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Chartered Accountants

Forth Valley College

Annual Audit Report for 2011/12 to the Board of Management and the Auditor General for Scotland

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Notice: About this report

This report has been prepared in accordance with our responsibilities under International Standards on Auditing (ISAs) and those set out within Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only Forth Valley College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against Henderson Loggie CA (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Financial Statements

- On 14 March 2013 we issued an audit report with an unqualified opinion on the financial statements of the College for the year ended 31 July 2012 and on the regularity of the financial transactions reflected in those financial statements. This was after the deadline of 31 December 2012 due to a delay while a technical issue around the date to which all college financial statements are drawn up was resolved.

- The College has shown a deficit for the year of £0.512 million including voluntary severance costs but before exceptional estates items (2010/11: surplus £0.347) and a deficit of £4.569 million after exceptional estates items (2010/11: deficit £1.586 million). The College has an Income and Expenditure Account balance of £(6.368) million at 31 July 2012 (31/07/11: £(2.484) million).

- The College's new Alloa campus was opened in September 2011 and the new Stirling campus development was completed in March 2012. These have been funded through Scottish Funding Council (SFC) grant funding; draw down of a term loan of £4.5 million; and use of College reserves. £15.055 million was added to Assets in the Course of Construction during 2011/12 in relation to the Alloa and Stirling campus developments bringing the total spend to £44.902 million. All costs included within Assets in the Course of Construction were fully reviewed by the College at the year-end, and an independent valuation obtained, and £41.462 million was transferred to Land & Buildings and Plant & Equipment with the balance of £3.440 million written-off to the Income and Expenditure Account in 2011/12.

- The College offered a voluntary severance scheme in 2011/12 for which 35 staff were accepted with a total cost of £1.053 million.

- The College's pension liability and pension provision increased in total by £3.208 million which was largely due to changes in key actuarial assumptions relating to discount rates and expected future asset returns. The impact of the changes in these assumptions led to an additional expense of £0.350 million being recognised in the Income and Expenditure Account.

Corporate Governance

- The College's Corporate Governance Statement confirms that the College complies with all of the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2012.

- No material weaknesses in the accounting and internal control systems were identified during the 2011/12 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Some areas were however identified from our interim testing during 2011/12 where controls could be further improved to bring more into line with good practice. These have been discussed with management and action has already been taken or is under consideration to address the majority of these.

- We did not identify any matters of concern relating to the College's corporate governance arrangements regarding the prevention and detection of fraud, or standards of conduct and the prevention and detection of corruption.

Performance

- The College management and committee structure includes mechanisms to monitor and manage financial and non-financial performance which are considered appropriate.

- Education Scotland published a positive report on the education provision of the College in May 2012. The report gave four clear confidence statements with no caveats and no main points for action. It also identified a number of strengths and three examples of excellent practice.

Outlook

- The Scottish Government has identified the College as making up the Central region and it is not included in a regional grouping with any other college. Regional Outcome Agreements with the SFC have been finalised for 2012/13.

- SFC funding (Grant-in-Aid and Fee Waiver) for 2012/13 has been set at £17.971 million, a reduction of £2.052 million on 2011/12. In addition the College has received an allocation of £1.196 million additional growth funding and £0.300 million ESF funding. The funding position will remain challenging going forward. The voluntary severances undertaken in 2011/12 will help reduce future pay costs and assist the College in coping with the funding reductions however robust budget setting and monitoring arrangements will be essential in helping to achieve sustainability.

HENDERSON LOGGIE

Background

1. 2011/12 was the first year of our five year appointment as external auditors of Forth Valley College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by International Standard on Auditing (ISA) (UK and Ireland) 260: Communication of Audit Matters with Those Charged with Governance.

