Wylie + Bisset LLP

Chartered Accountants, Business & Tax Advisers

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 2013

Topic	Date
Commencement of final visit	21 October 2013
Audit clearance meeting	11 November 2013
Presentation to Audit Committee	5 December 2013
Proposed presentation to Board of Management	12 December 2013

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This report has been prepared for the purposes of the College Management, Board and the Auditor General for Scotland 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.

1 EXECUTIVE SUMMARY

1.1 FINANCIAL REVIEW

The College returned a surplus of £529,000 for the year ended 31 July 2013. The comparative result for year ended 31 July 2012 was a surplus of £457,000. This is after accounting for exceptional restructuring costs of £1,835,000 (2012 £50,000). The college received £1,628,000 from Scottish Funding Council (SFC) towards the cost of voluntary severance.

The College maintains a strong overall balance sheet position with net assets of £54,467,000 (2012 £53,513,000). It is noted that this is after accounting for a pension reserve deficit of £684,000 (2012 : £1,682,000). The increase in net assets is primarily as a result of a large actuarial gain in the pension reserve of £931,000 (2012 loss of £905,000).

From 1 August 2013 the College has merged with Langside and Cardonald Colleges to form Glasgow Clyde College. Glasgow Clyde College is forecasting an operating deficit of £106,000 for the period ended 31 March 2014 with an overall surplus of £443,000 after taking into consideration the gain on sale of property in the period. For the year ended 31 March 2015 Glasgow Clyde College is expecting to make an operating deficit of £50,000 with an overall surplus of £645,000 after the sale of property in this period.

1.2 FINANCIAL STATEMENTS

We have issued an unqualified opinion on the accounts of Anniesland College for the year ended 31 July 2013.

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

1.3 GOVERNANCE & INTERNAL CONTROL

We have undertaken an overall review of the corporate governance arrangement and process of internal control in place at the College. Based on our findings it appears that the college has adequate systems in place to comply with governance requirements.

1.4 REGULARITY

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

1.5 RECOMMENDATIONS TO MANAGEMENT

We have made recommendations relating to:

- Purchase orders and
- Pension scheme accounting

2 INTRODUCTION

2.1 APPOINTMENT

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). This appointment has been transferred to the audit of Glasgow Clyde College from 1 August 2013.

2.2 RESPECTIVE RESPONSIBILITIES

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.

2.3 REPORTING

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 2013, 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 2013 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.

We are satisfied that in all 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 and that 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.

3.3 SUBMISSION OF WORKING PAPERS

The financial pages of the accounts submitted for audit were substantially complete and included the 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.

3.4 INCOME AND EXPENDITURE ACCOUNT

- In the year ended 31 July 2013 the College has achieved a surplus of £529k compared with a surplus in the prior year of £457k, an increase of 16%.

- In 2013 the College has received additional funding of £1,628k from the Scottish Funding Council (SFC) for voluntary severance costs associated with the merger. This income was solely for the severance costs and any pension strain costs had to be borne from the College. These costs are noted within 'exceptional restructuring costs' within expenditure of £1,835k.

- Tuition fees and contracts have increased £343k (22%) from the prior year. This is primarily due to £330k being received from Skills Development Scotland (SDS) for the new skillseekers course provided by the College.

- Staff costs have reduced as a result of staff taking voluntary severance with staff leaving throughout 2012-13.

	Y/E 31/7/13	Y/E 31/7/12
	£'000	£'000
Income		
Scottish Funding Council Grants	10,094	10,814
Exceptional restructuring income	1,628	-
Tuition fees and education contracts	1,914	1,571
Other grant income	677	770
Other operating income	791	783
Investment income	90	49
	15,194	**13,987**
Expenditure		
Staff costs	8,382	8,758
Exceptional restructuring costs	1,835	50
Other operating expenses	3,003	3,240
Depreciation	1,438	1,482
FRS 17 interest	7	-
	14,665	**13,530**
Surplus	**529**	**457**

