# ANNIESLAND COLLEGE

## ANNUAL REPORT TO THE BOARD OF MANAGEMENT, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH GOVERNMENT ON THE EXTERNAL AUDIT FOR THE YEAR ENDED 31 JULY 2012

Wylie + Bisset LLP
Chartered Accountants, Business & Tax Advisers

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| Date of commencement of Final Visit | 22nd October 2012 |
| Date of Audit clearance meeting | 13th November 2012 |
| Date of Presentation to Audit Committee | 4th December 2012 |
| Proposed presentation to Board of Management | 13th December 2012 |

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**APPENDICES**

# 1. EXECUTIVE SUMMARY

## 1.1. Financial Review

The college returned a surplus of £457,000 for the year ended 31 July 2012. The comparative result for year ended 31 July 2011 was a surplus of £149,000. This is after accounting for exceptional restructuring costs of £50,000 (2011 £46,000).

The College maintains a strong overall balance sheet position with net assets of £53,513,000 (2011 £59,387,000). It is noted that this is after accounting for a write down of £4,100,000 in the valuation of the land at the Hatfield campus and a pension reserve deficit of £1,682,000 (2011 £850,000). The reduction in the net asset position is principally due to the reduction in the land value mentioned above and a large actuarial loss experienced during the year of £905,000.

For the year ended 31 July 2013, the College has predicted an operating surplus of £5,456 within its annual budget. The College is working towards a merger with Langside and Cardonald Colleges which is expected to take effect from 1 August 2013.

## 1.2. Financial Statements

We have issued an unqualified audit opinion on the accounts of Anniesland College for the year ended 31 July 2012.

Following discussion with College Management the adjustments made to the draft numbers presented for audit are included in appendix C for the attention of the Board of Management.

## 1.3. Corporate Governance

We have undertaken an overall review of the Corporate Governance arrangements in place at the College. Based on our findings it appears that the College has strong systems in place to comply with Corporate Governance requirements.

## 1.4. Regularity

We have issued an unqualified regularity opinion. There are no significant issues that we wish to draw to the Boards attention in this regard.

## 1.5. Recommendations to Management

We have made recommendations relating to:

- Fixed asset disposals;
- Lennartz VAT reconciliation;
- Nursery income;
- Purchase order numbers;
- Bank reconciliations;
- Deferred capital grants;
- Fixed asset register;
- Board attendance.

## 2. INTRODUCTION

Wylie & Bisset LLP were appointed as the External Auditors of Anniesland College with effect from 1 August 2011 for a period of 5 years (until 31 July 2016).

Our audit has been carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice (the 'Code') issued by Audit Scotland in March 2007. Paragraph 24 of the 'Code' states that the auditor's objectives are to:

- Provide an opinion on whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;

- Review and report on the College's corporate governance arrangements as they relate to:

    - The College's review of its systems of internal control
    - The prevention and detection of fraud and irregularity
    - Standards of conduct, and the prevention and detection of corruption
    - Its financial position, and

- Review aspects of the College's arrangements to manage its performance.

The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.

The responsibilities of Wylie & Bisset LLP with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B. -

Our audit report on the financial statements for the year ended 31 July 2012 is unqualified. -

Our audit work has been designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose - all weaknesses in internal controls in relation to the College's systems and financial statements. -

This Annual Report has been prepared for the purposes of the College's management and Board and should not be issued to third parties without our prior - written consent. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we - would like to thank for their help and assistance throughout our audit visit. -

Should you have any queries on the contents of the Annual Report please do not hesitate to contact us. -

## 3. FINANCIAL REVIEW

### 3.1. Financial Statements

The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year. The Accounts Direction requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ("the SORP").

The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

### 3.2. Audit Opinion

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the year ended 31 July 2012, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year ended 31 July 2012 and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006. We are satisfied that funds received have been applied for their intended purpose.

### 3.3. Submission of Working Papers

The financial pages of the accounts submitted for audit were substantially complete and included all majority of the relevant financial information. Working papers provided have been of a good standard and queries arising from the audit have all been resolved. Key staff members were available for consultation throughout the audit process. *See further comment in section 7.*

In particular, the College provided the audit team with access to their accounting system. This allowed access to "drill down" into accounts to the relevant supporting documentation. This increased the efficiency of our audit and reduced the time commitment required from the College's finance staff.

### 3.4. Income and Expenditure Account

- The retained result of the College for the year is a surplus of £457,000.
- Scottish Funding Council (SFC) grant income has reduced by £1,429,000 to £10,814,000 in line with budget based on available funding from SFC.
- Tuition fees and education contract income has reduced by £229,000 to £1,571,000 due to a reduction in student numbers, again in line with expectation.
- Other grant income has reduced by £819,000 to £770,000 due to a reduction in ESF tenders won by the college.
- During this financial year, the College incurred restructuring costs of £50,000 (2011 £46,000). This largely relates to staff severance payments.
- The recurring staff costs, including FRS 17 Pension costs have reduced by £2,049,000 to £8,796,000 (2011 £10,845,000) compared to last financial year. FRS17 pension costs result in a credit of £266,000 (2011 £347,000) to the I&E account and are therefore relatively consistent year on year. The forecast budget for 2012/13 show staff costs of £8,129,000 indicating the current staff numbers to be manageable despite the current changing financial climate in which the college is operating.
- Other operating expenses have decreased by £389,000 to £3,240,000 (2011 £3,629,000) primarily due to fewer courses being offered to manage the cut in SFC funding.
- The College has currently budgeted for a surplus of £5,456 in 2012/13.

