Scott-Moncrieff

Inverness College

Annual Report to the Board of Management and the Auditor General for Scotland

2011/12

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Executive Summary

Our audit of Inverness College is complete. We have issued an unqualified audit opinion on truth and fairness of the financial position of the College for the year ended 31 July 2012 and on the regularity of transactions.

College financial year end

During the audit, Audit Scotland queried whether, in 1999/2000, the required changes were made to the 1992 Act to amend the financial year end of all colleges in Scotland from March to July. In response to this query, the Scottish Government has been unable to provide a copy of the formal order that effected this change to the Act. However, in January 2013 further evidence came to light and all auditors in the sector have agreed, in conjunction with Audit Scotland, that this evidence is sufficient to indicate that such an order was in fact made. The evidence includes the minute of a Lifelong Learning Committee meeting in October 1999 and legal representation from the Scottish Government.

We therefore now conclude that the financial statements 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.

Financial position

The College has reported an operating surplus for the year to 31 July 2012 of £0.506m. This compares favourably with the budgeted surplus of £0.006m. A surplus of £0.100m has been forecast for 2012/13. The College has a healthy net asset position, with significant cash balances built up in advance of planned capital expenditure for the new campus.

There remains significant uncertainty over the accounting treatment of the new campus project going forward and the implications this may have on the assets currently recognised by the College. The College will need to consider the impact of the financing and operating model in detail to ensure that the correct accounting treatment is adopted.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the UK Corporate Governance Code during 2011/12. We have reviewed the College's statement and can confirm that this is in line with the SFC's guidance and is not inconsistent with our understanding of the College's governance arrangements based on the information gathered as part of our normal audit work.

We did not identify any areas of concern from our review of the College's corporate governance arrangements in so far as they relate to prevention and detection of fraud and irregularity or standards of conduct and prevention and detection of corruption.

Conclusion

This report concludes the 2011/12 audit of Inverness College. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Director of Corporate Services. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff
February 2013

Introduction

1. This report gives a summary of our findings from the 2011/12 audit of Inverness College ("the College"). The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 30 May 2012. Our audit has focused on the financial statements and governance arrangements at the College.

2. Our plan summarised four key issues in relation to the 2011/12 audit:
   - Financial position;
   - Estates development;
   - Pension fund liabilities; and
   - Early retirement liabilities.

3. This report includes our findings in relation to these key issues.

4. The report is also addressed to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Finance

5. This section of the report summarises our findings in relation to the College's financial performance for the year and its position at 31 July 2012. We will also discuss any significant issues identified during our audit.

6. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and to consider the College's governance arrangements in relation to the College's financial position.

Auditors' opinion

7. We are required to give an opinion as to whether the financial statements present a true and fair view of the financial position of the College as at 31 July 2012 and of its expenditure and income for the financial year. We are also required to include a regularity assertion in our independent auditors' report stating whether, in all material respects, expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with Scottish Funding Council (SFC).

8. We have issued an unqualified audit opinion that the financial statements present a true and fair view of the financial position of the College for the year ended 31 July 2012 and on the regularity of transactions.

Financial year end

9. We audit the financial statements of the College under the Further and Higher Education (Scotland) Act 1992. We are required to give an opinion as to whether the financial statements have been prepared in accordance with the requirements of the 1992 Act and directions made thereunder by the Scottish Funding Council.

10. Schedule 1 of the 1992 Act originally stated that a Scottish college's financial year runs from 1 April to 31 March. In December 1999, the Scottish Further Education Funding Council (SFEFC) issued a direction to Scottish colleges changing the college sector's financial year end from 31 March to 31 July. For colleges' 1999/2000 financial statements this resulted in 16 month accounts to facilitate this transition.

11. Any amendments to the Act require Ministerial approval. In October 2012 Audit Scotland identified that the direction issued by SFEFC in December 1999 did not, by itself, have the requisite statutory authority to amend the Act and queried whether the required Ministerial approval had been obtained.

12. In response to Audit Scotland's query, the Scottish Government has been unable to provide a copy of the formal order, signed by a Scottish Minister, that effected the change to the Act in respect of college year ends. However, in January 2013, the Scottish Government provided other evidence indicating that such an order had in fact been made. This evidence includes the

minute of a Lifelong Learning Committee meeting in October 1999 and legal representation from the Scottish Government. All auditors in the sector have agreed, in conjunction with Audit Scotland, that this evidence is sufficient to indicate that the required order was made.