2. The audit framework is outlined in our Strategic Planning Memorandum and 2011/12 Annual Audit Plan issued on 3 May 2012 and considered and approved by the Audit Committee. The scope of the audit was to:

    - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;

    - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and

    - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include;

    - compliance with legislation and financial regulations;

    - fixed assets transactions, including consideration of any impairment, revaluation of land and buildings and the potential impact on the financial statements; the estates development strategy implementation; on-going estate improvements and maintenance; and compliance with relevant financial reporting standards;

    - recoverability of debtors;

    - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;

    - compliance with Financial Reporting Standard (FRS) 17 – Retirement Benefits and provision for pension liabilities for early retirals; and

    - compliance with the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

5. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.

6. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

Acknowledgement

7. Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.

Audit Opinion

8. On 14 March 2013 we issued an audit report with an unqualified opinion on the financial statements of the College for the year ended 31 July 2012 and on the regularity of the financial transactions reflected in those financial statements. This was after the deadline of 31 December 2012 due to a delay while a technical issue around the date to which all college financial statements are drawn up was resolved (refer to paragraph 9 below). This issue was outwith the control of the College and Henderson Loggie, and centred on finding evidence to support the change of accounting date from 31 March, as prescribed in primary legislation, to 31 July.

9. The issue was considered at a national level between Audit Scotland and the Scottish Government. Following provision of further information to all college auditors the issue was resolved on 21 January 2013 through the acceptance by all auditors that sufficient evidence was available to show that an order to change the date had been made. This allows an unqualified opinion to be given. We are required to undertake audit work from the Balance Sheet date up to the date of signing the financial statements and this was undertaken in the period up to 14 March 2013. One event was identified that required adjustment to be made to the financial statements. On 6 February 2013 the College reached agreement with the contractor on the Final Accounts for the Alloa and Stirling new campus developments. A reduction of £0.180 million was made to the accrual included in the financial statements to bring into line with the Final Accounts, with a corresponding reduction in the valuation of Land and Buildings.

Audit Completion

10. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. Table 1 summarises the three key elements of the audit process.

Table 1: Key elements of the audit process

Completeness of draft financial statements A set of draft financial statements was received on 2 October 2012 in advance of the final audit visit commencing on 3 October. These were of a high standard and required minimal presentational changes as part of the audit process. However, the accounting treatment for the College's major capital project spend, together with related grants, was still under consideration by management and property valuations had still to be incorporated. A set of draft financial statements incorporating adjustments for the above was received on 19 November and further revisions received on 27 November, 5 December and 11 February 2013.
Quality of supporting working papers Working papers provided to support financial statement figures were of a satisfactory standard.
Response to audit queries We are pleased to note that audit queries were dealt with in a timely manner.

Corporate Governance Statement

11. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

Corporate Governance Statement (Continued)

12. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process and report where the statement is not consistent with our knowledge of the body and report if the statement does not comply with SFC requirements.

13. The College's corporate governance statement for 2011/12 states the College complies with all of the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2012.

14. From our audit work and our review of the College's statement we have no issues to report within our audit opinion.

Audit and Accounting Adjustments and Confirmation

15. In Table 2 we draw attention to the agreed audit adjustments to the financial statements made by management following the audit process which had the impact of increasing the 2011/12 deficit by £0.013 million. There were no material adjustments noted as part of the audit. Two potential adjustments were not processed as these were trivial and the overall impact of these would be to decrease the reported deficit for the year by £0.006 million.

Table 2: Audit adjustments

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
***Adjusting entries**:*				
Other operating expenditure	19			
Accruals				19
Late invoice accrual				
Other operating expenditure		6		
Prepayments			6	
Job advertisements paid for in advance but not used by year-end				
Reclassification entries				
Other creditors			139	
Payments received in advance				139
Reallocation of Business Unit deferred income from 'Other creditors' into 'Payments received in advance'				
Trade Debtors			16	
Trade Creditors				16
Reclassification of debit balances within creditors and credit balances within debtors				
Total	19	6	161	174
	=====	=====	=====	=====

16. In addition to the entries noted above a number of late adjustments, mainly relating to fixed assets, deferred capital grants and the revaluation reserve, were made to the financial statements (including the adjustment noted at paragraph 9). These adjustments had not been made to the draft financial statements presented for audit as the College was awaiting more information from the valuers and project managers. The net impact of these adjustments was to increase the deficit by £4.094 million, bringing the total impact of the adjusting entries to a £4.107 million increase in the deficit.

