

Board of Management Audit Committee

Date of Meeting	Wednesday 13 September 2017
Paper No.	AC1-G
Agenda Item	8.3
Subject of Paper	Internal Audit Report – Budgetary Control
FOISA Status	Disclosable
Primary Contact	Henderson Loggie
Date of production	August 2017
Action	For Discussion and Decision

Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

1. Purpose of report

The purpose of this review is to provide management and the Audit Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

2. Context and Discussion

Following the Audit Needs Assessment undertaken by Henderson Loggie in session 2016-17, and the consequent Internal Audit Strategic Plan 2016-2020, both approved by the Committee in March 2017, an operating plan was created for the year ended 31 July 2017.

This internal audit of Budgetary Control provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The 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.

3. Impact and implications

Refer to internal audit report.

City of Glasgow College

Budgetary Control

Audit Report No: 2017/08

Draft issued: 09 August 2017

Final issued: 29 August 2017

LEVEL OF ASSURANCE:

Good

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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.

1. Overall level of assurance

Good

System meets control objectives.

2. Risk Assessment

This review focused on the controls in place to mitigate the following risks on the College's Risk Register:

- 15 – Failure to achieve operating surplus via control of costs and achievement of income targets.

3. Background

As part of the Internal Audit programme at City of Glasgow College ('the College') for 2016/17 we carried out a review of the systems in place for budgetary control. The Audit Needs Assessment, completed in March 2017, 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's budget for 2016/17, submitted to the Board of Management for approval at its meeting on 10 October 2016, showed budgeted income of £107.105 million, staff costs of £44.599 million, other operating expenses of £28.832 million, other operating expenses – sales of buildings of £22.000 million, depreciation of £7.976 million and a unitary charge of £3.680 million resulting in an underlying operating surplus of £1.912 million.

4. Scope, Objectives and Overall Findings

This audit specifically considered budget monitoring procedures in place centrally and within a sample of Faculties and Support Services.

The specific objectives of the audit are set out in the table below:

Objective	Findings				Actions Already Planned
	Assurance	1	2	3	
The objective of this audit was to obtain reasonable assurance that:		No. of Agreed Actions			
1. Budgets are controlled in accordance with the Financial Regulations and procedures.	Satisfactory	0	0	1	✓
2. Budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved.	Good	0	0	0	
3. Long-term financial forecasts are prepared and scenario planning performed for a range of variables such as potential spending review reductions and increases in staff and other costs.	Good	0	0	0	
4. Information is available to management in Faculties and Support Services which is up-to-date and in a format that can be easily understood.	Satisfactory	0	0	0	✓
5. Budget holders have the necessary skills for managing budgets.	Good	0	0	0	
6. Budget variations are reported and acted upon.	Good	0	0	0	
7. Senior management and the Board regularly review the College's overall financial position.	Good	0	0	0	
Overall Level of Assurance	Good	0	0	1	
		System meets control objectives with some weaknesses present.			

5. Audit Approach

The Head of Finance, other Finance staff and a sample of budget holders in Faculties and Support Services will be interviewed, and reports reviewed, to determine current working practices in budget setting and monitoring, and the information and training provided to budget holders.

We will also establish and review the budget monitoring information provided to the College Senior Management Team and Board.

6. Summary of the Main Findings

Strengths

- The College Financial Regulations adequately set out the high-level process for budgetary control within the College.
- The College has prepared a long term financial plan for the period from August 2017 to July 2022 which forecasts the College's financial position based on a range of possible scenarios.
- The College has a Strategic Plan in place covering the period from 2017 to 2025. Where possible the College budget is set in line with other operational processes. Staff cost budgets are set in line with the required staffing levels and tuition fee income is set in line with the student recruitment plan.
- Budget holders are provided with timely information from Finance in the form of monthly budget reports. Monthly meetings are held between budget holders and the Management Accountant to enable discussion on any issues arising from the latest budget monitoring information.
- Although formal training has not been provided to budget holders they are provided with ongoing support and advice from Finance staff to help them manage their budgets. From discussion with a sample of budget holders we confirmed that they were content that they had the skills required to manage their budgets effectively.
- Budget variances are flagged to Finance as part of the monthly review of budget information which compares actual expenditure and income against the year to date budget position. This enables Finance to adjust the year end forecasts and to take a decision on whether virement of funds between budget headings is required.
- An updated forecast against the financial plan is presented to each Finance and Physical Resources Committee with supporting narrative provided to explain the forecast figures.