13. We therefore conclude that the financial statements 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.

14. Resolving this national issue has caused a delay to the normal deadline of 31 December for submitting signed annual accounts to the Scottish Funding Council. In December 2012 the Scottish Funding Council formally extended this deadline for the 2011/12 accounts, through an amendment to the Accounts Direction, to allow time for the issue to be resolved.

15. The signed financial statements will now be submitted to the Scottish Funding Council and Audit Scotland, who will pass them to the Scottish Government for laying before the Scottish Parliament.

Financial position

The College has reported a surplus of £0.506m despite a 6.4% fall in income

16. The College has reported an operating surplus for the year to 31 July 2012 of £0.506m. This compares favourably with the budgeted surplus of £0.006m.

17. The surplus has been achieved despite income being reduced by £1.065m (6.4%) compared to 2010/11. This is primarily due to a reduction of £0.325m in the main SFC recurrent grant and a reduction of £0.657m in other income, primarily European funding. The reduction in European income is partially due to a wind down in the number of European projects and partially due to the claw back of funding which is anticipated on two specific projects.

18. The College has made substantial savings in staffing costs compared to last year. The current staff costs are £1.322m (11.5%) less than in 2010/11. At £10.134m, this is lower than the staff costs budget reported to the SFC (£10.250m). The reduction is principally due to the staff restructuring carried out in the previous year which saw staff full time equivalent numbers reduce by 10%, with related restructuring costs of £0.7m in 2010/11. No further significant restructuring has been carried out in 2011/12.

Balance sheet

The College has a healthy net asset position

19. The College has reserves of £9.788m at 31 July 2012 (£14.099m as at 31 July 2011) and holds £7.943m of deferred capital grants (£6.511m at 31 July 2011). The reserves position has reduced mainly due to the impact of the land and buildings revaluation. This has reflected a fall in the value of the Longman road and Midmills campuses of £4.708m, which was only partially

offset by the surplus which has been made in the year. There has also been a slight increase in the pension liability, to £4.438m.

20. The College has a large cash balance of £5.648m at year end (£2.851m at 31 July 2011). This reflects a number of capital grants being received in advance of the procurement process for the new campus project at Beechwood.

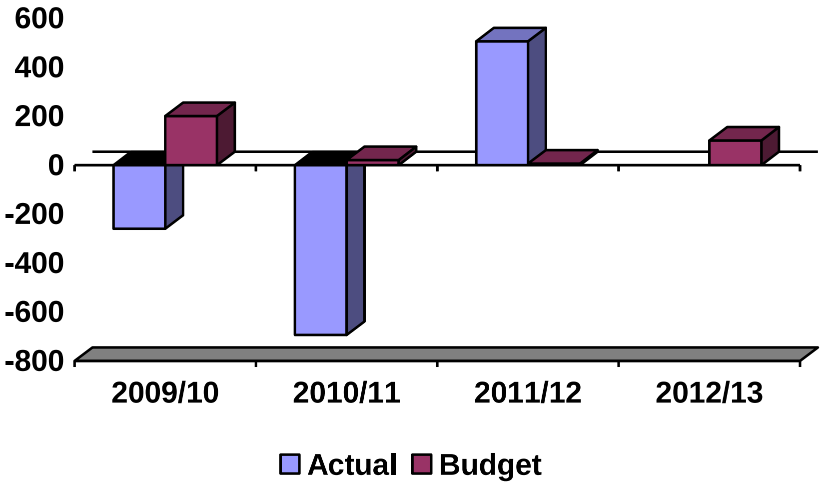
Financial forecasts

SFC funding has been confirmed for 2012/13 and a surplus has been forecast

21. The College revenue budget for 2012/13 forecasts a small surplus (£0.100m). SFC has confirmed funding for 2012/13, but, unlike previous years, this will be allocated on a regional basis through outcome agreements. Inverness College falls within the Highlands and Islands region, along with Argyll College, Lews Castle College, Moray College, North Highland College, Orkney College, Perth College, Shetland College and West Highland College.

22. SFC reported that allocations would be set with every college's base teaching and fee waiver grant being reduced by 8.4%. In total the Highlands and Islands region will receive £39.059m for 2012/13. The revenue budget shows that the College expects to receive an 8.2% reduction in the main SFC recurrent grant. This is offset by an increase in UHI grants, giving an overall increase in income of 5%. Targets and milestones have been agreed between the SFC and the region which should ensure that the outcome agreement will be delivered.