Audit and Accounting Adjustments and Confirmation (Continued)

17. In addition a number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

Confirmations and Representations

18. We confirm that as at the date of this report, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

19. In accordance with auditing standards, we obtained representations from the College on material issues.

Financial Position

20. SFC circular SFC/31/2009, issued on 16 October 2009, defines a sustainable college as one which ‘continually develops the quality of its learning activities to meet the changing needs of its customers, society and the economy, controls its costs, and year on year secures sufficient income to resource its planned activities and enable a level of current and future investment necessary to maintain its assets.’

21. Table 3 provides a summary of the College’s planned and actual financial results, based on the formal returns submitted by the College to the Funding Council.

Table 3: Comparison of planned and actual financial results

	2010/11 Actual £000	2011/12 Planned £000	2011/12 Actual £000	2012/13 Planned £000
Financial outturn Surplus/(Deficit)	(1,586)	(77)	(4,569)	120
Income and expenditure reserves (excluding pension reserve)	(2,484)	(1,981)	(6,368)	(991)*
Cash balances	8,715	3,765	3,377	2,962

Source: Audited financial statements and Financial Forecast Return (FFR)
(* set prior to year-end adjustments for major capital projects)

22. Overall, College income in 2011/12 decreased by £1.774 million (5.6%) over 2010/11 to £29.690 million. The major movements in income were significant reductions in SFC recurrent grant (£2.005 million) and Other SFC grants (£0.344 million), partially off-set by an increase in the Release of deferred capital grants (£0.995 million).

23. Expenditure before exceptional estates items (refer paragraphs 31 and 33 below) has decreased by £0.915 million (2.9%) from 2010/11 to £30.202 million. The following are the main items and reasons for movements.

- staff costs decreased £2.409 million (11.3%) due to reduced staff levels as a result of previous years’ severance schemes and the lack of any wage or salary increase in year;
- the College ran a voluntary severance scheme in 2011/12 for which 35 staff were accepted with a total cost of £1.053 million (2010/11 £0.950 million);

Financial Position (Continued)

- the early retirement pension charge increased from £0.640 million to £0.990 million which was due to the actuary's assumptions being amended, including using a lower discount rate on liabilities; and
- the depreciation charge increased by £1.169 million to £2.176 million with the new Alloa and Stirling campuses coming into operation.

24. Audit Scotland's national report *Scotland's colleges – Current finances, future challenges* published in October 2012, comments on the financial position of all Scotland's colleges. The report noted that Forth Valley College was one of only three colleges reporting a net Income and Expenditure Account reserve deficit in 2010/11. In the case of Forth Valley College and one other College the report highlighted that the deficit could largely be attributed to repayable advances by the SFC to help support the College's estates development programmes. Audit Scotland observed that analysis of the College's accounts for 2009/10 and 2010/11 suggested that the underlying financial health was reasonably robust and it appeared capable of eliminating the Income and Expenditure Account reserve deficit and repaying the advance from its own resources. Voluntary severance costs and the accounting for estates developments during 2011/12 has led to a further significant increase in the Income and Expenditure Account reserve deficit at 31 July 2012. The underlying position in 2011/12 continues to be robust and projections also show that the College should be able to manage the position.

25. The College's recent restructuring exercises have reduced the College's pay cost and this and the College's £8 million term loan facility provide it with a strong base for coping with reduced future SFC funding.