3.5 BALANCE SHEET

- At 31 July 2013 the College has net assets of £54,467k an increase of £954k from 2012. This increase has arisen primarily as a result of the surplus made in the year and the favourable movement in the pension liability.
- Tangible fixed assets shows a decrease of £1,543k which is attributable to the reallocation of the Balshagray campus from fixed assets to current assets totalling £200k and a depreciation charge of £1,438k. There were minor additions of £95k in the year. The Balshagray campus has been moved from fixed assets to current assets as it now meets the definition of a held for sale asset.
- Creditors due in less than a year have reduced by £1,126k due primarily to a reduction in deferred income and sundry creditors. Deferred income has reduced by £584k to £299k (2012 : £884k) due to funds received in 2011-12 which have been utilised in 2012-13 and not repeated. Sundry creditors have reduced to £242k (2012 : £831k) due to £300k of merger funding received in 2011-12 being utilised amongst the merging parties and £276k which was held as a retention in 2011-12 now being paid to the contractor.
- The pension liability at the year end has significantly decreased by £998k to £684k (2012 : £1,682k). The majority of the gain in the year has been recorded through the Statement of Total Recognised Gains and losses (STRGL).

	Y/E 31/7/13	Y/E 31/7/12
	£'000	£'000
Tangible fixed assets	52,564	54,107
Debtors	723	738
Non Current Assets Held for Sale	200	-
Cash in hand and at bank	6,053	6,441
Current assets	6,976	7,179
Creditors: amounts falling due in less than one year	2,057	3,183
Net current assets	**4,919**	**3,996**
Less: Creditors amounts falling due after more than 1 year	2,332	2,908
Pension liability	(684)	(1,682)
Net assets inc pension liability	**54,467**	**53,513**
Deferred capital grants	42,543	43,049
Income and expenditure reserve exc pension	4,008	3,546
Pension reserve	(684)	(1,682)
Revaluation reserve	8,600	8,600
Total Funds / Capital & Reserves	**54,467**	**53,513**

4 AUDIT APPROACH & 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 focussed 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 prior year audit procedures, we documented the systems and controls in place at the College and obtained an understanding of their operation. In accordance with auditing standards during our audit procedure, 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 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 Vice Principal Resources of the new merged entity. This practice is an established part of the audit process. This report draws to the attention of the Board of Directors any matters of particular significance or interest, which arose from the audit, noted as follows:

Accounting Policies: In accordance with FRS18, we understand the Audit Committee will formally review 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.

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.
The college has accounted for the actuarial gain on the pension scheme through the STRGL. The accounting treatment adopted by the College in relation to the pension scheme and the early retirement provision is in accordance with applicable guidance issued by Audit Scotland which indicates under certain circumstances early retirement benefits can be accounted for along with the defined benefit deficit. The College recognises a liability for future payments in relation to these early retirements in conjunction with the aforementioned SPF liability and has accounted for both under the requirements of FRS 17.

4.3 OTHER MATTERS

Merger: The College has merged with Langside College and Cardonald College to form Glasgow Clyde College.

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.

Going Concern: Wylie & Bisset LLP, in accordance with International Standard on Auditing (UK & Ireland) ISA 570 : Going concern, are required to consider the Board of Management's use of the going concern assumption in relation to the financial statements of the College for the year ended 31 July 2013. Following the merger, the operations and services of the College will continue to be provided using the same assets which have been transferred to Glasgow Clyde College. Consequently, the use of the going concern concept in the final set of financial statements is considered to be appropriate and in accordance with accounting standards as interpreted for the public sector. 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 2014 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 of Directors in support of the matters reported to us during our audit procedures. This also includes reference to the summary of unadjusted errors and deviations. There was one error identified during our procedures detailed in appendix C, which is immaterial in nature and has not been amended within the financial statements.

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 the audit engagement partner and the audit staff is not impaired.

5 GOVERNANCE & INTERNAL CONTROLS

5.1 GOVERNANCE

Corporate Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation. The respective responsibilities of the College and Wylie & Bisset LLP 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.

5.2 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 2013 were Baker Tilley.

In the course of the year ended 31 July 2013 the following areas were reviewed by the Internal Auditor:

- Fixed Assets and Debt recovery;
- Financial Controls;
- Student experience; and
- Projects

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.

No formal reliance has been placed on the work of internal audit with regards to the work undertaken during our audit process.

5.3 STATEMENT OF CORPORATE GOVERNANCE

We have reviewed the College's 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 limited 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.

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, however we have made one recommendation in this area to strengthen the Corporate Governance arrangements currently in place.

6 FRAUD AND IRREGULARITIES

6.1 BEST PRACTICE

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.

