</i>	Perf/Fin	H				
<i>Executive Team Restructure</i>	Gov/Perf	H	4			
<i>Workforce planning</i>	Perf	M				√
<i>Payroll</i>	Fin	M			4	
Estates and Facilities						
<i>Building maintenance</i>	Fin/Perf	H/M				√
<i>Capital projects</i>	Fin/Perf	H/M				
<i>Sustainability</i>	Gov/Perf	M				
<i>Space management</i>	Perf	M				
<i>Asset / fleet management</i>	Perf	M				
Financial Issues						
<i>Budgetary control</i>	Fin	H				√
<i>General ledger</i>	Fin	M				
<i>Student fees and contracts / registry</i>	Fin	M				
<i>Procurement and creditors / purchasing</i>	Fin	H			5	
<i>Debtors/ Income</i>	Fin	M				
<i>Cash & Bank / Treasury management</i>	Fin	M				
Commercial Issues						
<i>Business Development / Research</i>	Fin/Perf	H/M	4			
Organisational Issues						
<i>Risk Management / Business Continuity</i>	Perf	H/M		4		
<i>Corporate Governance</i>	Gov	M				√
<i>Corporate Planning</i>	Perf	M	4			√
<i>Partnership working</i>	Gov/Perf	M				

	Category	Priority	Actual 16/17 Days	Actual 17/18 Days	Actual 18/19 Days	Potential 19/20 Days
Information and IT						
<i>IT network arrangements / security</i>	Perf	M				√
<i>Data protection</i>	Gov	H	3	5		
<i>FOI</i>	Gov	L				
<i>Systems development / implementation</i>	Perf	M				
<i>IT strategy</i>	Perf	H/M				
Other Audit Activities						
Credits Audit		Required	5	5	5	5
Bursary and Hardship Funds Audit		Required	3	3	3	3
EMA Audit		Required	1	1	1	1
Management and Planning)			4	4	4	4
External audit / SFC)						
Attendance at audit committees)						
Follow-up reviews		Various	2	2	3	2
Audit Needs Assessment			3			
Total			33	33	33	33
			=====	=====	=====	=====

Key

Category: Gov – Governance; Perf – Performance; Fin – Financial

Priority: H – High; M – Medium; L – Low

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Moray College UHI

Procurement

Internal Audit Report No: 2019/05

Draft issued: 16 May 2019

2nd Draft issued: 31 May 2019

Final issued: 13 June 2019

LEVEL OF ASSURANCE

Satisfactory

Contents

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Section 1	Management Summary	
	<ul style="list-style-type: none">• Overall Level of Assurance• Risk Assessment• Background• Scope, Objectives and Overall Findings• Audit Approach• Summary of Main Findings• Acknowledgements	1 1 1 2 3 3 3
Section 2	Main Findings and Action Plan	4 - 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 College to material risk and which requires to be brought to the attention of management and the Audit Committee.
Priority 2	Issue subjecting the College to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the College to minor risk or which, if addressed, will enhance efficiency and effectiveness.



Management Summary

Overall Level of Assurance

Satisfactory	System meets control objectives with some weaknesses present.
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Risk Assessment

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

- The institution has a poor reputation (gross risk score: 12);
- Non-compliance with relevant statutory regulations (gross risk score: 12); and
- Financial failure / operating loss. Inability to achieve a balanced budget (gross risk score: 12).

Background

As part of the Internal Audit programme at the College for 2018/19 we carried out a review of the College's Procurement arrangements. The Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management and the Principal that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The College uses PECOS software for processing the majority of purchases. This requires that purchase orders are raised and authorised by two different staff members with the required delegated purchasing authority, and also requires the College's Assistant Finance Officer – Procurement to review proposed purchases prior to placing purchase orders with suppliers.

The Procurement Reform (Scotland) Act 2014 and related regulations provide the legal framework for the College's procurement activity. In particular, there are certain procurement requirements that must be applied to expenditure estimated to be at least £50,000 over the life of the contract, which are referred to as 'regulated procurements'.

The College uses the University of Highland's and Islands (UHI) shared procurement service provided by APUC (Advanced Procurement for Universities and Colleges), a national procurement centre of excellence for the sector. The College has an APUC staff member assigned to it who works on larger procurement exercises (generally over £20,000). There is also a Head of Procurement for the UHI shared procurement service who provides support for the College's APUC staff member, and APUC has a range of procurement tools (including the Hunter database) which is used for oversight of the contracts which are coming up for renewal.

Scope, Objectives and Overall Findings

This audit focused on the systems of internal control in place for the ordering of goods and services, including for capital projects. We also considered whether the procurement strategy followed and procedures in place supported best value purchasing across the College in relation to non-pay spend.

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

Objective	Findings				Actions in progress / covered elsewhere
	1	2	3		
The specific objectives of this audit were to obtain reasonable assurance that:					
1. The College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations')	Satisfactory	0	0	3	✓
2. Procurement procedures ensure that: <ul style="list-style-type: none"> • Areas of high spend across the College are monitored appropriately • Opportunities for pooling of expenditure are identified in order to achieve best value; and • Collaborative procurements and frameworks available to the College are utilised where appropriate 	Satisfactory	0	0	1	✓
3. Purchase orders are completed for relevant purchases and are approved by members of staff with sufficient delegated authority prior to issue to suppliers, with the risk of unauthorised and excessive expenditure being minimised	Good	0	0	0	
4. The College' procurement guidance on quotes and tenders are being complied with.	Satisfactory	0	0	0	✓
5. The capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust.	Good	0	0	0	
Overall Level of Assurance	Satisfactory	0	0	4	
		System meets control objectives with some weaknesses present.			

Audit Approach

From discussions with Procurement staff, and a sample of budget holders, we established the procurement strategies, procedures and monitoring arrangements which were in place within the College. These were then evaluated to establish whether they followed recognised good practice. Specifically, we sought to establish whether the procurement procedures ensured that areas of high spend across the College were monitored appropriately, identifying opportunities for pooling of expenditure in order to achieve best value, and ensuring that joint purchasing arrangements available to the College were utilised where appropriate.

We also reviewed relevant documentation in relation to the capital investment appraisal process.

Summary of Main Findings

Strengths

- The College has a Procurement Strategy, Financial Regulations including requirements regarding procurement, and an Annual Procurement Report that provide a strong framework for procurement in the College;
- The PECOS system is used to provide a robust process for the approval of purchase orders;
- The College makes good use of collaborative procurement and procurement frameworks;
- An analysis of spend by supplier has been undertaken and reviewed;
- The APUC shared procurement service is used which provides the College with expertise and resource for undertaking more complex and larger procurements;
- In addition to the APUC resource, the College has a dedicated resource (Assistant Finance Officer – Procurement) to focus on procurement requirements across the College; and
- The annual procurement report produced by APUC for 2017/18 states that the College utilisation of the benefits of National Frameworks is above the sector average.

Weaknesses

- Although there was annual reporting on procurement, we noted that this was not provided to the Senior Leadership Team or Finance and General Purposes Committee and we have recommended that this is done.
- Although a good procurement framework is in place, with specialist support provided by APUC, we did identify instances where the framework was not fully complied with, particularly around the completion of Non-Competitive Action justifications and retention of procurement documentation, but the position is significantly improved from our previous review of procurement arrangements conducted in 2013;
- From discussion with a range of budget holders it was noted that there would be benefit in providing procurement refresher training with a specific focus around responsibilities for ongoing contract management post contract award; and
- Although significant progress has been made in driving consistent compliance with procurement regulations across the College there would be benefit in enhancing existing reporting of non-compliance in order to support the work of the procurement officer and APUC in their efforts to improve compliance across the College.

Acknowledgements

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



Main Findings and Action Plan

Objective 1: The College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations')

Procurement Strategy

The College has a Procurement Strategy in place. We carried out a review of the strategy and consider that this is adequate for the College's purposes. This is a significant step forward from the previous position reported in internal audit report 2013/05 - Procurement and Creditors Purchasing.

Procurement Policy

The College does not have a Procurement Policy however we found that procurement was covered in the College's Financial Regulations and Financial Procedures and consider that a separate policy is not necessary.

Procurement Procedures and Guidance

Procurement guidance is provided in a range of documents. This includes:

- a step-by-step procurement document which sets out the key procurement thresholds and requirements;
- online guidance on Public Contracts Scotland (PCS) Tender and PCS Quick Quote;
- PECOS requisitioner and authoriser guides; and
- a 'Request for Goods or Services Form' which is used by staff to provide information about requested purchases so that the College's Assistant Finance Officer – Procurement can issue a quick quote or contact suppliers on frameworks to ask for quotes.

Although there are procedures around specific procurement activities there are not any formal procurement procedures that cover the overall procurement process and demonstrate how individual procurement activities link together. However, we note that the risk relating to a lack of overarching procedures, which largely relates to the risk that existing procurement staff (either in the College or from the APUC Shared Service) are unexpectedly absent and other staff are unaware what is required to be done, was mitigated through the presence of back-up staff through the APUC shared procurement service. As a result, no separate recommendation has been raised given the level of experienced coverage available through the APUC Shared Service arrangement.

Objective 1: The College’s Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 (‘the Act’) and The Procurement (Scotland) Regulations 2016 (‘the Regulations’) (Continued)

Observation	Risk	Recommendation	Management Response	
<p>Annual Report APUC produce an Annual Procurement Report, on behalf of the College, which provides a wide range of information about procurement activity. We noted that this Annual Report had not been discussed at a Senior Leadership Team or Finance and General Purposes Committee meeting to allow wider oversight of procurement activity.</p>	<p>Any issues with procurement may not be highlighted to the Senior Leadership Team as a whole or to the Board for oversight and consideration of whether any planned action is adequate.</p>	<p>R1 Ensure that the Annual Procurement Report is provided to the Senior Leadership Team and then the Finance and General Purposes Committee for their oversight.</p>	<p>Agree suitable date with APUC for production of the annual report, so that this can be reviewed by SLT, with high level findings then presented to F&GP (and Board if required).</p> <p>To be actioned by: Director of Finance</p> <p>No later than: 30 September 2019</p>	
			<p>Grade</p>	<p>3</p>

Objective 1: The College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations') (Continued).

We discussed with members of the APUC shared procurement service the range of information that was provided to management to highlight procurement risks and to highlight any changes required in the College's procurement arrangements. We noted that although APUC were invited to present and update on procurement matters to a range of College managers in March 2018 there was no formal mechanism in place to routinely discuss current and emerging procurement issues. Therefore, it has been agreed with management that it would be useful for the APUC shared service staff to discuss procurement matters with College management every six months and that a programme of meetings will be put in place. Since this work is already underway we have not raised a separate recommendation in this regard.

We noted that there was an action plan included in the Procurement Strategy 2016-2019, and high-level progress against this was outlined in the Annual Procurement Report. A review will be conducted during 2019 to create a prioritised 3 Year Action Plan with monitoring of the delivery of the plan delegated to the College's internal Procurement resource and APUC.

Objective 1: The College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations') (Continued)

Observation	Risk	Recommendation	Management Response	
<p>Procurement Knowledge and Training Staff have been provided with training on procurement and a Step by Step Guide is available on the staff intranet. This is augmented by the dedicated College procurement resource and APUC support through the collaborative UHI agreement. However, as part of this review we discussed procurement with a sample of budget holders and were advised by some interviewees that they felt additional refresher training would be useful on procurement requirements and to highlight the consequences arising from procurement non-compliance. Therefore, despite the steps taken there is apparent variability in confidence levels across staff groups in dealing with procurement issues, particularly post contract award.</p> <p>We discussed contract management with APUC shared procurement service staff, and it was agreed that this was an area for improvement, where further training would be beneficial. This should include how to deal with issues with contractors and would specifically highlight the need to raise issues at an early stage and to manage these in line with the contract management processes set out in contracts, where relevant.</p>	<p>If budget holders involved in procurement are not aware of their responsibilities around ongoing contract compliance, then they may undertake actions in contravention of the Act or relevant contract clauses.</p>	<p>R2 Provide appropriate procurement and contract management training to staff which will ensure that they are aware of their ongoing responsibilities around contract compliance beyond the original procurement exercise.</p>	<p>Arrange for APUC to provide refresher training on procurement requirements (all aspects) to budget-holders across the College.</p> <p>Have this training embedded as part of staff development/training days.</p> <p>To be actioned by: Director of Human Resources and Organisational Development</p> <p>No later than: 31 December 2019</p>	
			<p>Grade</p>	<p>3</p>

Objective 1: The College’s Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 (‘the Act’) and The Procurement (Scotland) Regulations 2016 (‘the Regulations’) (Continued)

Observation	Risk	Recommendation	Management Response	
<p>Non-Competitive Actions We reviewed the College’s procurement framework against the requirements of the Act and Regulations and noted that there is not a Non-Competitive Action (NCA) form in line with the Regulations, and NCAs were not formally signed-off.</p> <p>NCAs are utilised when expenditure which would normally progress through a formal procurement process, does not do so for a specific reason or reasons (such as there being a sole supplier for the good or service being procured). The Procurement Reform (Scotland) Regulations set out the circumstances in which a NCA can be used. We were advised that staff were previously unaware of this requirement.</p> <p>We were informed by APUC shared procurement service staff that work is underway to introduce a NCA form and procedure across the UHI partnership.</p>	<p>If NCAs are authorised that are not in line with the Procurement Reform (Scotland) Regulations this could give rise to legal challenge and reputational risk.</p>	<p>R3 In order to ensure full compliance with the Procurement Reform (Scotland) Regulations the College should take steps to introduce a NCA form and associated process and ensure that this is communicated effectively to all relevant staff.</p>	<p>Develop NCA form with input from APUC so that this document is in use for AY19/20.</p> <p>Include the NCA form as part of the refresher training for budget-holders (per that noted at R2).</p> <p>To be actioned by: Director of Finance</p> <p>No later than: 31 August 2019</p>	
			Grade	3

Objective 2: Procurement procedures ensure that:

- **areas of high spend across the College are monitored appropriately;**
- **opportunities for pooling of expenditure are identified in order to achieve best value; and**
- **collaborative procurements and frameworks available to the College are utilised where appropriate**

Review of High Spend

The College's APUC shared procurement service has compiled an expenditure profile by supplier covering the last four years, identifying whether national or sector frameworks are being used, or whether there are local contracts (or no contracts at all). From this profile, APUC staff can identify areas where contracts need to be put in place and incorporate this into their forward contracting plan. We were advised that the APUC shared procurement service staff were planning to review all major suppliers to confirm that contracts were in place and check that, where contracts were in place, these had been through a procurement process that was compliant with the Act.

Pooling, Collaborative Procurements and Frameworks

There is limited ability to pool expenditure in the College, however in most cases there is a framework supplier for goods commonly used throughout the College, such as stationery.

APUC, given that it is a UHI shared procurement service, undertake a range of collaborative procurements for the UHI partnership, and consider the possibility for collaboration when significant contracts are coming up for renewal.

From testing we noted that the College utilises a wide range of frameworks. In 2017/18, spend through national frameworks equated to 50% of possible spend that could go through procurement, which is in excess of the Scottish Government target of 40% and the sector average of 32%.

Identification of Upcoming Non-Recurrent Spend

We noted that although there is recurring contract spend noted on the APUC Hunter database, which allows procurement exercises to be planned for, there are occasions when the timing and restrictions around the use of funding creates issues in identifying upcoming non-recurrent spend so that plans can be initiated to commence procurement activities. This issue tends to arise when non-recurring funding is made available for backlog maintenance works and in these instances the College is faced with a decision on how best to deploy these resources at short notice in order to target the spending effectively. So for example, an exercise was required in order to complete boiler replacement work and the procurement activity was progressed following discussions with the internal procurement resource and APUC to ensure compliance with procurement regulations.

Objective 2: Procurement procedures ensure that:

- areas of high spend across the College are monitored appropriately;
- opportunities for pooling of expenditure are identified in order to achieve best value; and
- collaborative procurements and frameworks available to the College are utilised where appropriate

(Continued)

Observation	Risk	Recommendation	Management Response	
<p>Procurement Compliance We discussed with APUC shared procurement service staff whether there were issues across the College in ensuring consistent compliance with procurement requirements and were advised that there were recurring compliance issues with some College staff who were routinely failing to comply with procurement requirements. To place this in context the Annual Report for 2017/18, which was produced by APUC stated that “Moray College has seen a major improvement in its compliance figures over the last 4 years and is utilising the benefits of National Frameworks above sector average. There are still areas of spend that need to be addressed to ensure compliance with the regulations and these are being investigated and have been added to the forward contracting plan FY19/20”.</p> <p>Therefore, it is clear that whilst significant progress has been made and the use of frameworks is above the sector average there remain pockets of spend within the College which require further targeted work.</p> <p>Therefore, in order to support the work of procurement staff we see benefit in providing greater transparency for management, and possibly the Board, on which staff groups or departments are not able to demonstrate routine compliance.</p>	<p>Procurement rules are being bypassed which could lead to the Act not being complied with, which could in turn lead to legal challenge and reputational risk.</p>	<p>R4 Implement procurement non-compliance reporting, with reports regularly prepared and reported on to management, and where necessary, to an appropriate Board committee. Reports should include trends in non-compliance and outline the support provided by the inhouse procurement resource and APUC to encourage consistent compliant procurement activity.</p>	<p>Quarterly updates on non-compliant spend by area/department to be provided to SLT by APUC and the College’s internal procurement resource.</p> <p>SLT to review the quarterly report and liaise with relevant area/department head(s) to address and monitor non-compliant spends.</p> <p>To be actioned by: Director of Finance</p> <p>No later than: 30 November 2019</p>	
			<p>Grade</p>	<p>3</p>

Objective 3: Purchase orders are completed for relevant purchases and are approved by members of staff with sufficient delegated authority prior to issue to suppliers, with the risk of unauthorised and excessive expenditure being minimised

We reviewed the system for raising purchase orders and considered this was robust.

We tested 30 items of expenditure and noted that 29 were approved by an appropriate person through PECOS. The other item had been reviewed by one staff member and authorised by another appropriate staff member on a hard copy form which was accompanied by supporting documentation. We also reviewed all PECOS authorisers as at 23 April 2019 to ensure that these were reasonable, and no issues were noted from this testing.

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Objective 5: The capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust

We discussed the process used by the College to prioritise capital funding provided by SFC with a number of College staff and noted that this involved the Director of Finance identifying what budget holders had previously requested for capital works and then reviewing the College's latest condition survey in order to develop a list of possible capital projects. The Director of Finance then ranked each item as high, medium or low priority and took this suggested prioritisation of funds to the Senior Leadership Team for review, including requesting feedback on whether there was anything missing, or anything not considered appropriate. The Senior Leadership Team reviewed this, made some minor changes, and approved it. The Director of Finance then took this list to the Finance and General Purposes Committee for its review and approval. We consider this approach to be appropriate.

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Cover Paper – Internal Audit Review (Procurement)
Agenda Item A.19.3.07 (ii)



Committee:	Audit Committee			
Subject/Issue:	Internal Audit – Review on Procurement			
Brief summary of the paper:	Enclosed is a copy of the final internal Audit Review on Procurement. This was previously provided via email to the Committee on 13 June 2019.			
Action requested/decision required:	Feedback from Audit Committee on the current position of the Risk Register.			
Status: (please tick ✓)	Reserved:	X	Non-reserved:	
Date paper prepared:	2 October 2019			
Date of committee meeting:	8 October 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information.				
Equality and diversity implications:	N/A			
Resource implications: <i>(If yes, please provide detail)</i>	N/A			
Risk implications: <i>(If yes, please provide detail)</i>	That key risks to the College are not captured and suitable mitigating actions put in-place.			

Moray College UHI

Procurement

Internal Audit Report No: 2019/05

Draft issued: 16 May 2019

2nd Draft issued: 31 May 2019

Final issued: 13 June 2019

LEVEL OF ASSURANCE

Satisfactory

Contents

		Page No.
Section 1	Management Summary	
	<ul style="list-style-type: none"> • Overall Level of Assurance • Risk Assessment • Background • Scope, Objectives and Overall Findings • Audit Approach • Summary of Main Findings • Acknowledgements 	1 1 1 2 3 3 3
Section 2	Main Findings and Action Plan	4 - 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 College to material risk and which requires to be brought to the attention of management and the Audit Committee.
Priority 2	Issue subjecting the College to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the College to minor risk or which, if addressed, will enhance efficiency and effectiveness.



Management Summary

Overall Level of Assurance

Satisfactory

System meets control objectives with some weaknesses present.

Risk Assessment

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

- The institution has a poor reputation (gross risk score: 12);
- Non-compliance with relevant statutory regulations (gross risk score: 12); and
- Financial failure / operating loss. Inability to achieve a balanced budget (gross risk score: 12).

Background

As part of the Internal Audit programme at the College for 2018/19 we carried out a review of the College's Procurement arrangements. The Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management and the Principal that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The College uses PECOS software for processing the majority of purchases. This requires that purchase orders are raised and authorised by two different staff members with the required delegated purchasing authority, and also requires the College's Assistant Finance Officer – Procurement to review proposed purchases prior to placing purchase orders with suppliers.

The Procurement Reform (Scotland) Act 2014 and related regulations provide the legal framework for the College's procurement activity. In particular, there are certain procurement requirements that must be applied to expenditure estimated to be at least £50,000 over the life of the contract, which are referred to as 'regulated procurements'.

The College uses the University of Highland's and Islands (UHI) shared procurement service provided by APUC (Advanced Procurement for Universities and Colleges), a national procurement centre of excellence for the sector. The College has an APUC staff member assigned to it who works on larger procurement exercises (generally over £20,000). There is also a Head of Procurement for the UHI shared procurement service who provides support for the College's APUC staff member, and APUC has a range of procurement tools (including the Hunter database) which is used for oversight of the contracts which are coming up for renewal.

Scope, Objectives and Overall Findings

This audit focused on the systems of internal control in place for the ordering of goods and services, including for capital projects. We also considered whether the procurement strategy followed and procedures in place supported best value purchasing across the College in relation to non-pay spend.

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

Objective	Findings				
	1	2	3	Actions in progress / covered elsewhere	
The specific objectives of this audit were to obtain reasonable assurance that:					
1. The College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations')	Satisfactory	0	0	3	✓
2. Procurement procedures ensure that: <ul style="list-style-type: none"> • Areas of high spend across the College are monitored appropriately • Opportunities for pooling of expenditure are identified in order to achieve best value; and • Collaborative procurements and frameworks available to the College are utilised where appropriate 	Satisfactory	0	0	1	✓
3. Purchase orders are completed for relevant purchases and are approved by members of staff with sufficient delegated authority prior to issue to suppliers, with the risk of unauthorised and excessive expenditure being minimised	Good	0	0	0	
4. The College' procurement guidance on quotes and tenders are being complied with.	Satisfactory	0	0	0	✓
5. The capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust.	Good	0	0	0	
Overall Level of Assurance	Satisfactory	0	0	4	
		System meets control objectives with some weaknesses present.			

Audit Approach

From discussions with Procurement staff, and a sample of budget holders, we established the procurement strategies, procedures and monitoring arrangements which were in place within the College. These were then evaluated to establish whether they followed recognised good practice. Specifically, we sought to establish whether the procurement procedures ensured that areas of high spend across the College were monitored appropriately, identifying opportunities for pooling of expenditure in order to achieve best value, and ensuring that joint purchasing arrangements available to the College were utilised where appropriate.

We also reviewed relevant documentation in relation to the capital investment appraisal process.

Summary of Main Findings

Strengths

- The College has a Procurement Strategy, Financial Regulations including requirements regarding procurement, and an Annual Procurement Report that provide a strong framework for procurement in the College;
- The PECOS system is used to provide a robust process for the approval of purchase orders;
- The College makes good use of collaborative procurement and procurement frameworks;
- An analysis of spend by supplier has been undertaken and reviewed;
- The APUC shared procurement service is used which provides the College with expertise and resource for undertaking more complex and larger procurements;
- In addition to the APUC resource, the College has a dedicated resource (Assistant Finance Officer – Procurement) to focus on procurement requirements across the College; and
- The annual procurement report produced by APUC for 2017/18 states that the College utilisation of the benefits of National Frameworks is above the sector average.

Weaknesses

- Although there was annual reporting on procurement, we noted that this was not provided to the Senior Leadership Team or Finance and General Purposes Committee and we have recommended that this is done.
- Although a good procurement framework is in place, with specialist support provided by APUC, we did identify instances where the framework was not fully complied with, particularly around the completion of Non-Competitive Action justifications and retention of procurement documentation, but the position is significantly improved from our previous review of procurement arrangements conducted in 2013;
- From discussion with a range of budget holders it was noted that there would be benefit in providing procurement refresher training with a specific focus around responsibilities for ongoing contract management post contract award; and
- Although significant progress has been made in driving consistent compliance with procurement regulations across the College there would be benefit in enhancing existing reporting of non-compliance in order to support the work of the procurement officer and APUC in their efforts to improve compliance across the College.

Acknowledgements

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



Main Findings and Action Plan

Objective 1: The College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations')

Procurement Strategy

The College has a Procurement Strategy in place. We carried out a review of the strategy and consider that this is adequate for the College's purposes. This is a significant step forward from the previous position reported in internal audit report 2013/05 - Procurement and Creditors Purchasing.

Procurement Policy

The College does not have a Procurement Policy however we found that procurement was covered in the College's Financial Regulations and Financial Procedures and consider that a separate policy is not necessary.

Procurement Procedures and Guidance

Procurement guidance is provided in a range of documents. This includes:

- a step-by-step procurement document which sets out the key procurement thresholds and requirements;
- online guidance on Public Contracts Scotland (PCS) Tender and PCS Quick Quote;
- PECOS requisitioner and authoriser guides; and
- a 'Request for Goods or Services Form' which is used by staff to provide information about requested purchases so that the College's Assistant Finance Officer – Procurement can issue a quick quote or contact suppliers on frameworks to ask for quotes.

Although there are procedures around specific procurement activities there are not any formal procurement procedures that cover the overall procurement process and demonstrate how individual procurement activities link together. However, we note that the risk relating to a lack of overarching procedures, which largely relates to the risk that existing procurement staff (either in the College or from the APUC Shared Service) are unexpectedly absent and other staff are unaware what is required to be done, was mitigated through the presence of back-up staff through the APUC shared procurement service. As a result, no separate recommendation has been raised given the level of experienced coverage available through the APUC Shared Service arrangement.

Objective 1: The College’s Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 (‘the Act’) and The Procurement (Scotland) Regulations 2016 (‘the Regulations’) (Continued)

Observation	Risk	Recommendation	Management Response	
<p>Annual Report APUC produce an Annual Procurement Report, on behalf of the College, which provides a wide range of information about procurement activity. We noted that this Annual Report had not been discussed at a Senior Leadership Team or Finance and General Purposes Committee meeting to allow wider oversight of procurement activity.</p>	<p>Any issues with procurement may not be highlighted to the Senior Leadership Team as a whole or to the Board for oversight and consideration of whether any planned action is adequate.</p>	<p>R1 Ensure that the Annual Procurement Report is provided to the Senior Leadership Team and then the Finance and General Purposes Committee for their oversight.</p>	<p>Agree suitable date with APUC for production of the annual report, so that this can be reviewed by SLT, with high level findings then presented to F&GP (and Board if required).</p> <p>To be actioned by: Director of Finance</p> <p>No later than: 30 September 2019</p>	
			<p>Grade</p>	<p>3</p>

Objective 1: The College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations') (Continued).

We discussed with members of the APUC shared procurement service the range of information that was provided to management to highlight procurement risks and to highlight any changes required in the College's procurement arrangements. We noted that although APUC were invited to present and update on procurement matters to a range of College managers in March 2018 there was no formal mechanism in place to routinely discuss current and emerging procurement issues. Therefore, it has been agreed with management that it would be useful for the APUC shared service staff to discuss procurement matters with College management every six months and that a programme of meetings will be put in place. Since this work is already underway we have not raised a separate recommendation in this regard.

We noted that there was an action plan included in the Procurement Strategy 2016-2019, and high-level progress against this was outlined in the Annual Procurement Report. A review will be conducted during 2019 to create a prioritised 3 Year Action Plan with monitoring of the delivery of the plan delegated to the College's internal Procurement resource and APUC.

Objective 1: The College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations') (Continued)

Observation	Risk	Recommendation	Management Response	
<p>Procurement Knowledge and Training Staff have been provided with training on procurement and a Step by Step Guide is available on the staff intranet. This is augmented by the dedicated College procurement resource and APUC support through the collaborative UHI agreement. However, as part of this review we discussed procurement with a sample of budget holders and were advised by some interviewees that they felt additional refresher training would be useful on procurement requirements and to highlight the consequences arising from procurement non-compliance. Therefore, despite the steps taken there is apparent variability in confidence levels across staff groups in dealing with procurement issues, particularly post contract award.</p> <p>We discussed contract management with APUC shared procurement service staff, and it was agreed that this was an area for improvement, where further training would be beneficial. This should include how to deal with issues with contractors and would specifically highlight the need to raise issues at an early stage and to manage these in line with the contract management processes set out in contracts, where relevant.</p>	<p>If budget holders involved in procurement are not aware of their responsibilities around ongoing contract compliance, then they may undertake actions in contravention of the Act or relevant contract clauses.</p>	<p>R2 Provide appropriate procurement and contract management training to staff which will ensure that they are aware of their ongoing responsibilities around contract compliance beyond the original procurement exercise.</p>	<p>Arrange for APUC to provide refresher training on procurement requirements (all aspects) to budget-holders across the College.</p> <p>Have this training embedded as part of staff development/training days.</p> <p>To be actioned by: Director of Human Resources and Organisational Development</p> <p>No later than: 31 December 2019</p>	
			<p>Grade</p>	<p>3</p>

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Observation	Risk	Recommendation	Management Response	
<p>Non-Competitive Actions We reviewed the College’s procurement framework against the requirements of the Act and Regulations and noted that there is not a Non-Competitive Action (NCA) form in line with the Regulations, and NCAs were not formally signed-off.</p> <p>NCAs are utilised when expenditure which would normally progress through a formal procurement process, does not do so for a specific reason or reasons (such as there being a sole supplier for the good or service being procured). The Procurement Reform (Scotland) Regulations set out the circumstances in which a NCA can be used. We were advised that staff were previously unaware of this requirement.</p> <p>We were informed by APUC shared procurement service staff that work is underway to introduce a NCA form and procedure across the UHI partnership.</p>	<p>If NCAs are authorised that are not in line with the Procurement Reform (Scotland) Regulations this could give rise to legal challenge and reputational risk.</p>	<p>R3 In order to ensure full compliance with the Procurement Reform (Scotland) Regulations the College should take steps to introduce a NCA form and associated process and ensure that this is communicated effectively to all relevant staff.</p>	<p>Develop NCA form with input from APUC so that this document is in use for AY19/20.</p> <p>Include the NCA form as part of the refresher training for budget-holders (per that noted at R2).</p> <p>To be actioned by: Director of Finance</p> <p>No later than: 31 August 2019</p>	
			Grade	3

Objective 2: Procurement procedures ensure that:

- **areas of high spend across the College are monitored appropriately;**
- **opportunities for pooling of expenditure are identified in order to achieve best value; and**
- **collaborative procurements and frameworks available to the College are utilised where appropriate**

Review of High Spend

The College's APUC shared procurement service has compiled an expenditure profile by supplier covering the last four years, identifying whether national or sector frameworks are being used, or whether there are local contracts (or no contracts at all). From this profile, APUC staff can identify areas where contracts need to be put in place and incorporate this into their forward contracting plan. We were advised that the APUC shared procurement service staff were planning to review all major suppliers to confirm that contracts were in place and check that, where contracts were in place, these had been through a procurement process that was compliant with the Act.

Pooling, Collaborative Procurements and Frameworks

There is limited ability to pool expenditure in the College, however in most cases there is a framework supplier for goods commonly used throughout the College, such as stationery.

APUC, given that it is a UHI shared procurement service, undertake a range of collaborative procurements for the UHI partnership, and consider the possibility for collaboration when significant contracts are coming up for renewal.

From testing we noted that the College utilises a wide range of frameworks. In 2017/18, spend through national frameworks equated to 50% of possible spend that could go through procurement, which is in excess of the Scottish Government target of 40% and the sector average of 32%.

