Glasgow Clyde College (formerly known as Cardonald College)

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

For year ended 31 July 2013

Scott-Moncrieff
business advisers and accountants

Glasgow Clyde College (formerly known as Cardonald College)

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

Executive Summary

Finance

Our audit of Glasgow Clyde College (formerly known as Cardonald College) is complete. We have audited the financial statements of the College under the Further and Higher Education (Scotland) Act 1992.

Financial position

Glasgow Clyde College ("the College") generated a surplus for the year of £0.428 million in 2012/13. This was above the £0.294 million surplus forecast by the college at the start of the financial year. The increase in surplus was predominantly the impact of a reduction in depreciation charges in the year following the revaluation of buildings in 2012/13.

The College maintained a healthy balance sheet position with income and expenditure reserve balance of £8.728 million as at 31 July 2013 (2012: £8.212 million). The College held cash and investments of £7.450 million as at 31 July 2013 (2012: £7.334 million).

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 2012/13. 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 the prevention and detection of fraud and irregularity or standards of conduct and prevention and detection of corruption.

Looking forward

On 1 August 2013 Cardonald College merged with Anniesland and Langside Colleges. The assets, liabilities, rights, obligations and staff from Anniesland and Langside colleges transferred to the new merged institution, Glasgow Clyde College, through a Scottish Statutory Instrument. Senior management from across the three colleges worked together to ensure a smooth transition to the new College. A shadow board consisting of members from the existing three colleges was established to oversee the merger process.

Over the coming years the College sector will continue to go through significant change across its financial management and financial reporting framework. Following the reclassification of further education institutions as public sector bodies, colleges will be required to follow central government budgetary and financial reporting practice from 1 April 2014. Colleges will no longer be able to hold reserves and will not be permitted to incur deficits.

In addition, from 2015/16 a new Statement of Recommended Practice: Accounting for further and higher education will align UK Generally Accepted Accounting Practice with international accounting standards.

Conclusion

This report concludes the 2012/13 audit of the 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 with the Vice Principal and the Audit Committee. 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

November 2013

Introduction

1. This report gives a summary of the findings from our external audit of Glasgow Clyde College ("the College") in 2012/13. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee of Cardonald College on 13 June 2013. 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 2012/13 audit:

   - Financial Position and the effect that the reduction in core SFC grant and fee waiver income has had on the College's ability to meet its outflows;
   - Strategic Partnerships and the merger with Anniesland and Langside Colleges;
   - Early retirement liabilities; and
   - Pension fund liabilities.

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

4. International Standard on Auditing (UK & Ireland) 260, "Communication with those charged with governance" requires Scott-Moncrieff to report to those charged with governance on the significant findings from our audit. This report discharges our responsibilities through reporting key findings from our audit.

5. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Our audit does not necessarily disclose every weakness and for this reason the matters referred to may not be the only shortcomings which exist.

6. The report has been discussed and agreed with the Vice Principal.

7. We would like to thank the Vice Principal and the rest of the staff for their kind co-operation and assistance during our audit.

8. 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.

Financial statements

Introduction

9. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the College. In this section we summarise the issues arising from our audit of the 2012/13 financial statements.

Management responsibilities

10. Within the terms and conditions of the financial memorandum between the Scottish Funding Council (SFC) and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year. In preparing the financial statements the Board 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; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

11. The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 2005 together with the Financial Memorandum issued thereunder and are presented in accordance with the Accounts Direction issued by the SFC.

Auditor responsibilities

12. We audit the financial statements and give an opinion on whether they:

- give a true and fair view of the state of the College's affairs as at 31 July 2013 and of its surplus or deficit 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.

13. We also confirm whether, 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.

14. We express an opinion that the information in the Operating and Financial Review is consistent with the financial statements.

15. We are also 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 SFC requirements.

Confirmation of auditor independence

16. Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

17. We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

   a) There are and have been no relationships between Scott-Moncrieff and the Board of Management or senior management of Cardonald College that may reasonably be thought to bear on our objectivity and independence,

   b) Scott-Moncrieff has not provided any consultancy or non-audit services to the College.

Qualitative aspects of accounting practices and financial reporting

18. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided in the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the College.