Weaknesses

- The College does not have detailed procedures or a formal timetable set out for its annual revenue budget setting process. While the current senior College management have considerable experience in setting the College budget, the absence of formal procedures presents a risk should these managers be unavailable during the critical elements of the budget setting process.
- Expenditure commitments are not currently shown as part of the figures reported as part of revenue budget monitoring reports. As a result, reported actual expenditure figures do not fully reflect committed spend and therefore budget monitoring information is potentially of less value to budget holders and to Finance.

7. 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.

8. Main Findings and Action Plan

Objective 1: Budgets are controlled in accordance with the Financial Regulations and procedures

The College Financial Regulations set out a number of provisions on budgetary control. A financial plan is to be prepared for consideration by the Finance & Physical Resources Committee each year prior to submission to the Board of Management. Revised financial forecasts are submitted throughout the year.

The control of income and expenditure within an agreed budget is the responsibility of the designated budget manager, who must ensure that day-to-day monitoring is undertaken effectively. Budget managers are responsible to their line manager for the income and expenditure relating to their budget cost centres. Per the Financial Regulations “Budget managers shall be assisted in their duties by management information”. As detailed below a range of management information is provided to budget managers. Other provisions of the financial regulations are referred to throughout the report where these are relevant to our overall audit objectives.

We noted that the current version of the financial regulations state that a number of tasks related to budgetary control are the responsibility of the “Executive Director Finance” rather than the current title of Vice Principal Finance and HR. As this is a minor point and the meaning of the regulations is still easily understood we have not raised a separate recommendation to address this issue because the Head of Finance has already identified the need to update all references to Executive Director of Finance in the next revision of the Financial Regulations.

Objective 1: Budgets are controlled in accordance with the Financial Regulations and procedures: (continued)					
Observation	Risk	Recommendation	Management Response		
<p>We noted that the 2016/17 budget was not approved by the Board until October 2016, after the start of the financial year. The revenue budget for 2016/17 was presented to the scheduled Finance and Physical Resources Committee but was not approved and as a result there was a delay in this being presented to the Board.</p> <p>There is currently no documented procedure describing the budget setting process. The staff involved are experienced in conducting the budget setting process and as such have previously not documented this process. However, should any of these experienced staff be unavailable during critical points in the budget setting cycle then there are no documented procedures in place to guide other staff less familiar with the various steps required to compile the annual revenue budget.</p>	<p>In the absence of documented procedures to guide the budget setting process the proposed revenue budget for the coming year may not be robust and may not be approved by the Board in line with the expected timetable.</p>	<p>R1 Produce a formal budget setting procedure which documents all the key stages of the budget setting process and the point in the annual budget setting cycle that each of these milestones should be completed by.</p>	<p>Agreed</p> <p>To be actioned by: Head of Finance</p> <p>No Later Than: 30 September 2017</p>		
			<table border="1"> <tr> <td>Grade</td> <td>3</td> </tr> </table>	Grade	3
Grade	3				

Objective 2: Budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved

The College's Financial Regulations state that the Financial Plan should have a demonstrable link to the College's Strategic and Operational Plans including the Student Recruitment Plan. The College's most recent Strategic Plan runs from 2017 to 2025 and sets out the College's eight strategic priorities and the high level strategic aims which support these priorities. In addition, the College is currently drawing up five lower level strategies covering different key areas of College business. The budget setting process does not form part of the strategic planning process. However, the Financial Plan, the Strategic Plan and lower level strategies will all be developed by taking cognisance of the same key factors; including anticipated developments in the College Sector and planned initiatives within the College which should in turn ensure that the demonstrable link described in the Financial Regulations is delivered.