Identification of Upcoming Non-Recurrent Spend

We noted that although there is recurring contract spend noted on the APUC Hunter database, which allows procurement exercises to be planned for, there are occasions when the timing and restrictions around the use of funding creates issues in identifying upcoming non-recurrent spend so that plans can be initiated to commence procurement activities. This issue tends to arise when non-recurring funding is made available for backlog maintenance works and in these instances the College is faced with a decision on how best to deploy these resources at short notice in order to target the spending effectively. So for example, an exercise was required in order to complete boiler replacement work and the procurement activity was progressed following discussions with the internal procurement resource and APUC to ensure compliance with procurement regulations.

Objective 2: Procurement procedures ensure that:

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(Continued)

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Cover Paper – Review of Audit Register
Agenda Item A.19.3.07 (iii)



Committee:	Audit Committee			
Subject/Issue:	Review of Audit Register			
Brief summary of the paper:	<p>Update on current position of the Audit Register.</p> <p>The enclosed provides an update on the current internal audit recommendations, and progress made to date.</p> <p>Since the update provide to the Committee in May 19 the following recommendations fell due in the period to 30 September 2019:</p> <p><u>Risk Management</u></p> <ul style="list-style-type: none"> • RM.R4 • RM.R5 <p><u>Health & Safety</u></p> <ul style="list-style-type: none"> • HS.R1 • HS.R2 <p><u>Procurement</u></p> <ul style="list-style-type: none"> • PR.R1 • PR.R3 <p>Details of the progress made in respect of the above are noted on the enclosed update.</p>			
Action requested/decision required:	Feedback from Audit Committee on current position of the Audit Register & recent Internal Audit reports.			
Status: (please tick ✓)	Reserved:		Non-reserved:	X
Date paper prepared:	2 October 2019			
Date of committee meeting:	8 October 2019			
Author:	Director of Finance			
Link with strategy:				

Cover Paper – Review of Audit Register
Agenda Item A.19.3.07 (iii)

<p>Please highlight how the paper links to, or assists with:</p> <ul style="list-style-type: none"> compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information. 	
<p>Equality and diversity implications:</p>	<p align="center">N/A</p>
<p>Resource implications: <i>(If yes, please provide detail)</i></p>	<p align="center">N/A</p>
<p>Risk implications: <i>(If yes, please provide detail)</i></p>	<p>Risk of non-compliance with the finding of current (and future) internal audit reviews/actions.</p>

Cover Paper – Review of Audit Register
Agenda Item A.19.3.07 (iii)

INTRODUCTION

The Audit Register (“AR”) has been updated to reflect the current position as at 30 September 2019.

UPDATE

The following internal audit recommendations fell due following the May 2019 Audit Committee

Risk Management

- **RM.R4 [Partial Progress]**

The above noted recommendation is currently marked as partially complete. The audit evidence to date being the Risk Register paper provided to the Committee at the May meeting.

However, as discussed at the May committee meeting the current UHI Risk Register Management Information (“MI”) does not meet the needs of the Committee (or the College/management), hence this being marked as partially complete.

Given the feedback to date from UHI on the development of the Risk Register MI, I would suggest a revised completion date of 28 February 2020 – but this will be completely subject to development of the new UHI partnership Risk Register software.

- **RM.R5 [Completed]**

Action/recommendation has been completed, please see the commentary/narrative noted on the Audit Register.

Audit evidence has only recently been passed to Henderson Loggie (“HL”), hence why this recommendation has not yet been formally signed-off by HL.

Health & Safety

- **HS.R1 [Partial Progress]**

Draft matrix has been prepared with assistance/input from H&S Consultant. This is still in development, to meet the needs of the College.

Anticipated revised completion date of 31 January 2020.

- **HS.R2 [Partial Progress]**

Initial key focus to be perceived high risk areas (i.e. science, construction, engineering etc), with a plan/timeline being developed to ensure all areas have conducted a workplace inspection (with priority given to areas of greater risk).

Anticipated revised completion date of 31 January 2020.

Cover Paper – Review of Audit Register
Agenda Item A.19.3.07 (iii)

Health & Safety

- **PR.R1 [Completed]**

Action/recommendation has been completed, please see the commentary/narrative noted on the Audit Register.

Audit evidence has only recently been passed to Henderson Loggie (“HL”), hence why this recommendation has not yet been formally signed-off by HL.

- **PR.R3 [Completed]**

Action/recommendation has been completed, please see the commentary/narrative noted on the Audit Register.

Audit evidence has only recently been passed to Henderson Loggie (“HL”), hence why this recommendation has not yet been formally signed-off by HL.

Recent Internal Audit Reviews

The following reviews have been carried out in-line with AY18/19 internal audit plan and timetable:

- Payroll*;
- Quality Assurance & Improvement*;
- Health & Safety*; and
- Procurement.

[*copy of report provided to the Committee at May 19 Committee meeting].

The final Procurement Internal Audit review was issued to the Committee by email on 13 June 2019. A further copy has been included with the committee papers for the October meeting, for ease of reference.

CONCLUSIONS

Of the six recommendations due following the May 2019 Committee meeting three are deemed to be complete (subject to formal sign-off/confirmation from Henderson Loggie), with three partially completed.

The College Audit Register has been updated to reflect the recommendations from the AY18/19 reviews, and actions to date.

The factors/matters impacting the partially completed actions are noted above with revised planned completion dates for these recommendations.

Feedback/agreement from the Committee is sought in respect of the revised completion dates.

The SLT remain committed to ensuring that appropriate steps/actions are taken to meet the internal audit recommendations in a timely manner, and where partial completion has been met a reasonable and acceptable revised completion timescale is set and adhered to.

Cover Paper – AY18/19 Progress Report & AY19/20 Internal Audit Plan
Agenda Item A.19.3.07 (iii)



Committee:	Audit Committee			
Subject/Issue:	AY18/19 Internal Audit Progress Report & AY19/20 Internal Audit Plan			
Brief summary of the paper:	<p>Enclosed is a copy of the AY18/19 Internal Audit Progress Report and AY19/20 Plan, prepared and provided by Henderson Loggie.</p> <p>The AY19/20 Plan has been provided for the Committee to consider, and has been based on/includes:</p> <ul style="list-style-type: none"> • aspects of the original 3 year plan which were superseded by the requirements of the College/Committee; and • Suggested follow-up review areas for review. 			
Action requested/decision required:	Consideration of the enclosed and feedback/decision on internal audit activity for AY19/20.			
Status: (please tick ✓)	Reserved:		Non-reserved:	X
Date paper prepared:	2 October 2019			
Date of committee meeting:	8 October 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information.				
Equality and diversity implications:	N/A			

Cover Paper – AY18/19 Progress Report & AY19/20 Internal Audit Plan
Agenda Item A.19.3.07 (iii)

Resource implications: <i>(If yes, please provide detail)</i>	N/A
Risk implications: <i>(If yes, please provide detail)</i>	That key risks to the College are not captured and suitable mitigating actions put in-place.

Cover Paper – National Fraud Initiative Update (2)
Agenda Item A.19.3.09 (i)



Committee:	Audit Committee		
Subject/Issue:	National Fraud Initiative (“NFI”) – Update 2		
Brief summary of the paper:	<p>Update on NFI exercise for 2017/18 data set review. Key matters for awareness are:</p> <ul style="list-style-type: none"> • First time College sector involved in NFI exercise. • Areas reviewed as part of NFI exercise were Payroll and Trade Creditors. • Data request was submitted to NFI within the required timescale. c21.3k lines of data provided • 77 matches/queries from NFI following data analytics process (which represented c0.3% of the data set provided/requested). • All matches/queries addressed, no instances of fraud/fraudulent activity. • NFI exercise provided further assurance to the College management and non-executive function that current internal controls and financial procedures are robust and fit for purpose. <p>As a follow-up to the paper issued to the Audit Committee (“the Committee”) for the May 2019 Committee meeting, please find enclosed the College’s initial draft report and NFI checklist.</p> <p>As discussed at the May 2019 Committee meeting the enclosed required to be passed to the College’s external auditors, Ernst & Young LLP (“EY”), prior to 30 June 2019, and was done.</p> <p>When the draft report was issued to EY it was made clear that the report and NFI checklist was being issued as a draft as these documents had not yet been reviewed by the Audit Committee.</p>		
Action requested/decision required:	Approval sought from the Audit Committee		
Status: (please tick ✓)	Reserved:		Non-reserved: X
Date paper prepared:	2 October 2019		
Date of committee meeting:	8 October 2019		

Cover Paper – National Fraud Initiative Update (2)
 Agenda Item A.19.3.09 (i)

Author:	Director of Finance
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information.	
Equality and diversity implications:	N/A
Resource implications: <i>(If yes, please provide detail)</i>	N/A
Risk implications: <i>(If yes, please provide detail)</i>	Non-compliance with NFI process, and potential fraud/fraudulent activity.

NATIONAL FRAUD INITIATIVE (“NFI”) – 2017/18

1. BACKGROUND

The National Fraud Initiative (“NFI”) in Scotland is a counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error.

Although NFI is new to the College sector, it is a well-established process, with the current exercise being the seventh iteration of NFI.

The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies. Its key features are that it:

- acts as a deterrent to potential fraudsters;
- identifies errors and fraud thus enabling appropriate action to recover money and/or press criminal charges;
- can provide assurances, similar to a regular health check, that systems are operating well and can also identify where improvements are required;
- operates across boundaries between public bodies in different sectors and countries;
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high priority matches.

It means that public bodies can take action if any fraud or error has taken place, and it allows auditors to assess fraud prevention arrangements which those bodies have.

2. INTRODUCTION

The NFI exercise works by using data matching to compare a range of information held on bodies’ systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called ‘matches’.

A match **does not** automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.

The data requested from the College in regards to the NFI exercise were:

- Payroll.
- Trade Creditors.

3. KEY FINDINGS

In terms of the 2017/18 exercise, following the submission of the College’s data in respect of AY17/18 (i.e. 1 August 2017 to 31 July 2018) the initial findings following the data matching process are noted as follows:

Cover Paper – National Fraud Initiative Update (2)
Agenda Item A.19.3.09 (i)

- Data sets for the requested areas (as highlighted above) were submitted in accordance with the prescribed timescale, which totalled 21,723 lines of data.
- Following the NFI computer data matching process 77 queries were raised, which represented c0.3% of the total data set submitted. A summary of the 77 queries by area are as follows:
 - Payroll – 12; and
 - Trade Creditors – 65.

A brief overview of the initial matches/queries raised is shown at **Appendix 1**.

4. ACTIONS TAKEN & IMPLICATIONS

The key findings (as noted at section 3 above, and further illustrated at Appendix 1) were investigated by the College, with further feedback/evidence provided via the secure online NFI portal.

All queries raised as part of the NFI matching process have been addressed, and closed off – with no instances of fraud/fraudulent activity raised.

As part of the NFI exercise the College was required to complete a Self-Appraisal Checklist, this is shown at **Appendix 2** to this report.

5. CONCLUSIONS/RECOMMENDATIONS

Following the College's participation in the NFI exercise for 2017/18 there were no instances of fraud/fraudulent activity, which is positive. This is further compounded by the low amount of queries/matches returned (i.e. c0.3% of the data submitted), as part of this exercise.

The NFI exercise has been useful in providing additional assurance (from an external independent party) that the College's internal controls and financial procedures are robust and fit for purpose.

The College recognises that this is an area that requires regular review to ensure the high standards set/in-place are maintained going forwards.

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Appendix 1 – Summary of NFI Matches/Queries

Summary of NFI Matches/Queries					
Area	Type of Query	Number of Matches / Queries	Basis of Match/Query	Comments/Responses	Final Position
Payroll	Payroll to Payroll	11	Instances of employee on payroll system twice.	Primarily due to instances where current College employees had previously been employed by other public sector bodies (i.e. on the college payroll system and local authority payroll system).	All matches/queries closed off with NFI. No issues of fraud.
	Payroll to Creditors	1	Instances of employee on the College payroll system and creditor ledger.	Match/query raised due to College process where staff are paid expenses via creditor payments, not through payroll. Hence appearing on both ledgers.	All matches/queries closed off with NFI. No issues of fraud.
	Payroll to Companies house (Director)	1	Instance of a College Director having another directorship.	Due to College Principal being a director of Moray Chamber of Commerce. Established this was not an issue or area of concern.	All matches/queries closed off with NFI. No issues of fraud.
	TOTAL PAYROLL MATCHES/QUERIES	13			
Trade Creditors	Duplicate creditors address	6	Several creditors on College ledger with same address.	Issue investigated, and shown to be occurrences where suppliers addresses were within a shared facility/building.	All matches/queries closed off with NFI. No issues of fraud.
	Duplicate records by amount & creditor reference	49	Related to regular/repeat monthly payments	The College makes regular payments to several creditors on a monthly basis (i.e.rents, leases, loan repayments, software licences etc). No issues of misappropriate payments made.	All matches/queries closed off with NFI. No issues of fraud.
	VAT overpaid	7	Query based on NFI process selecting various lines and applying a flat-rate of 20% to each line selected.	College has several suppliers whereby not all lines on these invoices attract VAT (i.e. some services/supplies being zero rated or exempt). This was clarified with NFI.	All matches/queries closed off with NFI. No issues of fraud.
	Duplicate records by invoice number & amount, but different creditor reference & name.	2	Relates to duplicate invoice on supplier account.	Matter investigated, and identified that this instance had been addressed by internal credit/adjustment being raised against the duplicate entry in question. No duplicate payment had been made.	All matches/queries closed off with NFI. No issues of fraud.
	TOTAL TRADE CREDITOR MATCHES/QUERIES	64			
	TOTAL	77			

Appendix 2 – self appraisal checklist

Part A: For those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
Leadership, commitment and communication			
1. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes	A report on the findings of the 2017/18 NFI exercise shall be provided to the College's Audit Committee, for review and comment.	Director of Finance. Report to be provided to Audit Committee prior to 30 June 2019.
2. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Partly	As this is the first year of NFI for College's an amendment to the relevant College policy and procedure shall require to be made to incorporate/highlight the College's commitment to the NFI initiative	Director of Finance. To be actioned by 30 September 2019
3. Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Partly	Further discussions with NFI is required to understand whether this facility will assist the College in improving its approach to risk management.	Director of Finance Ongoing.
4. Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?	Partly	This is the first year in which the College sector has been involved with the NFI initiative, and as such the first report issued to the Audit Committee, SLT etc.	Director of Finance Ongoing
5. Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	Yes	The College has recently reviewed and updated its Anti-Fraud policy, and had internal audit reviews into Payroll and Procurement – with neither internal audit review highlighting any aspects of concern/contention.	Director of Finance Ongoing

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<p>6. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?</p>	<p>Partly</p>	<p>Please see above comments</p>	<p>Director of Finance Ongoing</p>
<p>7. Do we review how frauds and errors arose and use this information to improve our internal controls?</p>	<p>Partly</p>	<p>As part of the NFI initiative no instances of fraud have been identified. Should this not have been the case then the College would have taken these onboard, and taken action to improve the existing internal controls to prevent fraud.</p>	<p>Director of Finance Ongoing</p>
<p>8. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?</p>	<p>No</p>	<p>As this is the first year of NFI for the College sector no such publications have been made. Further discussions within the College SLT and non-executive functions (i.e. Audit Committee and Board of Management) are required to determine what benefits publishing such information would bring.</p>	<p>Director of Finance Ongoing</p>

Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
Planning and preparation			
1. Are we investing sufficient resources in the NFI exercise?	Partly	The primary resource for the NFI exercise is the College's finance department. As this was the first year which the College was involved with the NFI further review of resources within the finance department to meet these requirements is needed	Director of Finance Ongoing
2. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Partly	Please see above comment. 2017/18 NFI exercise was completed within the required timescale.	Financial Accountant Complete
3. Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes	The Financial Accountant is the KC, and the Director of Finance is the Senior Responsible Officer (SRO) for NFI matters.	Financial Accountant/ Director of Finance Complete
4. Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Partly	While the basis of the NFI work is included in the finance function, as this was the first year of the College's involvement further clarity is required on the impact of the NFI process on resources within the College's finance department.	Director of Finance Ongoing
5. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes	This is recognised in terms of the matches received for the first year, the College is committed to continued involvement in NFI exercises to ensure internal controls remain robust and effective.	Financial Accountant/ Director of Finance Ongoing
6. Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	Yes	All data requested as part of the NFI exercise was uploaded to the NFI secure portal within the required time-scale.	Financial Accountant Ongoing

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7. Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes	Please see above comment.	Financial Accountant Ongoing
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Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
8. Do we adequately consider the submission of any 'risk-based' data-sets in conjunction with our auditors?	Partly	As this was the first year of NFI for the College sector further discussions are required with the College's auditors in respect of the matter.	Director of Finance Ongoing
9. Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Partly	Further discussions with NFI is required to understand whether this facility will assist the College in improving its approach to risk management.	Director of Finance Ongoing.
Effective follow up of matches			
10. Do all departments involved in NFI start the follow-up of matches promptly after they become available?	Yes	A full review was carried out.	Financial Accountant
11. Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?	Yes	Following the matching process and responses from the College, there were no outstanding instances of fraud detected. Going forward, the College will take appropriate actions should there be instances of fraud identified as part of the NFI exercises.	Financial Accountant / Director of Finance Ongoing
12. Do we recognise that NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of NFI and are we ensuring that all types of matches are followed up?	Yes	As this was the first year of NFI for the College sector, the benefits of this exercise have been recognised.	Financial Accountant Ongoing
13. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Yes	A full review by the KC and SRO was conducted as part of the follow-up to all initial matches.	Financial Accountant Ongoing
14. (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter Fraud Services?	N/A	N/A	N/A

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15. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?	N/A	To date no such instances have occurred. The College has recently updated its policy & procedures covering anti-fraud, and would take appropriate actions in the event of the occurrence of any fraudulent activities	Director of Finance Ongoing
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Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
16. Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?	Yes	The results of the matching process, will under-pin the resource requirements.	Director of Finance Ongoing
17. Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?	Yes	As this was the first year of NFI for the College, this will be reviewed on an ongoing basis. All matches identified were individually reviewed and address by the SRO & KC.	Financial Accountant / Director of Finance Ongoing
18. Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes	Based on the experiences from the first year of this exercise (and follow-up matches), the College has appropriate resource to manage the NFI exercise. This will require to be monitored on an ongoing basis in the following years.	Financial Accountant / Director of Finance Ongoing
Recording and reporting			
19. Are we recording outcomes properly in the secure website and keeping it up to date?	Yes	Website is kept up to date on an ongoing basis.	Financial Accountant Ongoing
20. Do staff use the online training modules and guidance on the secure website and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)?	Yes	The online training has been helpful as part of this process.	Financial Accountant Complete
21. If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes?	N/A	All outcomes are reported on the secure website.	Financial Accountant Ongoing

Cover Paper – Internal Audit
Agenda Item A.19.3.09 (ii)



Committee:	Audit Committee			
Annual	Annual Fraud Update			
Brief summary of the paper:	In addition to the assurance provided to the Committee by the NFI exercise, the College/SLT can advise that it/they are unaware of any instances of non-compliance with regards to the relevant laws and regulations the College is due to comply with during AY18/19.			
Action requested/decision required:	For noting			
Status: (please tick ✓)	Reserved:		Non-reserved:	X
Date paper prepared:	2 October 2019			
Date of committee meeting:	8 October 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information.				
Equality and diversity implications:	N/A			
Resource implications: <i>(If yes, please provide detail)</i>	N/A			

Cover Paper – Internal Audit
Agenda Item A.19.3.09 (ii)

Risk implications: <i>(If yes, please provide detail)</i>	Risk of non-compliance with regards to the relevant laws and regulations the College is due to comply with.
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Committee:	Audit			
Subject/Issue:	Policy Schedule Update			
Brief summary of the paper:	The policy schedule has been revised for the new session.			
Action requested/decision required:	For noting			
Status: (please tick ✓)	Reserved:		Non-reserved:	✓
Date paper prepared:	1 st October 2019			
Date of committee meeting:	8 th October 2019			
Author:	Derek Duncan			
Link with strategy: Please highlight how the paper links to, or assists with: compliance. partnership services risk management strategic plan/enabler other activity (eg new opportunity) – please provide further information.	Risk Register ID Moray/18: Non-compliance with relevant statutory regulations.			
Equality and diversity implications:	Yes – a key statutory requirement which underpins all operational areas of the College.			
Resource implications: <i>(If yes, please provide detail)</i>	The recruitment of a new Director of Finance will impact on the update of Finance related policies.			
Risk implications: <i>(If yes, please provide detail)</i>	Non-compliance due to deficient polices, training or leadership carries a risk to staff, learners and 3 rd parties, as well as possible legal and reputational damage to the College.			

Policy Schedule Update

The policy schedule has been revised for the new session and the updated spreadsheet is included with this paper.

The number of policies selected for review in 2019 has been influenced by:

- The recruitment of a new Director of Finance – the new post holder will need time to review and identify an appropriate plan for Finance policy updates. This could be delayed by the recruitment process.
- The Staff Governance Committee will agree the plan for HR policy updates at the next meeting.

Once identified, the policies will be incorporated into the overall plan for 2019/20.

The committee should note that LTQ was unable to approve the regional Student disciplinary policy and associated procedures. Further engagement will be required with the Single Policy Environment to resolve this issue.

Policies for Review 2019/20

Policies currently identified for review in 2019/20 are as follows:

Policy	Reason for update
Academic Quality Policy	Planned review one year after last update (minor changes anticipated)
Records Management	Major revisions in line with updated UHI records management development.
Smoke-free Policy	Due for review and impact of Estates work.
Joiners, Movers and Leavers Procedure	New policy requires further engagement with ITU and HR.
Course Fee Policy (FE)	Due for review (minor change anticipated)

Policies Updates on Hold

The following policies are on hold and the reasons are outlined in the table below:

Policy	Reason for Hold
Commercialisation Strategy	Requires further discussion within F&GP.
Estates Asset Procedures	To be integrated into UHI Servicedesk system (Unidesk).
Estates Strategy	SFC funded outline business case placed on hold – requires further clarity on SFC strategic funding.
Support for Consultation Procedure	Awaiting update on national bargaining and UHI policy.
Job Evaluation & Regrading Procedure	Awaiting update on national bargaining and UHI policy.
Staff Review Procedure	Awaiting update on national bargaining and UHI policy.
Student Advice, Personal Development Planning and Guidance Policy	To be replaced with new regional policy due session 19/20.
Student Attendance Policy and Procedures	Regional approach to be adopted.

Total for review by staff member

Responsible Staff	Scheduled for review 19/20	Single Policy Development	Grand Total
Director IPSS	1	2	3
Director of Finance	1		1
Director of HROD	1		1
Head of Estates	1	1	2
Quality Officer	1		1
Grand Total	5	3	8

Category	Policy/Strategy/Procedure Name	College or Regional?	Current Status
Academic	Academic Quality Policy	College	Scheduled for review 19/20
Academic	Curriculum Strategy	College	APPROVED
Academic	Learning and Teaching Enhancement Strategy and Values	Regional	APPROVED
Academic	Essential Skills Policy	Regional	APPROVED

Category	Policy/Strategy/Procedure Name	College or Regional ?	Current Status
Corporate	Adverse Weather Conditions Procedure	College	APPROVED
Corporate	Anti-Bribery Policy	College	APPROVED
Corporate	Business Continuity/Disaster Recovery Procedures	College	APPROVED
Corporate	Commercialisation Strategy	College	ON HOLD
Corporate	Student Complaints Policy	Regional	Single Policy Development
Corporate	Travel, Subsistence and Accommodation Policy	College	APPROVED
Corporate	Data Breach Handling Policy and Procedure	College	APPROVED
Corporate	Data Protection Policy	College	APPROVED
Corporate	Driving at Work Policy (Inc. Guidance Notes)	College	APPROVED
Corporate	Educational Visits and Out of College Activities Policy and Procedures	College	APPROVED
Corporate	Estates Asset Procedures	College	ON HOLD
Corporate	Estates Strategy	College	ON HOLD
Corporate	Events and External Speaker Policy	College	APPROVED
Corporate	Financial Procedures	College	APPROVED
Corporate	Financial Regulations	College	APPROVED
Corporate	Fraud Policy and Response Plan	College	APPROVED
Corporate	Gift, Hospitality, Entertainment Policy	College	APPROVED
Corporate	Health & Safety Policy	College	APPROVED
Corporate	Prevent Duty Policy	College	APPROVED
Corporate	Prevent Duty Procedure	College	APPROVED
Corporate	Privacy and Marketing Communication Policy	College	APPROVED
Corporate	Procurement Strategy	College	APPROVED
Corporate	Records Management	College	Scheduled for review 19/20
Corporate	Right to Erasure Procedure	College	APPROVED
Corporate	Risk Management Policy and Procedures	College	APPROVED
Corporate	Smoke-free Policy	College	Scheduled for review 19/20

Corporate Social Media Policy for staff
Corporate Strategic Plan
Corporate Subject Access Request Policy and Procedure
Corporate Support for Consultation Procedure
Corporate UHI Partnership Information Security Policies and Procedures
Corporate Work Placement Policy

College APPROVED
College APPROVED
College APPROVED
College ON HOLD
Regional APPROVED
Regional Single Policy Development

Category	Policy/Strategy/Procedure Name	College or Regional ?	Current Status
Human Resources	Absence from Work Procedure	College	APPROVED
Human Resources	Bullying and Harassment Procedure	College	APPROVED
Human Resources	Capability and Conduct Procedure	College	APPROVED
Human Resources	Code of Conduct Staff	College	APPROVED
Human Resources	Employee Leaving Arrangements	College	APPROVED
Human Resources	Equal Pay Statement	College	APPROVED
Human Resources	Flexible Working Policy	College	APPROVED
Human Resources	Grievance Procedure	College	APPROVED
Human Resources	Internal Disputes Procedure	College	APPROVED
Human Resources	Acceptable Use Policy	Regional	APPROVED
Human Resources	Job Evaluation & Regrading Procedure	College	ON HOLD
Human Resources	Joiners, Movers and Leavers Procedure	College	Scheduled for review 19/20
Human Resources	Long Service Award Procedure	College	APPROVED
Human Resources	Management of Sickness Absence	College	APPROVED
Human Resources	Overtime Working Procedure	College	APPROVED
Human Resources	Parental Support Policy	College	APPROVED
Human Resources	Prevention of Alcohol & Drugs Misuse	College	APPROVED
Human Resources	PVG Scheme/Disclosure of Criminal Convictions	College	APPROVED
Human Resources	Qualifying Period Procedure	College	APPROVED
Human Resources	Redundancy Policy & Procedure	College	APPROVED
Human Resources	Rehabilitation Procedure	College	APPROVED
Human Resources	Relocation Scheme	College	APPROVED
Human Resources	Shorter Working Year	College	APPROVED
Human Resources	Staff Development Policy	College	APPROVED
Human Resources	Staff Induction Programme	College	APPROVED
Human Resources	Staff Recruitment & Selection Procedure	College	APPROVED

Human Resources	Staff Review Procedure	College	ON HOLD
Human Resources	Stress in the Workplace	College	APPROVED
Human Resources	Support for Consultation Procedure	College	APPROVED
Human Resources	Whistleblowing Procedure	College	APPROVED
Human Resources	Workforce Plan and Development Strategy	College	APPROVED

Category	Policy/Strategy/Procedure Name	College or Regional?	Current Status
Student Services	Access and Inclusion Strategy	College	APPROVED
Student Services	Corporate Parenting Plan	College	APPROVED
Student Services	Course Fee Policy (FE)	College	Scheduled for review 19/20
Student Services	FE Fee Waiver Policy	Regional	APPROVED
Student Services	FE Student Support Funds Policy	Regional	APPROVED
Student Services	Tertiary Learner Support Policy	Regional	APPROVED
Student Services	Mainstreaming Report	College	APPROVED
Student Services	Tertiary Equality and Diversity Policy	Regional	Single Policy Development
Student Services	FE Admissions Policy	Regional	APPROVED
Student Services	Safeguarding Policy	Regional	APPROVED
Student Services	Academic Appeals Policy	Regional	APPROVED
Student Services	Student Advice, Personal Development Planning and Guidance Policy	College	ON HOLD
Student Services	Student Attendance Policy and Procedures	College	ON HOLD
Student Services	Student Bullying & Harassment Policy	College	APPROVED
Student Services	Student Confidentiality Policy	College	APPROVED
Student Services	Promoting a Positive Learning Environment Policy	Regional	NOT APPROVED BY LTQC
Student Services	Student Disclosure Policy	College	APPROVED
Student Services	Student Induction Policy	College	APPROVED

Moray College UHI

Audit Committee Annual Report for Session 2017-18 to the Board of Management and Principal of the College

1 Introduction

This report of the Audit Committee (“the Committee”) of the Board of Moray College UHI covers the work of the Committee for the academic session 2017-18 namely 1 August 2017 – 31 July 2018, with additional remarks relating to work undertaken over recent months following the end of the academic session. The order of this report follows the model format provided by UHI. The report is supported by the Annual Report to the Board of Management and Principal on the Provision of Internal Audit Services for 2017-18 from the Internal Auditors, Henderson Loggie Chartered Accountants.

2 Membership of Audit Committee

There were several changes to the membership of the Committee during this period and these are set out below. Current committee membership as from 1 August 2018 is also provided at para 2.3 below.

2.1 Membership at Commencement of session 2017-18

At 1 August 2017 at the commencement of Session 2017-18, the membership of the Audit Committee was as follows:

Members:

Dr Jessie McLeman, Convenor
Mr John Yorston
Mrs Deborah Newton
Mr Mark Wood
Mrs Anna Templeton, Support Staff Member on the Board
Mr Alan Simpson, HISA Representative on the Board

Total Membership 6, Quorum 3

In Attendance:

Finance Director, Mr Nick Clinton
Clerk to the Committee, Mrs Cathie Fair
Minute Secretary, Ms Eleanor Melton
Representative from Henderson Loggie, Internal Auditors
Representative from EY, External Auditors

2.2 Changes in Audit Committee Membership over the Session

During the session membership of the Audit Committee changed as a consequence of a number moves. Mr Mark Wood resigned from the Board of Management and the Audit Committee with effect from 19 September 2017 and Mr David Dalziel joined the Committee with effect from 19 September 2017.

Mrs Anna Templeton resigned from the Board and the Committee as Support Staff Representative with effect from 14 March 2018.

From 19 September 2017 until 14 March 2018 the membership of the Audit Committee was as follows:

<p><u>Members:</u> Dr Jessie McLeman, Convenor Mr John Yorston Mr David Dalziel Mrs Deborah Newton Mrs Anna Templeton, Support Staff Member on the Board Mr Alan Simpson, HISA Representative on the Board</p> <p>Total Membership 6, Quorum 3</p>
<p><u>In Attendance:</u> Finance Director, Mr Nick Clinton Clerk to the Committee, Mrs Cathie Fair Minute Secretary, Ms Eleanor Melton Representative from Henderson Loggie, Internal Auditors Representative from EY, External Auditors</p>

From 14 March 2018 to 1 July 2018 the membership of the Audit Committee was as follows:

<p><u>Members:</u> Dr Jessie McLeman, Convenor Mr John Yorston Mr David Dalziel Mrs Deborah Newton Mr Alan Simpson, HISA Representative on the Board</p> <p>Total Membership 5, Quorum 3</p>
<p><u>In Attendance:</u> Finance Director, Mr Nick Clinton Clerk to the Committee, Mrs Cathie Fair Minute Secretary, Ms Eleanor Melton Representative from Henderson Loggie, Internal Auditors Representative from EY, External Auditors</p>

2.3 Current Membership

Although not within the period of the report, the current membership is set out below. Mr Alan Simpson, HISA representative, resigned from the Committee with effect from 1 July 2018 as his tenure came to an end; Ms Manon Wells-Jesus, HISA Representative joined the Committee with effect from 1 August 2018; Mrs Patricia Eddie was appointed to the Board as Support Staff Representative with effect from 5 June 2018 and subsequently joined the Audit Committee with effect from 1 August 2018; and Mr David Dalziel resigned from the Committee with effect from 25 November 2018.