| | **Y/E 31/7/12** | **Y/E 31/7/11** |
|---|---|---|
| | **£'000** | **£'000** |
| **Income** | | |
| Scottish Funding Council Grants | 10,814 | 12,243 |
| Tuition fees and education contracts | 1,571 | 1,800 |
| Other grant income | 770 | 1,589 |
| Other operating income | 783 | 763 |
| Investment income | 49 | 39 |
| | 13,987 | 16,434 |
| **Expenditure** | | |
| Staff costs | 8,758 | 10,845 |
| Exceptional restructuring costs | 50 | 46 |
| Other operating expenses | 3,240 | 3,629 |
| Depreciation | 1,482 | 1,590 |
| Impairment following property revaluation | - | 175 |
| | 13,530 | 16,285 |
| **Surplus** | 457 | 149 |

## 3.5. Balance Sheet

| | 31/7/12 £'000 | 31/7/11 As restated £'000 |
|---|---|---|
| Tangible fixed assets | 54,107 | 59,467 |
| Debtors : amounts falling due in less than one year | 738 | 1,659 |
| Cash in hand and at bank | 6,441 | 6,855 |
| Creditors : amounts falling due in less than one year | (3,259) | (4,554) |
| Creditors: amounts falling due after more than one year | (2,746) | (3,190) |
| Pension liability | (1,682) | (850) |
| Net assets | 53,513 | 59,387 |
| Deferred capital grants | 43,049 | 44,375 |
| Income & Expenditure reserve excluding pension reserve | 3,546 | 3,162 |
| Pension reserve | (1,682) | (850) |
| Revaluation reserve | 8,600 | 12,700 |
| Total Funds | 53,513 | 59,387 |

- Assets have decreased by £5,360,000 to £54,107,000 (2011 restated : £59,467,000). This is principally due to a reduction in the valuation of the Hatfield land which has resulted in a £4,100,000 reduction in the carrying value.
- Debtors have decreased by £921,000 to £738,000 due to ESF income being received in the year and fewer ESF claims being made as the number of projects run has decreased.
- Creditors due in less than one year have decreased by £1,600,000 to £3,259,000 (2011 £4,859,000) due primarily to significant building work accruals within the prior year.
- Creditors due in more than one year have reduced by £444,000 to £2,746,000 (2011 £3,190,000) due to continued repayment of Lennartz VAT in line with scheduled payments.
- The net assets of the College have decreased by £5,874,000 to £53,513,000 (2011 £59,387,000). This is primarily due to the reduction in the Hatfield land carrying value of £4,100,000 and an increase in the pension deficit to £1,682,000 from £850,000 following the revaluation process which has been undertaken in accordance with the requirements of FRS 17. *See comment in section 4.2.*
- A prior year adjustment has been incorporated in the accounts of £305,000 to correct the double counting of retention costs on new build property within 2010-11. The effect of this adjustment is to reduce the 2011 building carrying value and accruals by £305,000.

## 4. AUDIT APPROACH AND KEY FINDINGS

### 4.1. Our Approach

Our audit approach recognises the requirements of the Code and is designed to adhere to the general principles outlined therein. Our approach is also designed to address the requirements of the Financial Memorandum between the Scottish Funding Council (SFC) and the Boards of Management of the Colleges of Further Education.

Our audit approach is risk based and focused on the key risks facing the College.

During our initial planning procedures, we identified a number of areas where we considered the risk of misstatement in the accounts to be greater than normal. Our audit procedures were designed and undertaken to ensure greater focus on these risk areas in order that specific conclusions could be made with regard to the identified risks. Details of the risks identified, our audit response and our conclusions are included within Appendix D.

As part of our interim procedures, we documented the systems and controls in place at the College and obtained an understanding of their operation. In accordance with auditing standards, we confirmed our documented understanding of the main operating cycles and associated accounting systems via interviews of staff and the performance of walk through tests. This process has allowed us to review, in the course of our audit, the key elements of the College's systems of internal financial controls in the main operating cycles.

Based on both our interim review and our main audit procedures, we have not identified any areas where the operation of internal financial controls could be improved.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the College's accounts as a whole. An audit does not examine every operating activity and accounting procedure in the college, nor does it provide a substitute for management's responsibility to maintain adequate controls over the college's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the colleges systems and working practices, or of all improvements that could be made.

## 4.2. Audit Issues Arising

During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance. This practice is an established part of the audit process. This report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit, noted as follows:

**Accounting Policies**: In accordance with FRS18, the Audit Committee has formally reviewed the accounting policies included in the Annual Accounts. There have been no changes to the accounting policies in this year. We have not identified any instances where we consider the accounting policies to be inappropriate.

**Pension Fund liabilities** : The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Strathclyde Pension Fund (SPF) for the non-teaching staff. The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with *Financial Reporting Standard 17 - Retirement Benefits* (FRS 17), the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

The SPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in the balance sheet. The College has consistently reported significant FRS 17 liabilities over the past few years. The Strathclyde Pension Fund's actuaries provide the College with an updated valuation on an annual basis which is reflected in the pensions liability disclosed on the balance sheet. We have reviewed the College's accounting for these pension schemes and found that it complies with the requirements of FRS 17 and that disclosure is consistent with the actuarial report.