Qualitative aspect considered	Audit conclusion
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate. Estimates and judgements have been adopted over fixed asset valuations, depreciation rates and valuation of provisions. Where available, the College has utilised the work of independent experts or industry practice to support the basis of the estimate applied.
The potential effect on the financial statements of any uncertainties including significant risks and disclosures such as pending litigation.	There are no significant uncertainties or risks that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From the testing we performed, we identified no unusual transactions in the period.
Apparent misstatements in the Operating and Financial Review and inconsistencies with the financial statements.	There are no misstatements or material inconsistencies between the financial statements and the Operating and Financial Review.
Any significant financial statement disclosures to bring to your attention.	The significant financial statement disclosures that we consider should be brought to your attention are described below under the heading Significant issues from the 2012/13 financial statements.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit with regards to any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

Overall conclusion

An unqualified audit opinion on the financial statements

19. The annual accounts are due to be approved by the College on 12 December 2013. Our independent auditor's report will include an unqualified opinion on the financial statements for the year ended 31 July 2013.

20. We are satisfied that the information given in the Operating and Financial Review is consistent with the financial statements.

An unqualified audit opinion on the regularity of transactions

21. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to confirm that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in the College's accounts.

Financial statements preparation

22. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and we are grateful to the Vice Principal, the Director of Finance and the finance staff for their assistance and support during the course of the audit.

Audit adjustments

23. We identified three significant adjustments that impact on the surplus for the year that have been adjusted for by management. The effect of these journals are detailed below:

		Balance sheet		Income and Expenditure	
		DR	**CR**	**DR**	**CR**
		£	**£**	**£**	**£**
1.	Loss on disposal	-	-	1,241	-
	Debtors	83,759	-	-	-
	Fixed assets (NBV)	-	85,000	-	-
	Being adjustment to recognise sale of Priesthill site appropriately in the financial statements				
2.	Creditors - Accruals	28,000	-	-	-
	Deferred capital grants	-	28,000	-	-
	Expenditure – Teaching support service costs	-	-	-	17,000
	Income – Other operating income	-	-	-	13,900
	Expenditure – Staff costs	-	-	-	13,000
	Being adjustment to correct miss-postings from first draft accounts				
	Net impact of adjustments				**42,000**
	Surplus per draft accounts				385,659
	Surplus per Final accounts				**427,659**

Potential adjustments

24. During the course of the audit we identified the following audit misstatements. We do not consider these errors individually or cumulatively to be material to the financial statements.

		Balance sheet		Income and Expenditure	
		DR	**CR**	**DR**	**CR**
		£	**£**	**£**	**£**
1.	Pension liability	10,000	-	-	-
	Provisions – unfunded pension liability	-	10,000	-	-
	Expenditure	-	-	10,000	-
	Pension reserve	-	10,000	-	-
	Being adjustment to recognise unfunded defined benefit pension liabilities in accordance with FRS 12: Provisions for liabilities. Management do not consider this to be material to the accounts and have therefore not adjusted the financial statements.				
2.	Deferred capital grants	41,345	-	-	-
	Income – Deferred capital grant income	-	-	-	41,345
	Being correction of error in calculation of deferred capital grant release. Management do not consider the misstatement to be material to the financial statements and have therefore not adjusted the accounts.				
	Net potential increase in surplus from unadjusted misstatements				**31,345**

Significant issues from the 2012/13 audit

25. As noted in our audit plan submitted to the audit committee of Cardonald College in May 2013, the following audit risk areas were identified and were therefore considered in detail during our audit fieldwork.

Voluntary severance scheme

26. As part of the route to merger, the College undertook a voluntary severance programme during the year. The scheme was approved by the Board in October 2012. The total cost of the severance programme was £1.097 million with funding to match the majority of the expenditure through the SFC's Transformational Fund.

27. *Guidance on severance arrangements to senior staff in Scottish further education colleges* produced by the SFC provides guidance to colleges on managing severance schemes. As part of our audit we reviewed

severance settlements for senior staff and those staff whose total severance cost exceeded £75,000 to confirm that severance arrangements conformed to this guidance.