2011/12 SUMs Outturn

26. The College's outturn against its 2011/12 Weighted SUMs target is shown in table 4.

Table 4: 2011/12 Weighted SUMs outturn

	2010/11	**2011/12**
WSUMS target (including ESF and PACE WSUMs)	119,312	114,506
WSUMS actual	119,330	114,616
Excess	18	110

Source: Audited SUMs returns

27. The audit of the SUMs return for 2011/12 was carried out by Baker Tilly who concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

28. The 2012/13 Weighted SUMs target has been revised downwards to 112,233, which includes additional growth and efficiency and ESF WSUMs allocated to the College by the SFC.

FRS 17 Retirement Benefits

29. In 2011/12 the College accounted for its participation in the local government pension scheme as a defined benefit scheme. This is consistent with the accounting treatment adopted in previous years.

Financial Position (Continued)

30. The pension liability increased by £2.583 million in 2011/12 to £9.133 million which was largely due to changes in key actuarial assumptions relating to discount rates and expected future asset returns. Audit Scotland noted in the national report *Scotland's colleges – Current finances, future challenges* that the College had the largest pension deficit of all those reporting a pension deficit for 2010/11.

Capital Income and Expenditure

31. The College's new Alloa campus was opened in September 2011 and the new Stirling campus development was completed in March 2012. These have been funded through SFC grant funding; draw down of a term loan of £4.5 million; and use of College reserves. £15.055 million was added to Assets in the Course of Construction during 2011/12 in relation to the Alloa and Stirling campus developments bringing the total spend to £44.902 million. All costs included within Assets in the Course of Construction were fully reviewed by the College at the year-end, and an independent valuation obtained, and £41.462 million was transferred to Land & Buildings and Plant & Equipment with the balance of £3.440 million written-out to the Income and Expenditure Account in 2011/12 as an exceptional item. As previously noted, on 6 February 2013 the College reached agreement with the contractor on the Final Accounts for the new campus developments and an accrual has been included in the financial statements at 31 July 2012 based on these.

32. Final funding from the SFC for the new campus developments has been received or accrued in the financial statements. In 2011/12 £4.602 million of this has been included within Deferred Capital Grants.

33. In line with FRS 15 – Tangible Fixed Assets and the SORP the College's existing land and buildings were revalued at 31 July 2012 by an independent valuer and this resulted in an unrealised surplus on revaluation of £3.509 million and a charge of £0.617 million to the Income and Expenditure Account, which is disclosed as an exceptional item.

34. FRS 15 and the SORP also require that where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. The requirements of FRS 15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the assets are charged to the Income and Expenditure Account over the periods in which they are consumed. We recommended in our 2011/12 Annual Audit Plan that consideration be given to obtaining surveys of the new campuses from the College's professional advisors to identify major components with substantially different useful economic lives. From discussion with College management at our year-end visit we established that this information is not currently available however plans are in place to obtain it and apply it for the 2012/13 financial statements (see recommendation **R1** Appendix II). It has been accepted that, due to the corresponding release of deferred capital grants, a change to component accounting would not give rise to a material difference in the depreciation charge to the Income and Expenditure Account in 2011/12.

35. The College's fixed asset register has still to be updated to reflect the year-end accounting adjustments for the new campus developments and assurance has been received from College management that this will be undertaken during 2011/12 (see recommendation **R2** Appendix II).

Financial Position (Continued)

Provisions

36. The College has a provision in its balance sheet at 31 July 2012 of £7.293 million (31/07/11 - £6.668 million) relating to pension costs from early retirements awarded to former employees. The College's approach to the valuation of the provision is to have an independent actuarial firm calculate this provision annually. The provision increased £0.625 million in 2011/12 largely due to the actuary's assumed discount rate being changed from 5.3% in 2010/11 to 4.1% in 2011/12.

37. A provision also exists for £3.0 million (31/7/11 - £3.0 million) for amounts that will have to be repaid to the SFC when the College sells surplus land at Branshill, up to a maximum of £3.0 million. The College has advised that it will hold onto this land until land values recover and hopes to receive over £3.0 million when it eventually sells the land.

