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Clydebank College

Annual audit report to the Board of Management of West College Scotland and the Auditor General for Scotland

Year ended 31 July 2013

11 December 2013

Contents

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This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*"). This report is for the benefit of the Board of Governors of Clydebank College and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

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

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

We also draw your attention to the following:

- management of Clydebank College is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us are only those which have come to our attention during our normal audit work in accordance with the *Code*, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve the Board of Governors of Clydebank College from its responsibility to address the issues raised and to maintain an adequate system of control.

Headlines

This annual audit report summarises our work at Clydebank College for the year ended 31 July 2013. Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code").

This report also sets out those matters specified by ISA (UK and Ireland) 260: *Communication with those charged with governance* in relation to the financial statements for the year ended 31 July 2013.

We wish to record our appreciation of the continued co-operation and assistance extended to us by College staff during the course of our work.

Area	Summary observations	Analysis
Strategic overview and use of resources		
Key issues	On 28 June 2012 the boards of management of Clydebank, James Watt and Reid Kerr Colleges gave support to the creation of a "new" college for the West Region. The establishment of the West region college, West College Scotland, has been effected as at 1 August 2013. Management approved 29 voluntary severance applications, supported by Scottish Funding Council transformation funding. The West region outcome agreement was developed in consultation with the boards of management of James Watt and Reid Kerr Colleges.	Page 7
Financial position	The College made an overall surplus of £250,000 before accounting for voluntary severance costs, net of SFC transformation funding, of £108,000 and FRS 17 pension adjustments of £46,000. After these costs, the College reported a surplus of £96,000 (2011-12: £95,000). Income and expenditure both increased, primarily as a result of costs associated with voluntary severance offset by transformation funding receivable from the Scottish Funding Council. The balance sheet reflects an increase in net assets of £7.02 million, primarily associated with an increase in the value of fixed assets of £6.39 million, following adoption of a revaluation accounting policy, and a reduction in net pension liabilities of £359,000.	Pages 8 and 9
Financial planning	West College Scotland will receive £37.53 million core funding from the Scottish Funding Council in respect of the academic year 2013-14 and has a target to deliver 216,326 wSUMs. A financial budget was prepared as part of the merger business case and will be used, in conjunction with the regional outcome agreement with the Scottish Ministers, to monitor the merged college's future performance.	Page 9

Headlines (continued)

Financial statements and accounting (continued)		
Accounting policies	There have been no substantive changes to the financial reporting framework as set out in the Statement of Recommended Practice: Accounting for Further and Higher Education (2007) ("the SORP"). There has been one change to the measurement basis during 2012-13 in respect of the valuation of fixed assets. All other accounting policies have been applied consistently. The financial statements have been prepared on a going concern basis.	
Audit conclusions	We have issued an unqualified audit opinion on the financial statements.	
Year end process	The unaudited financial statements were made available on a timely basis, appropriately supported by working papers.	Page 12
Financial accounting framework	A new SORP, consistent with the new FRS 102, will be applied in respect of the year ending 31 March 2016. West College Scotland will need to prepare a transitional balance sheet as at 1 April 2014. Management will need to take account of changes to the classification of further education colleges with effect from 1 April 2014. This will affect the accounting reference date, budgeting arrangements, ability to carry forward surpluses and the accounting framework. There remains uncertainty over the interaction of the SORP and the IFRS-based Government Financial Reporting Manual.	Page 13
Key judgment areas	We are in agreement with judgements made by management in respect of actuarial assumptions used to provide a valuation of the College's net pension liabilities and valuation of fixed assets.	Page 14
Performance management arrangements		
Performance management	The College produces detailed quarterly management accounts which compare actual expenditure to budget and efficiency savings are planned as part of the merger business case. The outcome agreement with Scottish Ministers includes a target of £5 million efficiency savings together with a number of activity indicators which include efficiency aspects. Performance against sector indicators and other colleges is measured by the College.	Page 15

Headlines (continued)