In the current financial climate, there is an assumption that goods and services budgets will be frozen throughout the College. Where a budget freeze is likely to present a specific issue for budget holders they can discuss this with the Vice Principal Finance and HR who will then consider whether specific cost pressures warrant the amendment of the budget for the coming year. Each service and faculty is given a high-level goods and services budget and although this is split by budget line this figure is only indicative and there is no requirement for spend to remain within budget for each line provided that the overall service or faculty spend remains within budget. Each service or faculty is responsible for preparing their own Operational Plan annually. The service or faculty will be aware of their budget in advance of producing their Operational Plan and will therefore consider budget restrictions as part of this process. Both the operational plan and the budget will also be influenced by the same issues and developments within the College.

Staff cost budgets are set by review of the College's staffing levels. Current staff levels are confirmed by the Management Accountant through discussion with services and faculties and the Vice Principal Finance & Human Resources will advise of any potential new posts which are likely to be approved in the year. Based on this an initial staff costs budget can be drawn up. The costs should then remain reasonably consistent and Finance will monitor these costs to ensure there are no unexpected discrepancies. Any change to approved staffing levels will require additional ELT approval and once approved will result in Finance amending forecasts and budgets.

The bulk of the College income budget relates to either tuition fees or SFC grants, which are dependent on delivery of an appropriate number of credits. These income budgets are therefore set as part of the College Student Recruitment Plan. They are also monitored as part of student recruitment monitoring and not solely through the budgetary control process.

The budget is reforecast by the College throughout the year and reported at a high level to the Finance and Physical Resources Committee. Forecasting at a lower level also occurs within the Finance Department and any variations must be approved by an appropriate member of staff.

Objective 3: Long-term financial forecasts are prepared and scenario planning performed for a range of variables such as potential spending review reductions and increases in staff and other costs

A long term financial plan was presented to the Finance & Physical Resources Committee in May 2017 covering the period from August 2017 to July 2022. This report presents three scenarios, one based on optimistic assumptions, one based on pessimistic assumptions and one based on realistic assumptions. The different scenarios each use different potential income and expenditure figures estimates based on planned developments within the College and foreseeable events within the sector. The main variables include SFC Grant funding levels, tuition fee income growth and staff costs.

The pessimistic assumption currently forecasts a deficit position for the College of £8.224 million by 2021/22. Although not set out in detail the College has a range of initiatives within the plan which could be deployed to improve the College's financial position to help the College achieve a break-even position if pessimistic assumptions become a reality.

Objective 4: Information is available to management in Faculties and Support Services which is up-to-date and in a format that can be easily understood

Goods and services budget reports are prepared and issued to budget holders following the month end by the Management Accountant. In the month preceding the start of our audit fieldwork a new report format had been introduced. This format is less time consuming for the Management Accountant to produce and is easier to understand from a budget holder perspective. From review of the new reports provided they include monthly and cumulative year to date budget and actual figures with a column calculating the variances. From discussion with several budget holders we confirmed that the new format of budget reports produced by Finance are considered to be sufficiently detailed and are easy to understand. We also confirmed that the budget reports were provided to budget holders on a timely basis following the month end.

From review of budget reports, we noted that several cost centres and budget lines had no budget allocated against them despite spend being recorded against them. The College has decided that rather than restricting and monitoring spend on a line by line basis they are primarily concerned with ensuring that each service or faculty's total goods and services spend is in line with their overall budget. The split provided by Finance in budget reports is only an indicative figure based on historical spend. The advantage of this approach is that it provides budget holders with the freedom to spend their allocated budget as they see fit and retain flexibility throughout the year. The risk with this approach is that by not monitoring spend line by line the College fails to notice overspending on a specific category of goods or services. To mitigate against this risk Finance also carry out a high-level review of spend by budget line so that any expenditure which appears excessive, based on the indicative budget or through consideration of reasonableness, can be discussed with budget holders in the monthly meeting with the Management Accountant.