Corporate Governance

38. The College is responsible for ensuring that governance arrangements follow the three fundamental principles of openness, integrity and accountability and that these arrangements are in place to ensure the proper conduct of its affairs. Mechanisms to monitor the adequacy and effectiveness of these arrangements should also be in place.

39. Our responsibility, as noted in the Code of Audit Practice, is to review and report on audited bodies' corporate governance arrangements as they relate to:

- Bodies' reviews of corporate governance and systems of internal control, including reporting arrangements;
- The prevention and detection of fraud and irregularity;
- Standards of conduct and arrangements for the prevention and detection of corruption; and
- The financial position of audited bodies.

40. Comments on the financial position and the College's Corporate Governance Statement are covered in the Financial Statement section of this report.

41. We have considered the College's governance arrangements through formal review of documents and procedures and informal observation of the operation of committee arrangements and the relationships between Board members and staff. In particular we have considered arrangements for risk management and reporting to committees. We did not identify any areas of concern regarding the College governance arrangements.

Risk Management

42. Risk management is important for the development and on-going review of systems of internal control.

43. The College's Risk Management Policy and Procedure details the College's approach to risk capture, monitoring and reporting.

44. The College has a Strategic Risk Register which is reviewed by the Audit Committee. Risk is a standing item on the agenda for the Senior Management Team, all Board sub-committees and the Board.

45. In 2011 the College's internal auditors provided risk training for College staff and each College area was requested to compile a risk register which is now used on an ongoing basis for identifying, evaluating and managing risks.

46. The major estates redevelopment projects have utilised professional project managers who have detailed project risk registers which are monitored and updated on a regular basis. The Estates Development Steering Group (Board sub-committee) reviews the estates project risk registers at each of its meetings.

Systems of Internal Control

Control Environment

47. No material weaknesses in the accounting and internal control systems were identified during the 2011/12 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Systems of Internal Control (Continued)

48. Some areas were however identified from our interim testing during 2011/12 where controls could be further improved to bring more into line with good practice. These have been discussed with management and action has already been taken or is under consideration to address the majority of these. Actions for improvement included:

- incorporating further segregation into finance system access controls for some members of staff;
- reviewing the BACS limits now that the new campus development work has been completed and requiring two electronic signatories;
- enhancing the current checks over the payroll; and
- ensuring till reports are always supplied to Finance for checking against amounts banked.

Internal Audit

49. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Baker Tilly provided internal audit services to the College in 2011/12. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate. We have also considered the adequacy of the provision and are content that the audit service is of good quality.

50. The annual internal audit report issued for the year ended 31 July 2012 did not identify any issues that affect our audit conclusions.

Fraud and irregularity, standards and conduct, and prevention and detection of corruption

51. During 2011/12 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

52. The College has appropriate arrangements in place regarding the prevention and detection of fraud, including Standing Orders and Operating Guidelines and Code of Conduct, Financial Regulations and an Anti-Fraud and Anti-Corruption Policy and Procedure.

53. No frauds were identified during the period from 1 August 2011 up to the date of this report.

54. The College has in place the following procedures / policies in relation to standards of conduct and prevention and detection of corruption:

- Standing Orders and Operating Guidelines and Code of Conduct;
- Register of Board Members' Interests;
- Anti-Fraud and Anti-Corruption Policy and Procedure;
- Anti-Bribery Policy (which was taken to the Board for approval in December 2012); and
- Whistleblowing Policy.

55. The arrangements for maintaining standards of conduct and the prevention and detection of corruption are considered to be appropriate.

Performance Audit

56. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

57. No mandatory performance audit studies were identified by Audit Scotland for the College during 2011/12. Audit Scotland's planning guidance identified optional follow-up work on audited bodies' response to *Scotland's public finances – addressing the challenges*, which was published in August 2011; and carrying out Audit Scotland's focused follow-up on *The Role of Boards* report using key audit questions issued by its Performance Audit Group. Neither follow-up was undertaken formally, however we have not identified any additional actions in these areas that the College needs to take.