Governance and narrative reporting		
Governance arrangements	The statement of corporate governance and internal control identifies no major weaknesses in governance or internal control arrangements. We have reviewed the statement of corporate governance and consider it consistent with our understanding of the process followed by the College during the year. We were asked to consider proposed arrangements in respect of the voluntary severance of the Principal, deferred until 31 July 2014 and appointment as Project Executive Director of West College Scotland. The proposed arrangements were considered against Audit Scotland, internal and external audit guidance and comments by a meeting of the remuneration committee in February 2013. Management has identified no significant fraud or irregularities.	Page 17
Systems of internal control	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively subject to recommendations made to enhance those controls.	Page 20

Scope and responsibilities

Background

The purpose of this report is to set out certain matters which came to our attention during the course of our audit of the financial statements of Clydebank College ("the College") for the year ended 31 July 2013.

The purpose of our audit

The main purpose of our audit which is carried out in accordance with International Statements on Auditing (ISAs) (UK and Ireland) issued by the Auditing Practices Board, is to report to the board of governors and Auditor General for Scotland on whether in our opinion the financial statements:

- give a true and fair view of the state of the affairs of the College as at 31 July 2013 and of the College's income and expenditure, historical cost surplus or deficit, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education; and
- the expenditure disbursed and income received during the year ended 31 July 2013 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The purpose of this report

Our objective is to use our knowledge of the College gained during our routine audit work to make useful comments and suggestions for you to consider. However, you will appreciate that our routine audit work is designed to enable us to form the above audit opinions on the annual financial statements of the College and should not be relied upon to disclose errors or irregularities which are not material in relation to those financial statements. All issues raised in the report have been discussed with management and we have included responses where appropriate in the action plan. In order to provide an indication of the level of importance of the recommendations made, we have prioritised our recommendations on the basis shown in the action plan.

Independence

ISA (UK and Ireland) 260:*Communication with those charged with governance* requires us to communicate at least once a year regarding all relationships between KPMG and the College that may be reasonably thought to have bearing on our independence.

KPMG conforms to the highest governance standards at all times and we will ensure that any additional services are approved by the audit committee to ensure transparency. Additional services have been provided in respect due diligence, associated with the merger to create West College Scotland, during the year ended 31 July 2013.

Strategic overview and use of resources

Our perspective on the College's approach to key issues affecting the further education sector and its use of resources

Key issues

On 28 June 2012 the boards of management of Clydebank, James Watt and Reid Kerr Colleges gave support to the creation of a "new" college for the West Region.

The establishment of the West region college, West College Scotland, has been effected as at 1 August 2013.

Management approved 29 voluntary severance applications, supported by Scottish Funding Council transformation funding.

The West region outcome agreement was developed in consultation with the boards of management of James Watt and Reid Kerr Colleges.

Sector organisational and structure changes

On 28 June 2012 the boards of management of Clydebank, James Watt and Reid Kerr Colleges gave support to the creation of a "new" college for the West Region. All three boards believe that the size and scale of the new college will allow it to operate more effectively within the regional structure for colleges across Scotland and more competitively both nationally and internationally. A "West Region" has been established as part of the regionalisation of the college sector as set out in the Scottish Government's paper *Putting Learners at the Centre*. The area that forms the West Region is the three local authority areas comprising Inverclyde, Renfrewshire and West Dunbartonshire.

The establishment of the West Region college, West College Scotland, has been effected by the transfer of all the activities and assets of Reid Kerr College to Clydebank College as at 1 August 2013, together with the activities of James Watt College undertaken at its Inverclyde campus as at the same date.

Consistent with guidance and anticipated changes to legislation, a shadow board was established in October 2012 comprising the three college chairs, principals and additional representation from all three colleges, including college staff and student representation. The membership of the shadow board was 12, drawn equally from all three existing college boards of management.

Going forward, the Statement of Recommended Practice: *Accounting for further and higher education* (2007) requires that institutions must assess, in accordance with Finance Reporting Standard 6: *Acquisitions and Mergers,* whether a combination of an institution with another institution is an acquisition or merger. In February 2013 we provided management with an analysis of relevant accounting standards and criteria in respect of accounting basis.