**Early retirement provision:** The College has previously given early retirement to staff and makes payments to the pension fund to cover any shortfall arising from the decision to grant access to retirement benefits early.

The FE SORP considers unfunded pension benefits arising in relation to early retirement costs as follows:

**"***Early Retirement Costs*

*FRS 17 notes that 'Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.' Therefore payments made to employees as a result of early retirement, arising from these circumstances, would need to be recognised, measured and provided for in full and in accordance with FRS 12.*"

FRS 12 requires that "provisions *should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed*".

Any movement required in the provision should be recognised in the I&E account for that year. This would indicate that under the FE SORP the treatment adopted for early retirement costs should be accounted for under FRS12 however the accounting treatment adopted by the College in relation to the pension schemes in place and the early retirement provision is in accordance with applicable guidance issued by Audit Scotland which indicates for early retirement benefits either method can be followed. The College recognises a liability for future payments in relation to these early retirements in conjunction with the aforementioned SPF liability. We have reviewed the College's accounting for these early retirement benefits and found that it complies with the guidance issued by Audit Scotland and that disclosure is consistent with the actuarial report.

We state this merely to bring it to the attention of The Board of Management that under the auspices of the FE SORP the retirement benefits should be accounted for under FRS12. There is no qualification in this respect.

### 4.3. Other matters

**Proposed Merger:** The College is working toward a merger with Cardonald College and Langside College which is expected to take effect from 1 August 2013. As part of our audit procedures we have reviewed the financial due diligence reports issued in respect of the College. There are no matters arising from these reports which we consider could have an impact on the financial statements for the year ended 31 July 2012.

**Merger accounting:** The College must assess, in accordance with Financial Reporting Standard (FRS) 6 'Acquisitions and Mergers' whether the combination of the College with another institution is an acquisition or merger for accounting purposes. Merger accounting should only be used where combinations are not, in substance, the acquisition of an entity (or another institution) by an institution but the formation of a new reporting institution as a substantially equal partnership where no institution is dominant. The criteria contained within FRS6 should be followed, if required, when preparing the financial statements for any merged entity in the future.

**Going Concern:** Wylie & Bisset LLP in accordance with International Standard on Auditing (UK & Ireland) ISA 570 : Going concern require to consider the Board of Managements use of the going concern assumption in relation to the financial statements of the College for the year ended 31 July 2012. It is the Board of Management's responsibility to consider a period of at least 12 months from the date of approval of the financial statements in relation to whether the entity is a going concern. This period will take the College to December 2013 and requires the Board to consider, in conjunction with fellow merger partners, the entity's ability to continue in existence during this merged period beyond 1 August 2013.

### 4.4. Unadjusted errors

Appendix C includes a copy of the letter of representation which we have sought from the Board in support of the matters reported to us during our audit procedures. This letter includes reference to the summary of unadjusted errors and deviations. The unadjusted errors shown were discussed with College Management and after due consideration were deemed to be immaterial and have not been adjusted.

### 4.5. Independence

International Standard on Auditing (UK and Ireland) 260: Communication with those charged with governance, requires that we communicate at least annually with you regarding all relationships between our firm and Anniesland College which, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff and to detail the related safeguards in place.

We are not aware of any such relationships between our firm and Anniesland College that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff.

In our professional judgement, as of the date of this report, Wylie & Bisset LLP is independent of Anniesland College within the meaning of United Kingdom regulatory and professional requirements and the objectivity of Ross McLauchlan and the audit staff is not impaired.

## 5. CORPORATE GOVERNANCE

Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. The respective responsibilities of the College and Wylie & Bisset are summarised in appendix A.

Although we are not required to form an opinion on the adequacy and effectiveness of the individual components of the college's code of corporate governance, we are required *under the Code* to consider the corporate governance arrangements in place at the college.

### *5.1. Internal Audit*

Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

The College's internal auditors during the year ended 31 July 2012 were Baker Tilly.

In the course of the year ended 31 December 2012 the following areas were scheduled to be reviewed by the Internal Auditor:

- Strategic Planning
- Voluntary Severance
- Fixed Assets
- Debt Collection

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the reports issued by the Internal Auditor. At the time of our audit, reporting was complete in relation to the scheduled work to be undertaken and the annual report has been issued.

Minutes of the audit committee were also reviewed.

Our findings in this area proved satisfactory, allowing us to conclude that the internal audit function is operating effectively. Formal reliance has been placed on the internal audit fixed asset work during the current year. We anticipate that going forward to the year ended 31 July 2013 we will seek to place reliance on the Internal Auditors findings in certain areas.

### *5.2. Statement of Corporate Governance*

We have reviewed the Colleges Statement of Corporate Governance included within the financial statements. Whilst we do not express an opinion on this statement, we are required to report where a statement does not comply with the requirements of SORP or other guidance, or if it is misleading or inconsistent with other information of which we are aware. The content of this statement is consistent with our understanding of Anniesland College.

As part of our audit we have performed a review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity. In addition, we reviewed the College's Risk Register and risk management arrangements along with the minutes of meetings of key College committees issued during the year.

The College is committed to exhibiting best practice in all aspects of Corporate Governance and, in the opinion of the Board of Management the College complies with all the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector.