Current membership of the Audit Committee is set out below:

<p><u>Members:</u> Dr Jessie McLeman, Convenor Mr John Yorston Mrs Deborah Newton Ms Manon Wells-Jesus, HISA Representative on Board Mrs Patricia Eddie, Support Staff Member on Board</p> <p>Total Membership 5, Quorum 3</p>
<p><u>In Attendance:</u> Finance Director, Mr Nick Clinton Clerk to Committee, Mrs Cathie Fair Minute Secretary, Ms Eleanor Melton Representative of Henderson Loggie, Internal Auditors Representative of EY, External Auditors</p>

3 Committee meetings and attendance

During session 2017-18 Audit Committee meetings took place on the following dates with a quorum being present at each meeting:

Date	Committee members present
10 October 2017	Dr J McLeman, Convenor Mrs Anna Templeton Mrs Deborah Newton Mr J Yorston Mr A Simpson
28 November 2017	This meeting was a joint meeting with the Finance & General Purposes Committee. The members of the Audit Committee present were; Dr J McLeman, Convenor Mrs Anna Templeton Mrs Deborah Newton Mr D Dalziel Mr J Yorston Mr A Simpson
20 February 2018	Dr J McLeman, Convenor Mrs Anna Templeton Mrs Deborah Newton Mr D Dalziel Mr A Simpson

22 May 2018	Dr Jessie McLeman, Convenor Mrs Deborah Newton Mr A Simpson
9 October 2018	Dr J McLeman Mr J Yorston Mrs Deborah Newton Mrs M Wells Jesus Mrs Patricia Eddie
27 November 2018	This meeting was a joint meeting with the Finance & General Purposes Committee. The members of the Audit Committee present were; Dr J McLeman, Convenor Mrs D Newton Mr J Yorston Mrs P Eddie

In addition to the above Committee members, the Finance Director, Mr Nick Clinton, the Clerk to the Committee, the Minute Secretary, and representatives of the Internal and External Auditors are regularly in attendance at meetings. Henderson Loggie were normally represented by Mr David Archibald or by Mr Stuart Inglis; and EY by Mr Stephen Reid or Mr Robert Jones. The Committee may also ask a member of the College executive team to attend in relation to specific agenda items.

As in the previous session, the Committee continued to plan for four meetings each calendar year, including the joint meeting with the Finance & General Purposes Committee.

4 Terms of Reference of the Committee

During 2017-18 there were no changes to the Terms of Reference of the Audit Committee or Standing Orders.

5 Internal Audit

5.1 Internal Auditors

Internal audit services continue to be provided by Henderson Loggie (“HL”), who following an earlier UHI partnership procurement exercise, act as internal auditors for the College. The contract with HL is due to run until the end of Academic Session 2018/19. The fee basis contracted is for 33 days of internal audit work per annum, at a cost of £14,382.00 plus VAT.

In terms of the Audit Committee’s assessment of performance for the year, the Committee has asked the College and HL to review their end-to-end process in relation to the provision of internal audit reports, such that these can be provided to the Committee at its meetings in a timely way. The Committee also requested modifications to the process for review and closure of audit actions, and the reporting thereof, to provide clarity on the status.

5.2 Market testing due

Market testing is expected to be undertaken in Academic Session 2018/19. The procurement approach will be discussed with UHI and the other members of the partnership in good time, and will follow APUC processes.

5.3 Review of 2017/18 Internal Audit Report

The Annual Internal Audit Report for 2017/18 has been submitted by HL.

The overall opinion from HL is that that College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money.

The opinion has been arrived at taking into consideration the work HL undertook during the period covered by the report.

The internal audit reports undertaken during 2017/18 covered:

- Data Protection and the implementation of the General Data Protection Regulation (“GDPR”), follow-up review;
- Student Recruitment and Retention;
- Staff Development; and
- Risk Management.

The reviews of the above areas identified were undertaken following assessment of risk, discussion at the Committee and decision by the Committee. The overall grade for each of the internal audit reviews carried out in 2017/18 were Satisfactory, which indicates that overall the systems in-place meet control objectives, with some weaknesses.

The above noted internal audit reviews resulted in 16 recommendations, 3 of which were given a priority 2 rating (medium) with 13 given a priority 3 rating (low). Timelines for addressing the recommendations were set out in the management response and agreed by the Audit Committee.

In addition to the above activities, Henderson Loggie undertook an audit of Student Activity for 2016/17 and related reports, and provided an unqualified opinion on these matters.

One area of focus for management and the Committee over the past year has been the completion of overdue internal audit actions, identified following earlier internal audit reviews.

HL has concluded that the College has completed all the overdue internal audit recommendations (62), and these have been formally closed-off by HL. In addition, HL has confirmed that as at 30 November 2018, all current internal audit recommendations due for completion have been closed-off, in line with the anticipated completion date.

The above is a significant improvement on the position 12 months ago, and demonstrates the College’s commitment to taking on-board the findings of internal audit reviews and implementing the necessary actions and improvements to ensure ongoing compliance with good practice.

5.4 Review of audit risk assessment and strategy

The Internal Auditors conducted a strategic risk assessment at the start of their engagement, and the initial audit plan proposed took account of that and the risks pertaining at the time. Over the course of HL’s audit work, the plan for each year has been reviewed in the Committee in light of the assessment of

current risks. The Risk Register is reviewed at each meeting of the Audit Committee and informs the discussion.

Hence for the year 2017-18, GDPR matters were included in the audit plan as well as the other areas covered.

A review of the College's risk appetite, risk management policy and the risk management process was carried out during the year, and this resulted in a revised Risk Management procedure being approved by the Board in December 2017. The document included a revised Risk Appetite Statement.

To provide management and the Committee with assurance that the revised procedure was being implemented effectively, as well as to provide any feedback on the revised procedure, an internal audit of the risk management process was undertaken. The findings, and final outcome of this review were presented to the Audit Committee at the meeting of 27 November 2018.

In relation to VFM, procurement matters are planned to be reviewed as part of the internal audit plan for the current academic session, 2018-19.

The cost of the audit risk assessment described above was included in the overall annual cost for internal audit services.

The Committee placed no restrictions on the work of the internal auditors and it is understood no other restrictions were placed on their work.

5.5 Review of audit reports

The Committee reviewed all the reports described at 5.3 above and accepted the findings and management responses.

As the historic outstanding audit actions have been resolved, the College is well placed to address the current audit recommendations as they fall due.

The Audit Register is reviewed at each meeting of the Audit Committee, and the status of audit actions is reported upon by the Director of Finance.

5.6 Review of unplanned or special reports

No unplanned or special reports were commissioned by the Committee during the Academic Year 2017/18.

5.7 Review of VFM studies

No specific Value For Money (VFM) studies were commissioned in the period, however this matter was reviewed (as appropriate) in the conduct of the internal audit reviews referenced above undertaken by HL during 2017/18.

As noted in 5.4 above, an internal audit review of procurement matters is planned to form part of the internal audit plan for Academic Year 2018/19.

5.8 Confirmation of closed meetings with the internal auditors

The Audit Committee held a closed meeting with the Internal Auditors ahead of the Audit Committee meeting on 9 October 2018. The College's External Auditors were also present at this meeting.

The Committee held a closed meeting with the External Auditors ahead of the Audit Committee meeting on 27 November 2018.

6 External Audit

6.1 Appointment of External Auditors

Ernst & Young LLP ("EY") were appointed as external auditors of the College by the Auditor General, under the Public Finance Accountability (Scotland) Act 2000, the period of appointment running from 2016/17 to 2020/21 (inclusive). EY were also appointed as external auditors for the incorporated colleges in UHI and as UHI's auditors, commencing on 1 August 2017.

The fee basis for Moray College for 2017/18 is £14,850.00 plus VAT, exclusive of expenses, disbursements, and any wider scope work. Including the wider scope audit, the total fee basis for the year was £17,560 plus VAT.

The external audit for 2017/18 was undertaken by EY, this being their second year of auditing the College's financial statements.

The conduct of this year's audit, over the course of the past months, has been undertaken in accordance with a detailed plan agreed in advance by both the College and EY, and the operational interactions have consequently been much smoother in comparison to last year, with interactions being met according to plan. Either party had the opportunity to raise any issues at meetings of the Audit Committee - none have been brought to the Committee's attention.

6.2 Non-audit services

No non-audit services were provided by EY.

6.3 Review of management letter and matters arising from external audit

The external audit of the College was undertaken in accordance with the Code of Audit Practice issued by Audit Scotland in May 2017, relevant Auditing Standards and applicable Practice Notes issued by the Auditing Practising Board, relevant legislation and other guidance issued by Audit Scotland.

EY's Annual Audit Plan for the College was discussed at the Audit Committee meeting on 22 May 2018. The work of the external auditors included a review of work of the internal auditors, in view of their wider audit responsibilities, as well as a wider review of governance matters

Having now reached their conclusions, the external auditors have issued an unqualified opinion that the financial statements:

- Give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council (SFC) of the state of the affairs of the College as at 31 July 2018 and of its deficit for the year then ended;

- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practices; and
- Have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

In relation to their wider scope audit, EY set out their key messages in relation to what they considered as part of their work. EY raised two amber flags, namely;

- Financial sustainability. In view of the challenging environment in which the college operates, and despite the progress made to date, there are significant risks attached to the delivery of the plan; EY recommend it is vital that the medium terms plan is kept under rigorous review and updated as sensitivities and assumptions crystallise;
- Governance and transparency. While the college has a number of requirements in place for good governance there is risk of ongoing erosion of the boundaries between governance and management in certain areas through the current working arrangements that need to be addressed. EY cited the risk of the Audit Committee assuming a management role through its scrutiny and challenge, with presentation of draft audit reports cited as illustration. Two action areas were identified, one to address the timely provision of final audit reports and another for management to consider with the Chair of the Board areas where committee working arrangements can be enhanced.

Regarding compliance with the Code of Good Governance during the period covered by the review, two areas of non-compliance were identified, namely the provision of key performance indicators in relation to performance management and the need for mandatory training to be completed by all members of the Remuneration Committee. Note; both these have since been mitigated by actions undertaken.

At the November 2018 joint meeting of the Audit Committee and Finance & General Purposes Committee, the work of the external auditors was presented and considered, as available at the time of the meeting. Committee members had the opportunity to raise questions of EY and discuss any points. The committee noted the findings and observations of the auditors, in relation to both the financial statements audit and the wider scope audit, as well as comments from management on the points raised.

6.4 Meeting with the external auditors

As noted at section 5.8, the Audit Committee held a closed meeting with the External Auditors on 27 November 2018, following completion of the external audit.

7 Other work done

7.1 Review of the accounts

There are no additional points to note, other than those summarised at 6.3 above.

7.2 Assurances

The Audit Committee requested the Principal to undertake a review of the Code of Good Governance, using the detailed checklist provided by UHI, and to provide the Committee with assurance in respect of compliance with that Code. An updated version of the completed checklist was presented to the Committee at its meeting on 27 November 2018.

Associated with that, the Principal advised verbally that with the exception of the matters noted under section 6.3 of this report the College complied with the Code, and the last of these was being addressed. The Principal stated that he considered the mitigating actions addressed these issues, and that the College now fully complies with the Code.

As part of their External Audit, EY sought information from the Audit Committee on how its gained assurance in respect of certain matters, including controls, governance and risk. In its response to EY, the Committee recognises that there are a few areas where it will need to reflect further on how it secures assurances. These include the annual OSCAR return and any use made of certain processes, such as the Whistle Blower and Fraud Reporting processes.

The Committee received a report from management that, as of 22 November 2018, no infringements of the GDPR had been reported. The Committee will continue to monitor risk in this area.

There were no internal audit reviews undertaken by UHI and affecting the College provided to the Committee.

7.3 Risk

As indicated in 5.4, the Committee undertook a review of the pre-existing risk management process, following which a revised Risk Management Procedure was developed, including a revised Risk Appetite Statement, and that was subsequently approved by the Board in December 2017.

An internal audit of the risk management process was requested by the Committee and undertaken as part of the Audit Plan for the Academic Year 2017-18, in order to provide assurance that the revised process is working effectively, appropriate measures are in-place to identify and address or mitigate (where possible) the risks facing the College and to keep these under review.

The findings of the Internal Audit review on Risk Management were provided to the Audit Committee for review and comment at the meeting of 27 November 2018. The Audit Committee accepted the findings of this review, as well as management's responses and proposed action dates for the recommendations arising from this review. It is anticipated that the Board will be invited to approved some changes to current arrangements, as part of the completion of the recommendations.

7.4 Other work reviewed

The status of College policies has been the subject of review by the Committee over the year. These policies are important in setting out expected behaviours within the College, and a proportion are currently overdue.

With management input, a planned schedule for reviewing all policies, including the overdue ones, has been prepared, and was presented to the Audit Committee meeting of 27 November 2018. All revised policies, as they are prepared, will take account of the work of the UHI Single Policy Environment

Workgroup, the purpose of which is to avoid multiple versions of the same policy across the partnership, and to ensure consistency on key areas (i.e. one policy for all UHI Partners).

The annual report on the college sector by Audit Scotland has been added to the work-plan of the Committee, and this shall continue going forwards.

8 Opinion

Over the Academic Session and the subsequent months, there have been a number of changes to the membership of the Committee. There have also been changes in the College, following the voluntary severance process seen in 2016/17, and early 2017/18.

There have been a number of challenges for the Finance Director, the Officer supporting the Committee, related in part to the wider changes in the College, and the need to stabilise the new arrangements. The Committee recognises the extent of the work undertaken to support the Committee.

The Committee is pleased to note that, over the past 12 months, the backlog of overdue audit recommendations has been addressed, which is a significant achievement during a period of transition and staff change, i.e. post voluntary severance. The Committee is also pleased to note the timely manner in which the more recent audit recommendations have been addressed, evidencing the commitment of management to addressing and resolving such matters.

The Committee will continue its focus on monitoring the updating of College Policies.

There have been issues relating to the timeliness of final audit reports presented to the Audit Committee. This matter was also noted by the External Auditors along with the potential implications as summarised in section 6.3. To avoid future such issues, a more robust planning approach has been requested, of both College Management and the Internal Auditors, the aim of which will be to avoid any such instances occurring in future. The first such plan was presented to the November meeting of the Committee. The Committee will also consider any points arising from the recommended action for the college to debrief the Chair of the Board with a view to enhancing the working of the Committees.

The Committee will also consider, as noted at 7.2 above, how it receives information in relation to matters which could relate to some controls.

The Committee anticipates that the appropriate resource will be made available supported by senior management engagement to ensure these matters are taken forward and resolved in a timely way.

In view of the information provided to the Committee by both the Internal and the External Auditors, and the assurances provided by management, the Committee is assured as to the adequacy and effectiveness of the institutional arrangements for risk management, control and governance; and for economy, efficiency and effectiveness (value for money).



Jessie McLeman
Convenor of Audit Committee

12 December 2018

AUDIT COMMITTEE OF THE BOARD OF MANAGEMENT OF MORAY COLLEGE

Terms of Reference

Authority and Responsibility

- 1.1 The Audit Committee is accountable to the Board of Management of Moray College and is authorised to assess the adequacy and effectiveness of the College's management and control systems.
- 1.2 The responsibilities of the Audit Committee are to review and monitor the College's operations as set out below, and to advise and provide assurance to the Board appropriately:
 - 1.2.1 the governance and management of the College and the effectiveness of corporate governance, and internal management operations and control systems;
 - 1.2.2 the risk management arrangements, including the Committee's responsibilities as set out in the Risk Management Process as agreed by the Board;
 - 1.2.3. adequacy of the College's financial management arrangements and controls, including any matters raised as part of the annual external audit;;
 - 1.2.4. effectiveness of the arrangements for safeguarding the assets of the college, including the funds at its disposal;
 - 1.2.5. effectiveness of the arrangements for monitoring certain key control processes, such as disclosure arrangements;
 - 1.2.6. to review and advise on annual internal and external audit plans;
 - 1.27. to monitor and make recommendations arising from audits undertaken by College management, any UHI-wide audit or by the internal and external auditors, and monitor and advise on the timely implementation of any associated recommendations;
 - 1.28. to ensure the College systems operate in an efficient, effective and economical manner that promotes full compliance with guidance and regulations governing the Further and Higher Education Sectors;
 - 1.2.9. to ensure the College systems provide value for money in the provision of services and purchasing; and
 - 1.2.10. to review and advise on the provision of internal and external audit services.

2 Membership

- 2.1 The Committee should comprise at least three independent non-executive members appointed by the Board. The experience of the members should preferably but not exclusively cover the areas of finance, accounting or auditing and risk management, but at least one member should have recent relevant financial or audit experience.
- 2.2 In order not to jeopardise, or to be perceived to jeopardise, the Audit Committee's objectivity or independence, members should not have executive responsibility for the management of the College or its finances, or be a member of the Finance & General Purposes Committee. The Chair of the Board should not be a member of the Audit Committee.
- 2.3 The Board may appoint to the Committee co-opted independent non-executive members who are not members of the Board, and who have particular relevant experience or expertise. Co-opted members may not be appointed to be Convener of the Committee or attend Board meetings but their status in other respects will be equivalent to full Board members, including the provision of information provided to Board members.
- 2.4 The Board will appoint the Convener of the Committee.

3 Proceedings

- 3.1 The Committee will meet no less than three times a year and the timing and content should meet the requirements and schedule of the Board meetings.
- 3.2 The Committee will meet jointly with the Finance and General Purposes Committee to review the annual report of the external auditors and the associated financial statements of the College on which that report is based.
- 3.3 The Officer to the Committee will be the Finance Director of the College. The internal auditors will normally be invited to attend all meetings. The Committee Chair may invite members of the College executive/staff to attend any meeting to provide information about particular agenda items, with reference to the areas of responsibility under discussion.
3. The Committee may sit privately without any non-members present for all or part of a meeting if they so decide;
3. The external auditor should attend, as a minimum, any meetings where relevant matters are being considered such as planned audit coverage, the audit report on the financial statements and the audit management letter.
- 3.5 Both internal and external auditors have a right of access at any time to the Convener of the Committee, and also the right to ask the Convener to convene a meeting if either deems it necessary. They also have the right to ask for such meeting to be in closed session.

- 3.6 Internal and external auditors will meet with the Audit Committee once per year in private without any College executive in attendance.
- 3.7 The Clerk to the Board of Management will act as Secretary to the Committee. S/he will be responsible for establishing and maintaining effective mechanisms to inform the Committee of relevant reports and other publications that impact on the Committee's work.
- 3.8 At all meetings, the quorum shall be at least one third of the total number of its members, subject to a minimum of three where the substantive membership is five or more, or two where it is less than five.

4 Annual Report

- 4.1 The Committee will provide an annual report to the Board of Management, consistent with current relevant guidance and templates, as amended from time to time, for such reports made by Public Sector bodies.

DATE; Draft to Audit Committee May 2019.

Scotland's colleges 2019



AUDITOR GENERAL 

Prepared by Audit Scotland
June 2019



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:

- directorates of the Scottish Government
- 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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www.audit-scotland.gov.uk/about-us/auditor-general 

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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Audit team

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

Links

-  PDF download
-  Web link

Key messages



- 1** The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges. The gap between colleges' income and expenditure is widening and this is forecast to continue, with 12 incorporated colleges forecasting recurring financial deficits by 2022-23.
 - 2** Colleges face increasing cost pressures. The increase in Scottish Government revenue funding for 2019/20 covers only the additional costs of harmonising pay and conditions across the sector (excluding cost of living increases and increases in employers' pension contributions). Current Scottish Government capital funding falls short of the estimated costs of maintaining the college estate. The proportion of non-government income that colleges generate has reduced over time, and cash balances and money held by arm's-length foundations fell.
 - 3** Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over. Colleges are widening access to disabled, ethnic minority and care-experienced students. After several years of increasing learning delivered to students from deprived areas, the proportion of learning delivered to this group fell slightly in 2017-18.
 - 4** There is considerable variation across colleges in terms of student attainment and retention and those going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the Scottish Funding Council's (SFC) target of 75 per cent by 2020-21. Attainment gaps still exist for students from the most deprived areas, students with disabilities and for care-experienced students.
 - 5** There is scope for the SFC to work with individual colleges and their boards to improve financial planning and to achieve greater transparency in the sector's financial position. The SFC can also be more transparent in how it reports colleges' performance against outcome agreements and student satisfaction data. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.
-

Recommendations

Colleges should:

- agree their underlying financial position with the SFC prior to finalising their accounts ([paragraph 5](#))
- improve data collection and response rates for student satisfaction and publish results ([paragraphs 52–53](#))
- use *How good is our college?* effectively to drive improved performance and enhance the quality of service provision ([paragraphs 55–57](#)).

College boards and regional bodies should:

- agree medium-term financial plans that set out the mitigating actions to ensure their college's financial sustainability ([paragraphs 17–19](#))
- submit agreed medium-term financial plans to the SFC along with financial forecast returns (FFRs) ([paragraphs 17–19](#)).

The SFC should:

- work with colleges to agree their underlying financial position prior to finalising their accounts ([paragraph 5](#))
- require colleges to submit medium-term financial plans to support FFRs in assessing financial sustainability across the sector ([paragraphs 17–19](#))
- publish college region performance against all outcome agreement measures ([paragraph 44](#))
- publish good-quality student satisfaction data for every college ([paragraph 52](#)).

The SFC and Scottish Government should:

- agree and publish a medium-term capital investment strategy that sets out sector-wide priorities ([paragraph 24](#))
 - review whether targets for college provision and student outcomes, including for students from deprived areas, remain relevant and realistic, based on current performance trends ([paragraph 31](#)) ([paragraphs 41–42](#))
 - work with colleges to deliver the necessary improvements in performance to meet agreed outcome agreement targets ([paragraph 45](#)).
-

Part 1

Financial health



Key messages

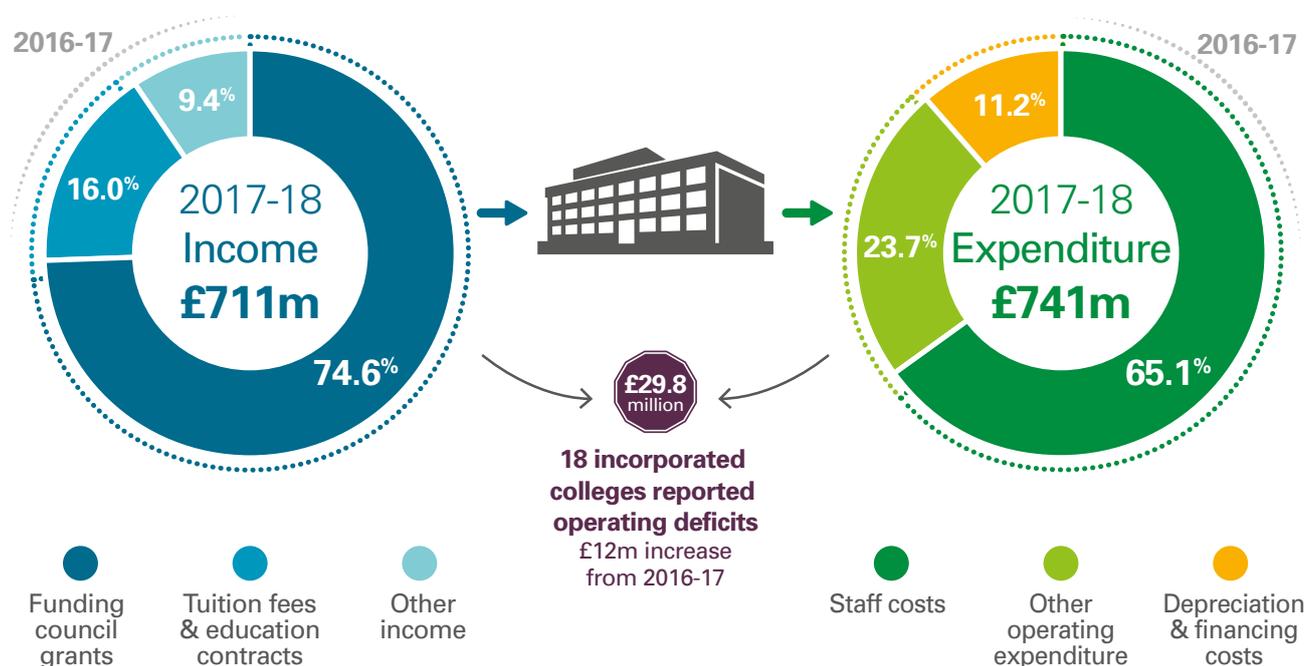
- 1** The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges.
- 2** The Scottish Government has been providing colleges with real-terms increases in revenue funding since 2016/17. The most recent increase for 2019/20 covers only the additional cost of harmonising staff terms and conditions. Colleges also need to fund cost of living pay increases and any unfunded element of increases in employers' pension contributions. The proportion of non-government income, such as education contracts and other commercial income, has reduced. Colleges' ability to access other sources of funding, such as cash and arm's-length foundation (ALF) balances, is also reducing.
- 3** The gap between colleges' income and expenditure is widening. Twelve incorporated colleges were forecasting recurring financial deficits by 2022-23. At the time of their annual audits, ten of these were still to determine the specific actions needed to achieve financial sustainability.
- 4** Scottish Government capital funding falls short of what is needed to meet the estimated costs of maintaining the college estate. The Scottish Government is working with the Scottish Futures Trust and SFC to identify an appropriate revenue funding model for future investment in the college estate.

The underlying financial position for the college sector improved slightly in 2017-18, but the gap between income and expenditure is widening

- 1.** Income remained unchanged across the sector in 2017-18 at £711 million. This represents a 1.9 per cent reduction in real terms from 2016-17. Scottish Government funding (provided through grants from the Scottish Funding Council) increased by 1.0 per cent in real terms. The proportion of income from other sources, such as education contracts and other commercial income, fell, meaning that colleges are increasingly dependent on Scottish Government funding ([Exhibit 1, page 7](#)).

Exhibit 1

Colleges have achieved an underlying surplus but the gap between income and expenditure is widening



Underlying financial surplus



Source: College accounts/SFC

2. Colleges' expenditure increased by £11.8 million (0.3 per cent in real terms) to £741 million in 2017-18, widening the gap between income and expenditure. As a result, the sector's operating deficit increased to £29.8 million. Eighteen of the 20 incorporated colleges reported operating deficits.

3. Adjusting the operating position for technical accounting factors that are beyond a college's immediate control, such as pensions and net depreciation, helps to provide a clearer picture of a college's short-term financial health. After such adjustments, incorporated colleges reported an underlying surplus of £3.1 million. While the underlying surplus is £2.8 million higher than in 2016-17, it represents a very small percentage of sector expenditure (0.4 per cent).

4. The overall underlying surplus for the six non-incorporated colleges is £0.1 million, equivalent to 0.4 per cent of their expenditure of £25.6 million and less than half the surplus in 2016-17 (£0.25 million).

5. In calculating and reporting their underlying operating positions, colleges continue to interpret the SFC's accounts direction inconsistently. While the differences between colleges' and the SFC's calculations are small overall (around £1.4 million), differences in individual college figures can be significant.

6. As public bodies, colleges are expected to operate with balanced budgets, but they are operating within an increasingly tight financial environment. The underlying positions of individual colleges are shown on [\(Exhibit 6, page 12\)](#), together with other indicators of financial health.

The latest increase in Scottish Government revenue funding is only enough to cover the costs of harmonising staff terms and conditions

7. Scottish Government revenue funding to the sector reduced in the period leading up to college reorganisation. Revenue funding for the sector has increased year-on-year since 2016/17 in real terms, mainly due to the Scottish Government funding the costs of harmonising staff terms and conditions. All of the increase in funding in 2019/20 is to fund these costs [\(Exhibit 2, page 9\)](#).

8. The SFC and Colleges Scotland have calculated the additional cost from harmonising staff terms and conditions at £50 million per annum from 2019-20. This includes £12 million allocated over the next two years to fund the harmonisation of terms and conditions for support staff. Colleges and the Educational Institute of Scotland (EIS) are in dispute over the cost of living pay claim for lecturers, over and above the harmonisation of pay, terms and conditions. This has resulted in several periods of industrial action and they have yet to reach agreement. The additional costs of the settlement will have further implications for colleges' costs and financial sustainability.

9. There is no additional Scottish Government revenue funding to cover other cost increases over this period, such as cost of living increases and increases in employer pension contributions. Scottish ministers have committed to pass on any specific UK funding made available to help meet planned increased employer pension contributions to the Scottish Teachers Superannuation Scheme. There still may be a significant element that remains unfunded for colleges [\(Exhibit 3, page 9\)](#).

Staffing changes will affect SFC funding for harmonising terms and conditions

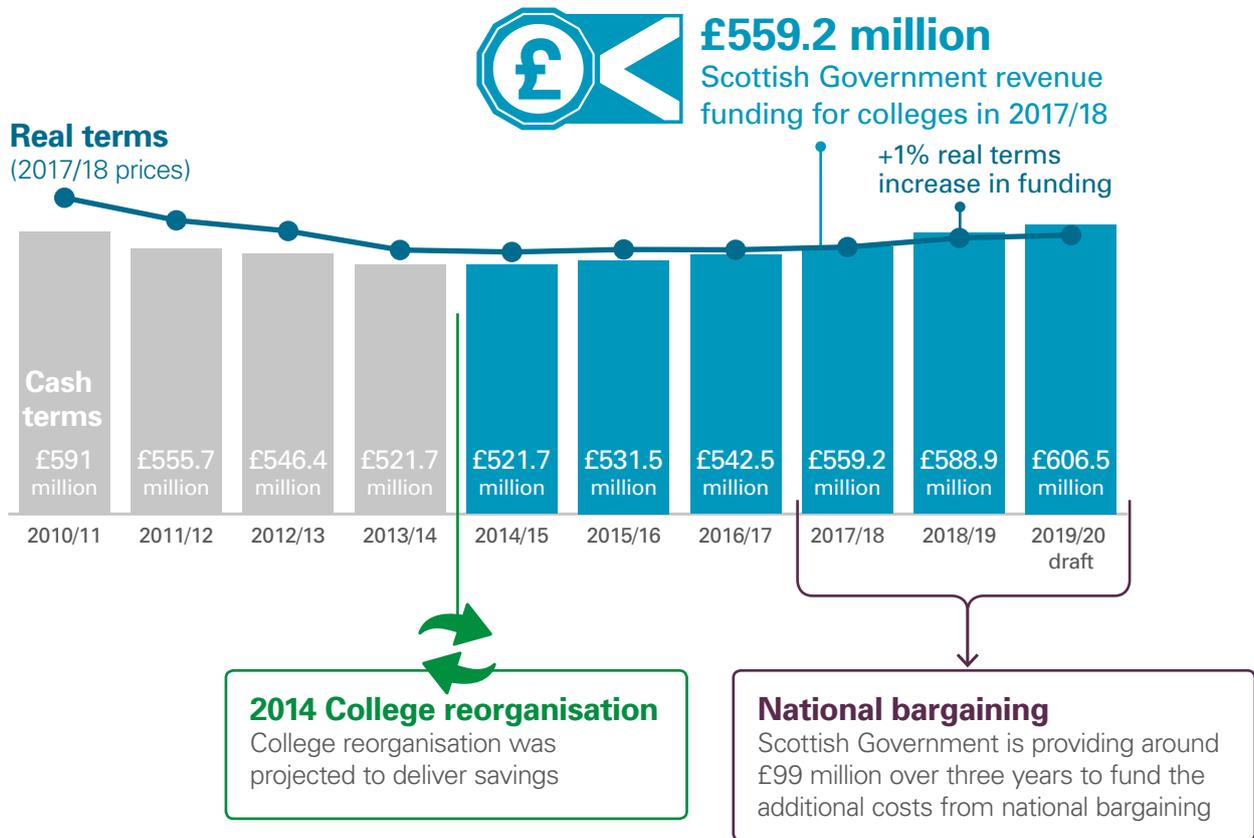
10. Total staffing numbers across the sector in 2017-18 remained unchanged, but the staffing profile across the sector has changed.¹ The number of non-teaching staff fell, while the number of teaching staff increased by the same proportion. The proportion of full-time permanent teaching staff with a recognised teaching qualification fell by one percentage point to 87.9 per cent.

11. Small changes at sector level mask noticeable changes within some colleges:

- Twelve incorporated colleges increased their teaching staff numbers. Of these, seven reduced their non-teaching staff.
- Seven incorporated colleges reduced teaching staff. Of these, three increased their non-teaching staff.
- Three incorporated colleges increased both teaching and non-teaching staff numbers, while four reduced both teaching and non-teaching staff.