Voluntary severance

A voluntary severance scheme was introduced during 2012-13, supported by transformation funding from the Scottish Funding Council.

Management has approved 29 voluntary severance applications with a total cost of £1.25 million. The Scottish Funding Council transformation funding will support £1.14 million of the cost with the balance met by the College.

Outcome agreement

The West region outcome agreement with the Scottish Ministers was developed in consultation with the boards of management of James Watt and Reid Kerr Colleges during 2012-13.

The priority impacts to be achieved by the merged college include:

- Ensuring resources are used effectively and efficiently to deliver a cohesive, enhanced service across the region as part of a regional learning and teaching strategy and curriculum development plan.
- Placing students and local communities at the forefront of activities to ensure relevant work experience and employability skills are embedded in curricula.
- Delivering a service that is responsive to local, regional and national needs through the delivery of 216,326 wSUMs in 2013-14.
- Play an increasingly significant strategic role in the educations, social and economic fabric of the West region, agreeing learning opportunities with community planning partners and employers.
- Supporting students with clear learning pathways.
- Promoting a cohesive employer engagement strategy and becoming a stand-out training provider in the sector.

Financial position

The College made an overall surplus of £250,000 before accounting for voluntary severance costs, net of Scottish Funding Council transformation funding, of £108,000 and FRS 17 pension adjustments of £46,000.

After these costs, the College reported a surplus of £96,000 (2011-12: £95,000).

Income and expenditure increased, primarily as a result of costs associated with voluntary severance offset by transformation funding receivable from Scottish Funding Council.

This section of our report summarises the main features of the financial statements and key movements from the prior year.

Income and expenditure account

Income and expenditure account		
£000	**2013**	**2012**
Income		
Funding Council grants	12,914	12,928
Tuition fees and education grants	2,994	2,569
Other grant income	151	151
Other operating income	922	799
Interest receivable	29	47
Total income	**17,010**	**16,494**
Expenditure		
Staff costs	(10,373)	(10,545)
Other staff costs	(1,471)	(785)
Other operating expenses	(4,182)	(3,899)
Depreciation	(888)	(1,170)
Total expenditure	**(16,914)**	**(16,399)**
Surplus for the year	**96**	**95**

Source: 2012-13 draft financial statements

Result for the year

The College made a surplus of £96,000 (2011-12: £95,000). Total income increased by £516,000 when compared to 2011-12:

- Scottish Funding Council grants reduced by £14,000, primarily as a result of £1.51 million reduction in recurrent grant income offset by additional accrued income from the Funding Council of £1.56 million in respect of transformation funding, mainly associated with voluntary severance costs.
- Tuition fee and education grants have increased by £425,000, primarily in respect of education contracts, including New College Learning Programme income from Skills Development Scotland.

Expenditure has increased by £463,000 when compared to 2011-12:

- Staff costs include £1.25 million in respect of restructuring costs associated with the voluntary severance scheme.
- Other operating expenses have increased by £283,000. This is primarily due to a number of small increases across a range of other expenditure categories which are partially offset by decreases in administration and central services expenditure associated with efficiencies.

Adjusted result for the year

A number of significant items have had an impact on the reported surplus for both 2012-13 and 2011-12; these are analysed in the table below, which shows the adjusted underlying operating surplus after removing them, on a consistent, comparable basis.

£'000	**2013**	**2012**
Surplus for the year	96	95
Restructuring cost	1,249	618
Transformation funding in respect of above	(1,141)	-
Net FRS 17 pension costs	46	55
Operating surplus for the year	**250**	**768**
Adjusted operating surplus as a % of total income	**1.5%**	**4.7%**

Financial position (continued)

The balance sheet reflects an increase in net assets of £7.02 million, primarily associated with an increase in the value of tangible fixed assets of £6.39 million, following adoption of a revaluation accounting policy, and a reduction in pension liabilities of £359,000.

West College Scotland will receive £37.53 million core funding from Scottish Funding Council in respect of the academic year 2013-14 and has a target to deliver 216,326 wSUMs.