National Performance Reports

58. The other main report relevant to the College is *Scotland's Colleges – current finances, future challenges* issued in October 2012. The report makes recommendations for the Scottish Government, the SFC, and existing colleges and proposed regional boards. In particular the report recommends that: 'existing colleges and proposed regional boards should:

- ensure that strategic planning for course provision in their areas responds to the national objectives and priorities for post-16 education, and also reflects the needs of local employers and students, and the views of community planning partners;
- ensure that planning for course provision is based on robust financial and other resource plans; and
- explore opportunities to reduce their costs through economies of scale, joint working and better partnership working. Colleges should develop clear assessments of the workforce skills and attributes needed in future to inform their strategies and procedures for staff changes and reductions.'

59. The College has a regional outcome agreement which is aimed at responding to the national objectives and priorities for post-16 education, and works with Local Authorities, Community Planning Partnerships, Skills Development Scotland and employers to ensure its education provision meets the needs of learners and the community. The College continues to work in partnership with organisations to achieve economies of scale and better efficiency.

Education Scotland Review

60. We are required by Audit Scotland's Code of Audit Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.

61. Education Scotland published a positive report on the education provision of the College in May 2012 following a visit in March 2012. The report gave four clear confidence statements with no caveats. It also identified a number of strengths and three examples of excellent practice including the Learning Activity Planning and Evaluation Tool developed by the College and the Regional Gateway to Work initiative, in conjunction with other partners, which Education Scotland notes has significantly improved the employment prospects of those affected by unemployment and redundancy in the Forth Valley area. No main points for action were identified from the Education Scotland review.

62. The report is Crown Copyright and can be found at this link:

http://www.educationscotland.gov.uk/inspectionandreview/reports/othersectors/collegereviews/ForthValleyCollege.asp

Performance Audit (Continued)

College Performance Arrangements

63. The College does not have a formal mechanism to consider Audit Scotland reports however we have been advised this will be implemented in 2012/13.

64. Arrangements for financial and non-financial management are established in the College, through the operation of the Senior Management Team and the Board and its various committees. This includes budget setting and monitoring structures.

65. The College's Standing Orders and Operating Guidelines and Code of Conduct, including its Scheme of Delegation records the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner.

66. The College has a Corporate Plan 2011-14 and an annual 2011/12 Operational Plan.

67. Key performance indicators are set out in the Operating and Financial Review in the College's annual report.

68. The College's arrangements for performance management as outlined above are considered to be appropriate.

Outlook

2012/13 and beyond

69. The Scottish Government's College regionalisation plans are well underway in the sector although various regions are at differing stages in the merger process. As Forth Valley College was formed already as the result of a merger the Scottish Government has identified the College as making up the Central region and is not included in a regional grouping with any other college. Regional Outcome Agreements with the SFC have been finalised for 2012/13.

70. The Scottish Government introduced The Post-16 Education (Scotland) Bill on 27 November 2012. The Bill, currently at Stage 1 of its progress, covers a number of areas, including college regionalisation and the constitution, duties and operation of Regional Boards.

71. Revenue funding (Grant-in-Aid and Fee Waiver) for 2012/13 for Forth Valley College has been set at £17.971 million, a reduction of £2.052 million on 2011/12. In addition the College has received an allocation of £1.196 million additional growth funding from the SFC and £0.300 million ESF funding. A draft budget was issued by the Scottish Government on 2 October 2012 which indicated further significant reductions in funding for both 2013/14 and 2014/15. These were partially reversed when, in February 2013, the Cabinet Secretary announced an additional £10 million of college sector funding for 2013/14, and that the 2014/15 budget would equal the revised 2013/14 budget, an increase of £51 million over that previously announced. The SFC will be involved in deciding how this additional £61 million will be spent. Allocations of additional funding may be ring-fenced for specific purposes in which case spending will need careful monitoring to ensure it meets any mandatory criteria. The voluntary severances undertaken in 2011/12 will help to further reduce future pay costs and assist the College in coping with the funding reductions however robust budget setting and monitoring arrangements will be essential in helping to achieve sustainability through this period.