Exhibit 2

Scottish Government revenue funding for colleges



Source: Scottish Government

Exhibit 3

Colleges staffing 2017-18



Note: Staffing numbers fluctuate depending on the point in the year they are recorded.

Source: College staffing returns to the SFC

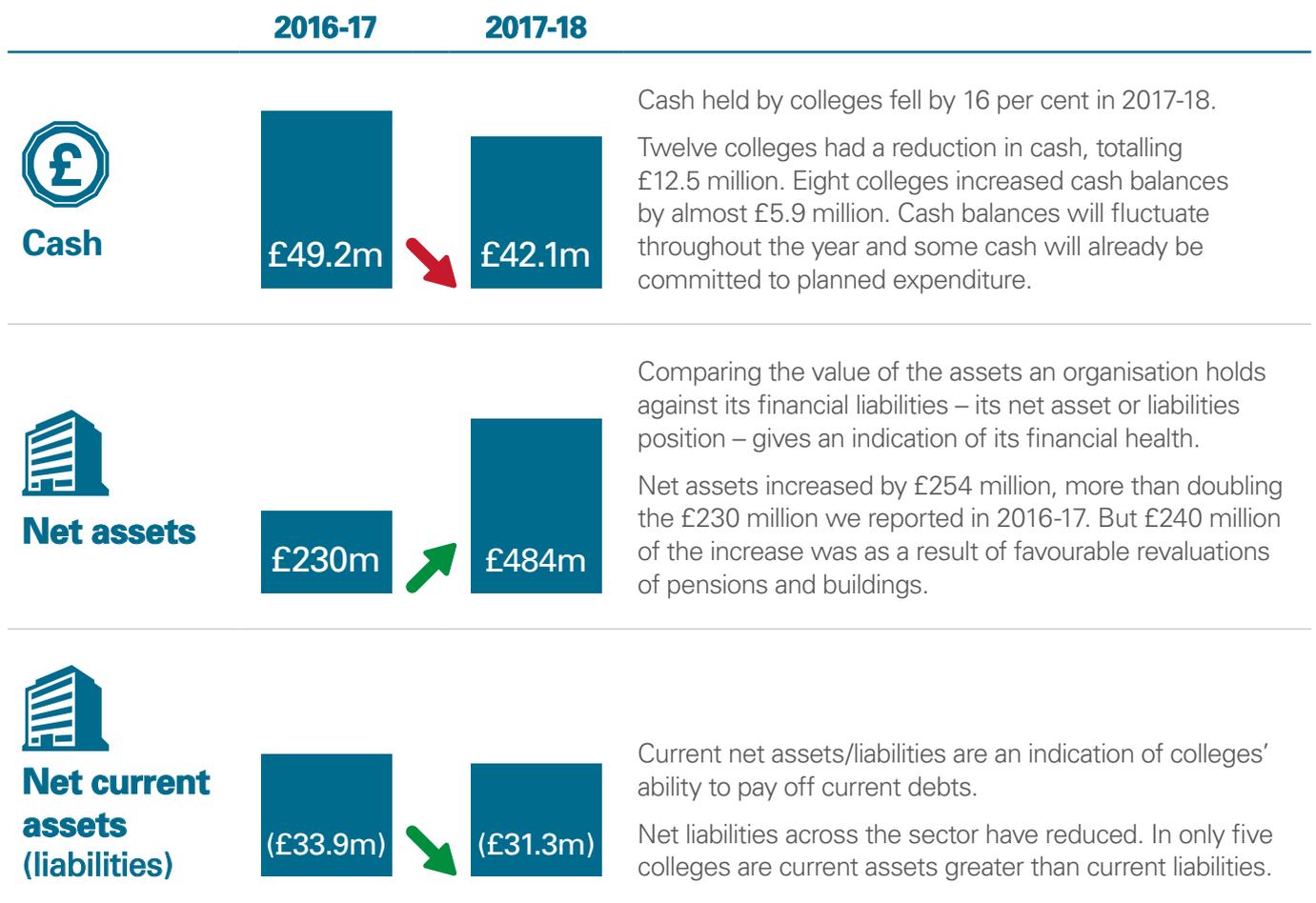
12. Current funding allocations for harmonisation of terms and conditions are based on the number of staff in April 2018. The SFC will consider changes in staff numbers when determining future funding allocations.

Some sector-level financial health indicators improved in 2017-18 but the ability to draw on cash balances and ALF income has reduced for most colleges

13. Performance across the sector varied against financial health indicators. The sector's access to cash reduced. Its current net asset/liabilities position improved (ie, the sector's ability to pay its debts), with a reduction in net liabilities. Net assets more than doubled in 2017-18, mainly due to factors outside colleges' direct control. ([Exhibit 4](#)).

Exhibit 4

College sector financial health indicators



Source: Incorporated college 2017-18 accounts

Arm's-length foundations continue to be a reducing source of funds for colleges

14. Fifteen colleges received funding from arm's-length foundations (ALFs) in 2017-18. Around 80 per cent (£8.4 million) of the total sector income from ALFs was provided to Ayrshire, City of Glasgow, Glasgow Clyde and Glasgow Kelvin colleges. ALFs are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges can donate money into ALFs and can apply to ALFs for funding. Colleges have typically used income from ALFs to fund voluntary severance, capital works and investment in equipment and digital infrastructure.

15. Balances held by ALFs are reducing, with colleges planning to apply to use a further £6.25 million of ALF funding in 2018-19. ALF balances vary significantly, with some colleges having little or no scope to access any ALF income. For the remainder of colleges, the ability to apply for income from ALFs is becoming increasingly limited as balances reduce ([Exhibit 5](#)).

Exhibit 5

The balances of arm's-length foundations (ALFs) are reducing



Source: College accounts and ALF accounts or SFC – ALF balances not in college accounts

There is significant variation in the financial positions of individual colleges

16. There is significant variation in the financial indicators at individual college level. Taken on their own, each indicator is not a reliable measure of financial health. But, taken together, the indicators provide a broad indication of the extent to which each college is exposed to financial risk ([Exhibit 6, page 12](#)).

Exhibit 6

Financial indicators

Colleges	Underlying surplus/deficit	Operating surplus/deficit			
			Cash	Net assets	Net current assets/liabilities
Ayrshire College	-1.9%	-4.9%	3.3%	78.5%	-8.1%
Borders College	1.6%	-0.6%	19.9%	0.5%	10.5%
City of Glasgow College	0.7%	-2.5%	7.6%	29.7%	-4.8%
Dumfries and Galloway College	-0.5%	-8.1%	5.5%	82.7%	-6.7%
Dundee and Angus College	0.3%	-4.6%	2.7%	77.7%	-6.3%
Edinburgh College	0.6%	-3.4%	1.4%	111.5%	-8.7%
Fife College	0.2%	-6.6%	4.2%	61.3%	-3.1%
Forth Valley College	1.9%	-2.3%	15.6%	-14.0%	1.6%
Glasgow Clyde College	0.3%	-1.0%	5.3%	138.8%	-5.0%
Glasgow Kelvin College	1.5%	1.0%	4.6%	41.9%	-10.3%
Inverness College	1.4%	-5.2%	14.6%	-10.2%	-5.0%
Lewis Castle College	1.9%	-5.1%	2.7%	48.0%	-4.9%
Moray College	1.2%	-3.5%	5.9%	90.6%	-5.9%
New College Lanarkshire	0.9%	-4.3%	1.8%	53.9%	-8.7%
North East Scotland College	-2.2%	-8.1%	4.9%	85.0%	5.5%
North Highland College	0.4%	-6.0%	3.0%	22.1%	2.3%
Perth College	0.0%	-5.7%	8.6%	103.0%	-8.4%
South Lanarkshire College	4.0%	0.2%	3.9%	56.0%	-5.5%
West College Scotland	0.0%	-4.7%	6.2%	101.9%	0.0%
West Lothian College	0.9%	-5.0%	3.9%	-16.6%	-4.4%
Scotland	0.4%	-4.0%	5.7%	65.2%	-4.2%

Quartile: Highest 1 2 3 4 Lowest

Notes:

- Financial indicators are shown as of the proportion of each college's expenditure
- For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: College accounts

Twelve incorporated colleges are forecasting recurring deficits during the next five years

17. The SFC requires colleges to submit five-year financial forecast returns every year, and provides colleges with common financial planning assumptions to use when preparing their forecasts. Although colleges did apply the SFC's common assumptions, the SFC identified that colleges had not been consistent in compiling their most recent financial forecasts.² Colleges had broadly adopted one of two approaches: making forecasts that incorporated actions to address potential deficits; or forecasting their future financial position based on how they currently operate. Twelve colleges are forecasting recurring deficits during the next five years. Of the six non-incorporated colleges, only Orkney College is not projecting a recurring deficit during the next five years.

Only two of the 12 incorporated colleges forecasting recurring deficits had identified specific actions to address their financial challenges

18. At the time of their annual audit, only two of the 12 colleges forecasting a recurring deficit had identified the specific actions needed to address their financial challenges. A further five colleges were in the process of developing specific actions. Of the ten colleges still to determine agreed actions to address recurring deficits, six are forecasting a deficit position by the end of the next academic year: Inverness, North Highland and West Lothian colleges are forecasting deficits from 2018-19; and Forth Valley, Glasgow Clyde and Glasgow Kelvin colleges are forecasting deficits from 2019-20 ([Exhibit 7](#)).

Exhibit 7

Status of colleges' responses to forecasted recurring deficits

12 colleges forecasting a recurring deficit

At the time of their 2017-18 annual audits:



Source: SFC/colleges' external auditors

19. The SFC asked colleges that are projecting deficits to identify the actions needed to achieve financial sustainability. Additional financial pressures have emerged since colleges prepared their financial forecasts, including reduced capital funding and additional employer pension contributions. Unless funding increases, or colleges change how they operate, these are likely to result in future forecasts showing a worsening financial picture.

Three colleges face particular challenges to their financial sustainability

20. Auditors have highlighted that increasing operating deficits present challenges to financial sustainability in many colleges. Three colleges face particular challenges.

Ayrshire College



Ayrshire College reported an underlying deficit of £1 million in 2017-18 and was forecasting increasing deficits over the next five years, with a cumulative deficit of around £12 million (equivalent to 23 per cent of its current expenditure) by 2022-23. The college faces a number of cost pressures. It has identified annual PFI payments of £1.4 million until 2024-25 as its highest risk.



In February 2019, the SFC agreed the college's two-year financial sustainability plan. The SFC will provide the college with an additional £1.3 million in 2018-19 to fund a voluntary severance scheme and additional revenue funding support of £0.7 million in both 2019-20 and 2020-21.



The college anticipates its severance scheme will contribute to financial sustainability by generating savings of £1.66 million a year, reducing its projected cumulative deficit by 2022-23 to £5 million. Like other colleges, Ayrshire will need to continue to manage its costs, and to develop the necessary actions to balance its operating position from 2021-22 onwards.

New College Lanarkshire



Last year, the Auditor General for Scotland prepared a statutory report on the college, which highlighted the financial challenges facing the college and the potential impact on its longer-term financial sustainability. The college reported an underlying surplus of £0.6 million for 2017-18.



During the year, the SFC provided the college with £1.1 million for voluntary severance and a short-term cash advance of £1.3 million to address cash-flow difficulties.



The Lanarkshire Regional Board has agreed a five-year regional business plan with the SFC. This forecasts an underlying surplus for the college by 2019/20. The college anticipates receiving a further repayable advance of £2.6 million from the SFC in 2018-19, subject to maintaining progress and achieving the milestones in its plan.



To achieve financial sustainability, the college is reducing staffing costs. The SFC will provide £645,000 for the next voluntary severance scheme proposed in the plan. The college also intends to increase non-SFC income and to pursue opportunities for shared services with South Lanarkshire College.

North Highland College



The college reported a small underlying surplus of £0.1 million in 2017-18 but faces several key risks to its financial sustainability.



The college has previously required cash advances from its regional body, the University of the Highlands and Islands (UHI). It is forecasting a cumulative underlying deficit of £2.5 million by 2022-23 (equivalent to around 16 per cent of current costs) and a negative cash-flow position from 2019-20 onwards.



The college has loans of £1.3 million and in 2017-18 relied on waivers from its bank to avoid breaching loan covenants. At the time of the annual audit, the college did not have an agreed financial plan in place to achieve the required savings in both the short and longer term.



The auditor highlighted the need for more detailed interaction between the college and UHI as savings plans are developed. The college has since begun a curriculum review, with a view to achieving savings for the 2019-20 budget. However, the college anticipates that it may require financial support from UHI, in the form of cash advances, for 2019-20.

21. Staff costs are the largest area of college expenditure and those colleges that have produced financial plans to address their underlying financial deficits are planning or currently implementing voluntary severance schemes as part of their plans.

Scottish Government capital funding is insufficient to address colleges' maintenance requirements

22. Capital funding is needed for the maintenance and improvement of buildings and investing in digital infrastructure. The Scottish Government provided £76.7 million of capital funding for the sector in 2018/19. Of this, £43.1 million related to existing capital commitments, including Forth Valley College's new campus project, £27 million was allocated for very high-priority backlog maintenance identified in the SFC's estates survey in 2017.³ The SFC is monitoring whether funding for backlog maintenance has been spent as planned.

23. In 2019/20, capital funding for the sector has fallen to £47.6 million. Of this, £22.7 million is for Forth Valley College's new campus. After other specific capital commitments,⁴ the SFC is allocating £21 million to address lifecycle and backlog maintenance needs.⁵ Colleges and the SFC have calculated annual lifecycle maintenance costs to be around £22 million, over and above the £77 million high-priority backlog maintenance costs previously identified in the SFC's 2017 estates survey.

24. Reduced capital spending creates a risk that the cost of urgently needed backlog maintenance increases. This in turn poses a potential risk to some colleges' ability to continue to deliver their core services in a safe environment, and to invest in new digital infrastructure to generate efficiencies and enhance the student experience. The Scottish Government is working with the Scottish Futures Trust and the SFC to identify an appropriate revenue funding model for future investment in the college estate ([Exhibit 8, page 16](#)).

Exhibit 8
Capital funding

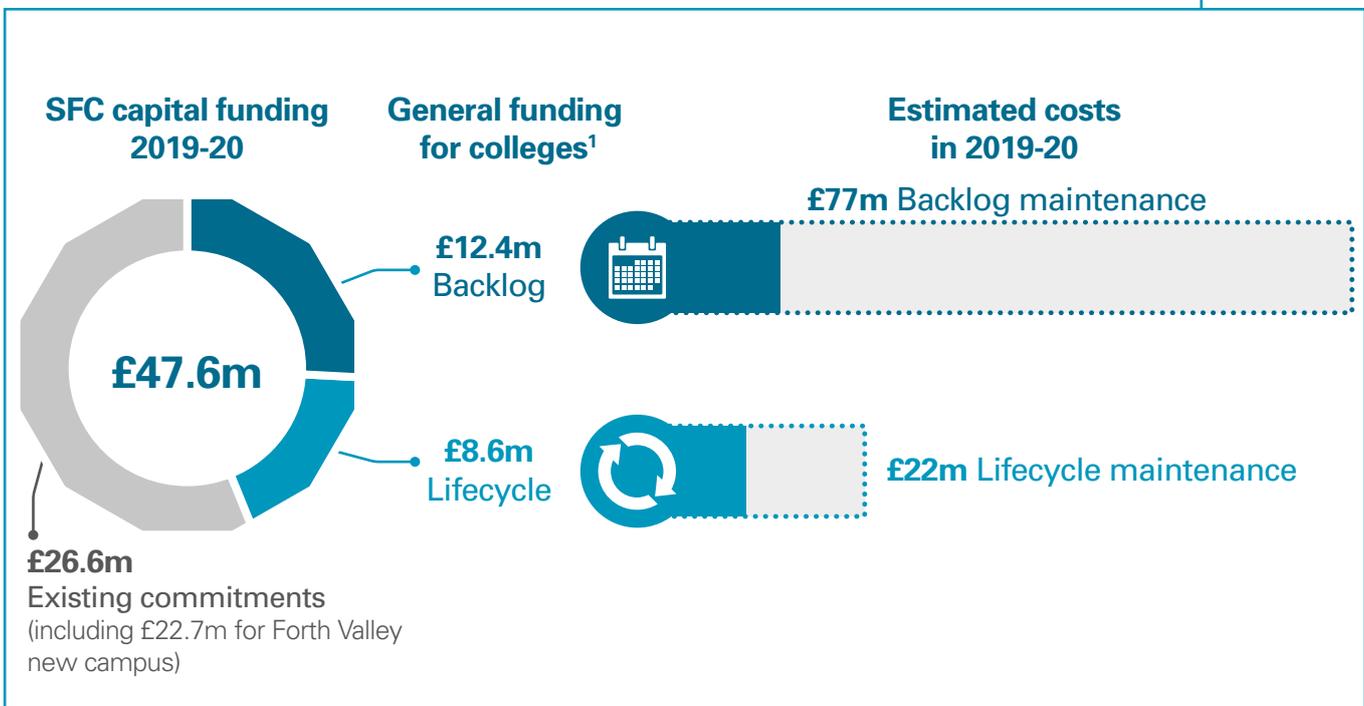
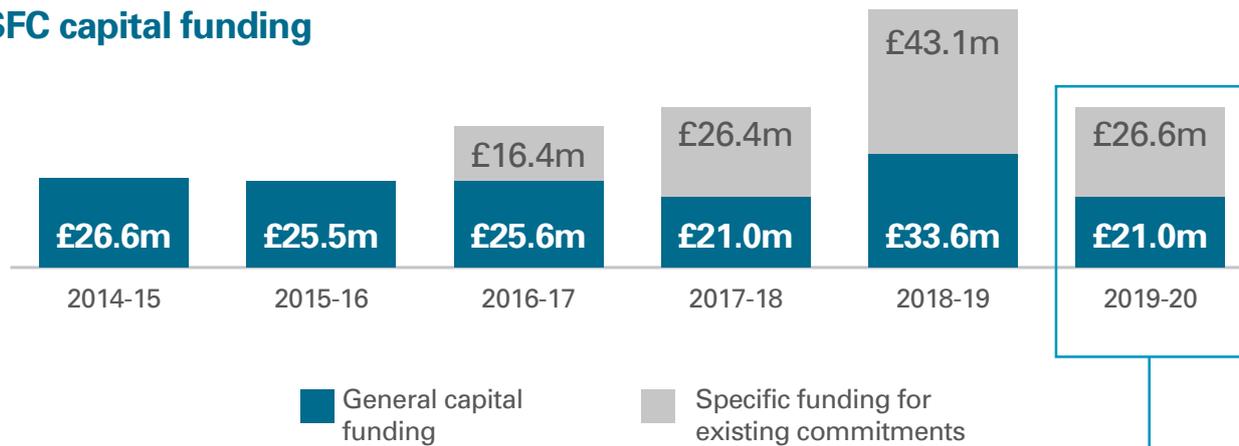


£47.6 million

Capital funding in 2019-20

Typically, capital funding is used for the maintenance and improvement of buildings but is becoming increasingly important for investing in and developing digital infrastructure.

SFC capital funding



Note: 1. Excluding Forth Valley
Source: Scottish Government/SFC

The potential implications of the UK's withdrawal from the EU remain unclear

25. The college sector is examining the potential implications surrounding the UK's planned withdrawal from the EU. The main areas that are likely to be affected are students, staff and funding. Data shows that:

- 7.3 per cent of credits are delivered to non-UK EU nationals (2016-17).
- Colleges' representative body, Colleges Scotland, estimates that non-UK EU nationals make up around three per cent of current staff in the sector. There will however be variation across colleges, with potentially the most significant impact being in Edinburgh and Glasgow.
- The SFC is allocating around £13 million to colleges to deliver European Social Fund (ESF) activity in 2019-20. This includes an assumed ESF contribution from the European Commission of around £5 million (around 0.7 per cent of current total sector income), subject to the submission of successful claims to the Scottish Government. College accounts for 2017-18 show that an additional £2.6 million of European income was received across the sector (0.4 per cent of total sector income). This was predominantly for ERASMUS+ placements.⁶

26. The wider potential implications of EU withdrawal remain unclear. While the direct impact on colleges is likely to be relatively small compared to some other parts of the public sector, colleges anticipate that the indirect effects could be much more significant. This includes potential reductions in EU funding that colleges receive through students funded by other organisations.

Part 2

Performance



Key messages

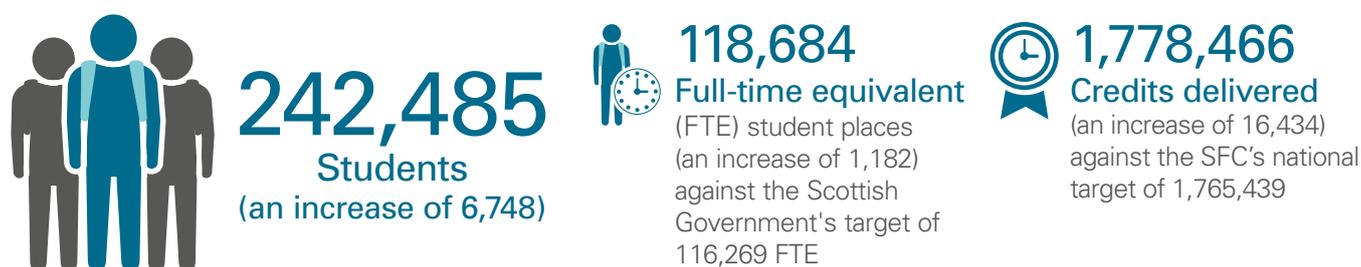
- 1** Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over.
- 2** Colleges are widening access to learning for disabled, ethnic minority and care-experienced students but the proportion of learning delivered provided to students from deprived areas fell slightly in 2017-18. Attainment rates for students in most of these categories continue to be below those of the student population overall.
- 3** Fewer students are completing their courses but a slightly higher proportion of students gaining a qualification are going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the SFC target of 75 per cent by 2020-21.
- 4** There continues to be considerable variation across colleges in terms of student outcomes. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

Student numbers increased, and the sector exceeded both the Scottish Government's learning target and the SFC's national activity target

27. In return for their funding from the SFC, college regions agree a range of outcomes they aim to deliver each year. Outcome Agreements contain ten measures to assess colleges' progress. Within these ten measures there are national priority measures based around learning credits delivered, the achievement of qualifications (attainment) and successful students going on to positive destinations.

Exhibit 9

Number of students and amount of learning delivered 2017-18



Source: SFC

28. Colleges delivered 16,434 more credits than in 2016-17 and exceeded the SFC's national activity target by 0.7 per cent. Five colleges missed their individual target (by a very small percentage in two instances):⁷

- Fife College (by 0.1 per cent)
- New College Lanarkshire College (by 0.2 per cent)
- North East Scotland College (by 1.4 per cent)
- Lews Castle College (by 4.7 per cent)
- Orkney College (by 4.5 per cent).

29. Where regions miss their credit target, the SFC – or the regional body, in a multi-college region – can decide to recover funding. Where the SFC or regional body is aware that a college may miss its target, it can look to redistribute both the activity and the funding to another college or region.

30. UHI is committed to providing access to learning across the region, and to avoid centralising delivery in urban areas. Where colleges in the Highlands and Islands region have not met their targets, UHI is working closely with the colleges to understand, support them and, where necessary, review targets to reflect circumstances. For example, Lews Castle College faces particular challenges due to a declining population in the Outer Hebrides, and UHI is working with the college to assess the effects of this change, and to support the college to adjust its focus to deliver a financially sustainable operating model.

31. Colleges also exceeded the Scottish Government's target of delivering 116,269 FTE places⁸, delivering 118,684 FTE places, an increase of 1,182 (one per cent) on 2016-17 ([Exhibit 9](#)). The Scottish Government's target has remained constant since 2012-13 though the context in which colleges operate has been changing:

- The young Scottish population has been reducing and is projected to reduce further over the next few years. This is resulting in fewer young students (16-24) at college, and more school-aged and older students.

- The Scottish Government continues to promote widening access to further and higher education. Its aim is for 20 per cent of students entering university to be from the 20 per cent most deprived areas by 2030. While colleges play an important role in supporting a learner's whole journey, this may reduce the number of students that will consider studying at college in future.

Over the past three years, colleges have been providing fewer credits to students aged 16-24 and more to students aged 25 and over

32. In October 2017, the Minister for Further Education, Higher Education and Science confirmed that colleges no longer needed to prioritise full-time education for 16-24 year olds.⁹ It is clear that college provision was changing before this announcement. Between 2014-15 and 2017-18, the number of students aged 16-24 fell by 6,887 (or by six per cent). There was a corresponding increase in the number of students aged 25 and over by 6,664 (or by seven per cent). Over the same period, the proportion of learning credits delivered by colleges shifted from students aged 16-24 to students aged 25 and over by four percentage points ([Exhibit 10, page 21](#)).

33. Between 2014-15 and 2017-18, there was an increase of 86 per cent (15,815) in the number of school pupils under 16 years of age attending college. Students aged under 16 now make up an additional six per cent of the student population compared to 2014-15. Despite this, credits delivered to under 16 years old have remained very small at only around three per cent. Under the Scottish Government's Developing the Young Workforce programmes, colleges work closely with schools and councils, offering more vocational courses to school pupils. Most courses will not be graded but aim to expand pupils' curriculum choices and help them develop a career path. In 2017-18, all colleges except Newbattle Abbey College delivered credits to students under 16 years of age.¹⁰

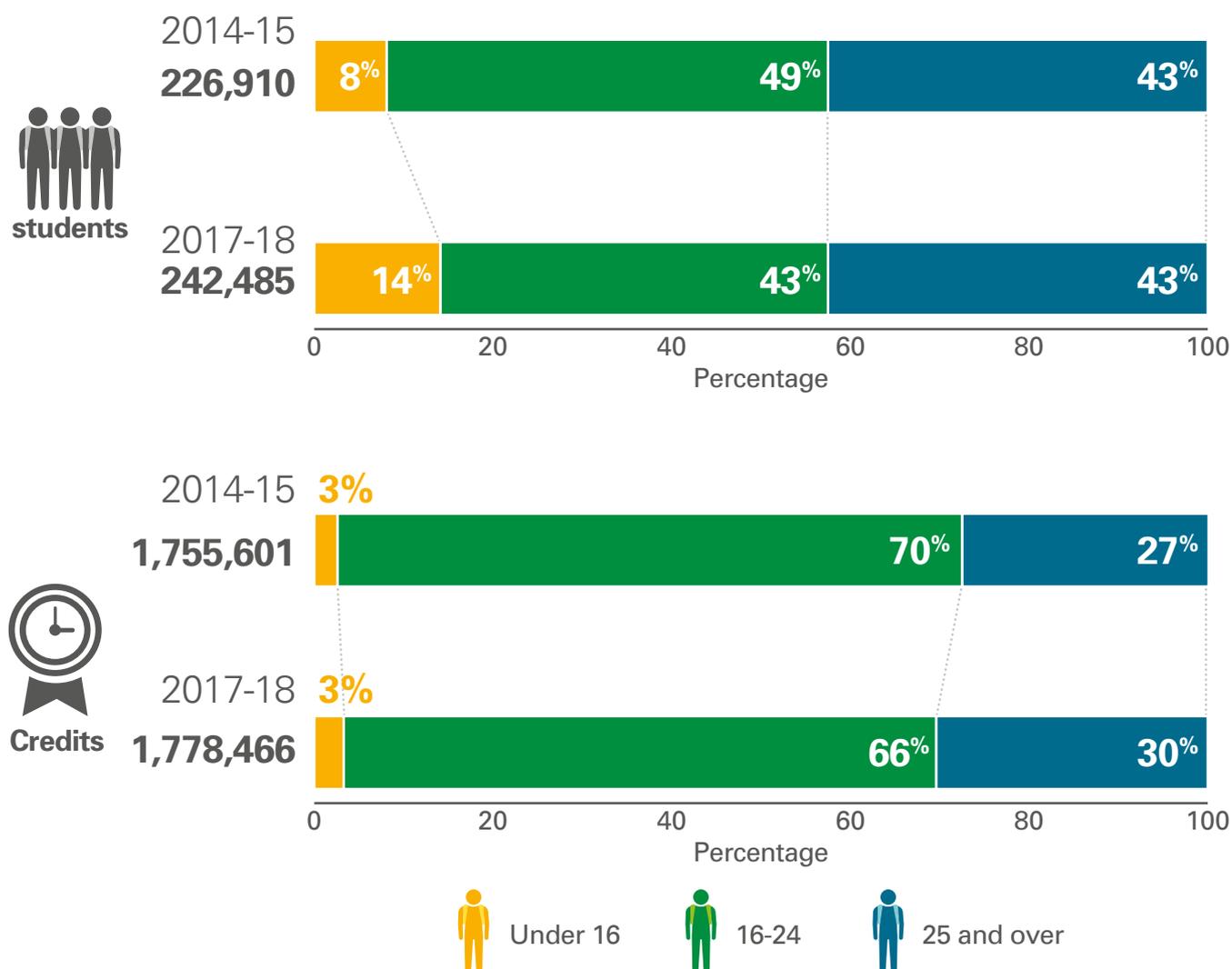
More change is needed to achieve gender balance across important subject areas

34. Female students represent 52 per cent of the student population (125,899) and males 48 per cent (115,945).¹¹ The number of female students increased by more than the number of male students in 2017-18 (increasing the proportion from 51 per cent last year).

35. In 2016, the SFC committed to increasing the minority gender share in the most imbalanced subjects.¹² Its aim is for the gender balance of students enrolling on important subject areas to be no greater than 75:25 per cent by 2030. Progress towards addressing the long-standing gender imbalances has been limited and will require a concerted effort from schools, colleges and wider society in making sustainable change ([Exhibit 11, page 22](#)).

Exhibit 10

Change in the number of students and learning credits delivered across the sector over the past three years



Note: The proportion of credits for 2017-18 doesn't add up to 100 per cent due to rounding.

Source: SFC

Eighteen college boards have more men than women

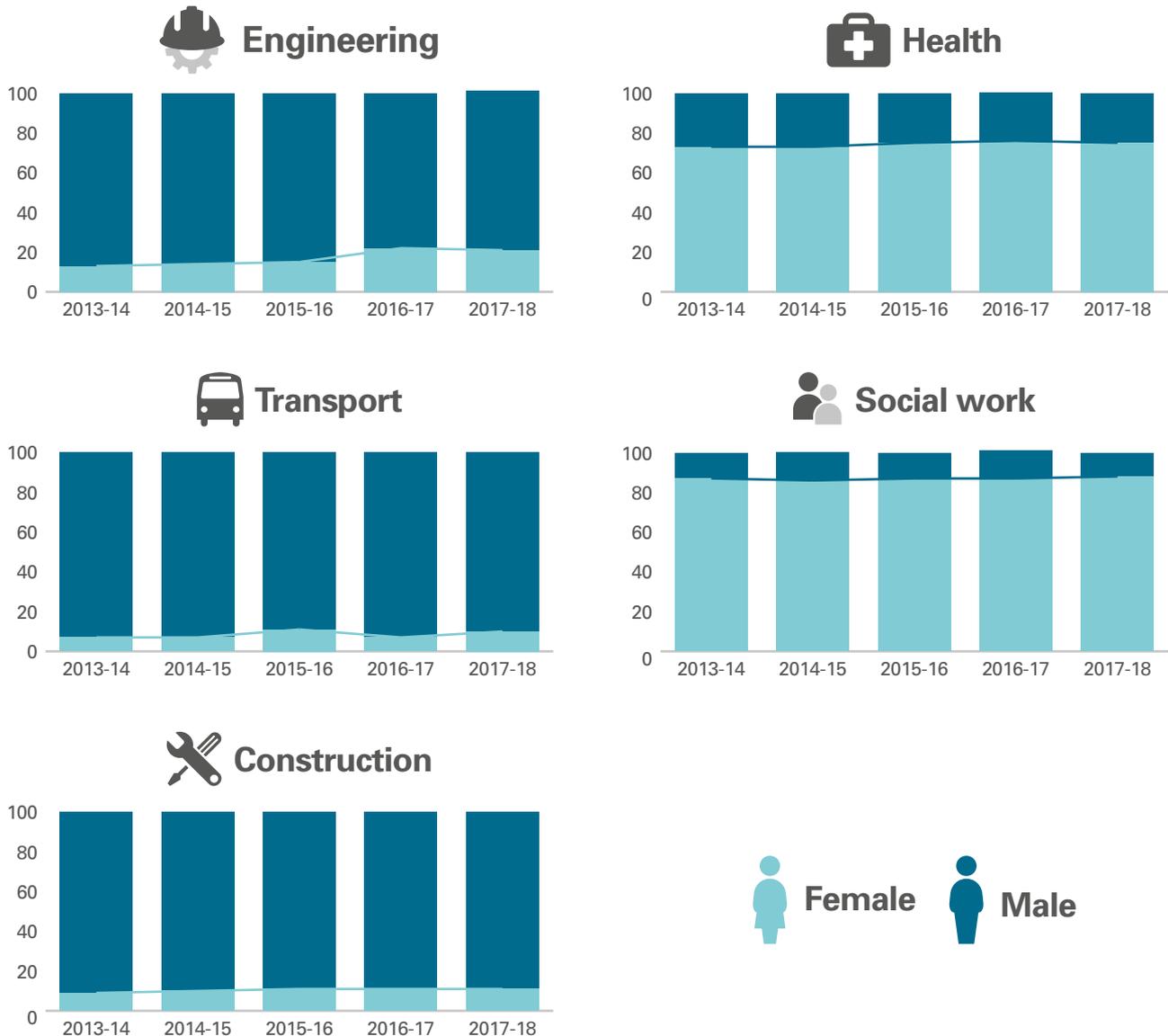
36. In February 2019, 246 board members across the sector were men (57 per cent of the total members) and 187 were women (43 per cent of the total members). The number of men increased by 12, while the number of women decreased by four.