A financial budget was prepared as part of the merger business case and will be used, in conjunction with the regional outcome agreement with the Scottish Ministers, to monitor the merged college's future performance.

Balance sheet

Balance sheet as at 31 July		
£000	**2013**	**2012**
Fixed assets		
Tangible assets	34,314	27,922
Current assets		
Stocks	6	4
Debtors: Amounts falling due within 1 year	1,382	789
Cash at bank and in hand	3,386	3,458
Creditors: Amounts falling due within 1 year	(3,196)	(2,674)
Net current assets	**1,578**	**1,577**
Total assets less current liabilities	35,893	29,499
Creditors: Amounts falling due after more than 1 year	(665)	(931)
Net pensions liability	(4,778)	(5,137)
Net assets including pension liability	**30,449**	**23,431**
Deferred capital grants	23,683	24,447
Reserves		
Income and expenditure reserve (including pension reserve)	(515)	(1,016)
Revaluation Reserve	7,281	-
Total funds	**30,449**	**23,431**

Source: 2012-13 draft financial statements

The balance sheet reflects an increase in net assets of £7.02 million, primarily associated with an increase in the value of fixed assets of £6.39 million, following adoption of a revaluation accounting policy, and a reduction in pension liabilities of £359,000.

- There were no fixed asset additions or disposals in the period. In preparation for the merger with Reid Kerr and James Watt Colleges from 1 August 2013, the tangible fixed assets of the College were subject to a valuation for the first time, effectively as at July 2013, which resulted in a net increase in value of £7.28 million before depreciation of £888,000 which was subsequently charged in the year.
- Cash at bank and in hand has decreased by £72,000. The College continues to maintain a positive cash balance.
- Creditors due after more than one year have decreased by £266,000 which is as a result of the Lennartz payment made in the year. HM Revenue and Customs have confirmed to the College that the Lennartz repayment amount and profile will be unaffected by the merger.

Budget 2013-14

Following the merger on 1 August 2013, Clydebank and Reid Kerr Colleges and the Inverclyde campus of James Watt College, forming West College Scotland will be providing services to the West region. West College Scotland will receive £37.53 million core funding from Scottish Funding Council in respect of the academic year 2013-14 and has a target to deliver 216,326 wSUMs.

A financial budget was prepared as part of the merger business case and will be used, in conjunction with the regional outcome agreement with the Scottish Ministers to monitor the merged college's future performance.

Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

Accounting policies

There have been no substantive changes to the financial reporting framework as set out in the *Statement of Recommended Practice: Accounting for Further and Higher Education (2007)* ("the SORP").

There has been one change to the measurement basis during 2012-13 in respect of the valuation of fixed assets. All other accounting policies have been applied consistently.

The financial statements have been prepared on a going concern basis.

Accounting framework and application of accounting policies	
Area	**KPMG comment**
Statement of Recommended Practice: Accounting for Further and Higher Education (2007) ("the SORP").	■ The 2012-13 financial statements have been prepared in accordance with the SORP. ■ During the year there have been no substantive changes in financial reporting requirements, and consequently there are no material changes to the College's accounting policies. ■ One voluntary change to accounting policies was made in respect of the valuation of fixed assets in preparation for the merger on 1 August 2013 to ensure consistency with James Watt and Reid Kerr Colleges. ■ We are satisfied that the accounting policies adopted remain appropriate to the College. During the year, the Board of Governors elected to change the measurement basis permitted by FRS 15 Tangible fixed assets from a historic cost to valuation basis, reflected as at 31 July 2013. This does not require to be implemented retrospectively.
Impact of revised accounting standards	■ There are no newly effective accounting standards which are considered to have a material impact on the College's financial statements.
Going concern	■ The activities, assets and liabilities of Reid Kerr College and the Inverclyde campus of James Watt College transferred to West College Scotland on 1 August 2013 and subsequently changed its name. This is a transfer of functions within the public sector, to the College from other colleges and accordingly the financial statement have been prepared on a going concern basis. Appropriate disclosures have been included within the financial statements in this respect. ■ Management has considered the funding available to the merged college in 2013-14 and consider it appropriate to adopt a going concern basis for the preparation of these financial statements. ■ We are satisfied that the going concern basis of preparation of the financial statements is appropriate.