Diagram 1 - Actual performance and forecasts of surplus (£'000)



Source: Previous annual reports &2012/13 revenue budget paper of 07 June 2012

23. Diagram 1 shows that the College has performed well in 2011/12, after a difficult period. The College completed its financial recovery plan in 2010/11 and the deficit in that period reflects £0.700m of restructuring costs being incurred. The restructure has led to lower recurring staff

costs, however, the budgeted surplus for2012/13 of £0.100m (0.6% of turnover) will make the coming year challenging.

Financial planning and monitoring arrangements

The financial management arrangements at the College have improved significantly

24. As part of our audit, we considered the College's financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the College's operations and use of resources.

25. The Board has a Finance and General Purposes Committee which met regularly throughout the year. Budgets are devised and approved at the start of the year and are updated during the year to take account of new information. Management accounts showing forecast year end positions against budget are presented to each Finance and General Purposes Committee.

26. In our opinion the College has good financial management arrangements in place, and certainly has improved the arrangements which previously led to having to create a financial recovery plan.

Financial statements preparation

27. We are grateful to the Director of Corporate Services, the Finance Manager and the finance staff for their assistance and support during the course of the audit. We found the draft accounts and supporting working papers to be of a high standard.

Audit adjustments

28. During the course of our audit a number of adjustments to the financial statements were identified and agreed. Table 1 outlines the impact of the adjustments made on the outturn position. The majority of the changes made were of a presentational and disclosure nature.

Table 1 – Audit adjustments raised in 2011/12

	£'000
Surplus per accounts presented for audit	**512**
Adjustments identified during the audit:	
Decreases to income accruals	(6)
Actual surplus per audited accounts	**506**

29. There are two uncorrected misstatements noted in our letter of representation. These relate to the calculation of depreciation charge for the year and the valuation of the College's Balloch site. We have raised a related audit recommendation regarding the valuation of the Balloch site in paragraph 32. The College agrees that the uncorrected misstatements identified during the audit are immaterial both individually and in aggregate to the financial statements as a whole.

Review of accounting systems

30. During our audit work we have considered the College's accounting systems and internal controls. We have found that they are reasonable and form an adequate basis for the preparation of the financial statements. We do, however, note the following areas where controls could be strengthened further.

Fixed asset records

31. The asset register used by the College is a high level record. Current year additions are reflected in detail, however the previous year's closing balances are rolled forward in aggregate. As a result, the College does not hold a detailed register showing the cost, accumulated depreciation and net book value of each asset that is recognised on the balance sheet. There is a risk that the College is unable to remove disposed assets from the register due to this lack of detail. In addition it may become increasingly difficult for the College to demonstrate that it is meeting its responsibilities over asset stewardship. The College should carry out a review of the items in the balance sheet to ensure that scraped or disposed items are removed from the balances. Such items are likely to have a nil net book value and as such no audit adjustment is raised. The review of the asset register should also allow the College to clearly demonstrate the composition of the revaluation reserve.

Action plan point 1

Asset valuations

32. The *Statement of Recommended Practice: accounting for further and higher education* states that where an institution adopts a policy of revaluation, revaluations should be applied to entire classes of tangible fixed assets. The College revalues its land and buildings at Longman road and Midmills periodically but the School of Forestry at Balloch is not subject to revaluation. The value of the Balloch site may be misstated as it has not been considered in line with other assets in this class. Whilst we have gained sufficient assurance that the valuation of the the Balloch site is unlikely to be materially misstated the College should formally consider the valuation basis for the Balloch site. Under *Financial Reporting Standard 15: Tangible Fixed Assets* the valuation should be performed by a qualified valuer at least every five years, with an update in year 3, also performed by a qualified valuer.

Action plan point 2

Review of journals

33. Journals can be raised and posted on to the SUN system by most members of the finance team. Where journals relate to accounts adjustments (such as correction of mispostings and recharges) they require hard copy documentation and authorisation before posting. The ledger system also has preventative controls to ensure that only balanced journals can be posted and only legitimate account codes used. Best practice dictates that journals should be subject to review to reduce the risk that inaccurate or inappropriate journals are posted. During 2011/12 such a review was not carried out consistently. The College should ensure that a high level review of posted journals is undertaken by a senior member of the finance team on a regular basis.