37. Four college boards have more women members than men and five have an equal gender split. Orkney College Board has the most uneven gender balance with 19 men and three women.

38. The Gender Representation on Public Boards (Scotland) Act 2018 requires 50 per cent of non-executive members on public boards to be women by 2022. The gender balance of college boards is not entirely under the control of colleges as some members are elected to their position.

Exhibit 11

Proportion of students on each course by gender (headcount)



Source: SFC

Colleges are widening access to students from a range of backgrounds, but are not meeting targets for students from the most deprived areas

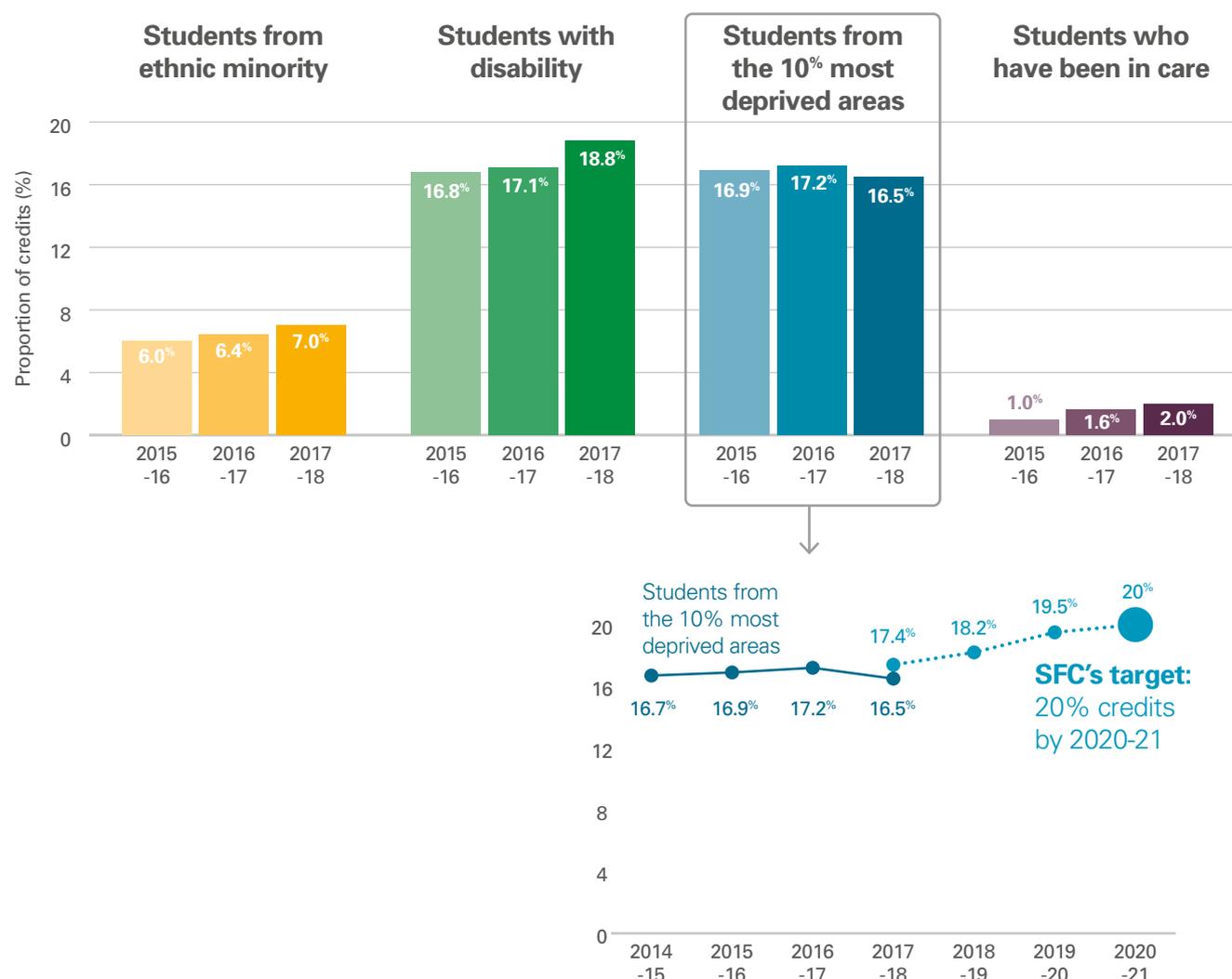
39. Colleges are committed to widening access to learning for all, particularly those who may have found it more difficult to enter further and/or higher education. Across the sector, the proportion of credits colleges deliver to students from an ethnic minority, who have been in care or who have disabilities has increased in recent years.¹³

40. The proportion of credits that colleges deliver to students from the ten per cent most deprived areas had also been increasing, but this trend reversed in 2017-18.¹⁴ The proportion of credits delivered to these students, at 16.5 per cent, was below the SFC’s national target of 17.4 per cent.¹⁵ The reasons for this decrease are likely to be complex. For example, the trend is for school pupils to stay on longer at school. Also, in line with the Scottish Government’s aim of widening access to higher education, there has been an increase in the proportion of students from deprived areas going to university. Increasing the proportion of credits to students from the most deprived areas will require a coordinated effort from schools, colleges, universities and other relevant stakeholders ([Exhibit 12](#)).

41. Based on recent trends, the SFC’s target of delivering 20 per cent of credits to students from the ten per cent most deprived areas by 2020-21 looks difficult to achieve.

Exhibit 12

Proportions of credits delivered to students from selected groups



Source: SFC

Exhibit 13

National performance summary, 2017-18

The proportion of students completing their courses is falling, but the proportion of full-time students going on to positive destinations is improving.

	 Attainment rates	 Retention rates	 Positive destinations	 Satisfaction
Further education				
 Full-time	66.1  (0.8%)	74.9  (0.0%)	86.0  (1.9%)	93.1  (0.3%)
 Part-time	78.2  (1.1%)	89.8  (0.2%)	–	–
Higher education				
 Full-time	71.3  (0.3%)	81.6  (1.2%)	81.6  (1.4%)	83.2  (4.2%)
 Part-time	80.4  (1.8%)	91.6  (0.3%)	–	–

(%) – Percentage change from the previous year

Note: The latest positive destinations data available is for 2016-17. Percentage change is from 2015-16.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; and *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018

Student attainment has remained relatively static in recent years and further work is required to address the attainment gap

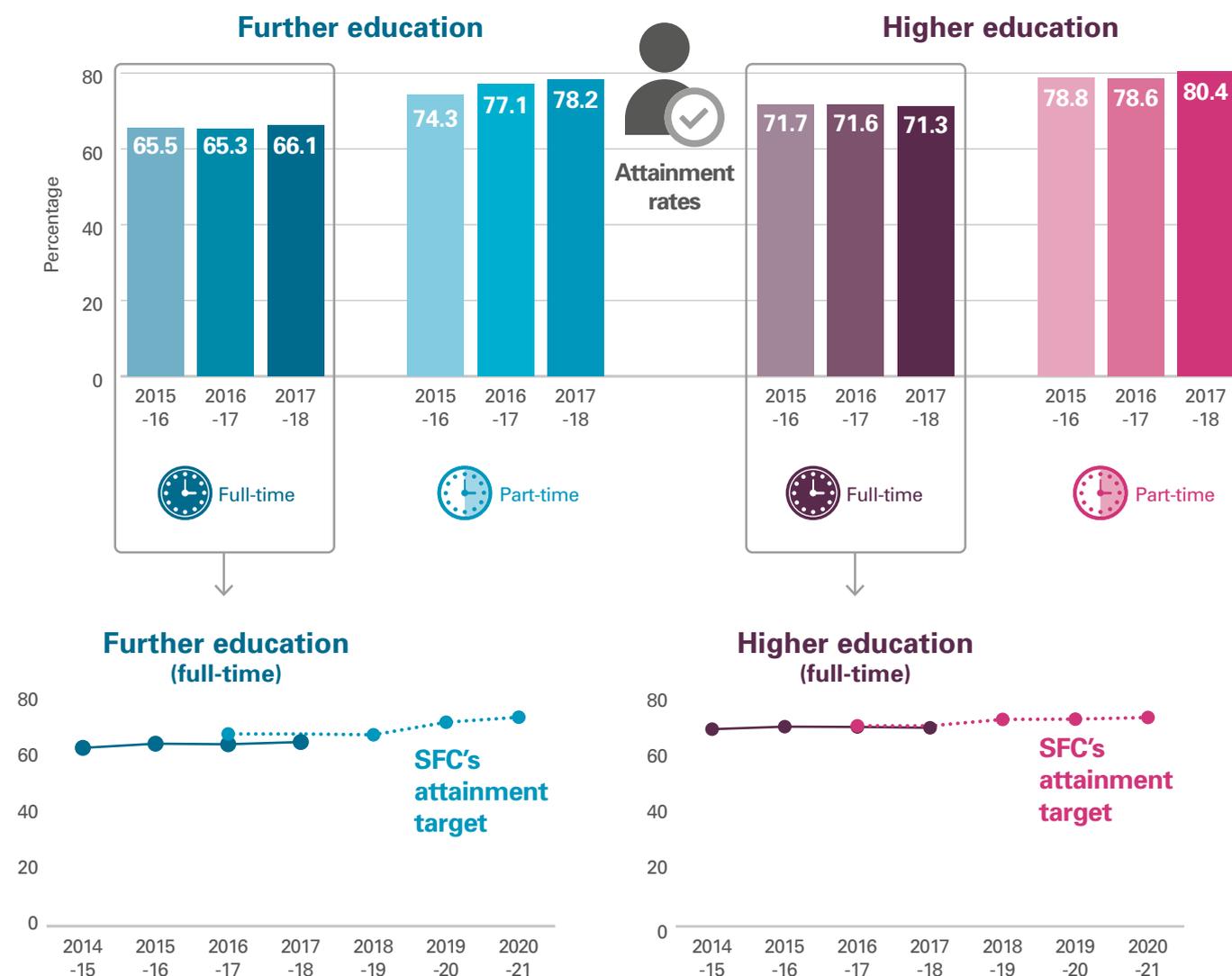
42. The SFC aims to improve attainment rates (the proportion of students completing their course successfully) in full-time further education and higher education to 75 per cent by 2020-21. The average attainment rate for full-time further education improved in 2017-18. In contrast, the average attainment rate in full-time higher education fell slightly. Both remain below the SFC's long-term target, with a significant improvement needed in further education over the next three years. The SFC has set intermediate national attainment targets for full-time students, although it did not set a target for 2017-18. It does not set national targets for part-time students ([Exhibit 14, page 25](#)).

Only two regions met all of their agreed overall attainment targets

43. There is wide variation in regional performance against attainment targets ([Exhibit 15, page 26](#)):

- West College Scotland region met all four targets. Highlands and Islands region met both targets for further education.
- Two regions missed all four targets (Dumfries and Galloway and North East Scotland colleges).

Exhibit 14 Attainment rates



Source: SFC

44. The SFC does not report the performance of college regions against regionally agreed attainment targets in its Summary of Progress and Ambitions report.¹⁶

45. In 2018-19, the SFC plans to improve its use of Outcome Agreements to achieve its desired outcomes for learners, for skills development and ultimately for inclusive economic growth in Scotland. This includes agreeing more ambitious targets with college regions to deliver Scottish Government priorities. Based on performance to date, some existing targets will be very challenging for colleges. It is important for the SFC and colleges to be clear on what will be needed to deliver the more ambitious targets.

Exhibit 15

Attainment rates: progress towards outcome agreement targets



Attainment target met in 2017-18

	No of college regions providing this type of study ¹	No of college regions	Percentage
Further education			
 Full-time	15	6	40%
 Part-time	13	9	69%
Higher education			
 Full-time	13	2	15%
 Part-time	11	5	45%

Note: 1. Total numbers are based on 13 college regions plus SRUC and Newbattle Abbey College, with the exceptions being: Part-time further and higher education: Ayrshire and Newbattle Abbey colleges did not set 2017-18 targets for these measures in their Outcome Agreement; and Higher education: College outcome agreement measures are not applicable to Highlands and Islands region or SRUC at this level.

Source: SFC

More work is required to close the attainment gap for certain groups of students

46. Students from an ethnic minority, on average, achieve better results than the overall student population, but more work is required to close the attainment gap for the rest of the identified student groups.¹⁷ Students who have been in care have the lowest attainment rates, and were the only group where attainment decreased in 2017-18 ([Exhibit 16, page 27](#)).

47. The SFC is committed to raising the attainment rates for students from the most deprived areas to achieve overall attainment rates of 75 per cent by 2027-28.¹⁸ In [Scotland's colleges 2018](#) , we reported that the attainment gap between students from the least and most deprived areas had increased between 2011-12 and 2016-17.

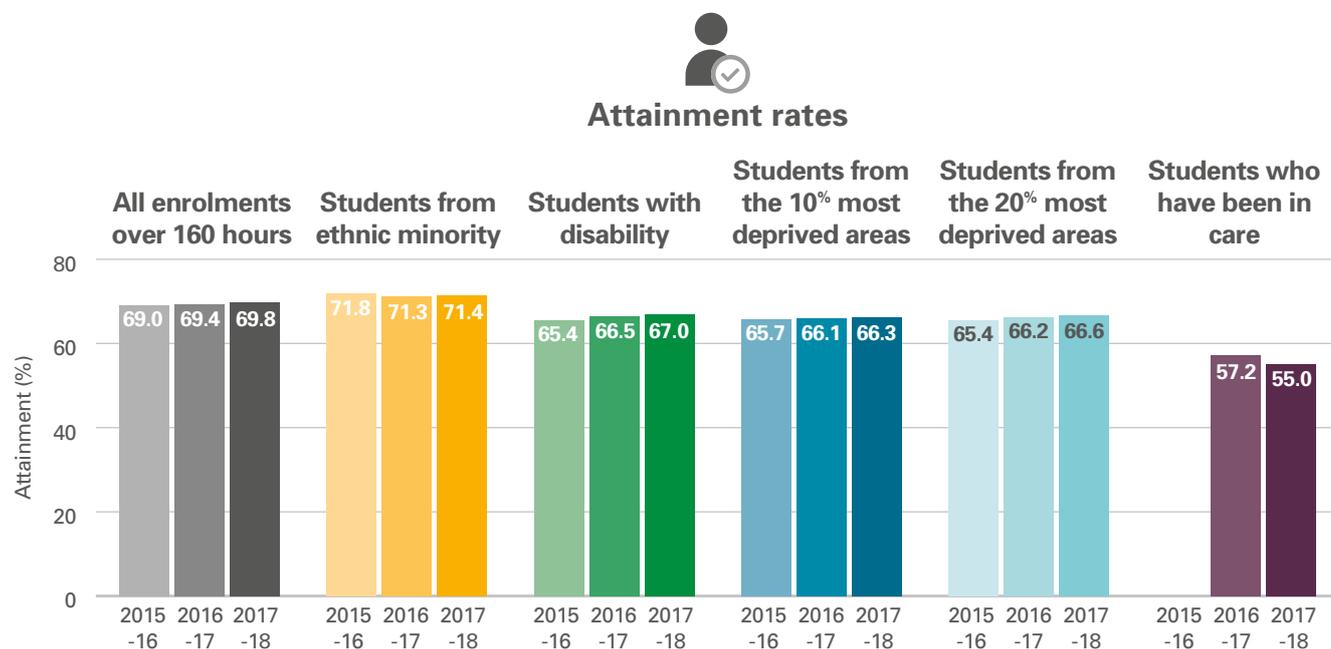
48. Last year, we reported that the attainment gap in 2016-17 increased between those students from the least and most deprived areas. In 2017-18, the attainment gap for those in further education closed slightly, from 7.4 to 6.5 percentage points (69.7 per cent compared to 63.2 per cent). The attainment gap for those in higher education was 7.7 percentage points, the same as in 2016-17 (74.4 per cent compared to 66.7 per cent).

Fewer students completed their course in 2017-18

49. Challenges still exist in improving student retention (the proportion of students completing their course, either successfully or partially). The proportion of full-time further education students that completed their course remained unchanged in 2017-18 but the proportions fell for all other types of study ([Exhibit 17, page 27](#)).

Exhibit 16

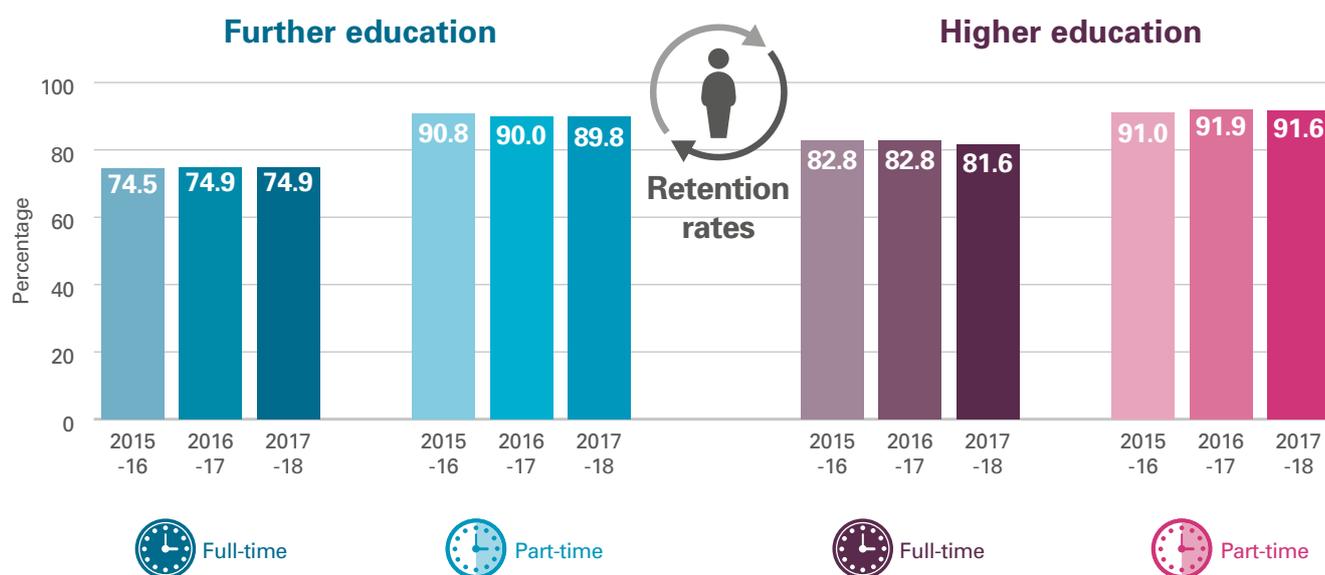
Attainment on courses over 160 hours for students from selected groups



Source: SFC

Exhibit 17

Proportion of students completing their course



Source: SFC

50. Since 2017, the Scottish Government has been running a College Improvement Project (CIP) to raise attainment and retention. It has worked with five colleges through the CIP, trying to identify what improvement can be shared across the sector.¹⁹ The project is scheduled to finish in 2019. While it is too early to assess the impact of the project, more work is required to improve retention. The Scottish Government plans to monitor changes in retention as improvement actions are scaled up and spread to different courses within the colleges and across the sector.

A greater proportion of students who qualify are going on to positive destinations

51. Latest data (covering 2016-17) shows that 95 per cent of full-time student qualifiers with destinations confirmed entered a positive destination, such as employment or continued education (2015-16, 94.9 per cent).²⁰ Of all qualifiers, 84.5 per cent moved into a positive destination (2015-16, 82.7 per cent). Around two-thirds of all qualifiers went on to further study or training (up by one percentage point from 2015-16). 17.7 per cent of all qualifiers entered work (up by 0.7 percentage point).

The SFC does not publish college-level student satisfaction data

52. Student satisfaction is a performance measure in college Outcome Agreements. For 2017-18, the SFC reported student satisfaction for the sector, but only using data from those colleges that received at least a 50 per cent response rate to their survey (15 of 26 colleges for full-time further education and five of 15 colleges for full-time higher education). It does not publish student satisfaction data for individual colleges or results for part-time and distance or flexible learning students. Publishing good-quality information on student satisfaction for individual colleges would allow students, and potential students, to determine whether a college provides a good experience for students. It also means that colleges can be effectively held to account by other stakeholders.

53. The SFC has been working with the college sector to conduct the Student Satisfaction and Engagement Survey (SSES) since 2015-16. However, over the past three years, response rates to the SSES have varied noticeably across colleges and the SFC does not yet believe that all colleges are conducting the survey in a way that allows either it or individual colleges to place reliance on the survey results. The SFC held an event for colleges in February 2019 to explore ways to improve response rates.

College performance varies widely for student outcomes

54. Taken together indicators on student attainment, retention, destinations and satisfaction provide a broad indication of a college's performance. There was significant variation in performance across colleges; the proportion of students from deprived areas can influence performance, but it is clearly not the only factor ([Exhibit 18, page 29](#)).

Exhibit 18

Performance indicators for full-time further education in colleges

Colleges	 % credits for FT	 Attainment rates	 Retention rates	 Positive destinations	 Satisfaction	College's self-evaluation for 'Outcome and Impact'
Glasgow Kelvin College	45.5	60.2 ↓	69.0 ↓	82.9 ↑	-	Good
West College Scotland	58.5	69.2 ↑	78.1 ↑	80.6 ↓	-	Good
Glasgow Clyde College	67.1	66.1 ↑	74.9 ↑	82.8 ↑	96.7 ↑	Good
Ayrshire College	74.4	66.9 ↔	73.9 ↓	82.6 ↓	-	Good
City of Glasgow College	58.9	67.9 ↓	76.3 ↓	91.2 ↑	84.5 ↓	Very Good
New College Lanarkshire	75.4	61.4 ↑	68.3 ↑	89.9 ↑	89.0 ↓	Satisfactory
Dundee and Angus College	70.0	75.4 ↑	81.4 ↑	81.7 ↑	95.4 ↑	Very Good
Fife College	61.8	59.1 ↑	73.4 ↑	71.7 ↑	91.9 ↑	Satisfactory
South Lanarkshire College	74.5	69.7 ↓	76.2 ↑	89.1 ↓	98.5 ↑	Very Good
West Lothian College	67.9	65.5 ↑	75.3 ↑	89.7 ↑	-	Good
Forth Valley College	51.8	71.4 ↓	77.2 ↓	75.6 ↓	95.1 ↓	Very Good
Edinburgh College	62.9	60.7 ↓	70.6 ↓	85.9 ↑	-	Good
Newbattle Abbey College	100.0	52.1 ↓	69.9 ↓	81.3 ↑	100 ↑	Good
Dumfries and Galloway College	70.6	59.6 ↓	70.6 ↑	88.3 ↑	-	Satisfactory
Perth College	78.4	70.0 ↑	77.2 ↓	85.2 ↑	96.2 ↑	Good
Borders College	78.0	68.7 ↑	77.1 ↑	86.9 ↓	-	Very Good
SRUC Land based	63.9	68.3 ↓	82.3 ↓	87.8 ↓	-	-
North Highland College	55.7	71.8 ↑	83.2 ↑	90.0 ↑	-	Very Good
Argyll College	47.4	76.0 ↑	82.0 ↑	80.9 ↓	94.3 ↑	Very Good
West Highland College	48.1	69.8 ↓	77.8 ↓	87.4 ↑	100 ↑	Very Good
Inverness College	69.5	70.6 ↑	77.7 ↑	87.3 ↓	94.7 ↑	Very Good
North East Scotland College	72.6	66.6 ↑	77.0 ↑	87.2 ↓	94.0 ↑	Good
Lewis Castle College	46.5	60.8 ↓	71.6 ↓	90.3 ↑	100 ↑	Satisfactory
Moray College	74.2	69.0 ↑	75.5 ↑	84.2 ↑	94.0 ↑	Good
Orkney College	33.1	75.0 ↓	80.3 ↓	84.3 ↓	-	Very Good
Shetland College of Further Education	32.0	77.8 ↓	85.6 ↑	97.2 ↑	-	Very Good
Number of colleges where performance increased in 2017-18 ↑		13	15	16	13	
Proportion of total number of colleges %		50%	58%	62%	87%	
Quartile:	Highest	1	2	3	4	Lowest

Notes:

- Colleges are listed according to the proportion of students from the most deprived areas (Glasgow Kelvin College having the highest proportion).
- Percentage point changes are from 2016-17 (For leaver's destination data, from 2015-16. See Note 3).
- The latest leaver's destination data available is for 2016-17. The figures are across further and higher education study. College-level figures published are not broken down by the two.
- The overall student satisfaction rates are included only for colleges with a response rate of 50 per cent or more, in line with the SFC publication.
- For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018; Colleges' self-evaluation reports, 2019; and SFC's Infact database

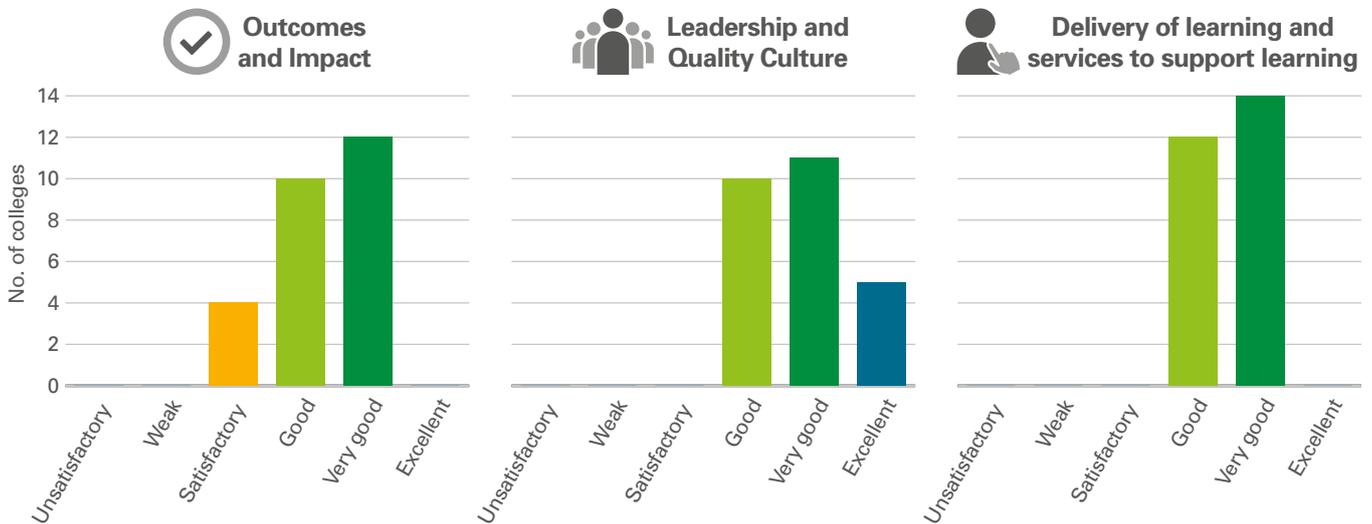
Colleges have published enhancement plans to improve their performance

55. The SFC and Education Scotland, the national body for supporting quality and improvement in learning and teaching, introduced a new quality assessment evaluation framework for colleges, *How good is our college?* in 2016.²¹ The new quality framework is based on a validated self-evaluation and is intended to enable colleges to assess progress and develop an improvement plan.

56. In January 2019, individual college results were published for the first time with grades in three categories: Outcomes and impact; Leadership and quality culture; and Delivery of learning and services to support learning. All colleges graded themselves as 'Good' or above for two of the three categories. In general, colleges assessed their Leadership most highly and the outcomes and impact for students least highly ([Exhibit 19](#)).

57. The factors considered in relation to 'Outcomes and impact' map closely to attainment and retention but not to positive destinations and student satisfaction. Some colleges which consider their performance to be 'Good' or better have relatively low levels of attainment (in the bottom half of the quartiles). It is not clear how colleges' own assessment of performance fits with the views of their students and staff.

Exhibit 19
College's self-evaluation grades



Source: Education Scotland

Endnotes



- 1 *College Staffing Data 2017-18*, Scottish Funding Council, 2019.
- 2 Financial forecast returns submitted by colleges to the SFC in September 2018 and covering the period to 2022-23.
- 3 [College sector estates condition survey](#) , Scottish Funding Council, December 2017.
- 4 This includes £1.5 million to support business cases for the highest priority campuses and £1.4 million for very high priority maintenance at Fife College.
- 5 *Outcome agreement funding for colleges*, Scottish Funding Council, 2019.
- 6 Erasmus+ is the European Union programme for education, training, youth and sport. It runs for seven years, from 2014 to 2020. Erasmus+ aims to modernise education, training and youth work across Europe. It is open to education, training, youth and sport organisations across all sectors of lifelong learning, including school education, further and higher education, adult education and the youth sector.
- 7 Lanarkshire region and the Highlands and Islands region both met their regional targets.
- 8 *College Statistics 2017-18*, Scottish Funding Council, 2019.
- 9 2018-19 Outcome Agreement Guidance, Letter from Minister for Further Education, Higher Education and Science to Chair of Scottish Funding Council, 2017.
- 10 SFC's Infact database.
- 11 According to the SFC's Infact database, 641 students did not give their gender or described it as 'Other'.
- 12 Gender Action Plan, Scottish Funding Council, 2016.
- 13 *College Statistics 2017-18*, Scottish Funding Council, 2019.
- 14 The level of deprivation is calculated using the Scottish Index of Multiple Deprivation (SIMD) 2016. In the previous two years, it is based on the SIMD 2012.
- 15 [College Region Outcome Agreements: Summary of Progress and Ambitions](#) , Scottish Funding Council, September 2017.
- 16 [College Region Outcome Agreements Summary of Progress and Ambitions report 2018](#) , Scottish Funding Council October 2018, summarises performance for the sector from colleges regions' Outcome Agreements.
- 17 *College Performance Indicators 2017-18*, Scottish Funding Council, 2019. Attainment on courses over 160 hours.
- 18 *Guidance for the development of College Outcome Agreements: 2017-18 to 2019-20*, Scottish Funding Council, 2016.
- 19 Dundee and Angus College, Edinburgh College, Inverness College UHI, New College Lanarkshire and West College Scotland.
- 20 *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018. The data available is for full-time students only across further and higher education.
- 21 *How good is our college?*, Education Scotland, 2016.

Appendix

Audit methodology



What the report covers

This report looks at all colleges in the sector and Scotland's Rural College (SRUC), to present a comprehensive picture of the sector and its performance.

Until 1992, Scottish councils ran all publicly funded colleges in Scotland. 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 which are subject to audit by the Auditor General for Scotland. The remaining six colleges are generally referred to as non-incorporated colleges. SRUC is classed as a higher education institution but counts towards the achievement of the national target for colleges. The report primarily focuses on incorporated colleges. However, we state clearly where we include data relating to non-incorporated colleges.