Audit conclusions

[We have issued] an unqualified audit opinion on the financial statements.

Audit conclusions
We have issued an unqualified opinion on the truth and fairness of the state of the affairs of the College as at 31 July 2013 and of the College's income and expenditure, historical surpluses and deficits recognised gains and losses and cash flows for the year then ended. The financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the SORP. In gathering the evidence for our opinion we have: ■ performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks; ■ reviewed internal audit reports to ensure all key risk areas having a potential financial statements impact have been considered; ■ reviewed assumptions and judgements made by management and considered these for appropriateness; ■ considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to the prevention and detection of fraud with the potential to impact on the financial statements; ■ held discussions with senior management; and ■ attended a meeting with those charged with governance to communicate our findings, but also to update our understanding of the key governance processes and obtain key stakeholder insights.

Year end process; future accounting framework

The unaudited financial statements were made available on a timely basis.

A new SORP, consistent with the new FRS 102, will be applied in respect of the year ending 31 March 2016. West College Scotland will need to prepare a transitional balance sheet as at 1 April 2014.

Management will need to take account of changes to the classification of further education colleges with effect from 1 April 2014. This will affect the accounting reference date, budgeting arrangements, ability to carry forward surpluses and the accounting framework.

There remains uncertainty over the interaction of the SORP and the IFRS-based Government Financial Reporting Manual.

Financial statements preparation

- High quality working papers and complete unaudited financial statements were provided in line with the agreed timetable. This included the operating and financial review and statement of corporate governance and internal control.
- We provided feedback to management on the content of the financial statements, operating and financial review and statement of corporate governance and internal control, which were subsequently adjusted in the financial statements. We are satisfied that these are materially prepared in accordance with relevant regulations and guidance as appropriate.
- There are no non-trifling unadjusted audit differences, and no adjusted audit differences. There are no significant matters in respect of (i) auditor independence and non-audit fees and (ii) management representation letter content, as reported in appendix one.

Changes to the classification of further education institutions

- Following the creation of sixth form college Corporations on 1 April 2010 (which are classified as local government entities) the Office of National Statistics (“ONS”) decided to review the classification of all further education colleges in the UK. The key factors examined by ONS are the ‘public sector powers’ held by government Ministers, and their public agencies, such as Scottish Funding Council, over further education colleges. As a result of their evaluation, the ONS concluded that all further education colleges should be classed as public sector bodies. This decision does not require legislative change.
- This has wide implications for colleges who will need to change their budgeting, reporting and accounting practices to align with those that applicable for central government organisations. Colleges currently budget and account on an academic year basis but will need to switch to the same financial year basis used across the public sector (April to March). For the purposes of HM Treasury budgeting, incorporated colleges will be classified as ‘Arms-Length Bodies’ (“ALBs”) analogous to non-departmental public bodies. This will restrict colleges’ abilities to use carried forward surpluses and require that all revenue and capital expenditure is within the Scottish Government’s annual expenditure limits.
- In consultation with the college sector, the Scottish Funding Council is reviewing the likely impact of this reclassification and giving consideration to the impact.

Changes to Statement of Recommended Practice: Accounting for Further and Higher Education

- In March 2013, the Financial Report Council (“FRC”) issued FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. This is the main part of the new UK GAAP regime and follows the issue in November 2012 of FRS 100 (overview of the framework) and FRS 101 (reduced disclosure framework).
- FRS 102, which is based on International Financial Reporting Standards (“IFRS”) is applicable for accounting periods beginning on or after 1 January 2015. In response, the Further and Higher Education SORP Board has recently completed the development of a new SORP, which is currently subject to a process of consultation. West College Scotland will need to prepare a transitional balance sheet as at 1 April 2014.

Key accounting judgements

We are in agreement with judgements made by management in respect of actuarial assumptions used to provide a valuation of the College's net pension liabilities.

A valuation of the campus was obtained during the year and an upward movement of £7.3 million to £31.2 million reflected in the financial statements.