6.2 AUDIT FINDINGS

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

a) The monitoring and compliance with financial procedures;
b) The college's strategy to prevent and detect fraud and other irregularities;
c) 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 2012

7.1 31 JULY 2012 MANAGEMENT LETTER

A management letter was prepared by Wylie & Bisset LLP in relation to the accounts of Anniesland College for the year ended 31 July 2012.

The points noted within the prior year management letter, along with the observations and follow up conclusions from the current year are detailed below.

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 company matches current best practice.

7.2	**Draft Accounts**
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.
Priority	**Low**
2012 Update	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.
2013 Update	Draft accounts provided to us on the first day of the fieldwork were substantially complete and did not in any way hold up the audit process. **No further action required.**

7.3	**Strategy documents / committee terms of reference**
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.
Priority	**Low**
2012 Update	These documents have still to be updated.
2013 Update	In light of the merger which has now taken place strategy documents and committee terms of reference will be developed which are applicable to be new merged college. We recommend appropriate terms of reference and policies are adopted by the new entity as appropriate.
Management Response	

7.4	**Older Assets**
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.
Priority	Low
2012 Update	The fixed assets still include old, fully depreciated items.
2013 Update	A few old items which have been fully depreciated are still included in the assets schedule. **We repeat our original recommendation in relation to the asset register being put together for the new merged entity.**
Management Response	

7.5	**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.
Priority	**Low**
2012 Update	We note form our review that the register of interests has not been updated.
2013 Update	AWAITING REGISTER
Management Response	

7.6	**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. 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**
2013 Update	There have been no disposals noted in the year under review. However, we note that the fixed asset register has not been used throughout the financial year and has only been updated at the year end. The College is not regularly reviewing the asset register and reconciling it to the accounts. **We repeat our original recommendation.**
Management Response	

7.7	**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**
2013 Update	The College have not distinguished between nursery income from students, staff and the general public and therefore have not monitored the level of nursery income from the general public. **We repeat our original recommendation.**
Management Response	

7.8	**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
2013 Update	From our testing we noted that the order numbers per PECOs match the order numbers per Dream. **No further action required.**

7.9	**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**
2013 Update	Our review of bank reconciliations performed in the year found that all had been reviewed and signed by the Finance Manager. **No further action required.**

8 AUDIT RECOMMENDATIONS – 31 JULY 2013

8.1 31 JULY 2013 RECOMMENDATIONS

As noted within the previous section, there were a number of points arising from the previous audit which have not yet been resolved. These have not been repeated within this section however, as indicated previously, we have made recommendations in the current year to improve these previously identified matters.

Those additional matters which were highlighted as a result of our current year audit procedures are noted below, detailing the observation and implications thereof along with our recommendation for improvement.

The points noted have been assigned a priority level in line with that explained in section 7.

8.2	**Purchase Orders**
Observation	From our review of purchases we have noted an instance where a purchase order was not raised prior to the purchase being made. As such authorisation has not been sought to purchase the item.
Implication	Best practice procedures are not being followed and as a result purchases are being made without the appropriate authorisation.
Recommendation	We recommend that purchase orders are raised and authorised prior to the purchase being made.
Priority	**Low**
Management Response	

8.3	**Pension Scheme Accounting**
Observation	From our review of pension scheme accounting in the three colleges merging to form Glasgow Clyde College we are aware there are differences in the current accounting treatment being adopted. Whilst the differences are subtle and all comply with current accounting practice, policies are currently not in alignment.
Implication	The three entities will require to determine the accounting treatment to be adopted by the new merged entity for 2013-14.
Recommendation	We recommend Glasgow Clyde College undertake a policy review and discuss the appropriate treatment with external audit to be adopted in 2013-14.
Priority	**Low**
Management Response	

9 EMERGING ISSUES

As Anniesland College ceased to exist as entity on 1 August 2013 the following is included for reference of the Board of Management of Glasgow Clyde College.

9.1 CLASSIFICATION CHANGE FOR INCORPORATED COLLEGES

The Office of National Statistics ‘ONS’ has reviewed the classification of further education colleges in the UK and concluded that all incorporated FE colleges should be classified as non departmental public sector bodies (“NDPB”). This will impact upon colleges’ ability to use carry forward surpluses and will require revenue and capital spend to be within Scottish Government spending limits.

This has significant implications for the sector with colleges now required to report, budget and align accounting practice with that applicable to central government organisations.

9.2 YEAR END CHANGE

As a consequence of the classification change discussed in section 9.1, colleges will require to apply the same financial year basis as is currently used in the public sector (April to March).This will take effect from the 31 March 2014 with colleges required to report on the 8 month period then ended.