28. From our review, we identified that the evaluation and approval of severance proposals was based on the cost of severance scheme excluding the impact of non-discretionary payments (i.e. pension strain costs) due to the Strathclyde pension scheme. In a few instances, the cost of the strain fund payments due to the pension scheme, as a result of the voluntary severance releases, more than doubled the total severance cost to the College. Consequently, the total cost to the College of the severance payments for some support staff was higher than originally anticipated. This only however affected support staff as there were no pension strain issues for the teaching staff pension scheme.

29. While the Board were informed of the full cost of the voluntary severance programme when the situation was known with the pension strain costs for some support staff was known, to ensure robust financial management and to fully inform severance decision making process, the College should ensure that it has full cost information at its disposal prior to making formal severance offers to employees in future.

Action plan point 1

Fixed asset valuations

30. Financial Reporting Standard 15: Fixed Assets (FRS 15) and the Statement of Recommended Practice (SORP) for the Further and Higher Education sectors require colleges, where a valuation model is adopted for measuring fixed assets, to undertake a full revaluation of assets held at valuation every five years with an interim revaluation undertaken every three years. The previous full revaluation was undertaken by the College in July 2008 and therefore the five year period would require a full revaluation as at 31 July 2013.

31. During our 2011/12 audit we identified that the College had not undertaken an interim valuation which should have been undertaken for the year ended 31 July 2011. An interim valuation was conducted in November 2012 and retrospectively applied as a prior year adjustment within the 2011/12 financial statements. The interim valuation does not negate the requirement for a full valuation to be conducted every five years.

32. We raised the issue with management during the course of the audit fieldwork. Management subsequently received confirmations from the independent valuer used both in 2008 and 2012 over the value of the land and buildings held by the College. The valuer concluded that the net impact on the valuation of the land and buildings, taking into account market conditions, would be a net 1% increase on the value of property and there would be no impact on the value of land. Consequently, based on this independent valuer advice the estimated level of misstatement is £235,560 which is not considered material to the 2012/13 financial statements.

33. While we have satisfactory assurance that the current year fixed assets are free from material misstatement, it is essential that for 2013/14 the College has assurance that the assets are appropriately valued in the accounts. We would recommend that the College conduct a full revaluation of land and buildings for the 2013/14 financial period.

Action plan point 2

Ledger system records

34. The College records Education Maintenance Allowance (EMA) and Bursary funds balances on the DREAM Ledger system. Currently these ledger accounts balances record all fund transactions since the system was introduced at the College. Subsequently, a credit and debit balance has accumulated in the DREAM ledger reflecting all historic transactions. We identified a variance between the historic ledger balance held and the underlying fund records and cash held. Due to the volume of transactions recorded management have been unable to identify the cause of the variance and appropriate corrective action.

35. While the impact in the current year is not considered material to the accounts, there is a risk that if historically balances are not removed it becomes increasingly difficult for management to identify and correct any variances should these become more significant. We recommend that management look to reconcile the DREAM ledger balances held with those outstanding at the end of the current financial year and amend the balances held on the system accordingly.

Action plan point 3

Fraud and irregularity

36. Responsibility for preventing and detecting fraud and other irregularities lies with the Board of Management. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

37. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

Legality

38. We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.

39. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Management representations

40. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements.

Use of Resources

41. This section of the report summarises our findings in relation to the College's financial performance for the year and its position as at 31 July 2013.

42. 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.

Financial position

The College generated a surplus of £0.428 million for the year to 31 July 2013

43. The College generated a surplus for the year of £0.428 million in 2012/13. This was above the £0.294 million surplus forecast by the college at the start of the financial year. The increase in surplus was predominantly the impact of a reduction in depreciation charges in the year following the revaluation of buildings in 2011/12. The lower value of buildings held resulted in a lower annual depreciation charge each year. Due to the timing of the revaluation exercise being after the original forecasts were produced, the College's overall expenditure was lower than budget.

44. In line with the rest of the sector, the College suffered a reduction of approximately 9.8% in core teaching and fee waiver income from the SFC between 2011/12 and 2012/13. This was partly offset by one-off funding including merger / transformational funding of £1.058 million.