The college sector in Scotland comprises the 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions (as shown in Appendix 2 of [Scotland's colleges 2018](#) ) . 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.

Financial commentary

Incorporated colleges prepare their accounts based on the academic year, which runs from 1 August to 31 July. 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:

- 2017-18 when referring to figures from colleges' accounts, or figures relating to the academic year
- 2017/18 when referring to funding allocations made in the Scottish Government's financial year.

Financial figures in real terms are adjusted for inflation. The base year for this report is 2017-18. The GDP deflator provides a measure of general inflation in the domestic economy. We have used the GDP deflator from March 2019 to calculate the real-terms figures for other years.

Our audit involved

- Analysing relevant Scottish Government budget documentation, colleges' audited accounts and auditors' reports covering the financial periods ending July 2018.
- Analysing information held by the SFC, including financial, performance and activity data.
- Interviewing Colleges Scotland, student unions, trade unions, the SFC and the Scottish Government.
- Analysing data that we requested from colleges' external auditors.

Detailed methodology for specific sections in the report

Underlying financial position [\(page 7\)](#)

Incorporated colleges reported an overall deficit of £29.8 million in their 2017-18 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 2018.

Calculating student numbers [\(page 19\)](#)

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 2017-18 they would only be counted once. Where we show full-time and part-time student numbers this will include multiple enrolments.

In line with last year's report, we have included non-incorporated colleges and SRUC to give a comprehensive picture of performance against the Scottish Government's national target for learning activity.

Scotland's colleges 2019

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Finances of Scottish universities



AUDITOR GENERAL 

Prepared by Audit Scotland
September 2019



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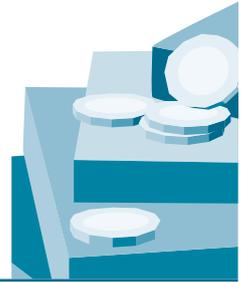
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Audit team

The core audit team consisted of: Mark MacPherson, Adam Bullough, Lucy Carter and Marianna Markantoni, with support from other colleagues and under the direction of Antony Clark.

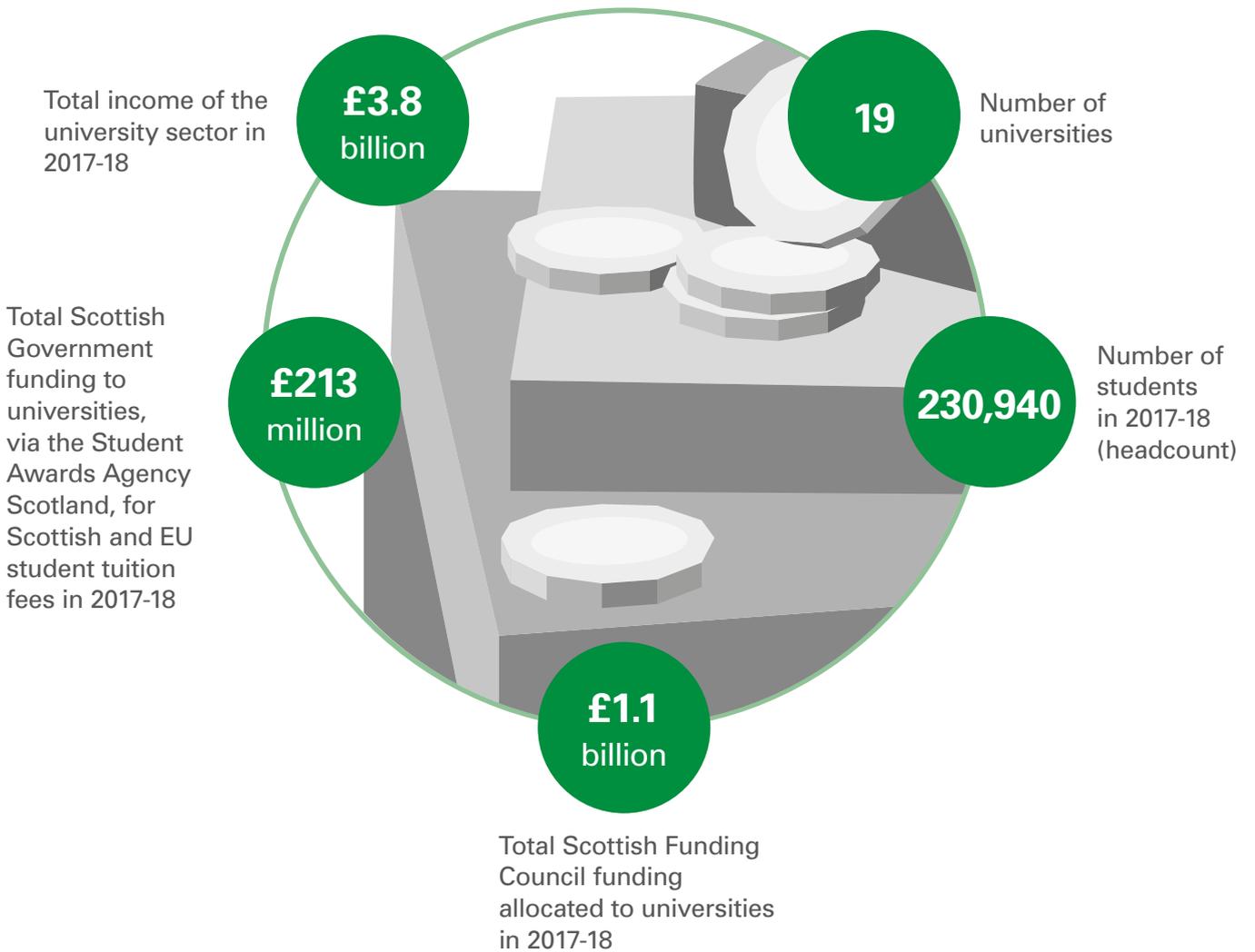
Links

-  PDF download
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Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Key facts



Summary



Key messages

- 1** The Scottish university sector is diverse. While the aggregated underlying financial position in 2017-18 shows the sector overall to be in good financial health, it masks significant variation. Surpluses are concentrated in three of the four ancient universities.
 - 2** Scottish Funding Council (SFC) funding to the sector reduced by seven per cent, in real terms, between 2014-15 and 2017-18. Tuition fees replaced SFC grants as the single largest source of income for the sector in 2017-18. Despite reductions in SFC funding, ancient and chartered universities have generally increased their income, mainly from non-EU tuition fees. Increases in income from non-government sources have generally been smaller at modern universities.
 - 3** In addition to the reduction in SFC funding, the sector faces several other financial pressures and uncertainties, including pension costs, estates costs and EU withdrawal. Generally, the ancient universities are better placed to respond to these pressures, because of their ability to generate income from other sources and the balances in their reserves, but they face strong competition from other universities in the UK and the rest of the world.
 - 4** The Scottish Government's priorities for the sector are reflected in outcome agreements between the SFC and universities. The outcome agreements also contain measures to assess progress towards delivery of Scottish Government priorities. But, in 2017-18, many universities did not have agreed targets for some measures relating to teaching and research and, in some cases, as few as two universities met their targets.
 - 5** The SFC has recovered funding where universities have delivered less than the agreed volume of teaching activity. But there is no evidence of a direct link between funding and university performance against other agreed targets, such as those for student retention and for recruitment to courses in Science, Technology, Engineering and Mathematics (STEM).
 - 6** The Scottish Government and the SFC have a good understanding of the issues affecting both the sector and individual universities, though there is scope for the SFC to improve its monitoring and reporting on universities' finances. The SFC has not set out specific actions to mitigate risks to the sector's ability to deliver the Scottish Government's priorities.
-

Recommendations

The SFC should:

- specify targets for all outcome agreement measures for each university, where possible and appropriate ([paragraphs 65–70](#))
- further develop its annual progress and ambitions report to include individual university performance against outcome agreement measures, together with the action taken where a target was not achieved ([paragraphs 73–75](#))
- improve its approach to analysing universities' financial health and sustainability by:
 - reviewing universities' long-term financial strategies ([paragraph 80](#))
 - specifying the criteria and examples in its internal guidance that would lead to increased engagement with individual universities ([paragraph 81](#))
- publish a more detailed summary of its financial analysis, similar to that published by the Office for Students in England ([paragraphs 83–84](#))
- build on the commitments in its recent Strategic Framework and set out more specific proposals on mitigating risks to the delivery of Scottish Government priorities ([paragraph 88](#)).

The Scottish Government should:

- agree with the SFC the National Performance Framework (NPF) outcomes to which it expects universities to contribute. Where appropriate, it should also specify the contribution universities should make. The SFC should reflect any changes in its outcome agreement process ([paragraphs 60–62](#)).
- routinely monitor and publish details of its total investment in the sector, beyond the funding that it provides to the SFC, and review funding streams to see if there is scope for these to be streamlined ([paragraph 25](#)).

Background

1. Universities make an important contribution to both the Scottish economy and wider society. Universities are major employers and students spend money on living costs in the surrounding areas. A report published by Universities Scotland in August 2017 stated that, in 2016-17, universities added an estimated £7.1 billion to the Scottish economy and employed over 43,700 people.¹

2. The Scottish Government, in its five-year financial strategy, published in May 2018, highlighted higher education as one of its six key priorities.² However, the Scottish Government's medium-term financial strategy, published in May

2019, contains no specific reference to higher education, research or knowledge exchange.³ Instead, the strategy highlights education more generally as a key priority.

3. This report focuses on higher education institutions, which we refer to collectively as universities throughout the report.⁴ The [Appendix \(page 39\)](#) outlines the four university groupings we use (ie ancient, chartered, modern and small and specialist institutions (SSIs)), and the abbreviations we use for each university.

4. The Scottish university sector is diverse. Universities deliver teaching and research, and support knowledge exchange activities. Universities differ in size, student profile, location, and the research and subjects in which they specialise. Ancient and chartered universities tend to undertake more research activity than other universities in Scotland. They also tend to attract more fee-paying students from the rest of the UK (RUK) and outside of the EU (non-EU). Modern universities are generally more teaching intensive, and have a greater proportion of Scottish students. In the 2017-18 academic year, there were 230,940 students studying in Scottish universities.⁵ Scottish universities are competing with institutions in the UK and the rest of the world for students, staff and research funding.

5. Universities are autonomous bodies and generate income from a variety of sources. In 2017-18, the total income for the Scottish university sector was £3.8 billion, of which £1.1 billion was provided by the Scottish Government, via the SFC, to support teaching, research and innovation activities. The Scottish Government, via the Student Awards Agency Scotland (SAAS), also provided over £213 million in tuition fees for eligible Scottish and EU students. The SFC determines the number of funded places available for these students, based on the amount of funding available from the Scottish Government. Since 2008, the Scottish Government has paid the tuition fees of eligible Scottish and EU students.⁶

6. The Scottish Government's high-level strategic priorities for higher education are:

- high-quality learning in a system which is seamlessly connected for the learner
- access to further and higher education for people from the widest range of backgrounds
- quality learning and good governance in universities
- internationally competitive and impactful research
- effective knowledge exchange and innovation between universities and colleges and industry.⁷

7. Alongside delivering core activities such as teaching and research, universities are expected to contribute to other Scottish Government initiatives, such as the Enterprise and Skills Strategic Board's strategic plan, and policy priorities, such as widening access.⁸

8. Universities also contribute to the 11 long-term outcomes in the new NPF, launched jointly by the Scottish Government and The Convention of Scottish Local Authorities (COSLA) in June 2018.⁹ Each of the 11 long-term outcomes has a set of NPF indicators which are used to track progress.

9. The SFC is the national strategic body with responsibility for allocating Scottish Government funding for further and higher education, research and other activities in Scotland's colleges and universities, in a way that effectively supports delivery of the Scottish Government's priorities. The SFC is responsible for holding universities to account for the funding it provides. It is also responsible for providing advice to Scottish ministers relating to the provision of higher education and research activities at Scottish universities.¹⁰ The SFC's funding decisions support the Scottish Government's strategic priorities.

About the audit

10. Scottish universities are autonomous, charitable bodies. As such, they are responsible for appointing their own external auditors.

11. The Auditor General for Scotland has had powers since 2010 to perform value for money audits in bodies funded by the SFC.¹¹ In July 2016, Audit Scotland published an [Audit of higher education in Scottish universities](#) . The audit assessed how higher education was funded and delivered, how well it contributed to the national strategic priorities and how well equipped the sector was to deal with future financial challenges.

12. This audit builds on some of the key financial aspects of the 2016 audit. It assesses the financial position of the university sector in Scotland between 2014-15 and 2017-18; the financial opportunities and challenges facing the sector; and how the Scottish Government, the SFC and universities are working together to develop sustainable plans for the sector. The report does not look at Scottish Government funding for Scottish and EU student tuition fees, or student loans. The [Appendix](#) provides more background information and details of our audit methodology.

13. All financial data is reported in real terms, adjusted using gross domestic product deflators at market prices in March 2019.¹² To differentiate between the different financial year ends for the Scottish Government (March) and universities (July):¹³

- data from university financial statements is reported using the format 2017-18
- data from the Scottish Government's budget is reported using the format 2017/18.

The SFC's revenue grants are allocated on an academic year basis. The SFC's capital grants are allocated on a financial year basis. The format we use for all SFC grants is 2017-18.

14. This report has three parts:

- [Part 1 - University finances.](#)
- [Part 2 - Financial pressures affecting universities.](#)
- [Part 3 - The roles of the Scottish Government, the Scottish Funding Council and universities.](#)

Part 1

University finances



Key messages

- 1 SFC funding to the sector reduced by seven per cent (£91 million) in real terms, from £1.2 billion in 2014-15 to £1.1 billion in 2017-18. Despite this, total income for the sector increased by three per cent, from £3.7 billion in 2014-15 to £3.8 billion in 2017-18. Income reduced at nine universities, including five modern universities. Tuition fees replaced SFC grants as the single largest source of income for the sector in 2017-18.
- 2 While the sector overall is in good financial health, this masks significant variation across universities, and many sector-level indicators are disproportionately affected by the financial results of three of the four ancient universities. At an aggregate sector level, the operating position has remained broadly stable over the past four years, but six universities reported deficits every year. Between 2014-15 and 2017-18, the underlying position for the sector improved, but the position was worse for six universities.
- 3 Modern universities are the most reliant on Scottish Government funding (SFC grants account for 56 per cent of their total income). Increases in income from other sources have generally been smaller at modern universities compared to other groupings.
- 4 Ancient universities generally reported the strongest financial positions and three of the four routinely generate surpluses. In total, in 2017-18, 32 per cent of their income was derived from tuition fees. However, they face strong competition from universities in the UK and the rest of the world.

The operating position for the sector remained broadly unchanged over the last four years, but six universities reported deficits every year

More than half of all universities were in deficit in 2017-18 and the position was worse than in 2014-15 for most modern and chartered universities

15. The operating position of a university is its income minus its expenditure – a positive figure is a 'surplus' and a negative figure a 'deficit'. The operating position can be volatile ([Appendix](#)), but large and/or recurring deficits can be indicators of concern. At July 2018, the sector had a small deficit of £1 million

(0.02 per cent of income), compared with a surplus of £28.5 million (0.8 per cent of income) in 2014-15. Excluding £30 million of damage and reconstruction costs relating to fires at Glasgow School of Art (GSA), the sector had a surplus of £29.1 million (0.8 per cent of income) in 2017-18.

16. Ten universities were in deficit compared with eight in 2014-15 ([Exhibit 1, page 11](#)). Over the past four years:

- five (Edinburgh, Glasgow, Scotland's Rural College (SRUC)) St Andrews and Strathclyde reported a surplus each year. Edinburgh, Glasgow and St Andrews had a combined surplus of £68 million in 2017-18
- six (Aberdeen, Dundee, Queen Margaret University (QMU), Robert Gordon University (RGU), Stirling and the University of the West of Scotland (UWS)) reported deficits each year
- four (Glasgow Caledonian University (GCU), GSA, Napier and the University of the Highlands and Islands (UHI) moved from reporting a surplus in 2014-15 to reporting a deficit in 2017-18.

17. GSA reported the largest deficit, relative to its income, of £26.4 million (65 per cent of income) in 2017-18, mainly because of fire-related costs. GSA is awaiting the outcome of an investigation into the fire in 2018 before it can receive insurance payment for the damage caused. The next largest deficits were at QMU and RGU, at £5.4 million (15 per cent of income) and £11.4 million (12 per cent of income) respectively.

Underlying financial performance generally improved

18. One commonly used measure of underlying financial performance is Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). EBITDA is the operating position before applying the costs of financing debt and other accounting decisions ([Appendix](#)). EBITDA can be a better indicator of the immediate financial health of an organisation than the operating position because it excludes income and costs that are longer-term and fluctuate significantly between years. The measure is often used by universities for their own internal purposes and to provide assurance to banks and other providers of finance that universities will be able to repay loans.

19. At July 2018, EBITDA for the sector was £256 million (seven per cent of income), compared with £140 million (four per cent of income) in 2014-15. Between 2014-15 and 2017-18, the position improved for all universities except six moderns (all except Abertay reported a decline in their position). Reductions were most notable for:

- UHI – reduced from £3.5 million to £0.5 million (by 87 per cent)
- QMU – reduced from £6.7 million to £2.4 million (by 64 per cent)
- RGU – reduced from £10.7 million to £4.5 million (by 58 per cent).

Exhibit 1

Operating position as a percentage of income by university, 2014-15 to 2017-18

More than half of universities were in deficit in 2017-18 and the position was worse for most modern and chartered universities than in 2014-15.



Notes:

1. Figures for the University of the Highlands and Islands (UHI) excludes income and expenditure for research undertaken by UHI's partners.
2. Glasgow School of Art's surplus in 2015-16 is due to insurance income from the fire in 2014. Its deficit in 2017-18 is due to damage and reconstruction costs relating to the fires in 2014 and 2018.
3. Small and specialist institutions (SSI)

Source: Audit Scotland using Higher Education Provider Data: Finance, Table 1, Higher Education Statistics Authority (HESA), March 2016 to March 2019, and university financial statements, (2014-15 to 2017-18).



SFC funding to universities has reduced by seven per cent since 2014-15

20. The Scottish Government provides the SFC with funding for universities, in accordance with a financial year-end of 31 March. The SFC is responsible for determining how this funding should be distributed to universities and provides most funding in accordance with universities' financial year-end of 31 July. The Scottish Government may announce budget revisions during the year. For these reasons, there is not necessarily direct alignment between annual Scottish Government allocations to the SFC ([paragraph 21](#)) and SFC allocations to universities ([paragraph 22](#)).

21. Scottish Government funding to the SFC for universities increased by 0.1 per cent in cash terms, from £1.116 billion in 2014/15 to £1.117 billion in 2017/18, but this equated to a real terms reduction of five per cent.¹⁴ Taken together with a seven per cent reduction between 2010/11 and 2014/15, this represents a real terms reduction in Scottish Government funding of 12 per cent over seven years. Between 2014/15 and 2017/18:

- revenue funding (for example for teaching and research) reduced by six per cent, in real terms, to £1.1 billion
- capital funding (for example, for new buildings and equipment) increased by 45 per cent to £46 million in 2017/18. Capital funding has fluctuated over the period, from £22 million in 2015/16 to £70 million in 2016/17 ([Appendix](#)).

The total budget (revenue and capital) in 2018/19 was £1.1 billion in cash terms, representing a further reduction of 0.3 per cent in real terms.

SFC funding has reduced for all but five universities since 2014-15

22. While the Scottish Government's budget was reduced by five per cent between 2014/15 and 2017/18, SFC funding to the sector reduced by seven per cent, from £1.2 billion in 2014-15 to £1.1 billion in 2017-18.¹⁵ Alongside the difference in financial year-ends for the Scottish Government and universities ([paragraph 20](#)), the difference in the trend can partly be explained by an increase in the amount of Scottish Government funding that the SFC transfers to SAAS, to cover the cost of tuition fees related to additional places for widening access, articulation and undergraduate skills, and for part-time student tuition fees. The funding transfer to SAAS increased from £9 million in 2014-15 to £22 million in 2017-18.¹⁶ Additionally, since 2013-14, universities are required to transfer 75 per cent of the funding they receive for articulation places to the colleges with which they are partnered; the SFC estimates this was around £9 million in 2017-18.

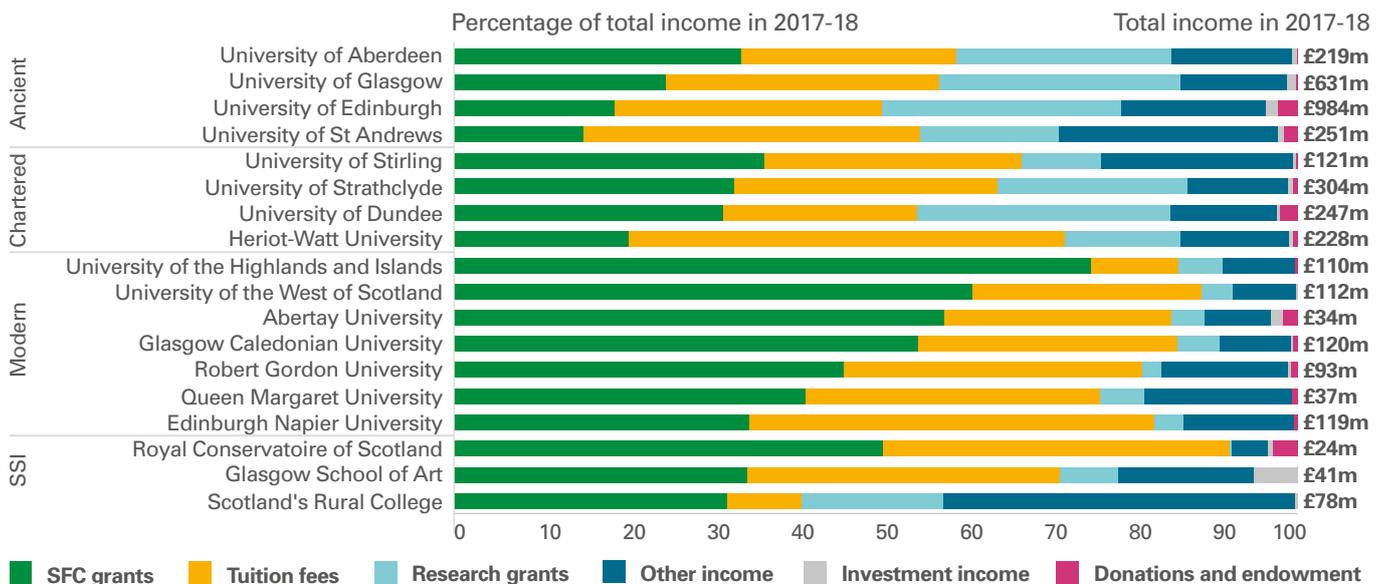
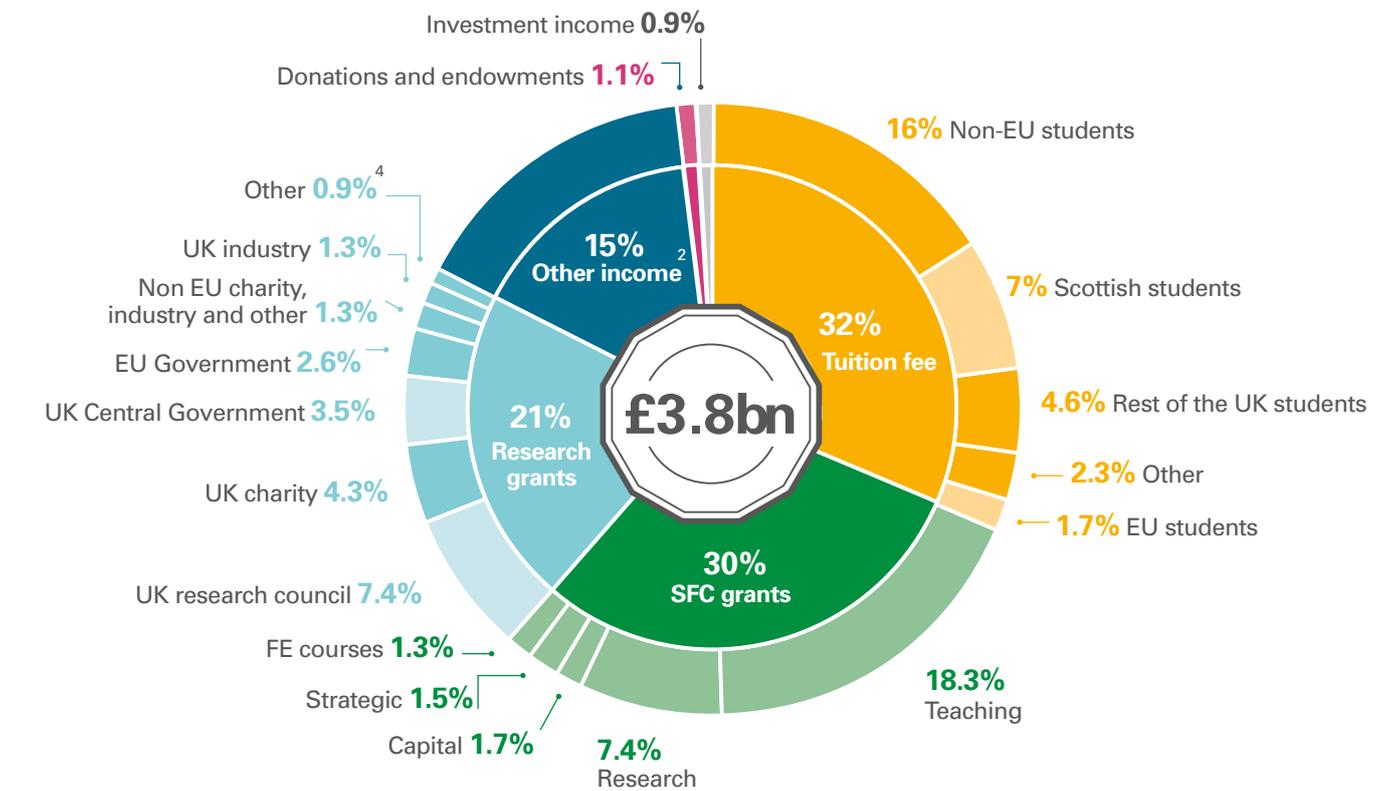
23. Between 2014-15 and 2017-18, SFC funding reduced at all but five universities and the biggest reductions were at ancient universities (by £61 million or 12 per cent). This was driven by reductions in both teaching and research grants.

24. SFC grants accounted for 30 per cent (£1.1 billion) of the total income (£3.8 billion) for the sector in 2017-18 ([Exhibit 2, page 13](#)). Generally, modern universities were more reliant on SFC funding than any other grouping, with 56 per cent of their income coming from the SFC, compared with 22 per cent for ancient universities. In addition, approximately 11 per cent of income (£71 million) at modern universities was from the tuition fees paid by the Scottish Government, via SAAS, compared to three per cent (£69 million) for ancient universities.¹⁷

Exhibit 2

Income profile for the university sector in 2017-18

Tuition fees were the single largest source of income for Scottish universities in 2017-18 (32 per cent of total income). Income from SFC grants ranged from 15 per cent at St Andrews to 75 per cent at UHI.¹



Notes:

1. Lighter shading in the pie chart indicates public funding largely sourced from the Scottish or UK governments.
2. 'Other income' includes income from services to industry and public bodies, consultancy work and student residences.
3. Figures exclude income for research undertaken by UHI's partners.
4. 'Other' research grants includes income from EU charities and industry as well as other UK sources.

Source: Audit Scotland using Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2019, and university financial statements (2017-18).



The Scottish Government provides funding for universities through a number of different streams

25. In addition to the core revenue and capital funding provided to the SFC, and Scottish and EU student tuition fees via SAAS (£213 million in 2017-18) ([paragraph 5](#)), the Scottish Government provides funding for universities in the form of:

- **Financial transactions:**¹⁸ Since 2016/17 the SFC has offered low interest loans (financial transactions) to support university proposals for spend-to-save projects and the strategic development of estates. Universities compete for financial transactions funding by applying to the SFC. The Scottish Government made £10 million available for financial transactions in 2016/17 and £16.9 million in 2017/18. Funding increased to £40 million in 2018/19 and £55.5 million in 2019/20.
- **Funding from other Scottish Government directorates:** The Scottish Government does not routinely calculate its total funding for universities, beyond what is provided via the SFC and SAAS, but has estimated this to be around £92 million in 2018/19.¹⁹ This is made up of a large number of additional funding streams, sometimes for quite small amounts and from a variety of Scottish Government directorates. Funding was mainly for health, rural and environmental research projects, economic development and training health professionals. The Scottish Government is considering how it reports on and distributes these funds.

Between 2014-15 and 2017-18, total sector income increased by three per cent, driven by increases at three of the four ancient universities

Sector income increased overall but income reduced at nine universities

26. Despite reductions in SFC funding, total sector income increased by three per cent, from £3.7 billion in 2014-15, to £3.8 billion in 2017-18. Income reduced at nine of the 18 universities.

27. Three of the four ancients accounted for most of the overall increase in income:

- Edinburgh – increased from £890 million to £984 million (11 per cent)
- Glasgow – increased from £601 million to £631 million (five per cent)
- St Andrews – increased from £235 million to £251 million (seven per cent).

28. The biggest reductions in income were at:

- RGU – from £107 million to £93 million (12 per cent)
- QMU – from £41 million to £37 million (nine per cent)
- Aberdeen – from £241 million to £219 million (nine per cent).

Income from tuition fees replaced SFC grants as the single largest source of income for the sector in 2017-18

29. Income from tuition fees became the largest single source of income for the sector for the first time in 2017-18 (replacing SFC grants as the main income source). Between 2014-15 and 2017-18, fee income increased by £200 million (22 per cent), to £1.2 billion (32 per cent of total income) ([Exhibit 2, page 13](#)). Fee income increased for all but four universities.