The College's full Board of Management meets four times a year and has several committees through which it conducts its business. Each committee has formally constituted terms of reference and standing orders. These committees include: a Finance and Resources Committee, a Learning and Teaching Committee, an Audit Committee, a Human Resources Committee, a Remuneration Committee and a Nominations Committee. They comprise mainly lay members of the Board, one of whom is the Chair.

Board members also include members from College staff and students.

The Board annually completes an exercise on self-evaluation which is based on the responsibilities of the Board and on the 'Good Governance Standard for Public Services'. Each committee of the Board completes an annual self-evaluation exercise based on the remit of the committee. Both exercises include an evaluation of the performance of the Chair(s).

We have also considered the arrangements made by the college in order to address the requirements of the Bribery Act 2010 that came into force on 1 July 2011 in order to assess their appropriateness and adequacy.

Based on our review, we are satisfied that the College operates appropriate Corporate Governance procedures and that management has adequate arrangements in place covering standards of conduct.

We found no matters therein to impact upon our audit opinion and we have no recommendations in this area to strengthen the Corporate Governance arrangements currently in place.

## 6. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Best practice requires that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Governance procedures.

An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities during our audit planning procedures.

In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:

- The monitoring and compliance with financial procedures;
- The College's strategy to prevent and detect fraud and other irregularities;
- The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.

No areas of significant concern were found during normal audit procedures.

We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Overall we concluded that management has an adequate approach to fraud prevention and detection and has reasonable controls in place to ensure that - potential areas for fraud are detected and dealt with in an appropriate manner. -

There are no specific recommendations made in this area. -

## 7. AUDIT RECOMMENDATIONS – 31 July 2011

BDO LLP were the external auditor to the College during the year ended 31 July 2011.

At the conclusion of their audit procedures they prepared an Annual Report to management in relation to the accounts of the College for the year ended 31 July 2011.

### 7.1. Draft Accounts

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| **2011 Observation:** | The first set of draft accounts was provided to the audit team on the 27th October. However, it was incomplete, including accounting for FRS 17 and the impairment. Delay in the provision of completed accounts restricts the time that the audit team have to work on them and give relevant feedback to the College. |
| **2011 Recommendation:** | The College should ensure that they provide as complete a set of accounts as possible for the first day of the audit visit, in line with the request in our planning memorandum. |
| **2011 Management Response:** | Noted. The college had previously advised that we would be seeking advices from auditors concerning the handling of FRS 17, were awaiting consultants response re component analysis of new build and valuation report regarding Balshagray. |
| **2012 Update: (carried forward)** | **Draft accounts provided to us on the first day of the fieldwork were incomplete with FRS 17 figures and full time equivalent staff numbers not updated in the accounts. We repeat the original recommendation.** |
| **Management Response:** | Auditor assistance required with FRS 17. Changed SFC requirements re staff numbers calculation delayed production for accounts purposes. |

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| **7.2. <u>Committee Membership</u>** | |
| **2011 Observation:** | It was noted that two members of the Audit Committee are also members of the Finance & Property Committee and that the Chair of the Board also chairs the Remuneration Committee. In addition the post of Clerk to the Board is held by the College's Finance Director.<br><br>These appointments are not in line with best practice. |
| **2011 Recommendation:** | The College should take cognisance of best practice guidance in its appointments to committees and the post of Clerk to the Board. |
| **2011 Management Response:** | Noted. At its December 2011 meeting the Board plans to appoint another board member to Chair the Remuneration Committee. |
| **2012 Update: (completed)** | **The Chair of HR Committee has now been appointed as the Chair of the Remuneration Committee. No further action required.** |

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| **7.3. <u>Strategy documents / committee terms of reference</u>** | |
| **2011 Observation:** | There are various terms of reference (for committees) and other documents (fraud policy, whistleblowing policy etc) - that have not been updated for several years. |
| **2011 Recommendation:** | These documents should be updated on a regular basis, in line with best practice. |
| **2011 Management Response:** | Noted. |
| **2012 Update: (carried forward)** | These documents have still to be updated. We repeat the original recommendation. |
| **Management Response:** | All policies being re-considered in the light of merger arrangements. |

**7.4. Older assets**

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| **2011 Observation:** | The College has large amounts of fully depreciated fixed assets that have been built up since 1993 (e.g. computers, equipment etc). These assets may have been disposed of but not extracted from the accounts due to there being no proceeds. The move to the new College building offers management an opportunity to review the College's fixed assets fully. We recommend that the College management review their fixed asset listing and remove those assets that they are unable to ascertain as to whether they are still owned/used by the College. |
| **2011 Recommendation:** | We would recommend that such a review is completed to ensure that assets which are no longer being used or that have been scrapped are removed from the fixed asset listing. |
| **2011 Management Response:** | Recommendation will be followed up in 2012. |
| **2012 Update: (carried forward)** | **The fixed assets still include old, fully depreciated items. We repeat the original recommendation.** |
| **Management Response:** | A few "old", fully depreciated, items still remain. Assets schedule to be updated. |

**7.5. ESF project tracker spreadsheets**

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| **2011 Observation:** | During our main visit it was noted that several ESF project tracker spreadsheets had not been updated to reflect qualifying costs incurred. As a result it may be difficult to keep a track of whether the College is on track to meet projected expenditure and can also result in delayed submission of ESF claims. The latter can be detrimental to cashflow. |
| **2011 Recommendation:** | ESF project tracker spreadsheets should be updated for costs incurred on a regular basis. Claims should then be submitted promptly. |
| **2011 Management Response:** | Spreadsheets are updated on a regular basis. Claims can only be submitted after approvals of previous claims are received, which is mostly much slower than we would like. |
| **2012 Update: (complete)** | The college is now unable to bid directly for ESF funding so the recommendation is now redundant. No further action required. |