45. During 2012/13 the College ran a voluntary severance programme to generate efficiency savings and reduce operating costs to support the delivery of a balanced budget in future years. The programme has been undertaken with a focus on the College's likely resource requirements following the proposed merger. The College incurred restructuring costs of £1.097 million in the year and utilised £1.058 million of Scottish Funding Council merger support funding to meet these costs. The severance programme took place with staff mainly leaving towards the end of the financial year and therefore the College did not generate many savings from the reduction in staff costs in the 2012/13 financial year from that scheme.

46. The merger support funding did not cover strain on fund costs through the Strathclyde Pension Fund scheme i.e. the cost incurred in making good any shortfall in future pension contributions. The College has therefore incurred costs of approximately £163,000 which were not included in initial budget forecasts.

47. The additional cost pressures have been offset by reductions in overall staffing costs, as a result of previous years' voluntary severance programmes as well as other efficiency savings.

Balance sheet

The College maintains a healthy net asset position

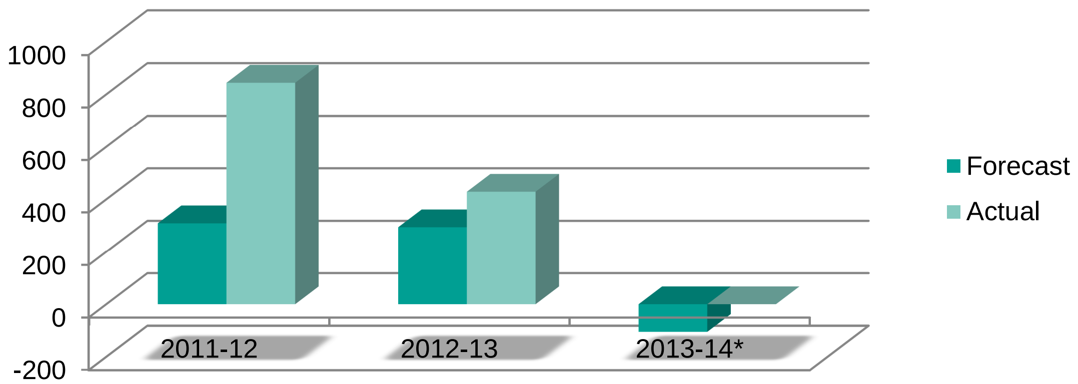
48. The College maintained a healthy balance sheet position with income and expenditure reserve balance of £8.728 million as at 31 July 2013 (2012: £8.212 million). The College held cash and investments of £7.450 million as at 31 July 2013 (2012: £7.334 million).

Financial forecasts

SFC funding has been confirmed for 2013/14 and a deficit has been forecast for Glasgow Clyde College after inclusion of further estimated merger expenditure.

49. The College has returned the 2013 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC). SFC uses the FFR to assess the financial position and performance of individual Colleges and the sector as a whole. Diagram 1 below compares the actual results for Cardonald College with FFR forecasts for Glasgow Clyde College for 2013/14.

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



Source: Financial Forecast Returns

*Based on financial forecasts included within merger business case

50. The diagram shows that over the last two years the College has overachieved against its original budgeted position. The College takes a prudent approach to its financial planning to enable it to respond to in year financial pressures. This has resulted in the outturn performance exceeding original forecast position.

51. The 2013/14 forecast position reflects the anticipated position of the new merged college, Glasgow Clyde College, up to 31 March 2014. The forecast deficit of £0.105 million incorporates the additional merger costs anticipated up to 31 March 2014. These include estimates on staffing costs for the new College as well as additional costs incurred in delivering the merger. A breakeven position is forecast for the year to 31 March 2015.

Going concern and subsequent events

52. We are required under International Standard on Auditing (UK & Ireland) 570, "Going Concern" to consider the appropriateness of the Board of Management's use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about the college's ability to continue as a going concern which need to be disclosed in the financial statements.