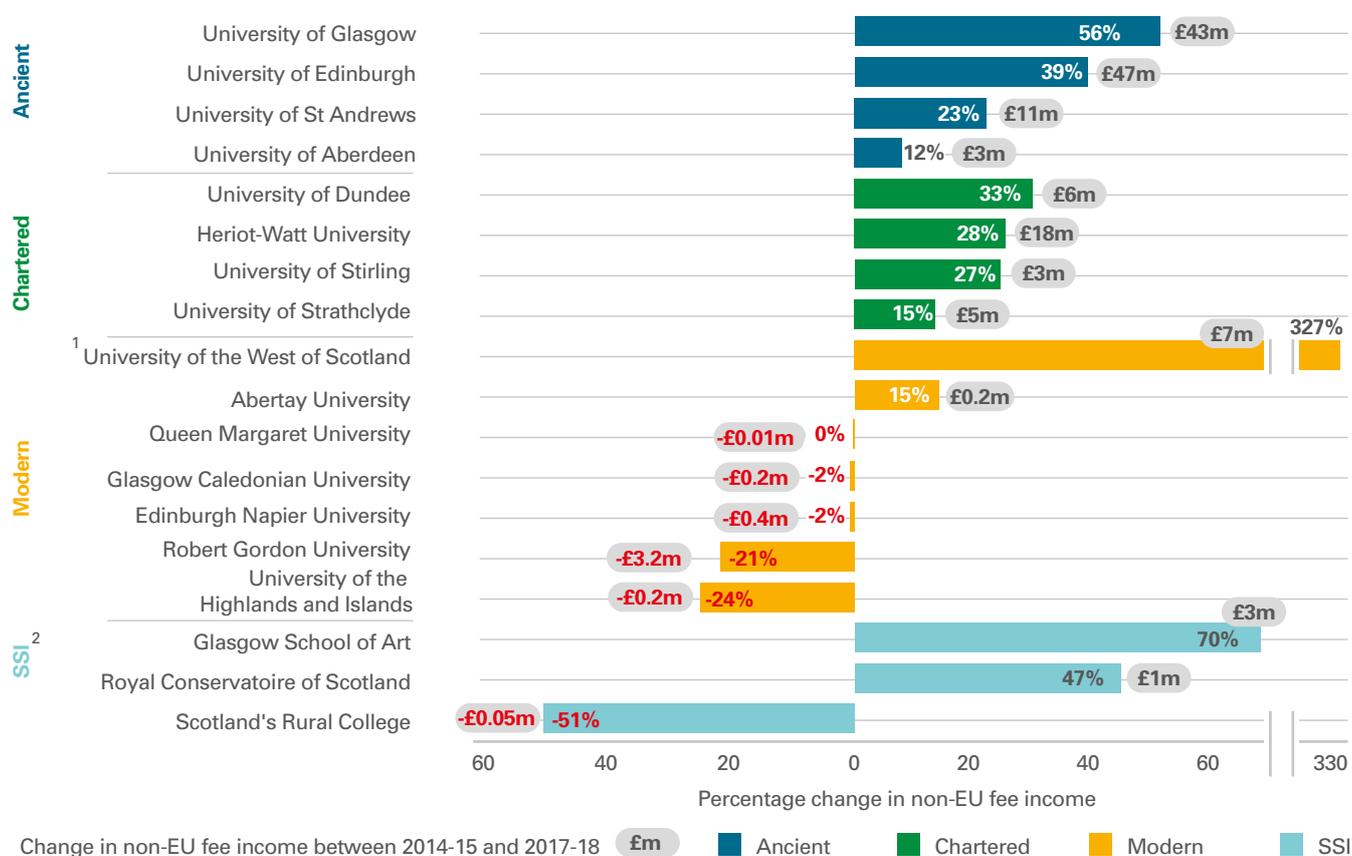
30. The overall increase in fee income was largely driven by an increase of £158 million (31 per cent) at the ancient universities. Of this, £104 million (66 per cent) was from non-EU student fees. Patterns in fee income varied by student domicile ([Appendix](#)):

- Income from Scottish and EU student fees increased by £33 million (11 per cent) since 2014-15. This includes both self-funded students and those whose fees are paid for by the Scottish Government, via SAAS.²⁰
- Income from RUK students increased by £68 million (66 per cent) since 2014-15. This is largely because of an increase in fees paid by RUK undergraduate students who started their studies from 2012.²¹
- Income from non-EU student fees increased by £143 million (31 per cent) since 2014-15, but this varied by university ([Exhibit 3](#)). There is no restriction on the fee universities can charge to non-EU students. For undergraduate courses, annual fees ranged from £11,000 at UWS for a classroom-based course to £49,000 at Edinburgh for a clinical degree.²²

Exhibit 3

Change in non-EU fee income in real terms between 2014-15 and 2017-18

Non-EU fee income fell for five of the seven modern universities and SRUC.



Notes:

1. In its 2017-18 financial statements, the University of the West of Scotland attributes an increase in non-EU fee income to significant recruitment following the opening of its London campus in 2016.

2. Small and specialist institutions

Source: Audit Scotland Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2016 and 2019, and university financial statements (2014-15 to 2017-18).

Universities are subsidising research and publicly-funded teaching activity with income from other sources

31. All universities in the UK use the Transparent Approach to Costing (TRAC) as the standard methodology for costing their activities. The sector has expressed concerns about relying solely on TRAC analysis to measure financial sustainability, particularly when looking at university-level data, because the subjectivity of how costs should be allocated could result in TRAC data being inconsistent or misleading ([Appendix](#)).

32. In 2016-17, on average, universities recovered 98.6 per cent of the full cost of all activities (97.2 per cent in 2015-16).²³ Funding for both publicly funded teaching and research does not always cover the full costs for delivery and, in 2016-17, on average, universities recovered:

- 92.4 per cent of the full economic cost of publicly funded teaching (93.1 per cent in 2015-16), including the teaching of Scottish, RUK and EU students
- 80.1 per cent of the full cost of research activities (79.1 per cent in 2015-16).

33. This means that universities rely on being able to generate 'cross-flows' of funding between activities. For example, to maintain and improve their position, research-intensive universities will usually have to increase income from other activities, such as non-publicly funded teaching, to cover the full economic cost of their research activity. In 2016-17, on average, universities recovered:

- 138.2 per cent of the full cost of non-publicly-funded teaching (135 per cent in 2015-16), mainly for teaching non-EU students
- 144.2 per cent of the full cost of other activities (for example, commercial activities, residences and conferences) (128.5 per cent in 2015-16).

34. Universities decide whether to pursue or grow research activity. Their ability to recover the full economic cost, or to cross-subsidise their research activities, may influence their decisions. For example, Dundee has made a strategic decision that it will not target further growth in research, because the university deemed it not to be financially sustainable.²⁴

Part 2

Financial pressures affecting universities



Key messages

- 1 In addition to reductions in SFC funding, universities are facing several financial pressures, and their ability to respond varies. Ancient universities are generally better placed to withstand the pressures, because of their ability to generate income from other sources and the balances in their reserves, but they face strong competition from other universities in the UK and the rest of the world.
- 2 All universities face increased contributions to their pension schemes. Universities estimate these could be as high as £23 million per year. Scottish ministers have committed to pass on any specific UK funding to help meet planned increased employer pension contributions to the Scottish Teachers' Superannuation Scheme up until 31 March 2020.
- 3 At July 2018, universities estimated it would cost £937 million (25 per cent of income) to address estate maintenance requirements.
- 4 Universities have been trying to respond to cost pressures by increasing income from non-government sources and implementing efficiencies. Most universities are planning to increase income from non-EU students to maintain financial sustainability.

Universities face future cost pressures, and there is significant uncertainty around some important areas of activity

35. In addition to reductions in SFC funding ([paragraph 22](#)) universities face other financial pressures ([Exhibit 4, page 18](#)).

Pension deficits will result in increased contributions for universities, with risk of further industrial action

36. Universities in Scotland generally have several pension-funding obligations:

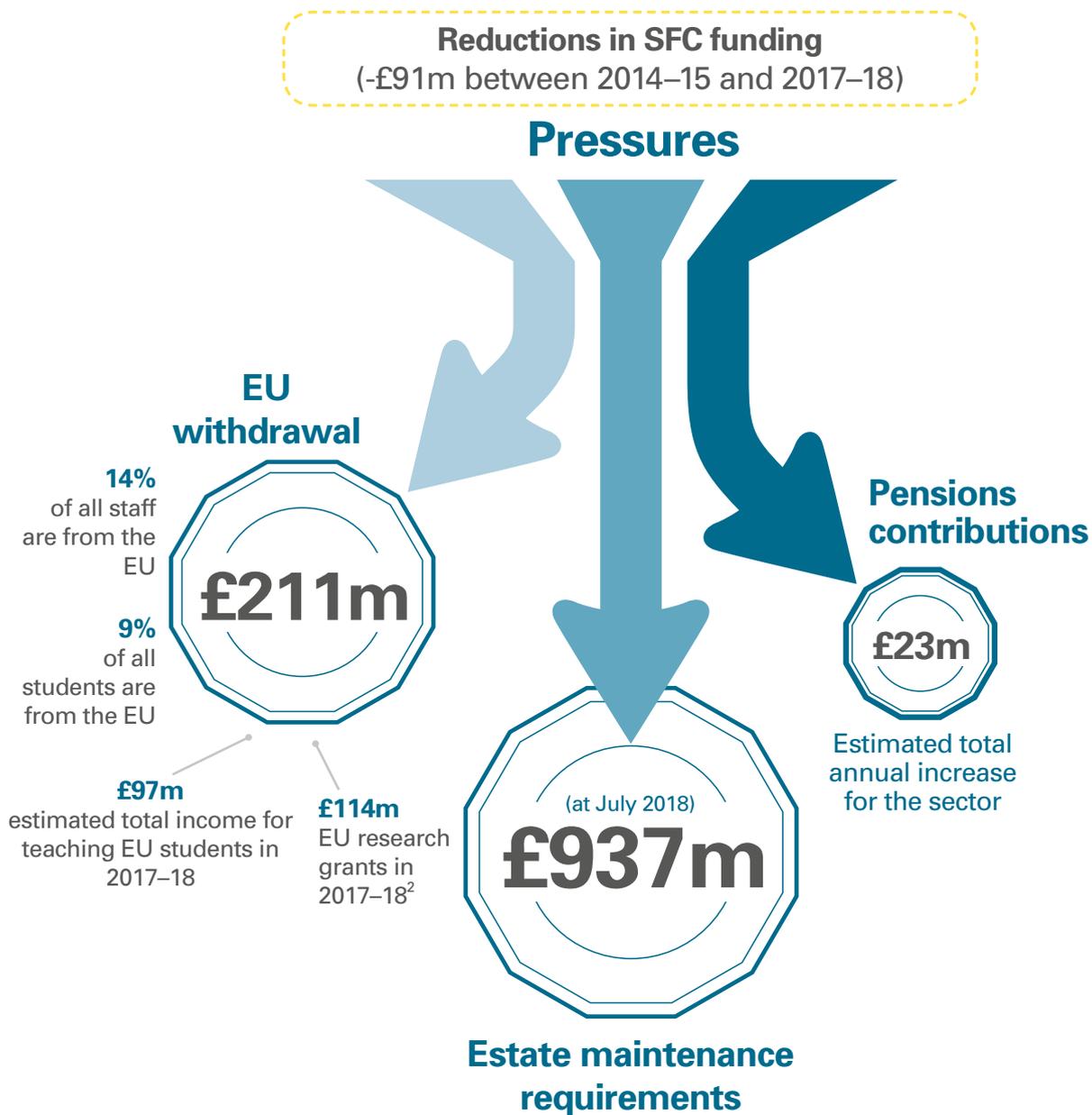
- the Universities Superannuation Scheme (USS) (a UK-wide non-government-funded scheme) of which 13 Scottish universities are members
- the Scottish Teachers' Superannuation Scheme (STSS), of which 15 Scottish universities are members
- Local Government Pension Scheme (LGPS)
- NHS Scheme for Scotland (NHSSS)

- Universities' own funded schemes.

At March 2019, the sector estimated that the total annual cost of increased employer contributions for all of the schemes would be £23 million a year from April 2019.²⁵

Exhibit 4
Financial pressures affecting universities

The scale of the pressures affecting universities vary. The extent of how these risks affect universities is dependent on a number of external factors and the decisions universities take on how they plan to address them (eg capital investment).



Notes:

1. The darker the arrow the more certain the cost pressure.
2. Under a UK Government guarantee, in the event of EU withdrawal with no deal, the Scottish Government estimates that at least half of the £114 million EU research funding would be protected (*Guidance, Horizon 2020 funding after Brexit, UK Government, August 2019*).

Source: Audit Scotland

37. In 2017, the USS had a deficit of £7.5 billion (£5.3 billion in 2014).²⁶ To address the deficit, USS proposed to increase contributions from both universities and their employees. This proposal contributed to staff taking industrial action in March 2018. In November 2018, USS completed a further valuation of the scheme, which is still to be finalised. Increases to employer and employee contributions, based on the 2017 valuation, were implemented in April 2019. Since November 2018, USS and universities have been negotiating further changes to employer and employee contributions. The Universities and College Union was balloting members (between 9 September 2019 and 30 October 2019) to consider further industrial action.²⁷

38. The STSS will require increased contributions from employers, to cover a growing deficit. The SFC estimates the annual increase to employer contributions will be around £8 million per year. The UK Government has confirmed funding allocations for the period 1 September 2019 to 31 March 2020,²⁸ and the SFC advised universities in July 2019 that the Scottish Government will provide additional funding of £2.75 million to the sector up until 31 March 2020, with universities having to absorb any remaining costs. The increased contributions are due to come into effect in September 2019. The Scottish Government is liaising with the UK Government about funding arrangements beyond 31 March 2020.

At July 2018, universities estimated that it would cost £937 million to address estate maintenance requirements

39. The Scottish university estate is large and diverse. There are 1,856 buildings throughout Scotland, in 146 locations.²⁹ Ancient universities have the most buildings (998, or over 54 per cent of the sector total) and modern universities have the most sites (88, or 60 per cent of the sector total). Six per cent of the estate was built before 1840 and 24 per cent between 1840 and 1959.³⁰ The value of the estate is just over £5 billion, with Edinburgh having 33 per cent (£1.7 billion) of the total value.³¹

40. In an increasingly competitive environment, universities need to maintain buildings and facilities at a high standard, to meet the specifications required for world-leading research and teaching, and to continue to be able to attract students, staff and researchers. The age, occupancy levels, listed status of buildings, space restrictions, and the cost or availability of land in convenient locations all add to this challenge. Some universities have chosen not to upgrade parts of their estate as they no longer fit with their strategic plans and are no longer in operational use, though these will still be included in the calculations of estate maintenance costs.

41. Buildings are assessed as being in one of four categories , from A to D. In 2017-18, the sector estimated that the total cost of upgrading university buildings in Scotland to category B was £937 million.³² While most of this (£798 million, or 85 per cent) was not urgent (from condition C to B), the remaining £139 million was required to upgrade buildings from condition D to B (urgent backlog maintenance). This was equivalent to four per cent of total sector income in 2017-18, but it varies by university ([Exhibit 5, page 20](#)). The estimated cost of urgent backlog maintenance was consistently more than ten per cent of income for Aberdeen, Abertay, GSA and UWS between 2014-15 and 2017-18.



Building condition categories:

A: as new condition

B: sound, operationally safe, and exhibiting only minor deterioration

C: operational but major repair or replacement needed in the short to medium term (generally three years)

D: inoperable or at serious risk of major failure or breakdown (urgent backlog maintenance).

The extent to which individual universities are exposed to these pressures, and their capacity to respond, varies

Universities' exposure to the cost pressures varies throughout the sector

42. The above cost pressures will not affect all universities to the same extent.

The extent to which universities are exposed to them is summarised in [Exhibit 5](#).

Exhibit 5

Relative exposure of universities to financial challenges in 2017–18

Modern universities are generally more reliant on SFC funding than other groupings.¹

Grouping	University	SFC funding as % of income	Staff costs as % of expenditure	Urgent backlog maintenance as % of income ²
Ancient	University of Aberdeen	34	60	20.8
	University of Edinburgh	19	54	1.7
	University of Glasgow	25	54	0.2
	University of St Andrews	15	55	0
Chartered	University of Dundee	32	57	2.2
	Heriot-Watt University	21	48	0
	University of Stirling	37	58	2.4
	University of Strathclyde	33	57	9.3
Modern	Abertay University	58	70	18.4
	Edinburgh Napier University	48	64	0
	Glasgow Caledonian University	55	66	0
	Queen Margaret University	42	57	0
	Robert Gordon University	46	57	0.4
	University of the Highlands and Islands ³	75	13	1.9
	University of the West of Scotland	61	64	12.6
SSI	Glasgow School of Art	35	47	39.2
	Royal Conservatoire of Scotland	51	75	N/A ⁴
	Scotland's Rural College	32	59	N/A
Sector		30	55	3.8

Lowest **1** **2** **3** Highest

Notes:

- For each measure, the higher the figure the darker the shading. The highest third are shaded the darkest and the lowest third the lightest.
- Urgent backlog maintenance, is the estimated cost of upgrading buildings from condition D to B.
- Staff costs at the University of Highlands and Islands are low (13 per cent) compared with other universities because it is not the direct employer of staff at the colleges and research institutes with which it partners.
- RCS and SRUC do not submit figures on backlog maintenance to the Higher Education Statistics Agency because there is no requirement to do so. Total SRUC backlog maintenance is reported in the SFC's college estates condition survey, although the college figures were calculated on a different basis, so data is not comparable to that used for other universities.

Source: Audit Scotland using data provided by the SFC and Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2019, and university financial statements (2017-18).

EU withdrawal is likely to have significant implications for university students, staff and funding

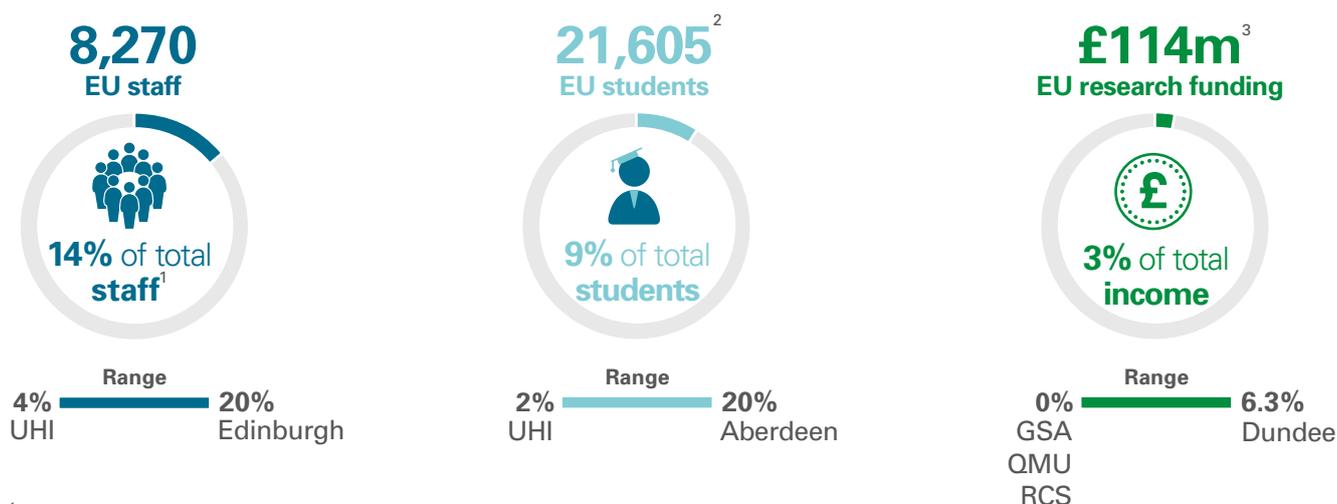
43. EU students, staff and funding are all important to universities' activities ([Exhibit 6](#)). In 2017-18, the Scottish Government provided around £97 million to universities for teaching EU students.³³

44. EU withdrawal is likely to have significant implications for universities. For example, a loss of EU students in key subject areas (for example, biological sciences, engineering and technologies, and subjects allied to medicine) could make it harder for universities to achieve Scottish Government strategic priorities. Departure from the EU could also result in skills shortages in teaching and research – in 2017-18, 28 per cent of research staff were EU nationals. Universities also cite their ability to collaborate with European partners as a significant contributory factor in attracting research staff and maintaining their strong reputation for research.³⁴

Exhibit 6

EU research funding, staff and student numbers at 2017-18

Ancient and chartered universities secure most EU research funding and generally have a higher proportion of EU staff compared to other groupings, but this varies by university.



Notes:

- 28 per cent of research only staff are non-UK EU nationals.
- EU student numbers exclude visiting/exchange students. For some universities, visiting/exchange students from the EU accounted for a significant proportion of their total EU student body (41 per cent for UWS in 2017-18).
- Under a UK Government guarantee, in the event of EU withdrawal with no deal, the Scottish Government estimates that at least half of the £114 million EU funding would be protected. (*Guidance, Horizon 2020 funding after Brexit, UK Government, August 2019*).
- UHI (University of the Highlands and Islands), GSA (Glasgow School of Art), QMU (Queen Margaret University), RCS (Royal Conservatoire of Scotland).

Source: Audit Scotland using data provided by the SFC and HESA, Higher Education Provider Data: Finance, Higher Education Statistics Authority (HESA), March 2019 and university financial statements (2017-18).

Ancient universities are generally better placed to respond to cost pressures

45. When an organisation faces an unexpected, or short-term, cost pressure, it may be able to draw on readily available sources of funding. For example, an organisation can use the cash and cash equivalents ([Appendix](#)) that it holds. Cash and cash equivalents held by all Scottish universities was equivalent to 23 per cent of total income in 2017-18, and this percentage varied across all groupings ([Exhibit 7, page 22](#)). Cash relative to income in 2017-18 was lower than in 2014-15 for eight universities (including four of the seven moderns).

Exhibit 7

Cash, income and expenditure reserves and net assets as a percentage of income in 2017–18

Ancient and chartered universities are generally better placed to respond to financial pressures than modern universities, but there is variation within each grouping.¹

Grouping	University	Cash and cash equivalents as % income ²	Unrestricted Income and expenditure reserves as % income ³	Net assets as % income ⁴
Ancient	University of Aberdeen	14	72	178
	University of Edinburgh	24	155	225
	University of Glasgow	33	104	137
	University of St Andrews	12	99	134
Chartered	University of Dundee	16	72	85
	Heriot-Watt University	34	25	35
	University of Stirling	21	132	136
	University of Strathclyde	36	104	115
Modern	Abertay University	21	130	133
	Edinburgh Napier University	18	71	78
	Glasgow Caledonian University	12	72	137
	Queen Margaret University	22	64	150
	Robert Gordon University	12	203	205
	University of the Highlands and Islands	10	4	4
	University of the West of Scotland	14	77	78
SSI	Glasgow School of Art	11	23	108
	Royal Conservatoire of Scotland	15	96	111
	Scotland's Rural College	18	9	16
Sector		23	103	142

Highest 1 2 3 Lowest

Notes:

1. For each measure, the lower the figure the darker the shading. The lowest third are shaded the darkest and highest third the lightest.
2. This is the total value of cash held by the university, including items that can be converted easily and quickly into cash.
3. This is the accumulated surplus produced from a university's activities.
4. This is the total assets (eg buildings) owned by a university minus its total liabilities (eg debt).

Source: Audit Scotland using Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2019, and university financial statements (2017-18).

46. In the short-term, universities may also be able to convert other assets, such as buildings, into cash to meet increasing costs. However, the sale of buildings is not a sustainable solution to meeting cost pressures and should only be

undertaken as part of a longer-term estate plan. Any decision on the sale, lease or transfer of an asset with a value greater than £3 million must comply with the SFC's procedures for disposal of property.³⁵

47. In the medium term, universities could also draw on unrestricted income and expenditure reserves (reserves), where they have them ([Appendix](#)). If a university generates surpluses, it can build up reserves that can be used, for example, to fund planned improvements to the university estate, and manage financial difficulties. As reserves include some longer-term investments, they cannot necessarily be used to fund day-to-day running costs. Total sector reserves increased from £3.5 billion (96 per cent of income) in 2014-15 to £3.9 billion (103 per cent of total income in 2017-18) ([Exhibit 7, page 22](#)). Edinburgh accounted for 40 per cent of the sector's total reserves (£1.5 billion, or 155 per cent of its income).

48. Net assets ([Appendix](#)) can also indicate a university's ability to manage medium-term financial pressures. Net assets for the sector increased from £4.8 billion in 2014-15 to £5.3 billion in 2017-18 (or 142 per cent of total income for the sector), and all universities were in a net asset position in 2017-18 ([Exhibit 7, page 22](#)). UHI was the only university to be in net debt during the period (in 2015-16 and 2016-17) but returned to a net asset position in 2017-18.

Scottish universities are competing with universities in the UK and the rest of the world

49. In 2017-18, total sector income from research grants and contracts was £785 million, which was 21 per cent of the sector's total income ([Exhibit 2, page 13](#)). Scottish universities have a good reputation for delivering world-class research; however, the research market is globally competitive.

50. Funding arrangements for teaching in Scotland are different from those in the rest of the UK. In Scotland, universities can charge tuition fees for RUK students (up to £9,250) and non-EU students. Universities in the rest of the UK can charge fees for the entire student population but have a cap on tuition fees for UK and EU students of £9,250. Their ability to charge higher fees allows them to generate increased income, which can be invested in maintaining or improving what they can offer to prospective students and researchers.

51. In 2018, the UK Government instructed a wide-ranging review into post-18 education and funding (the Augar review).³⁶ It recommended in its final report that the cap on the fee chargeable to RUK and EU students (in England) should be reduced from £9,250 to £7,500 per year, with the UK Government replacing the lost fee income by increasing the teaching grant. The UK Government has not yet announced how it will respond to the recommendations, but it could result in lower tuition fees, which could have a significant impact on Scottish universities.

Universities have been trying to respond to cost pressures, by increasing income from non-government sources and implementing efficiencies

52. The recruitment of non-EU students is an important and growing source of other income for most universities, and is one way in which universities are responding to cost pressures. Scottish universities attract students from around the world and, between 2014-15 and 2017-18, the number of non-EU students attending Scottish universities increased by 13 per cent (income from non-EU student fees increased by 31 per cent, to £599 million over the same period). The

recruitment of non-EU students is highly competitive, with Scottish universities competing with universities throughout the world. The sector has highlighted that financial pressures could constrain universities' ability to remain competitive, for example if they are unable to maintain and enhance estate condition or are faced with a more restrictive immigration policy than other countries.

53. Exhibit 8 (page 25) highlights some of the responses universities are taking to manage the cost pressures they are facing.

Borrowing increased at many universities and across all groupings

54. Some universities are increasingly using borrowing to fund investment in their estates. Total borrowing increased by 114 per cent, from £628 million in 2014-15 to £1.3 billion (36 per cent of income) in 2017-18. Borrowing increased at 11 universities, across all groupings. Decisions on borrowing are for individual universities and the SFC does not routinely monitor how much universities borrow or the purposes of their borrowing. Universities must get consent from the SFC before taking out any loan that would take their total annualised cost of debt servicing to exceed four per cent of their income. The SFC has given such consent to eight universities between 2014 and 2019. The SFC also considers the level of borrowing when analysing the financial health of individual universities (**paragraph 79**). Some larger loans involve universities paying interest for around 20 to 30 years, with repayments made in stages over this period.³⁷

Exhibit 8

Examples of universities' responses to cost pressures and opportunities

Universities are responding to cost pressures in a number of ways.

Increasing income



Alumni funding for specific capital projects:

The University of St Andrews, philanthropic funding for Laidlaw Music Centre, has raised £8.4 million of £12.5 million required for the project.



Corporate partnerships:

The University of St Andrews received a £13.6 million facilitation fee from its development partner for the joint development of a student accommodation project.



City Region Deals:

Some universities are involved in City Region Deals; working with the Scottish and UK governments, local councils and other partners to drive economic growth in their regions. City Region Deals present an opportunity for universities to consolidate and grow their income, or to enhance what they can offer to prospective students, staff and businesses.

For example, as part of the £1.3 billion Edinburgh and South East City Region Deal The University of Edinburgh and Heriot-Watt University are leading on a ten year 'Data-Driven Innovation' (DDI) programme. This will include the introduction of new undergraduate, postgraduate and professional development programmes and well as expansion of the universities' research activities. The UK and Scottish governments have together committed up to £270 million to support the development of the DDI Programme. This will be matched by up to £391 million capital investment from universities and other sources.



Professionalising services:

Edinburgh Napier University has capitalised on strengthening its professional services (eg human resources and information technology) and provided these services to other businesses and institutions to generate other income.



Expanding course subjects:

In 2019-20, Edinburgh Napier University and Queen Margaret University introduced Professional Graduate Diploma in Education courses.



Entrepreneurial income:

Some universities generate income from their estates outside the academic year, by offering conference and accommodation facilities.

Efficiencies



Developing long-term plans for capital projects:

Edinburgh Napier University is engaging with stakeholders to develop a long-term plan for future capital projects, to ensure that future capital projects provide the best return on investment.



Developing shared services with other institutions and the local community:

The sports and aquatic centre in Aberdeen was developed in partnership between the University of Aberdeen, Aberdeen City Council and sportscotland.



Working with current EU partners to develop teaching/research agreements:

The University of St Andrews signed a memorandum of understanding with the University of Bonn, Germany.



Costs savings for procurement:

All universities are members of Advanced Procurement for Universities and Colleges Limited (APUC), which works on behalf of its members (colleges and universities) to secure efficiencies in procurement, achieved mainly from economies of scale. It has helped to deliver over £20 million of annual procurement savings for the university sector.

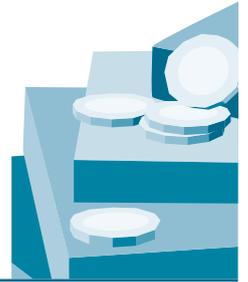


Workforce planning:

Universities have implemented staff restructuring and more flexible recruitment, to drive efficiencies, which in some cases has included voluntary severance.

Part 3

The roles of the Scottish Government, the Scottish Funding Council and universities



Key messages

- 1 The SFC is responsible for distributing most of the Scottish Government's funding to universities and for providing advice to ministers. Universities are accountable to the SFC for the funding they receive. The SFC provides funding mainly for teaching and research, but it also provides funding for specific priorities, such as widening access.
- 2 Outcome agreements between the SFC and universities set out what universities plan to deliver in return for SFC funding. The Scottish Government's priorities for the sector are reflected in outcome agreements between the SFC and universities. The outcome agreements also contain measures to assess progress. But, in 2017-18, many universities did not have agreed targets for some outcome agreement measures relating to teaching and research and, in some cases, as few as two universities met their targets.
- 3 The SFC recovers funding where universities have not delivered an agreed volume of teaching activity, but there is no evidence of a direct link between funding and university performance against other agreed targets, such as those for student retention and for recruitment to courses in STEM. The current funding model provides transparency and a degree of certainty about how funding for teaching and research is allocated. However, strategic funding for specific purposes has reduced in real terms by 46 per cent since 2014-15.
- 4 The Scottish Government and the SFC have a good understanding of the issues affecting both the sector and individual universities, though there is scope for the SFC to improve its monitoring and reporting on universities' finances. The SFC has not set out specific actions to mitigate risks to the sector's ability to deliver the Scottish Government's priorities.

The SFC is responsible for distributing funding and for monitoring universities' contributions to the Scottish Government's strategic priorities

The SFC's funding to universities is mainly for teaching and research

55. The Scottish Government provides more than a third of the Scottish university sector's income and it needs assurance that this significant investment supports the delivery of its strategic priorities. The Scottish Government determines and allocates

the budget for university funding on an annual basis, with most funding supporting the delivery of teaching and research over several years. Therefore, the Scottish Government needs assurance in both the short and medium-term.

56. The SFC's Chief Executive is the accountable officer responsible for the use of the funding received from the Scottish Government, and universities are accountable to the SFC for the funding they receive.

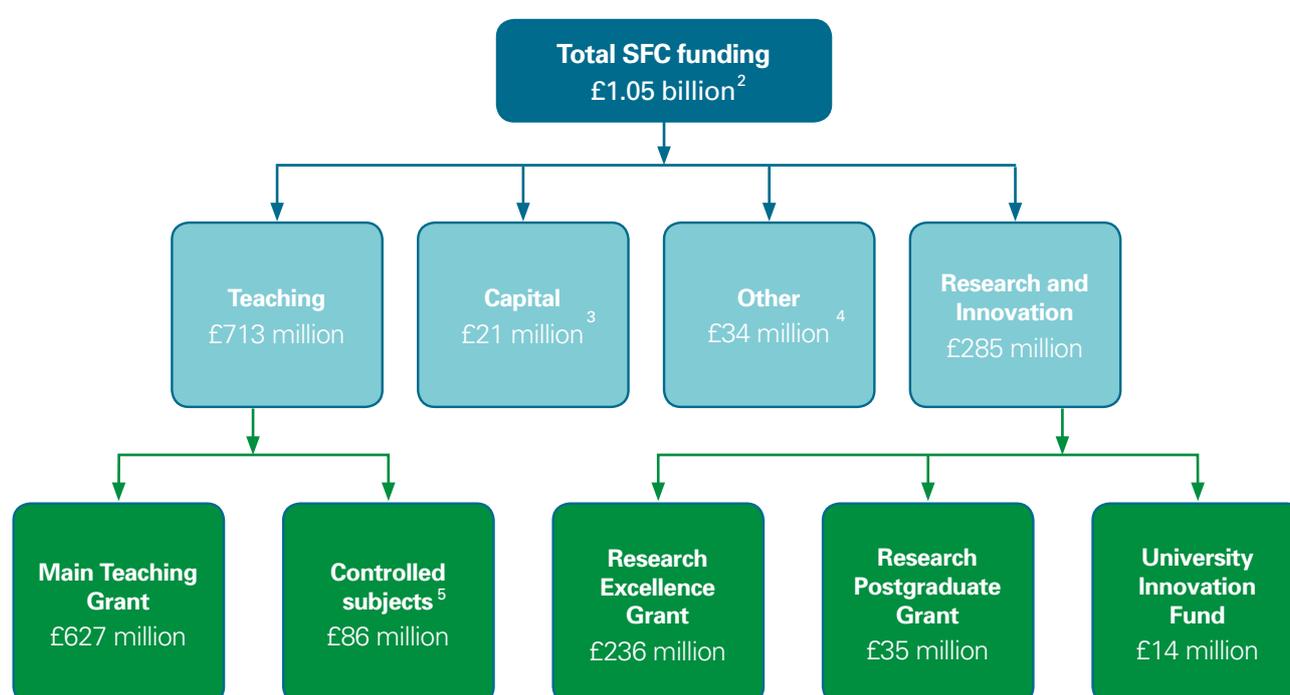
57. The SFC is responsible for determining how Scottish Government funding is distributed to individual universities. The SFC provides universities with indicative funding allocations in February each year and announces the final funding allocations in May (for the academic year starting in August). There are two main funding streams:

- for teaching Scottish and EU students (£713 million in 2019-20)
- to support research and innovation (£285 million in 2019-20) ([Exhibit 9](#)).