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| **7.6. Board self evaluation** | |
| **2011 Observation:** | The Board has not carried out a self-evaluation process in the year. The Board is currently considering proposals for a more formal self evaluation process. However a formal process should take place at least annually. |
| **2011 Recommendation:** | A formal process should be put in place as soon as possible, in line with best practice. |
| **2011 Management Response:** | The Board has already submitted views as to process options. Recent sector announcements and events have sidelined the self-evaluation process but this would be completed by the time of our 'residential' during the first half of the new year at the latest. |
| **2012 Update: (carried forward)** | Board self evaluation has not been undertaken but there is an expectation that will be done as merged entity. |

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| **7.7. Register of interests** | |
| **2011 Observation:** | Board members did not complete a formal declaration on interest in the year. Although the declaration in interests is a standing issue on the Board and Committee agendas, the College should still ensure that the Register of Interests is completed and signed on an annual basis to ensure that related parties are being adequately disclosed. |
| **2011 Recommendation:** | The College should ensure that board members sign the register of interests on a timely basis. |
| **2011 Management Response:** | Noted. |
| **2012 Update: (carried forward)** | **We note from our review that the register of interests has not been updated.** |
| **Management Response:** | Revised register of interest list to be obtained by Clerk to the Board. |

## 8. AUDIT RECOMMENDATIONS – 31 July 2012

During our audit procedures a number of observations were made where we have identified opportunities for improvement in the systems and controls in place at the College.

These points are noted below, detailing the observations and implications therefore along with our recommendation for improvement.

### 8.1. Prioritisation

The points within the report have been assigned a priority level based on the urgency required in addressing the matters highlighted. An explanation of the priority is as follows:

**High Priority -** Recommendations addressing significant control weaknesses which should be implemented immediately. -

**Medium Priority -** Recommendations addressing significant control weaknesses which should be addressed in the medium term. -

**Low Priority -** Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the College - matches current best practice. -

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| **8.2. Fixed Asset Disposals** | |
| **Observation:** | The item being disposed of in the year was in fact physically disposed of in 2008/09. The finance team has no method of monitoring what items of equipment the college still owns.<br><br>Also many items of Computer equipment have a £nil NBV therefore the depreciation rate may be too high, or this is a reflection of the items not being disposed of through the accounts on a timely manner. |
| **Implication:** | Although the Net Book Value of these assets was £nil meaning there was no impact on the I&E account the cost and accumulated depreciation were overstated in previous year accounts. |
| **Recommendation:** | We recommend that the college should have formal disposal procedures that involve the monitoring of equipment via an Assets Register which can be reconciled to the nominal ledger on a regular basis to ensure all additions and disposals are correctly recorded in a timely manner. |
| **Priority:** | **Medium** |
| **Management Response:** | Agreed. Procedures to be brought into line with merger partners. |

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| **8.3. Nursery Income** | |
| **Observation:** | From our review we note that the College provides nursery facilities to members of the public. This activity is outside the College's charitable activities and therefore if the value of income received from the general public is greater than the small trades exemption limit of £50,000 this may jeopardise the College's corporation tax exemption status. |
| **Implication:** | There is a risk that the College will be liable to corporation tax on the income received from the general public for nursery fees. |
| **Recommendation:** | We recommend that the College monitors the level of income received from the general public in respect of nursery fees to ensure that it does not breach the small trades exemption limit of £50,000. |
| **Priority:** | **Medium** |
| **Management Response:** | "External" Nursery fees to be identified on a regular basis to ensure exemption maintained. |

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| **8.4. Order Numbers** | |
| **Observation:** | We note from our review of purchases that the order number per the PECOs system is different from the order number per the Dream system. It was found that the Dream system has jumped 2 order numbers. |
| **Implication:** | There is a risk that the purchase process gets confused with 2 different order numbers per purchase. |
| **Recommendation:** | We recommend that the PECOs and Dream system order numbers are synced to ensure that each purchase has the same order number in both systems. |
| **Priority:** | **Low** |
| **Management Response:** | Agreed. No reason found as to how the current variation occurred. |

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| **8.5. Bank Reconciliations** | |
| **Observation:** | From our review of bank reconciliations performed throughout the year we noted that for 2 months the reconciliation had not been signed by the Finance Manager as evidence of their review. |
| **Implication:** | There is a risk that errors in the bank reconciliation or large differences are not highlighted in a timely manner resulting in errors within the accounting system distorting the management accounts. |
| **Recommendation:** | We recommend that all bank reconciliations are signed by the Finance Manager as evidence of their review. |
| **Priority:** | **Low** |
| **Management Response:** | Agreed. This is the normal process. |

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| **8.6. Deferred Capital Grants** | |
| **Observation:** | Our review found that the college does not maintain a schedule for deferred capital grants which details exactly which grants make up the outstanding balance. We note that there is a summary schedule however it is difficult to establish which grants make up the total outstanding balance. |
| **Implication:** | There is a risk that the deferred capital grants balance is incorrect and the college is unaware of which grants have now been fully released and how long it will be until other grants will be fully released. |
| **Recommendation:** | We recommend that a detailed deferred capital grants schedule is maintained which will allow the college to monitor which grants are being released and which have now been fully released. |
| **Priority:** | **Low** |
| **Management Response:** | Agreed. A more detailed schedule to be created and maintained. - |