53. In order to gain assurance on these matters our work has included:

- reviewing bank facilities;
- performing a review of budgets and cash flow projections covering a period of 12 months from the expected signing of the audit report, together with post year end management accounts. In

particular consideration of the financial forecasts contained within the College's proposed merger business case;

- reviewing minutes of post balance sheet board meetings;
- enquiring of senior management and the College's solicitors concerning litigation, claims and assessments;
- consideration of future SFC funding;
- the impact of the merger with Anniesland and Langside Colleges; and
- performing sample testing of post balance sheet transactions.

54. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. The Board of Management approved the merger with Anniesland and Langside Colleges and the merger took place on 1 August 2013. However, the new college expects to be financially sustainable in the long term and all the College's assets, liabilities, rights, obligations, and staff has transferred to the new merged institution through a Scottish Statutory Instrument.

55. In our opinion the going concern assumption remains appropriate.

Governance

56. 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; and
- the College's financial position.

57. We have reported on the corporate governance arrangements in relation to its financial position in the "Finance and Use of Resources" sections of this report. This section includes our comments on other aspects of the College's arrangements.

Corporate Governance

Governance structures in place at the College are appropriate

58. Colleges have to include a statement covering the responsibilities of their Board of Management in relation corporate governance arrangements in their annual accounts. 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.

59. The College's Corporate Governance Statement for 2012/13 explains that the College was compliant with the UK Corporate Governance Code throughout the period.

60. 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.; and
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

61. 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.

62. The College recognises that there will be further changes in future due to the regionalisation context. The College continues to monitor developments in this area and is working with the other Glasgow Colleges in discussions on the Regional Outcome Agreement.

Risk management

The College has risk management systems in place

63. 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. We have found that the College has adequate risk management arrangements in place to monitor and help mitigate key strategic risks to the College.

Internal audit

64. The internal audit service is a key component of the College's internal control framework. 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 *ISA 610: Considering the work of internal audit*.

Considering the work of internal audit

65. Internal audit has concluded in its annual report that control and governance arrangements were operating with sufficient effectiveness to provide reasonable assurance that the related risk management, control and governance objectives were achieved.

Prevention and detection of fraud and irregularity

66. Responsibility for preventing and detecting fraud and other irregularities lies with the Board of Management. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

67. We have considered how the College ensures compliance with all relevant guidance and regulations and find arrangements to be adequate. This has included a consideration of the College's arrangements for the prevention and detection of fraud and irregularity. During the year the College has implemented sound arrangements for the recording and monitoring of legal and regulatory circulars received from the SFC and other bodies.

68. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity

Standards of conduct

69. We have considered the arrangements made by management in relation to standards of conduct and prevention and detection of corruption. 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 have also considered arrangements in place for ordering and procurement and disposal of assets.

70. We have found the College's arrangements to be appropriate in these areas.

Looking forward

Impact of the College merger

71. The College is undergoing a significant period of change due to the merger and is likely to continue to do so as the new College structure is embedded.

Office of National Statistics reclassification

72. In 2012, the Scottish Government announced that a 2010 decision by the UK Office for National Statistics would reclassify Scottish Colleges as being public sector bodies. The change in classification will have a significant impact on the budgetary and financial accounting framework in which the new Glasgow Clyde College will operate. The reclassification will come into effect from 1 April 2014.

73. The full impact of the reclassification has yet to be fully evaluated however it is envisaged that as a consequence of falling within the public sector classification, colleges will be required to prepare financial statements with an accounting period to 31 March each year. Furthermore, colleges, like other central government bodies, will no longer be allowed to hold retained Income and Expenditure reserves. Subsequent financial plans will need to be sufficiently robust to enable colleges to deliver balanced budgets year on year.

FE College Statement of Recommended Practice (SORP)

74. Colleges are required to follow the Statement of Recommended Practice: *Accounting for Further and Higher Education 2007* ('the SORP'). The SORP reflects UK Generally Accepted Accounting Practice (UK GAAP) and aims to combine the requirements of further and higher education institutions and key stakeholders into recommended accounting practice.

75. Over the last ten years, the Financial Reporting Council has been working on a conversion programme towards all financial reporting being based on International Financial Reporting Standards (IFRS). As a result of this conversion programme the Financial Reporting Council has adopted into UK GAAP, Financial Reporting Standards 100, 101 and 102 for financial years beginning on or after 1 January 2015. These three standards in effect become the new UK GAAP, one of which is IFRS based.