Appendix I
Audited Bodies' Responsibilities

Extracts from the Audit Scotland Code of Audit Practice

The Scottish ministers, elected members, governing bodies, boards, accountable officers, managers and officials have primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with integrity and spent appropriately. Public bodies and those responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

Financial statements
Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice)
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Many audited bodies publish other information, such as an annual report, alongside the financial statements.

Audited bodies should prepare financial statements in accordance with statutory timescales or in good time to allow audits to be completed by any dates specified by sponsoring directorates or other bodies. Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

Corporate governance arrangements
The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer

Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.

Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

Systems of internal control
Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls.

They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Rigorous self-evaluation should be a central part of audited bodies' performance management to support continuous improvement

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity.
This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers
- promoting appropriate values and standards
- developing, promoting and monitoring compliance with standing orders and financial instructions

Financial position of audited bodies

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and future use
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

The Scottish Public Finance Manual explains that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value is defined as the continuous improvement in the performance of functions. This includes having regard to the concepts of economy, efficiency and effectiveness and the need to meet equal opportunity requirements, and contributing to the achievement of sustainable development.

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

Appendix II
2011/12 Annual Audit Report Recommendations

HENDERSON LOGGIE

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
34	**Financial Position** **Capital Income and Expenditure** **R1** For tangible fixed assets comprising two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life.	C	This was requested as part of the DM Hall valuation. This information is outstanding and when received will be incorporated into the 2012/13 Accounts.	Y	Alison Stewart	July 2013
35	**R2** The College's fixed asset register should be updated to reflect the year-end accounting adjustments for the new campus developments and provide a sound basis for accounting for depreciation, disposals and revaluations going forward.	B	This will be done now that the final amount capitalised has been agreed.	Y	Alison Stewart	July 2013

Grade

A	Fundamental issues which require the consideration of the Board of Management or one of its committees.
B	Significant matters which the appropriate members of the Senior Management Team can resolve.
C	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

Observation	Recommendation	Priority	Original College Response, Responsibility and Timescale	Update at November 2012
Corporate Governance The UK Corporate Governance Code requires the Chair should hold meetings with the non-executives without the executives present. The non-executive members should meet without the chair present at least annually to appraise the chair's performance and on such other occasions as are deemed appropriate. This is not done at the College.	We recommend that the non-executive directors meet periodically without the chair in order to appraise their performance.	Low	Agreed. Annual appraisal will be implemented. Ken Thomson September 2012	Owing to the upcoming changes to the governance framework for further education in Scotland, the College has decided to hold implementation of this recommendation until the new systems / structure become clear. This was reported to, and approved by, the Audit Committee on 9 May 2012.
The College has no procedures on the 'fit and proper' persons test for the members in relation to 'management condition' as detailed in the Finance Act 2010.	It is recommended that relevant systems and procedures be put in place to comply fully with the provisions of the Act.	Low	Agreed. Procedure to be in place for new financial year. Ken Thomson May 2012	As above.

Observation	Recommendation	Priority	Original College Response, Responsibility and Timescale	Update at November 2012
The College has no procedures in place to prevent persons associated with the college from bribing in relation to the Bribery Act 2010.	It is recommended that relevant systems and procedures be put in place to comply fully with the provisions of the Act.	Low	Agreed. Existing procedures to be reviewed to incorporate provisions. Ken Thomson May 2012	Draft Policy completed and to go to Board for Approval in December 2012.
Fixed Assets The College did not carry out a physical check of the assets during the course of the year.	It is recommended that during the course of the year the College should physically spot check the assets. The evidence of these checks should be filed and any corrective adjustment to the fixed assets should be implemented.	Medium	As part of the implementation of the College's asset register linked to the new estates, periodical physical checks will be carried out and recorded. Tom Gorman and David Allison July 2012	These checks have occurred and will continue on a periodic basis.