Action plan point 3

Provisions for potential claw back of funding

34. The College has made (immaterial) provisions for potential claw back in three different funding streams. Some of these provisions have remained consistent over recent years. At present there is some uncertainty over the value and likelihood of these claw backs. The College should only recognise such provisions where there is an obligation to transfer economic benefits as a result of past transactions or events. Due to the uncertainty surrounding these provisions there is a risk that there is an immaterial misstatement in the College's financial statements. We endorse the Director of Corporate Services plan to investigate these matters in more detail in the coming year to provide further evidence to confirm the extent of any obligation.

Action plan point 4

Other issues of significance in the 2011/12 audit

35. In order to assist College members' understanding of the financial statements and our audit, we have summarised the issues that we believe are of particular significance to the 2011/12 financial statements below and which have not been addressed elsewhere in this report.

Pensions fund liabilities

36. The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Highland Council Pension Fund for the non-teaching staff.

37. 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 FRS17, 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.

38. The Highland Council Pension Fund 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 its balance sheet. The College has consistently reported significant FRS 17 liabilities over the past few years. The Highland Council 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.

Early retirement liabilities

39. The College has previously offered early retirement to some teaching staff. The College makes monthly payments to the STSS pension fund to cover any shortfall arising from the decision to grant early access to retirement benefits. In line with *Financial Reporting Standard 12 - Provisions, Contingent Liabilities and Contingents Assets*, the College creates a provision for the future payments in relation to these early retirements. The provision for early retirement was £2.048m at 31 July 2012 (£1.941m at 31 July 2011).

40. The College has also recognised a smaller provision (£0.167m), within Other Provisions, in respect of early retirement costs incurred on members of the Highland Council Pension Fund. This provision recognises the liabilities in relation to six individuals who were not included in the actuarial valuation to 31 July 2012 due to timing. These liabilities should be included in the actuarial valuation for 2013.

41. We reviewed the College's accounting treatment of its liabilities arising from early retirements and confirmed that this was reasonable and appropriate.

Governance

42. It is the College's responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:

- the College's review of its systems of internal control, including reporting arrangements
- the prevention and detection of fraud and other irregularities
- standards of conduct and arrangements for the prevention and detection of corruption
- the College's financial position

43. We reported on the corporate governance arrangements in relation to its financial position in the Finance section of this report. This section includes our comments on other aspects of the College's arrangements.

Corporate Governance

Appropriate governance structures are in place within the College

44. Colleges are required to include in their annual accounts a statement covering the responsibilities of their Board of Management in relation corporate governance arrangements. The statement should describe the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and report on the College's compliance with the UK Corporate Governance Code.

45. The College's Corporate Governance Statement for 2011/12 explains that the College was fully compliant with the UK Corporate Governance Code throughout the period.

46. We reviewed the Corporate Governance Statement by:

- checking the statement against SFC and Audit Scotland guidance
- considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control
- assessing whether disclosures in the statement are consistent with our knowledge of the College

47. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

48. Going forward, there is some uncertainty over potential changes to the governance structure of the College, in the wider UHI and regionalisation context. The College continues to monitor

developments in this area. More certainty over the way forward will assist the Board in this respect.

Risk management

Good overall risk management systems are in place

49. Risk management is important to the establishment and regular review of systems of internal control. The College's financial statements outline the principal risks and uncertainties of the College and the College's response.

50. The College's approach to risk management was formally approved by the Board in 2010 and is due for review in December 2012. This outlines the roles and responsibilities in relation to risk within the College. Senior management regularly review and consider risks and associated systems of internal control and report any further risks identified. Management is also responsible for implementing policies of internal control to ensure risk is managed appropriately. The Audit Committee retains overall responsibility for ongoing oversight of risk management and any changes to action plans are reported to the Board via the Audit Committee.

51. The risk register is well-structured, setting out an impact/likelihood assessment of each risk and identifying a risk 'owner'. It also sets out explicit links to the Strategic Plan.

52. Overall, the College has good overall risk management systems in place to monitor and help mitigate key strategic risks to the College.

Internal audit

53. The internal audit service is a key component of the College's internal control framework. As part of our corporate governance responsibilities, we have reviewed the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice. Our review was performed in accordance with the Code of Audit Practice and *International Standard on Auditing 610 - Considering the work of internal audit* (ISA 610).

Considering the work of internal audit

54. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. For 2011/12 the internal audit service has been provided by Henderson Loggie. We have considered the findings of the work of internal audit within our audit process and have sought to minimise duplication of effort, to ensure the total audit resource to the College is used efficiently and effectively.