The impact of the change in the financial year end for all Scottish Colleges is ultimately unknown. With the financial year now differing from the academic year the recognition of income and expenditure will have to be reviewed carefully in order to present an accurate financial result. This will require consideration across the sector to ensure results are reported on a consistent basis. This will have particular significance in the initial 8 month period to 31 March 2014.

The year end change which will result in an alteration to the annual reporting deadline for Colleges to SFC and Audit Scotland. As a consequence college management will have to consider the timing of their diet of Board and Committee meetings. There is currently a lack of clarity with regards to when the annual reporting deadline will be however college management need to be aware of the need to be flexible to meet the imminent change.

9.3 MANAGEMENT OF RESERVES AND SURPLUSES

The reclassification of colleges affects their ability to use carry forward surpluses. The SFC has issued guidance on a potential solution to the future management of reserves and surpluses, through the use of arms-length charitable foundations. Currently the sector has been asked to consider 3 possible models:

a) a separate foundation for each college or region;

b) a single umbrella foundation with designated sub funds for each college; or,

c) a number of foundations based on geographical or other groupings.

College Management are aware of the currently identified ramifications of the reclassification in this regard and are considering the most appropriate course of action.

9.4 CHANGES IN ACCOUNTING FRAMEWORK

The Financial Reporting Council (FRC) issued FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland in March 2013. This is the third new standard to be issued by the FRC since November 2012 and represents the most significant element of the new UK GAAP reporting regime. FRS 102 is applicable for accounting periods beginning on or after 1 January 2015, ie 31 March 2016 year ends.

The Further and Higher Education SORP Board has recently developed a new SORP, which is currently out for consultation. It is expected that the revised SORP will be issued in summer 2014. Whilst this will only apply to college financial statements from 31 March 2016 management should be aware of the need to draw up a transitional balance sheet at 1 April 2014 in order to facilitate the composition of restated comparative figures at 31 March 2015.

At Wylie & Bisset we acknowledge this is a period of significant change and uncertainty for the FE sector. Our Education Unit continue to monitor developments during this time of change and will offer guidance and advice as clarity is attained.

APPENDICES

A 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.

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

B INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the Board of Management of Anniesland College for the year ended 31 July 2013 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 income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

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 2013 and of its surplus for the year then ended;
- 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:

- proper 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: 12 December 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

C LETTER OF REPRESENTATION

Anniesland College
19 Hatfield Drive
Glasgow
G12 0YE

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 2013.

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 2013.
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.

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

JOURNAL ADJUSTMENTS

	Assets £	Liabilities £	Reserves £	Income & Expenditure £
ESF income received relating to 2012/13	-	-	-	52,849 (52,849)
TOTAL IMPACT OF AUDIT ADJUSTMENTS				

SCHEDULE OF UNADJUSTED ERRORS AND DEVIATIONS

	Assets £	Liabilities £	Reserves £	Income & Expenditure £
Princes Trust & SDS Income received after the year end relating to 2012-13	34,336	-	-	(34,336)
TOTAL IMPACT OF UNADJUSTED ERRORS	**34,336**	**-**	**-**	**(34,336)**

D IDENTIFIED AUDIT RISKS

IDENTIFIED AUDIT RISK, APPROACH & CONCLUSION

Risk	Audit response	Conclusion
Financial performance 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. 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 and other restructuring costs.	As part of our audit process we will review the College's final outturn and ensure we can adequately explain any deviations from budget. 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 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. All significant deviations from budget have been adequately explained and supported. We are satisfied that non standard transactions have been processed correctly.
Sector structural changes There is a risk of increased public scrutiny following the proposed restructure of the FE College sector and the move toward regionalisation. The College has indicated that it supports regionalisation reform and is in advanced stages in implementing a merger with Cardonald College and Langside College. The proposed vesting date of merger is 1 August 2013.	We will consider the colleges planned merger and any impact this may have on the College's governance arrangements, internal controls and financial statements in the year under audit, particularly with regard to disclosure within the accounts.	The College has now merged with Cardonald and Langside Colleges. We have reviewed voluntary severance costs and other merger costs to ensure they have been treated appropriately within the accounts. No issues arose during our testing.

Risk	Audit response	Conclusion
<u>Override of Internal controls</u> 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 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> 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.

E CONTACT DETAILS

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