Exhibit 9

SFC grant funding for universities in 2019-20

There are four SFC grant-funding streams for universities: teaching, research and innovation, capital and 'other'.¹



Notes:

1. Funding (as at May 2019) is for the academic year 2019-20, except for capital funding which is for the financial year 2019-20.
2. Includes funding for The Open University in Scotland (£24 million).
3. Capital funding excludes £16.8 million SFC funding for research capital grants, which was confirmed in June 2019.
4. Other funding includes non-core teaching funding for small and specialist institutions, for widening access and retention, and for disabled students.
5. Controlled subjects include nursing, medicine and teaching. This grant is ring-fenced and is based on the Scottish Government's workforce requirements.

Source: Audit Scotland using Funding allocations to universities for academic year 2019-20, Annex A, Scottish Funding Council, May 2019.

58. The SFC also provides funding for capital and strategic projects. For example, in 2019-20, the SFC allocated £15 million to modern universities and to The Open University, to support widening access and the retention of students from the most disadvantaged backgrounds.

Outcome agreements are intended to set out what universities plan to deliver in return for the Scottish Government funding allocated by the SFC

59. The SFC has several accountability mechanisms in place for the funding it provides to universities ([Exhibit 10](#)). Outcome agreements are intended to be the key link between funding and performance. The process aims to deliver a funding system that supports universities in pursuing ambitious goals, while delivering progress towards SFC and Scottish Government priorities.³⁸

Exhibit 10

Key accountability arrangements between the SFC and universities

There are three main documents that outline how universities are accountable to the SFC.

Scottish Funding Council accountability documents



Financial Memorandum

The Financial Memorandum sets out the formal relationship between the SFC and universities, as well as the requirements with which universities must comply as a term and condition of grant from the SFC.



Outcome agreements

Outcome agreements set out what universities plan to deliver in return for their funding from the Scottish Government, via the SFC. They cover a three-year period and are updated annually, in collaboration with an SFC outcome agreement manager.



Conditions of outcome agreement funding

Published alongside funding announcements each year, this outlines the terms and conditions of outcome agreement funding, including compliance with the Financial Memorandum, relevant Scottish Government legislation and SFC policies. If a university does not meet the conditions of funding, the SFC can encourage the university to make improvements, and ultimately could decide to recover funding from (or reduce future funding to) the university.

Sources: Financial Memorandum with Higher Education Institutions, Scottish Funding Council, December 2014. Annex D – Conditions of University Outcome Agreement Funding, Scottish Funding Council, May 2018. Guidance for the development of University Outcome Agreements: 2019-20 to 2021-22, Scottish Funding Council, October 2018.

It is difficult to determine whether universities are delivering all that Scottish ministers expect of them

There is no specific reference to the NPF outcomes in university outcome agreements

60. The Minister for Further Education, Higher Education and Science wrote to the SFC in November 2018, setting out Outcome Agreement Guidance for 2019-20.³⁹ The guidance includes a clear reference to the NPF ([Exhibit 11, page 29](#)) as part of the wider policy context for higher education, but it does not highlight the NPF outcomes to which the Scottish Government expects universities to contribute.

Exhibit 11

Universities will contribute to many of the 11 National Performance Framework outcomes



Source: Scottish Government

61. Although the NPF was first introduced in 2007, and was refreshed in 2011 and 2016, neither outcome agreements nor ministerial letters of guidance to the SFC prior to November 2018 refer to the NPF. The 2017-18 outcome agreements were developed before the 2018 NPF was launched. There are outcome agreement measures relating to some of the NPF indicators, for example there is a specific outcome agreement measure for carbon footprint, and outcome agreement measures for widening access link to the NPF indicator for young people's participation in education. However, there are no outcome agreement measures that link to other, significant indicators, for example there are no outcome agreement measures for attainment.

62. In its new strategic framework, published in June 2019, the SFC has mapped the measures it intends to use to measure progress towards its objectives to the 11 long-term NPF outcomes ([paragraph 8](#)). There is scope, therefore, for the SFC to reflect these measures in future outcome agreements.

The Scottish Government's priorities for higher education are reflected in outcome agreements

63. The SFC provides universities with a framework to support the development of outcome agreements. Outcome agreements set out universities' commitments and how they will contribute to each of the five Scottish Government priorities for higher education, alongside 15 associated national measures.

64. University outcome agreements include specific references to the Scottish Government's five strategic priorities for: teaching; research; widening access; knowledge exchange and innovation between universities and industry; and good governance.

Scottish Government strategic priorities	Number of measures
1 Access to education for people from the widest range of backgrounds, including implementation of the recommendations of Commission on Widening Access (CoWA) and addressing gender balance.	5
2 High-quality learning in a learning system which is seamlessly connected for the learner, including learning which prepares people well for the world of work, prioritising provision that meets known skills gaps in the economy.	4
3 Internationally competitive and impactful research.	3
4 Effective knowledge exchange and innovation including excellent collaboration between universities and industry.	2
5 Ensuring provision of quality learning in Scottish higher education institutions.	1

Outcome agreements provide a means of supporting delivery of specific Scottish Government priorities, such as widening access

65. Every year, the SFC expects universities to identify targets for each of the 15 national measures, to demonstrate progress towards the Scottish Government's priorities. Targets against these measures vary between universities, reflecting their specific circumstances (ie past performance, student population cohort and subjects taught). The SFC encourages universities to focus on their areas of expertise but also to be aspirational and ambitious with their targets.

66. In her letter of guidance in October 2017, the Minister for Further Education, Higher Education and Science requested that the SFC 'intensify' the outcome agreement process to secure better progress against the Scottish Government's priority areas, including:

- driving improvement towards fairer access, securing progress with the challenging targets set out in the final report of the Commission on Widening Access (CoWA)
- setting more ambitious and challenging targets
- encourage engagement and collaboration

- more dynamic allocation of places and funding to drive and incentivise improvement
- enhanced transparency and accountability of institutional performance
- dynamic allocation of funding to drive and incentivise improvement.⁴⁰

67. The Minister also asked the SFC to demonstrate how Scotland's universities are contributing to the delivery of the national priorities and to provide a clearer line of sight between Scottish Government investment and the delivery of desired outcomes. This follows a recommendation in our 2016 report on higher education.

68. In response to the Minister's request for intensification, the SFC asked universities to include a new section in their outcome agreements, outlining how each university will achieve its targets related to widening access to university for students from deprived areas. The SFC also specified the following requirements in its guidance to universities:

- More ambitious and challenging targets in 2018-19, including a focus on improving retention, attainment, and outcomes.
- More rapid progress on tackling gender imbalances in institutions' senior ranks, on their Boards and Courts.
- Further progress on delivering STEM provision, aligned with the Government's STEM Strategy for Education, Training and Lifelong Learning.

The absence of targets, and evidence of under-performance against some agreed targets, makes it difficult to determine whether universities are delivering what is expected of them

69. The SFC agrees targets with universities, to demonstrate progress against the Scottish Government's priorities but, in 2017-18, not all universities had targets for all outcome agreement measures.

70. The SFC's annual summary of progress and ambitions report provides a high-level overview of the performance of universities against the SFC's outcome agreement measures.⁴¹ Our analysis of teaching and research performance measures found that many universities did not have agreed targets in place for some measures and, in some cases, as few as two universities met their targets ([Exhibit 12, page 32](#)). It is not possible, therefore, to assess the performance of all universities against the seven national performance measures relating to teaching and research through their outcome agreements. This also means that the annual summary of progress and ambitions report does not show performance against targets for all measures or for all universities. It also does not include complete trend information.

Exhibit 12

Outcome agreements measures for teaching and research

Not all universities set targets in their outcome agreements for 2017–18.¹

Scottish Government strategic priority	Outcome agreement measures	Universities with targets	Universities who met targets	Change between academic years 2014-15 and 2017-18
Teaching 	Measure 6: Retention rates for all Scottish domiciled full-time first degree entrants	15/18	9/15	Retention rates increased at 12 universities (by the most at UHI, by five percentage points).
	Measure 7: Proportion of students satisfied with the overall quality of their course in the National Student Survey	18/18	2/18	Student satisfaction dropped in all but four universities. St Andrews and UHI both saw an increase of five percentage points. ²
High-quality learning in a system which is seamlessly connected for the learner	Measure 8: Proportion of Scotland-domiciled undergraduate entrants on STEM programmes	9/18	2/9	Declined at 10 universities. The biggest increase was at SRUC (by eight percentage points).
	Measure 9A: Proportion of Scotland-domiciled graduates entering positive destinations	No agreed target for this measure but, in 2016-17 students entering a positive destination after completing their course was 93% or higher at all universities. ³		No data available for 2017-18
Research 	Measure 10: Number of research postgraduate students	9/18	3/9	Numbers increased at 11 universities. The biggest increases were at Glasgow (by 296) and Edinburgh (by 218).
Internationally competitive and impactful research	Measure 11: Total income from UK Research Councils	9/18	3/9	Income declined at nine universities; five do not report baseline and target data consistently. ⁴
	Measure 12: Total research income from all sources	10/18	3/10	Income declined at 11 universities. ⁴

Notes:

1. Analysis excludes the OU (Appendix).
2. Comparison is between the national student survey results at July 2015 and July 2018.
3. No data available for 2017-18. The data for this measure is currently drawn from a UK-wide survey of graduate destinations. It will be replaced by a survey of graduate outcomes.
4. Trends in research income are in real terms and measure 12 excludes research and development expenditure credits (RDEC) (Appendix).

Source: Audit Scotland using data from the SFC and university outcome agreements and Guidance for the Development of University Outcome Agreements: 2019-20 to 2021-22, Scottish Funding Council, October 2018. For measure 6 only: Audit Scotland using data from the SFC report on Widening Access 2017-2018, Table 2A, 29th May 2019. For measures 11 and 12: Audit Scotland using Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2016 to 2019 and university accounts (2014-15 to 2017-18).

There is limited evidence of a clear link between SFC funding and university performance

The SFC has recovered funding where universities have delivered less than the agreed volume of learning activity

71. The SFC places limits on the number of university places it will fund for Scottish and EU students undertaking undergraduate courses and selected taught postgraduate courses. The SFC will recover funding from universities if they under- or over-recruit against the target number of places it sets for the year. Funding is recovered for over-recruitment to ensure the total fees paid out by SAAS do not exceed the figure for which the Scottish Government has budgeted. In 2017/18, a total of £2.5 million was recovered from universities for recruiting outside the target number of places.

72. The SFC's model for funding to support research takes account of a university's performance in the Research Excellence Framework (REF) ([paragraph 77](#)), which takes place approximately every five years. Funding to support research at each university is adjusted based on their performance in the most recent REF exercise. Because much academic research is undertaken over the medium to long-term, recovering funding is not appropriate and could jeopardise research that is already under way. However, annual monitoring of performance against outcome agreement targets for research does provide an opportunity for the SFC to assess, understand and, if necessary, challenge a university's performance on a more frequent basis.

The SFC has not recovered funding for under-delivery against outcome agreement targets

73. Since the introduction of outcome agreements in 2012, the SFC has not recovered funding for under-delivery against outcome agreement targets. While, in some cases, the margin of under-delivery was relatively small, taken together, small margins of under-delivery by several universities will affect national performance. In 2017-18, there were also some instances where universities missed targets by more than 20 per cent; and in two cases, by over 50 per cent.

74. The SFC engages with individual universities around the content of outcome agreements. However, prior to intensification, the SFC did not require universities to set targets for all outcome agreement measures. For example, the SFC was less inclined to specify a target for measures relating to research for non-research intensive universities. The SFC engages with universities when they face challenges in delivering against agreed targets, but evidence of specific challenge by the SFC when target performance levels were not achieved is limited.

75. Following intensification, the SFC has agreed targets for almost all measures for all universities, and will systematically review performance against these targets as part of its monitoring arrangements. Given our findings in relation to target setting and performance against targets in 2017-18, it will be important that the SFC monitors trends in performance and, where agreed targets are missed, takes action appropriate to the circumstances.

The SFC's funding models provide universities with a degree of stability but strategic funding has reduced

76. The SFC calculates funding for its main teaching grants each year based on: its annual budget; the amount allocated to the sector in the previous year; any new policies introduced by the Scottish Government; and consultation with

universities around changes to planned provision in specific subjects. For subjects that are nationally controlled, such as nursing, medicine and teaching ('controlled' subjects), the teaching grant is ring-fenced and is based on the Scottish Government's workforce requirements for that year.

77. The SFC's funding to support research has three main components ([Exhibit 9, page 27](#)). The main grant is the Research Excellence Grant (REG) which is formula-based and informed by universities' performance in the REF. REF is a joint exercise conducted by all four UK higher education funding bodies including the SFC. REF results are intended to provide accountability for public investment in research as well as benchmarking information. The exercise assesses research quality and considers publications, impact beyond academia and the environment that supports research, including facilities and the quality of staff. Overall, the performance of Scottish universities improved in the last REF in 2014, but the total amount of SFC research funding did not increase.⁴² This meant that the research grant was spread more widely across the sector than in previous years and most research-intensive universities received less SFC research funding.

The current SFC funding models offer little scope to reflect individual universities' circumstances

78. The formula-based funding models for the core grants for teaching and research are widely accepted by the sector because they provide transparency, understanding and are perceived by the sector to be fair. However, there is little scope for the SFC to adjust funding to individual universities to reflect specific circumstances. The SFC allocates strategic funding for specific purposes, such as innovation centres, diversity and specialism. Strategic funding has reduced by 46 per cent in real terms, from £69 million in 2014-15 to £37 million in 2017-18 (four per cent of total revenue funding).⁴³ The reduction in strategic funding means that less funding is available to support new developments or to respond to specific circumstances or issues that arise. In the most recent letter of guidance in July 2019, the Minister for Further Education, Higher Education and Science emphasised the need for projects funded from strategic funds to be self-sustaining where appropriate, asking the SFC to reduce universities' reliance on strategic funds and to integrate and mainstream such funding arrangements where possible.⁴⁴

The SFC has a good picture of the sector's short- to medium-term financial health

The SFC's financial analysis relies on the knowledge of a small team

79. The SFC formally reviews the financial performance of the sector twice a year, using the audited accounts submitted in December and three-year financial forecasts in June.⁴⁵ The SFC reviews the accounts and forecasts, alongside audit reports and discussions with the universities' finance teams.

80. The SFC does not routinely review universities' long-term financial strategies. Financial strategies are likely to provide more contextual information, scenario plans and longer-term forecasts, which could reduce the number of enquiries the SFC needs to make of universities each year. It would also provide a greater level of assurance on financial sustainability in the longer-term including, importantly, the ability of universities to deliver the Scottish Government's strategic priorities.

81. The SFC currently relies on the knowledge and experience of a small team of staff. While the SFC has guidance to assist staff when analysing financial information, there is scope for this to include clearer criteria and specific examples of areas that might lead to increased engagement with individual universities. This means if any members of the team are absent, or were to leave the SFC, there would be less risk that knowledge is lost or that the SFC would not be able to continue assessing the financial health of the sector to the same standard.

The SFC publishes a very high-level summary of the sector's financial position

82. For both the annual accounts and financial forecasts, the SFC reports its analysis to its finance committee, which includes an observer from the Scottish Government. The reports provide a good summary of the accounts, forecasts, challenges facing individual universities, and actions the SFC is taking to help address any problems.

83. The SFC also publishes an annual summary of the financial position of the sector based on the audited accounts. This includes very high-level commentary on the sector's income profile, operating position and balance sheet performance. While the report does not include any analysis of universities' financial forecasts, it does outline the key risks to financial sustainability (which broadly align with those we discuss in part two).⁴⁶

84. Publishing a more detailed summary of the SFC's analysis of annual accounts and financial forecasts, anonymising individual universities (like that published by the Office for Students in England), would increase transparency, and support scrutiny by interested stakeholders.⁴⁷

The SFC has a framework that helps it to determine whether it needs to engage more closely with individual universities

85. In August 2017, the SFC began developing a framework, to help it determine how it should engage with individual universities. It does this by assessing the finances and performance of each university. This is summarised in a document covering the sector. For the April 2019 meeting of the SFC finance committee, the document included the SFC's judgements on financial health and governance arrangements, and quality of learning and funded teaching activity. The report for the committee's meeting in May 2019 also included the SFC's commentary on the quality of research and innovation. However, these reports do not include any quantitative assessment of performance against targets and there is no link or commentary on the implications of underperformance for future funding.

The SFC has not set out proposals to secure the delivery of the Scottish Government's priorities

86. The Scottish Government has acknowledged the valuable contribution that universities make to economic growth, as well as the wider social benefits of university education. It is important that the Scottish Government is aware of the challenges the sector faces, as well as the risks that may affect delivery of its strategic priorities.

87. The Strategic Futures Group, comprising representatives from the Scottish Government, SFC and Universities Scotland, meets regularly to discuss issues affecting the sector. The Scottish Government has also provided support to the university sector for specific issues. For example, the Scottish Government decided not to implement a recommendation from the Barclay review, which recommended removing rates relief for universities, commercial activities outside term time.⁴⁸ The Scottish Government also implemented changes to funding packages for postgraduate students, which contributed to a slight increase in enrolment figures.⁴⁹

88. The financial analysis prepared by the SFC provides the Scottish Government with a clear picture of the challenges the university sector faces, as well as specific challenges for individual universities. The SFC's new Strategic Framework highlights the challenges and, at a high level, outlines the activities the SFC will undertake to support the delivery of Scottish Government priorities.⁵⁰ However, the SFC has not yet set out specific proposals to mitigate risks to the sector's ability to deliver the Scottish Government's priorities.

Endnotes



- 1 *Going for Growth. A summary of Universities Scotland's submission to the 2017 Spending Review*, Universities Scotland, August 2017.
- 2 *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy*, Scottish Government, May 2018.
- 3 *Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy*, Scottish Government, May 2019.
- 4 In Scotland, higher education is delivered by both higher education institutions and colleges.
- 5 Student numbers by HE provider and subject of study at Scottish universities (headcount), for all levels and modes of study, excluding the Open University in Scotland, Higher Education Statistics Agency, January 2019. Figure includes some double counting due to some students enrolling on more than one programme of study.
- 6 Audit Scotland using the amount of university tuition fees paid by SAAS in academic year 2018-19, Student Awards Agency for Scotland, February 2019. The figure excludes tuition fees for nursing and midwifery students.
- 7 *Ministerial letter of guidance 2018-2019 to the SFC*, Scottish Government, April 2018.
- 8 *Working Collaboratively for a Better Scotland: strategic plan*, Enterprise and Skills Strategic Board, October 2018.
- 9 *National Performance Framework*, Scottish Government, June 2018.
- 10 Further and Higher Education (Scotland) Act 2005, Acts of the Scottish Parliament, 2005 asp 6, Part 1, The Council: functions, Section 17, October 2005.
- 11 Amendment of Public Finance and Accountability (Scotland) Act 2000, Public Services Reform (Scotland) Act 2010, Section 118, March 2010.
- 12 GDP deflators at market prices, and money GDP March 2019 (quarterly National Accounts), HM Treasury, April 2019.
- 13 Except for Scotland's Rural College (SRUC), which has a financial year end in March.
- 14 Audit Scotland using the lines for higher education in Scottish spring budget revisions, Scottish Government, February 2011 to February 2019. Figures exclude financial transactions loans. Figures include funding for The Open University in Scotland (OU, £23 million in 2017-18), which is excluded from the analysis of financial statements (from paragraph 22), because OU does not split out operations in Scotland in its financial statements.
- 15 Audit Scotland using Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2016 and 2019, and university financial statements (2014-15 to 2017-18).
- 16 *Outcome Agreement Funding for Universities – Final Allocations for AY 2014-15 and 2017-18*, Scottish Funding Council, May 2014 and May 2017.
- 17 Audit Scotland using amount of tuition fees paid by SAAS in academic year 2018-19, Student Awards Agency Scotland, February 2019. The figure excludes tuition fees for nursing and midwifery students.
- 18 Financial Transactions are a form of capital budget allocated by HM Treasury to the Scottish Government, which can only be used for the provision of loans or equity investment beyond the public sector and cannot be used to fund public services. Financial transactions have to be repaid to HM Treasury in future years.
- 19 This figure does not include funding universities receive directly from local authorities, European Structural Funds, local health boards, enterprise agencies or UK Government.
- 20 Scottish and EU fee income is largely determined by the number of students funded by the SFC, which in turn is based on the annual Scottish Government budget.
- 21 *The Education (Fees) (Scotland) Regulations 2011*, Scottish Government, 2011. Act enforced in August 2012.
- 22 *Reddin Survey of University Tuition Fees 2017-18, The complete university guide 2017*.
- 23 *Transparent Approach to Costing 2016-17*, Scottish Funding Council, January 2019.
- 24 *2018/2019 Outcome Agreement with the SFC*, University of Dundee, July 2018.
- 25 Letter to Deputy First Minister regarding Scottish Funding Council Indicative Allocations 2019-20, Universities Scotland, March 2019.

- 26 *Scheme funding report of the actuarial valuation Universities Superannuation Scheme as at 31 March 2017*, Mercer Limited, March 2017.
- 27 *Announcement to members, University and College Union*, 28 June 2019.
- 28 *Letter to Principals of Higher Education Institutions*, Scottish Funding Council, June 2019.
- 29 *Estates Management Record, 2017-18*, Higher Education Statistics Agency.
- 30 *Submission to the Scottish Government Spending Review 2018*, Universities Scotland, 2018.
- 31 Scottish university financial statements, 2017-18.
- 32 *Estates Management Record, 2014-15 to 2017-18*, Higher Education Statistics Agency, February 2019. Data provided to Audit Scotland by the SFC in August 2019.
- 33 Audit Scotland using data provided by the Scottish Funding Council and Student Awards Agency for Scotland, July 2019.
- 34 *Guidance, Horizon 2020 funding after Brexit*, UK Government, August 2019.
- 35 *Disposal of property: Procedures for Universities*, Scottish Funding Council, August 1997.
- 36 *Post-18 review of education and funding: independent panel report*, UK Department for Education, May 2019.
- 37 *The 24th meeting of the Finance Committee of the Scottish Funding Council*, SFC, May 2019.
- 38 *Guidance for the Development of University Outcome Agreements: 2019-20 to 2021-22*, Scottish Funding Council, October 2018.
- 39 *Scottish Funding Council, 2019-20 Outcome Agreement Guidance*, Scottish Government, November 2018.
- 40 *Scottish Funding Council, Letter of guidance 2018-19*, Scottish Government, October 2017.
- 41 *University Outcome Agreements, Summary of Progress and Ambitions Report 2018*, Scottish Funding Council, October 2018.
- 42 *Outcome Agreements for universities – indicative funding decisions for the Research Excellence Grant for AY 2015-16 to AY 2017-18 and Research Postgraduate Grant for AY 2015-16*, Scottish Funding Council, March 2015.
- 43 Audit Scotland using *Funding allocations to universities for Academic Year 2014-15 and 2017-18, Annex A*, SFC.
- 44 *Scottish Funding Council, Letter of guidance 2019-20*, Scottish Government, July 2019.
- 45 *Financial Memorandum with Higher Education Institutions*, Scottish Funding Council, December 2014.
- 46 *Summary financial position of the university sector: analysis of 2017-18 financial statements*, SFC, July 2019.
- 47 *Financial sustainability of higher education providers in England*, Office for Students, April 2019.
- 48 *Report of the Barclay Review of non-domestic rates*, Barclay Review, August 2017.
- 49 *Taught post-graduate review, Working Group Final Report*, December 2015.
- 50 *Strategic Framework 2019-2020*, Scottish Funding Council, June 2019.

Appendix



Background information

Throughout the report, we refer to the following four university groupings:

- Ancient universities – University of Aberdeen (Aberdeen), University of Edinburgh (Edinburgh), University of Glasgow (Glasgow), University of St Andrews (St Andrews).
- Chartered universities – University of Dundee (Dundee), Heriot-Watt University (HWU), University of Stirling (Stirling), University of Strathclyde (Strathclyde).
- Modern universities – Abertay University (Abertay), Edinburgh Napier University (Napier), Glasgow Caledonian University (GCU), University of the Highlands and Islands (UHI), Queen Margaret University (QMU), Robert Gordon University (RGU), University of the West of Scotland (UWS).
 - UHI is unlike other universities in the sector because it delivers higher and further education through a partnership of 13 colleges, research institutes and specialist institutions across the Highlands and Islands. These partners are separate legal entities which employ their own staff and own their assets. All figures taken from the financial statements exclude income and expenditure (around £12 million or 10 per cent of UHI's total income in 2017-18) for research undertaken by UHI's partners.
- Small and specialist institutions (the SSIs) - Glasgow School of Art (GSA), Royal Conservatoire of Scotland (RCS), Scotland's Rural College (SRUC) and the Open University in Scotland (OU).
 - As OU financial statements do not differentiate their operations in Scotland from the rest of the UK, OU was excluded from the analysis of financial statements. In 2017-18, the SFC provided £23 million to the Open University in Scotland. OU was also excluded from the analysis of outcome agreements as the performance measures they use are not directly comparable to those used for other universities in Scotland ([Exhibit 12, page 32](#)).

When referring to student income ([paragraph 30](#)), we use the following terms:

- 'Scottish students' to refer to students whose home address is in Scotland
- 'RUK students' for students whose home address is in the UK but outside Scotland
- 'EU students' to refer to students whose home address is in the EU but not in the UK

- 'non-EU' students for students whose home address is outside the EU.

When we refer to Scottish Government funding to universities via the Student Awards Agency Scotland (SAAS), for Scottish and EU student tuition fees, this includes only income relating to eligible Scottish and EU students, as defined by SAAS.

Audit methodology

Evidence for the audit was gathered using three main approaches:

- Desk Research: We reviewed a range of information on universities in Scotland, including the SFC's letters of guidance, outcome agreements, other SFC reports, university strategic plans and accounts, ministerial letters to the SFC, Scotland's Economic Strategy and the National Performance Framework.
- Interviews: We conducted interviews with officials from the Scottish Government, SFC and the SAAS. We also met with a range of stakeholders, including universities, unions and auditors.
 - We carried out interviews at four universities: Edinburgh Napier University, Scotland's Rural College, Strathclyde University and the University of St. Andrews. We interviewed a range of staff, including principals, vice principals, directors of finance, heads of research and innovation, knowledge exchange, international recruitment, student support and strategic planning, estates directors.
- Data analysis: We analysed data from: the Scottish Government, the SFC, the Higher Education Statistics Agency and university financial statements. This included trend data on: the Scottish Government's budget; student numbers; and university income, expenditure and balance sheet information. Unless otherwise stated, all financial figures are in real terms.

Audit advisory group

Audit Scotland would like to thank the members of the advisory group who provided advice throughout the audit. The advisory group comprised:

- Lorna MacDonald (Scottish Funding Council)
- Professor Nigel Seaton (Abertay University)
- Liam McCabe (University of Stirling)
- Dr Roddy MacDonald (Scottish Government)
- Richard Dale (University of Newcastle).

Note: Members of the project advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Notes on financial data

The Scottish Government's budget ([paragraph 21](#)):

- Around half of capital funding is for maintenance, which is allocated pro-rata, to a university's share of its main teaching grant. The remaining capital funding is to support research or specific projects. For example, in 2018-19, the SFC provided GSA with loan support of £3.8 million.
- The capital budget fluctuates from year to year. In 2016/17, an additional £24.3 million was allocated to universities for the upgrade and maintenance of estates and research infrastructure. This was part of the Scottish Government's £100 million capital investment package to support the economy following the EU referendum result.

Measures of financial health: operating position and underlying position Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) ([paragraphs 15–19](#))

- Operating position is the surplus or deficit at the year-end. It is the income minus expenditure. There are a number of reasons why this can be an unreliable measure of financial health. For example, since 2015-16, universities must comply with Financial Reporting Standard 102 (FRS102). FRS102 changed the way some income and expenditure items were reported. This could make the operating position more volatile from year to year, making trend analysis more difficult. For example, capital grants, donations and endowments are now recognised as income, in full, in the year they are received. Before FRS102 was implemented, capital grants, donations and endowments were accounted for as income as the money was spent. In 2017-18, SFC capital grants were £28 million (0.7 per cent of income) and total donations and endowments were £41 million (one per cent of income). While this income is small relative to total income, it is concentrated in a small number of universities each year.
- To ensure figures are comparable between 2014-15 and 2017-18, we used the 2014-15 figures reported in the 2015-16 accounts. However, variation in universities' accounting policies across the sector prior to the implementation of FRS102 continue to affect the operating position for each university in different ways. For example, universities have different policies on the frequency of asset revaluation. For some universities, depreciation charges resulting from the revaluation of assets in 2014 continue to be included in the operating position, despite fluctuations in the property market over this period.
- EBITDA is the operating position before decisions on accounting and financing policies are applied. We calculated EBITDA using the definition recommended by the British Universities Finance Directors Group (BUFDG) in 2017. The figure does not include an adjustment for tax as this is very small for universities. EBITDA was calculated as follows:
 - surplus/(deficit) before other gains/losses and share of surplus/(deficit) in joint ventures and associates
 - **plus:** share of operating surplus/(deficit) in joint venture(s); share of operating surplus/(deficit) in associate(s); depreciation; amortisation of intangibles; amortisation of goodwill; interest payable; pension cost adjustment; fundamental restructuring costs
 - **minus:** capital grant income; new endowments; Research Development and Expenditure Credits (RDEC).

While RDEC is not in the BUDFG definition of EBITDA, it is an exceptional item that seven universities received in 2014-15 (totalling £64 million). RDEC was an HM Revenue and Customs tax credit that universities were able to claim on eligible research expenditure between 2013 and 2015.

TRAC (paragraphs 31–34)

- TRAC was established in 2000, to identify the full economic cost of research activities. It was intended to improve accountability for the use of public funds for research and to inform university decision-making. TRAC was subsequently extended to other university activities, including teaching. In 2015-16, to reflect changes resulting from the introduction of FRS102, the methodology for calculating TRAC was adjusted. These changes make it difficult to compare TRAC results from 2015-16 onwards with historical TRAC data.
- The calculation of TRAC requires individual universities to assess how costs should be allocated. For example, it is up to a university to decide how to apportion the maintenance and utility costs for a building that is used for both teaching and research, and this approach may vary across the sector. This subjectivity may result in TRAC data being inconsistent or misleading, particularly when comparing individual university-level data.

Cash and cash equivalents (paragraph 45) (Exhibit 7):

- This is the total value of cash held by the university, including items that can be converted easily and quickly into cash. We have used the cash and cash equivalent figures reported in university financial statements.

Unrestricted income and expenditure reserves (paragraph 47) (Exhibit 7):

- This is the accumulated surplus produced from a university's activities. In 2017-18, the £3.9 billion reserve consisted of:
 - the £3.5 billion balance at August 2017
 - minus a £25 million operating deficit in 2017-18
 - plus:
 - £392 million other comprehensive income (including, for example, gains or losses on investments that are classified as available for sale; pension plans and foreign currency translation)
 - £37 million transfer from the revaluation reserve (gains from the revaluation of fixed assets)
 - £4 million release of restricted funds spent in the year.

Net assets (paragraph 48) (Exhibit 7):

This is the total assets (eg buildings) owned by a university minus its total liabilities (eg debt).

Borrowing (paragraph 54):

- This includes: bank overdrafts, bank loans and external borrowing, obligations under finance leases and service concessions, and loans repayable to the SFC. The figure excludes other creditors such as SFC grant recovery, deferred income and deferred capital grants.

Finances of Scottish universities

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