55. Henderson Loggie have concluded in their annual report that the College operated adequate and effective internal control systems in the year, although there were some areas for improvement. We are grateful to Henderson Loggie for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

56. As part of our audit we consider how the College ensures compliance with all relevant guidance and regulations. This includes a consideration of the College's arrangements for the prevention and detection of fraud and irregularity.

57. The College has a Fraud and Corruption process within its Financial Procedures and a Public Interest Disclosure (Whistle Blowing) policy in place. The College has identified a fraud liaison officer and a whistle-blowing officer. There were no frauds identified during the year.

Regulatory compliance

58. Throughout the year the College received a number of legal and regulatory circulars from the SFC and other bodies. We have reviewed the College compliance against a sample of these and have found no substantive issues. However, we do note that the College does not have a formal mechanism for administering these circulars. As a result, there is an increased risk that circulars may not be actioned. We recommend that the College formalises its approach to regulatory guidance. All SFC and other guidance should be received by a central contact and logged before being distributed to the appropriate members of staff for action. The log should be updated with confirmation once the guidance has been dealt with. This will allow the College to demonstrate that all relevant circulars and guidance have been followed.

Action plan point 5

Standards of conduct

59. We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption. Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the Scottish Government.

60. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We also considered arrangements in place for ordering and procurement and disposal of assets.

61. We are pleased to report that our audit identified no issues of concern in this area.

Looking Forward

International financial reporting standards

62. The College's financial statements are still prepared on the basis of UK accounting standards (UK GAAP) which the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) Board believes continues to be appropriate for Colleges.

63. Colleges will continue to converge with international financial reporting standards (IFRS) as UK GAAP converges with IFRS. It appears likely that full implementation of IFRS will not take place before 2014/15.

64. The conversion process requires sufficient and appropriate information to be available to support the production of comparator balances. Effectively, this means work to produce full IFRS-compliant financial statements will begin at least one year before the actual implementation date. In some areas, such as in relation to fixed assets and component accounting, the earlier the work begins the more straightforward the conversion process may be and we endorse any moves the College may make to work towards IFRS transition in a structured and well-planned way.

Estates Strategy

65. The College is planning to build a new campus in Beechwood, Inverness. This will replace both the Longman Road and Midmills sites. The new campus will be built using a new funding model, in collaboration with the Scottish Futures Trust (SFT). The capital construction costs of the new campus are expected to be £51m, with the College incurring a further £11m of costs which will be funded principally through capital grants. Three consortia are currently completing their final bids for the construction and maintenance of the new campus. Building is expected to start in April 2013 and to complete in April 2015.

66. The financing and operating model is new and potentially technically complex and there is limited guidance available on the accounting implications of the model. Over recent years the College has built up assets under construction to the value of £4.5m in relation to project management and consultancy fees directly attributable to the project. Of this sum, £2.5m has been met from grant funding. £2.832m has been committed for the project for 2012/13, with a further £3.438m expected through to 2015/16. The current accounting treatment appears to be reasonable given the progress of the project to date. However, there remains significant uncertainty over the accounting treatment of the project going forward and the implications this may have on the assets currently recognised by the College. There is a risk that that the model will have a considerable impact on the College's financial statements in the coming years which have not yet been fully considered, primarily related to the limited guidance available on the accounting implications of the model.

67. The College will need to consider the impact of the model in detail to ensure that the correct accounting treatment is adopted going forward. This should be carried out in consultation with the SFT, the SFC and the College's advisors on the project, Ernst & Young. The College must be clear on the exact financial and accounting impact of the model to enable it to best assess the preferred bidder and any related accounting implications.

Action plan point 6

Financial position

68. There is increasing uncertainty over the level of future funding that will be provided to the sector. Indications from the Scottish Government are that the reductions in funding experienced in 2011/12 may continue over the next few years. Coupled with increasing cost pressures this will result in significant financial challenges for the College and the sector as a whole.

Appendix 1 – Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2011/12. These are the issues that we believe need to be brought to the attention of the College.