Budget holders also have access to Clear, a module of the finance system which is used for detailed reporting. This allows them to drill down to individual transaction level within their budgets. Budget holders may need to make greater use of the system going forward as the new report format does not include a detailed transaction listing which was sent out with the old report format.

Each month the Management Accountant meets with budget holders to discuss their budget including any concerns over variances. Where it is not possible to arrange meetings the Management Accountant will ensure that they contact the budget holder at some point during the month so that issues can be raised if required by both the budget holder and the Management Accountant. We confirmed with budget holders that they were content with the frequency of their meetings with the Management Accountant and that the support provided at these meetings was valuable. Budget holders also advised that they were happy with the level of ad hoc support provided by Finance for to deal with any financial queries arising outwith the scheduled monthly meeting cycle.

The main issue noted by budget holders was that budget information does not include committed expenditure against the cost centres they are responsible for. This was flagged by budget holders because the current actual expenditure figures shown in the budget figures do not include committed expenditure which has not been posted against a revenue cost centre. At present, Finance depend on budget holders being able to provide accurate information on their expenditure commitments to obtain a comprehensive picture on how the area is performing against budget. From discussion with senior managers in Finance it will not be possible to reflect commitments in budget reports until work has been completed to extend the use of the PECOS e-procurement system and integrate this fully with the Finance system. As work to address the issues around commitment accounting are already underway we have not raised a separate recommendation in this report.

Objective 5: Budget holders have the necessary skills for managing budgets

From discussion with a sample of budget holders all of them confirmed that they had no concerns over their ability to manage their own budgets. Although formal budget holder training has not been provided the sample of budget holders confirmed that support had been provided at the one to one meetings with Finance as required. Consideration of ability to manage budgets is also be part of the selection process for roles with budget responsibility.

From discussion with budget holders not all of them were aware of Clear, the software used for accessing detailed information from the finance system. Finance advised that the reason that the budget holders did not make use of the software was that they did not feel they needed the additional level of detail that it provided. Work has previously been carried out to advise budget holders on the existence of Clear and to demonstrate how to use this software. As previously noted budget holders may have a greater requirement for detailed information going forward due to a change of report format which no longer includes detailed transaction listings. Therefore an additional exercise is planned for the beginning of the next financial year 2017/18 to once again advise budget holders on the existence of Clear and to demonstrate how to use this software. This should address any issues arising from the removal of the detailed transaction level information from the monthly budget statements by providing budget holders with a mechanism to drill down into individual cost centre figures.

Objective 6: Budget variations are reported and acted upon

Budget variations are discussed with budget holders by the Management Accountant at the monthly meetings. The Management Accountant ascertains whether these variations are temporary and can be addressed by control of spending during the remainder of the financial year or whether a change to the budgeted amount is required. The budget holder is asked to justify the variance before any budget amendments are considered. As noted previously no action is taken on variances within individual cost centres or budget lines as there is not a detailed budget split to this level but action will be required if the faculty or service has an adverse variance against budget.

The financial regulations state that virement must be approved by the Executive Director Finance and be reported to the Finance & Physical Resources Committee if the virement is of “particular strategic significance”. In practice, all virements are reported to the Finance & Physical Resources Committee as part of the standard report to this committee with narrative provided to explain the rationale for any strategically significant revisions made to budget figures. Both the Head of Finance and Vice Principal Finance & Human Resources have virement approval thresholds in line with their purchase authority thresholds.

Objective 7: Senior management and the Board regularly review the College's overall financial position.

A report is produced for each Finance & Physical Resources Committee meeting by Finance to update the committee members on the latest position against budget for the year. This report is also circulated to the College SMT. Explanations of any major variances and the assumptions used in forecasts are included in the committee report. The budget figures reported are high level and are not broken down to service or faculty level. As a result, individual budget headings are not subject to detailed scrutiny by the Finance & Physical Resources Committee. A projected surplus of £303,000 for 2016/17 was reported to the committee in May 2017.