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|---|---|
| **8.7. Fixed Asset Register** | |
| **Observation:** | We note from our review that the fixed asset register has not been maintained throughout the year. |
| **Implication:** | The College is not aware of what items they have purchased or disposed of in the year. It is also difficult to establish if the release of deferred capital grants is in line with the depreciation charged for the asset in the year therefore the release of deferred capital grants may be incorrect. |
| **Recommendation:** | We recommend that the fixed assets register is maintained throughout the year this will reduce the time spent by the finance team at the year end trying to establish the fixed asset movements in the year. By keeping the register up to date the College will be able to quickly identify what assets have been purchased in the year to ensure that they make the correct decisions when considering potential asset acquisitions. |
| **Priority:** | **Low** |
| **Management Response:** | Agreed. |

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|---|---|
| **8.8. Board Attendance** | |
| **Observation:** | We note from our review that two board members have attended less than 50% of board meetings. We note however that separate meetings have been held with these board members but no record has been kept of these meetings. |
| **Implication:** | It is difficult to ensure that these board members are fulfilling their duties as board members effectively and contributing to discussions surrounding the college. This is particularly important at present given the substantial changes in the sector and the impact these will have on the College. |
| **Recommendation:** | We recommend that a record is kept of any individual meetings held with the Principal or Chair with these board members in order to demonstrate they are being kept up to date. |
| **Priority:** | **Low** |
| **Management Response:** | Discussions have been held with both members. One, the Student President, has left the college and has been replaced. The other has met with both Principal and Clerk to the Board and is kept up to date regarding college progress. |

## 9. CURRENT ISSUES

### 9.1 Accounting developments

***Developments in the future of UK GAAP***

The Accounting Standards Board continues to meet regularly to discuss and address the comments received on FRED 43 'Application of financial reporting standards' and FRED 44 'Financial reporting standard for medium-sized entities (FRSME)'. These two standards, together with FRED 45 'Financial Reporting Standard for Public Benefit Entities (FRSPBE)', set out a proposed IFRS-based framework for UK GAAP. The comment period for FRED 45 closed on 31 July 2011. The Further and Higher Education SORP is expected to be retained and updated based on the final FRSME and the FRSPBE.

The ASB has taken tentative decisions:

- To defer the effective date to 1 January 2014. For Colleges with a year-end of 31 July, the first full year of adoption will be 2014/15 with a restated opening balance sheet required as at 1 August 2013;
- To change the principles for amending the IFRS for SMEs to permit or require accounting options that align with EU-adopted IFRS, for example revaluation of property, plant and equipment;
- To specifically refer to SORPs in the FRSME (in relation to selection of an accounting policy);
- To amend the draft FRSME to meet required formats under Company law;
- To remove the requirement for publicly accountable entities to prepare accounts under EU-adopted IFRS. This means the application of EU-adopted IFRS will not be extended beyond the current requirements in law and consequently the scope of the FRSME will be expanded in certain areas; and
- To retain a reduced disclosure framework for all qualifying subsidiaries (with one exception for subsidiaries which are financial institutions) and to require these entities to follow the relevant SORP. For the College the proposals therefore are either:

| **Tier 1**<br>**Full EU- adopted IFRS** | **Tier 2**<br>**FRSME** |
|---|---|
| Applies as required in law (eg listed entities)<br><br>Entities may choose to adopt full IFRS<br><br>FRSPBE is guidance<br><br>Follow SORP | All other entities<br><br>FRSPBE is mandatory<br><br>Follow SORP |
| Subsidiaries apply reduced disclosures | Subsidiaries apply reduced disclosures |

## 9.2 Pension Auto Enrolment

From 1 October 2012 the Government introduced compulsory work place pensions via the Pension auto-enrolment scheme. The aim of this reform is to reduce the pension deficit in the private sector. For the first time, all employers with at least one worker in the UK will have to contribute to a qualifying pension for their staff who must be auto-enrolled in to the scheme.

Auto-enrolment (AE) is a fundamental change that will impact every employer. Auto-enrolment will be introduced on a gradual or 'staged' basis from October 2012 to February 2014 depending on the size of the organization, starting with the largest employers, eventually affecting all employers regardless of size.

The AE scheme imposes duties on employers to assess their entire workforce, to enroll eligible workers into a qualifying pension scheme and to make a minimum pension contribution on behalf of eligible employees.

A qualifying scheme may be an existing one, if it meets relevant criteria, or a new scheme, including possibly the new National Employment Savings Trust (NEST) pension scheme. Minimum employer contributions will start at 1% and increase to 3% by 1 October 2018.

The key features of auto-enrolment are:

- employers with UK workers must automatically enrol eligible workers aged between 22 and State Pensionable Age who have annual earnings above £8,105 into a qualifying scheme;
- enrolment must occur when the worker first meets eligibility requirements (normally day one of an employment), but there will be an optional 3-month waiting period which provides exemption from having to auto-enrol very temporary workers;
- specific notification must be provided to the worker of their opt-out right, but with no inducements to opt-out; and
- workers who do opt-out within a month of being enrolled must be paid a refund, and be automatically re-enrolled every 3 years.