76. The FE/HE SORP Board, consisting of key stakeholders from Higher and Further Education bodies across the UK, accounting practitioners, as well as representatives from funding bodies, has developed a draft SORP which takes account of the key requirements of the new Financial Reporting Standards.

77. The draft SORP represents a significant change in financial reporting across the college sector. This includes changes in disclosure and terminology within the accounts including the names of the primary financial statements. There are also fundamental changes to accounting practice with more IFRS based accounting practice.

78. The new accounting standards come into force for financial years commencing on or after 1 January 2015, which means 2015/16 will be the first reporting year for institutions. However, comparative figures for 2014/15 are required, which in turn will require an opening balance sheet as at 1 April 2014 to be prepared.

Appendix 1 – Management action plan

We identified three observations which we consider requires management action. We identified one observation in the prior year which remains outstanding.

		No of Audit Observations	
Grade	**Definition**	**Current year**	**Prior year (outstanding)**
5	Very high risk exposure - Major concerns requiring immediate attention	-	-
4	High risk exposure - Absence / failure of significant key controls	1	-
3	Moderate risk exposure - Not all key control procedures are working effectively	1	-
2	Limited risk exposure - Minor control procedures are not in place / not working effectively	1	1
1	Efficiency / housekeeping point	-	-

Action plan

1	Voluntary severance programme
Observation	The evaluation and approval of severance proposals was based on the cost of severance scheme excluding the impact of strain on the fund costs due to the pension scheme. In a few instances, the cost of the strain fund payments due to the pension scheme, as a result of the severance, more than doubled the total severance cost to the College. Consequently, the total cost to the College of the severance payments for some support staff was higher than originally anticipated. While the Board were informed of the full cost of the severance programme when the position regarding the pension strain costs for all support staff was known, to ensure robust financial management and to fully inform severance decision making process, the College should ensure that it has full cost information at its disposal prior to making formal offers to employees in future.
Risk and recommendation	While the Board were subsequently informed of the full cost of the severance programme when the information was available, to ensure robust financial management and to fully inform severance decision making process, the College should ensure that it has full cost information at its disposal prior to

	making formal offers to employees. We recommend that for future severance programmes, management ensure that the full cost of severance packages are considered to ensure management are fully informed of the financial impact of severance scheme. This should be used to justify any severance offered in terms of benefits of reports. **Grade 4**
Management response	Management will always consider the full cost of any severance prior to approval. In the several instances referred to during the 2012/13 year the original intention was to not pay pension strain fund costs however it was later clarified that this was a requirement and hence these costs had to be captured. This will not happen in future as the College is now fully aware of this requirement. **Responsible officer**: Director of Organisational Development. **Implementation date:** Completed

2	Fixed asset valuations
Observation	FRS 15 requires Colleges, where a revaluation model is adopted, to conduct a full valuation of land and buildings ever five years. The last full revaluation was conducted in 2008 and subsequently a full revaluation was required as at 31 July 2013. Within the draft accounts this valuation had not been undertaken. Management have received confirmation from the independent valuer regarding the value of the land and buildings held by the college. The valuer concluded that the net impact on the valuation of the land and buildings, taking into account market conditions, would be a net 1% increase on the value of property and no impact on the value of land. Consequently, based on this independent valuer advice the estimated level of misstatement is £235,560 on fixed assets which is not considered material to the 2012/13 financial statements.
Risk and recommendation	While we have satisfactory assurance that the current year fixed assets are free from material misstatement, it is essential that for 2013/14 the College has assurance that the assets are appropriately valued in the accounts. We would recommend that the College conduct a full revaluation of land and buildings for the 2013/14 financial period. **Grade 3**
Management response	It has been intimated to Glasgow Clyde College that all of its land and buildings will have to have a valuation completed as at 31 March 2014 therefore an additional full valuation at this stage did not seem to be an

	effective use of resources. The asset valuations will be completed for 31 March 2014. **Responsible Officer:** Director of Finance . **Implementation Date:** May 2014