The action plan details the officers responsible for implementing the recommendations and implementation dates. The College should assess these recommendations for their wider implications before approving the action plan. Following submission of this report to the Audit Committee, we will send a copy to the Auditor General.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Grading

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded. The grading structure is summarised as follows:

Grade 5	Very high risk exposure - Major concerns requiring Board attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

External audit recommendations arising in 2011/12

No	Title	Issue identified	Risk and recommendation	Management comments
1.	**Fixed asset records** **(Para 31)**	The asset register used by the College is a high level record. Current year additions are reflected in detail, however the previous year's closing balances are rolled forward in aggregate. As a result the College does not hold a detailed register showing the cost, accumulated depreciation and net book value of each asset that is recognised on the balance sheet.	The College may be unable to remove disposed assets from the register and it may become increasingly difficult to demonstrate that the College is meeting its responsibilities over asset stewardship. The College should review the items in the balance sheet to ensure that scraped or disposed items are removed. The review of the asset register should also allow the College to clearly demonstrate the composition of the revaluation reserve. **Grade 2**	Agreed. **Responsible officer:** Financial Services Officer **Implementation date:** by end April 2013

No	Title	Issue identified	Risk and recommendation	Management comments
2.	**Asset valuations** **(Para 32)**	The *Statement of Recommended Practice: accounting for further and higher education* states that where an institution adopts a policy of revaluation, revaluations should be applied to entire classes of tangible fixed assets. The College revalues its land and buildings at Longman road and Midmills periodically but the School of Forestry at Balloch is not subject to revaluation.	The value of the Balloch site may be misstated as it has not been considered in line with other assets in this class. The College should formally consider the valuation basis for the Balloch site. Under *FRS 15* the valuation should be performed by a qualified valuer at least every five years, with an update in year 3. **Grade 3**	Agreed. **Responsible officer:** Director of Corporate Services **Implementation date:** by end July 2013
3.	**Review of journals** **(Para 33)**	Journals can be raised and posted on to the SUN system by most members of the finance team. Best practice dictates that journals should be subject to review to reduce the risk that inaccurate or inappropriate journals are posted. During 2011/12 such a review was not carried out consistently.	There is a risk that risk that inaccurate or inappropriate journals are posted. The College should ensure that a high level review of posted journals is undertaken by a senior member of the finance team on a regular basis. **Grade 3**	Agreed. **Responsible officer:** Financial Services Manager **Implementation date:** by end March 2013

No	Title	Issue identified	Risk and recommendation	Management comments
4.	**Provisions for potential claw back of funding** **(Para 34)**	The College has made immaterial provisions for potential claw back in three different funding streams. Some of these provisions have remained consistent over recent years. At present there is some uncertainty over the value the potential claw backs and the certainty that they will be required. The College should only recognise provisions for claw back where there is an obligations to transfer economic benefits as a result of past transactions or events.	Due to the uncertainty surrounding these provisions there is a risk that there is an immaterial misstatement in the College's financial statements. We endorse the Director of Corporate Services plan to investigate these matters in the coming year to ensure clarity is achieved over any obligation **Grade 3**	Agreed. **Responsible officer:** Director of Corporate Services **Implementation date:** by end July 2013

No	Title	Issue identified	Risk and recommendation	Management comments
5.	**Regulatory compliance (Para 58)**	Throughout the year the College received a number of legal and regulatory circulars from the SFC and other bodies. We have reviewed the College compliance against a sample of these and have found no substantive issues. We do however note that the College does not have a formal mechanism for administering these circulars.	There is an increased risk that circulars may not be actioned. All SFC and other guidance should be received by a central contact and logged before being distributed to the appropriate members of staff for action. The log should be updated with confirmation once the guidance has been dealt with. This will allow the College to demonstrate that all relevant circulars and guidance have been followed. **Grade 2**	Agreed. **Responsible officer:** P.A. to Principal **Implementation date:** by end March 2013

No	Title	Issue identified	Risk and recommendation	Management comments
6.	**Accounting for the new campus (Para 67)**	The financing and operating model for the new campus development is new and potentially technically complex and there is a lack of guidance available on the accounting implications of the model. There remains significant uncertainty over the accounting treatment of the project going forward and the implications this may have on the assets currently recognised by the College.	There is a risk that that the model will have a considerable impact on the College's financial statements in the coming years which has not yet been fully considered, primarily due to the lack of guidance available on the accounting implications of the model. The College will need to consider the impact of the model in detail to ensure that the correct accounting treatment is adopted going forward. This should be carried out in consultation with the SFT, the SFC and the College's advisors on the project Ernst & Young. **Grade 4**	Agreed. **Responsible officer:** Director of Corporate Services **Implementation date:** by end July 2013

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