The new duty will apply to all eligible employees not in a pension scheme, including those who have already opted-out of existing pension arrangements. A decision is therefore needed as to whether to use existing pension schemes to meet the duty (which may have higher contribution rates than the statutory minimum required by this new legislation) or to use a different vehicle for auto-enrolment where possible. It is important to define a strategy as early as possible, as this will dictate how much work is required to achieve compliance and what additional administrative resources will be required e.g. to support the interfaces between pensions, HR and payroll systems. In order to make accurate assessments of workers, data with regard to age, earnings and pension contributions will need to be complete and accurate. Employers must capture information in line with the record keeping and communication requirements, and the consequences of non-compliance with AE will be governed by the Pensions Regulator. There are financial penalties for non-compliance. The clear onus on the employer to get things right means processes and systems will need to be correctly mapped in order to avoid any negative ramifications. The cost of complying with the regulations could be substantial and the impact on operational administration should not be under estimated. We can assist clients in understanding the administrative impact, provide specialist pension advice, deliver effective communications and explore cost reduction strategies to help manage increased payroll costs. In our experience, planning with respect to AE compliance should begin at least a year in advance of an organisation's staging date.

### 9.3 Real Time Information

Real Time Information “RTI” is due to commence in April 2013 and represents the most fundamental change to the PAYE system in decades.

Every employer will be impacted and HMRC will require significantly more information about each employee than currently provided, every time employers run the payroll as opposed to at the end of the tax year. RTI is designed to integrate reporting within the payroll process such that the software will collect the information and send it directly to HMRC, thereby reducing the administrative burden relating to year end reporting. It will also support the payment of universal tax credits and aid identification of fraud and error in this area.

Many employers have participated in a pilot launch of RTI from April 2012 and by October 2013 all employers who were not part of the pilot will have to implement RTI reporting procedures.

For RTI to work, all employers will have to prepare by taking certain measures. Specifically:

- ***Cleaning Data*** – for RTI to work the data held by employers on their employees must be as clean as possible. Information such as name, address and national insurance number must be correct and up to date to ensure that HMRC can match records correctly and ensure the right amount of deductions are paid.
- ***Payroll alignment*** - all employers will have to provide HMRC with an extract of all employees in their PAYE scheme that tax year, regardless of whether they have since left. HMRC will then compare this data with data they already have to ensure records are accurate and up to date.
- ***Change internal processes*** - employers may have to change their internal processes to accommodate RTI, including the payroll software used as this will need to be updated for RTI

**STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF MANAGEMENT**

The Board of Management are required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education and other relevant accounting standards.

In addition, within the terms and conditions of the Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

These financial statements are prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

Financial statements of the College may be published on the College's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the College's website is the responsibility of the Board. The Board's responsibility also extends to the ongoing integrity of the financial statements contained therein.

APPENDIX A

The Board of Management has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the College and prevent and detect fraud;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance & Resources Committee;
- Professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal control can, however, only provide reasonable but not absolute assurance against material mis-statement or loss.

APPENDIX B

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF ANNIESLAND COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT**

We have audited the financial statements of the Board of Management of Anniesland College for the year ended 31 July 2012 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, Statement of Historical Cost Surpluses and Deficits, Statement of Total Recognised Gains and Losses , Balance Sheet and Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities or to third parties.

**Respective responsibilities of Board of Management and auditor**

As explained more fully in the Statement of Responsibilities of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and receipts.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and income in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion 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 of the state of the body's affairs as at 31 July 2012 and of its surplus for the year then ended;

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF ANNIESLAND COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT (Continued)**

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

**Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;

**Opinion on prescribed matters**

In our opinion the information given in the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

**Wylie & Bisset LLP**

Chartered Accountants

168 Bath Street

Glasgow, G2 4TP

Date: 15 March 2013
Wylie & Bisset LLP is eligible to act as an auditor in terms of Section 21 of the Public Finance and Accountability (Scotland) Act 2000

APPENDIX C

Anniesland College
19 Hatfield Drive
Glasgow
G12 0YE

13 December 2012

Messrs Wylie & Bisset LLP
Chartered Accountants
168 Bath Street
Glasgow
G2 4TP

Dear Sirs

**LETTER OF REPRESENTATION**

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the year ended 31st July 2012.

1. We acknowledge as members of the Board of Management our responsibility for ensuring:

a) the financial statements are free of material misstatements including omissions . -
b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2012. -
c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been - properly reflected and recorded in the accounting records.
d) all other records and related information, including minutes of all management meetings, have been made available to you.
e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and
f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

2. - We have appointed Baker Tilly as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you.

3. - We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

4. - The College has no liabilities or contingent liabilities other than those disclosed in the accounts.

5. - All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

6. - There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

7. - The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

8. - We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education or accounting standards.

9. - The College has not contracted for any capital expenditure other than as disclosed in the accounts.

10. - The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements. Where these assets are included at market value in order to comply with accounting standards, we confirm that the market value has been determined based on our "best estimate" using relevant information currently available to us.

11. - We are not aware of any irregularities, including fraud, involving management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.

12. - We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.

APPENDIX C

13. We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

14. We confirm that we have considered the attached unadjusted errors discussed at our meeting. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts. The combined effect of the errors is not material and we do not consider that their absence from the financial statements affects the true and fair view given.