3	Ledger balances
Observation	Ledger balances recording bursary and EMA fund transactions and balances are not being cleared at the end of each financial year. Subsequently, a credit and debit balance has accumulated in the DREAM ledger reflecting all historic transactions. We identified a variance between the historic ledger balance held and the underlying fund records and cash held. Due to the volume of transactions recorded management have been unable to identify the cause of the variance and appropriate corrective action.
Risk and recommendation	While the impact in the current year is not considered material to the accounts, there is a risk that if historically balances are not removed it becomes increasingly difficult for management to identify and correct any variances should these become more significant. We recommend that management look to reconcile the DREAM ledger balances held with those outstanding at the end of the current financial year and amend the balances held on the system accordingly. **Grade 3**
Management response	This reconciliation will be completed and the historic balance cleared out. **Responsible officer:** Director of Finance **Implementation date:** March 2014

Follow up on prior year action plan

1	Deferred capital grant release
Observation	We noted that the release for the deferred capital grant was not released in line with the expected useful economic life of the asset held.
Risk and recommendation	Deferred capital grants should be recognised through income to reflect the use of the assets. Subsequently there is a risk that the current approach adopted by the College does not enable this. We recommend that the College ensures that deferred capital grant release reflects the useful economic life of the asset. **Grade 2**
Prior year management response	Noted and agreed. In addition to internal review of working papers, the college is currently working with our Financial systems supplier to simplify and improve the process for generating annual deferred grant releases.
Audit observation in current year	We have confirmed that for 2012/13 the College used the DREAM ledger system to automatically calculate the annual release from deferred capital grants. The deferred capital grants are recorded on ledger on a consolidated basis, based on the type of asset which the grant was used to fund. This does not enable the College to monitor the level of deferred grant held for each individual asset. Where an asset's useful economic life changes or the asset is disposed, the accounting treatment of the deferred capital grant used to fund the asset should also be amended accordingly. As the College currently don't maintain deferred capital income records on an asset by asset basis, the information required to determine the appropriate level of deferred income to be recognised may not be readily available. We recommend that management maintain a record of deferred capital grant balances for each individual asset funded and use this information to determine the appropriate annual release. **Issue outstanding**
Current year management response	Agreed. It is intended to incorporate alongside the wider revaluation of assets exercise. **Responsible officer:** Director of Finance **Implementation date:** March 2014

2	Fixed asset depreciation
Observation	We noted that for some assets depreciation was not charged at the stated accounting policy. The accounting system automatically calculates depreciation and it was noted that for the land and buildings additions depreciation was charged at 10% by the system rather than 3% per the accounting policy.
Risk and recommendation	Although insignificant in amount, there is a risk of misstatement where such variances are not corrected. We recommend that at the year-end a sample of depreciation charges are tested to ensure that the system has used the correct rate. **Grade 3**
Prior year management response	Agreed.
Audit observation in current year	We confirmed through testing a sample of individual assets that the annual depreciation charge was in line with the expected useful economic life of the asset held. **Issue resolved**

3	Fixed asset opening balance
Observation	We noted that the plant and equipment cost and aggregate depreciation per the fixed asset register did not agree to the 2011 financial statements by £9,000.
Risk and recommendation	Although insignificant in amount, there is a risk of misstatement where such variances are not corrected. We recommend that the fixed asset register is reconciled to the trial balance and accounts annually, with any variances investigated and action taken to correct any difference. **Grade 2**
Prior year management response	Agreed.
Audit observation in current year	The fixed asset register has been updated to reconcile to the trial balance and the accounts as at 31 July 2013. **Issue resolved**

1	Trade debtors and creditors
Observation	The balance per the purchase and sales ledgers did not agree to the relevant control accounts on the trial balance.
Risk and recommendation	While the variances were not significant to balances held, there is a risk that the ledger does not reflect outstanding amounts due to or from the College. We recommend that the purchase and sales ledgers are reconciled to the control account every month, with any variances investigated and action taken to correct any difference. **Grade 2**
Prior year management response	Noted and agreed.
Audit observation in current year	No issues noted in the current year. Purchase and sales ledgers were reconciled to relevant control accounts on the trial balance. **Issue resolved**

Appendix 2 – Your audit team

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