15. We confirm that we approve the attached journal adjustments which have been processed in drafting the statutory accounts.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

…………………………………………….. Chairman

…………………………………………….. Principal & Chief Executive

APPENDIX C

**JOURNAL ADJUSTMENTS**

| | Assets £ | Liabilities £ | Reserves £ | Income & Expenditure £ |
|---|---|---|---|---|
| Write down of Hatfield campus land value | (4,100,000) | - | 4,100,000 | - |
| Adjustment to Lennartz liability | 86,284 | (86,284) | - | - |
| **TOTAL IMPACT OF AUDIT ADJUSTMENTS** | **(4,013,716)** | **(86,284)** | **4,100,000** | |

**SCHEDULE OF UNADJUSTED ERRORS AND DEVIATIONS**

| | Assets £ | Liabilities £ | Reserves £ | Income & Expenditure £ |
|---|---|---|---|---|
| Deferred capital grant over release (Balshagray campus) | - | - | (6,393) | 6,393 |
| Reversal of over accrued income | (7,229) | 1,370 | - | 5,859 |
| Inclusion of Prince's Trust project income | 33,557 | - | - | (33,557) |
| Post year end invoices relating to 2011/12 | 39,175 | - | - | (39,175) |
| **TOTAL IMPACT OF UNADJUSTED ERRORS** | **65,503** | **1,370** | **(6,393)** | **(60,480)** |

APPENDIX D

**IDENTIFIED AUDIT RISK, APPROACH & CONCLUSION**

| Risk | Audit response | Conclusion |
|---|---|---|
| **<u>Audit of opening balances</u>**<br><br>In the first year of an audit engagement there is a risk that the auditors are not satisfied with the correct statement of the opening balances. This could have a material impact on the results for the year under audit arising from the impact on the current periods income and expenditure account, of any required restatements. | Our audit procedures are designed to ensure we adequately address this matter. We will obtain sufficient appropriate audit evidence to satisfy ourselves that:<br>• The opening balances do not contain misstatements that materially affect the current periods financial statements;<br>• The prior period's closing balances have been correctly brought forward to the current period, or where appropriate have been restated, and;<br>• Appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.<br>In addition to our standard audit tests in this area we will review prior year audit working papers, where considered necessary, along with the prior year audit report and accounting policies to satisfy ourselves that the opening balances are correctly stated. | Our procedures noted no issues with regard to the opening balances. All balances were correctly stated.<br><br>No further issues were noted.<br><br>We are satisfied that the accounting policies are reasonable and are adequately presented and disclosed. |

APPENDIX D

| Risk | Audit response | Conclusion |
|---|---|---|
| **Financial performance** | | |
| Following the recently approved 2012/13 budget, funding resources for Scotland's Colleges remain tight and are reduced from previous levels. SFC grant in aid remains the main source of income however the levels received from SFC are reduced in comparison to previous years. | We will review budgets and budget setting and monitoring arrangements to ensure these adequately meet the needs of the college in a time of tight resources. As part of our audit process we will review the College's final outturn and ensure we can adequately explain any deviations from budget. | We are satisfied that the procedures and processes operated by the College in this area are adequate to meet the needs of the College in a time of tight resources.<br><br>All significant deviations from budget have been adequately explained and supported. |
| There is therefore increased risk associated with the demand this places on current resources due to the occurrence of non standard transactions such as voluntary severance. | Any non standard transactions will be specifically reviewed as part of our audit testing and ensuring adherence with the requirements of *FRS12 Provisions, Contingent Liabilities and Contingent Assets.* In particular, any severance provision will be assessed. | We are satisfied that non standard transactions have been processed correctly. |
| **Sector structural changes** | | |
| There is a risk of increased public scrutiny following the initiation of the Scottish Government's joint consultation process, together with the Scottish Funding Council, in November 2011 which outlined a vision for regional groupings of colleges.<br><br>The college has indicated that it supports regionalisation reform and is pursuing a merger with Cardonald College and Langside College. | We will review the college's planned approach to merger and consider any impact this may have on the College's governance arrangements, internal controls and financial statements in the year under audit.<br><br>We will consider the recommendations made in the Griggs Report to ensure governance arrangements adhere to best practice. | Based on our review of appropriate minutes of meetings and the financial due diligence report we can see the College has commenced collaborative workings with its partners. We will continue to review progress in this area throughout our engagement. |

APPENDIX D

| Risk | Audit response | Conclusion |
| --- | --- | --- |
| **<u>Override of Internal Controls</u>** | | |
| There is a risk of fraud or error arising due to management override of controls. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs. | Our audit procedures will include testing the appropriateness of journal entries recorded within the general ledger and other adjustments made in the preparation of the financial statements, along with a review of accounting estimates for any evidence of management bias. We will also consider specifically any significant transactions outside the normal operations of the College | Satisfactory. Our testing has highlighted no issues in this area. There are no indicators of inappropriate management override of controls. |
| **<u>Revenue Recognition</u>** | | |
| There is a risk of material misstatement due to errors in revenue recognition. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs unless it can be specifically rebutted. | Our standard testing procedures in this area will adequately address the associated risk such that a specific additional audit response is not required. | Satisfactory. Our testing of the income balances has highlighted no issues with regard to revenue recognition providing adequate assurance over the figures included within the financial statements. |

APPENDIX E

**Wylie & Bisset Contact Details**

| Name | Position | Email |
|---|---|---|
| | | |
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