Key accounting judgements and other accounting and audit matters	
Area	**KPMG comment**
Retirement benefits	The College accounts for its participation in the Strathclyde Pension Fund in accordance with FRS 17 *Retirement benefits*, using a valuation report prepared by actuarial consultants. Our audit of the accounting for retirement benefits includes consideration of the data underlying the actuarial report. This includes the level of contributions made during the year, the financial assumptions and membership data provided to the actuary and the College's share of the pension fund assets. No such requirement exists for Scottish Teachers' Superannuation Scheme obligations as this is a multi-employer scheme where the individual assets and liabilities cannot be separately identified for each employer and therefore accounted for as a defined contribution scheme under the provisions of FRS 17. The level of contributions made by the College in the year is estimated based on data prior to the year end. It is important that this number is accurate as it is used to inform the calculation of the liabilities at the year end. Our testing included review of actual data against that used in the actuarial calculations. No issues were identified. The actuaries use a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. Our actuarial colleagues have reviewed the assumptions and concluded that those used fall within the range that we would normally consider acceptable for the purpose of FRS 17 for a typical employer. The rate of salary increases is set taking into account the College's expected long-term rate of salary increases, including incremental drift. The rate assumed in 2013-14 is 1% per annum until 31 March 2015 followed by 5.1%/4.6% (RPI plus 1.5%/1.0%) thereafter. Total pension cost for the year, including Scottish Teachers' Superannuation Scheme contributions and the net interest cost, was £1.10 million compared to £1.13 million in 2011-12. The net FRS 17 pension liability has decreased by £399,000 at 31 July 2013 compared to 2012. The movement in the pension deficit over 2012-13 is largely due to an increase in the value of the schemes' assets.
Valuation of fixed assets	In preparation for the establishment of West College Scotland, the College elected to change its accounting policy in respect of fixed assets to adopt a depreciated replacement cost valuation basis rather than a depreciated historic cost basis. An independent valuation was commissioned and received which identified the total value of the main campus, relevant components and former janitor's house as £31.2 million as at 31 July 2013. An upward valuation was reflected in the financial statements and a revaluation reserve created with a balance of £7.3 million as at 31 July 2013.

Performance management

Our perspective on the performance management arrangements, including follow up work on Audit Scotland reports

Performance management

The College produces detailed quarterly management accounts which compare actual expenditure to budget and efficiency savings are planned as part of the merger business case. The outcome agreement with Scottish Ministers includes a target of £5 million efficiency savings together with a number of activity indicators which include efficiency aspects.

Performance against sector indicators and other colleges is measured by the College.

Best value

In April 2002 the Scottish Ministers introduced a non-statutory duty on accountable officers to ensure arrangements exist to secure Best Value.

Audit Scotland has been committed to extending the Best Value audit regime across the whole public sector for some time now. Using the Scottish Executive's nine Best Value principles as a basis for audit activity, Audit Scotland previously selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).

A series of toolkits covering financial, performance and governance processes are available for public sector organisations and auditor to use, but auditors were not required to complete specific toolkit(s) in 2012-13.

The College produces detailed quarterly management accounts which compare actual expenditure to budget and efficiency savings are planned as part of the merger business case. The outcome agreement with the Scottish Ministers includes a target of £5 million efficiency savings together with a number of activity indicators which include efficiency aspects.

Performance indicators

In accordance with Scottish Funding Council requirements, the College is required to publish and report progress against national priorities. These indicators monitor the implementation of the College's financial objectives.

KPI	Actual 2012-13	Actual 2011-12
Performance against WSUMs target	99.2%	102%
Prompt payment to suppliers (within 30 days)	86%	80%
Non SFC income a % of income	24%	22%
Gearing	0%	0%
Current assets : current liabilities	1.49:1	1.59:1
Days cash	77	84

The activity target set by the Scottish Funding Council for 2012-13 was 53,009 wSUMs. The College delivered 52,585 wSUMs in 2012-13.

Regularity

As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements.

The senior management team considers incoming correspondence relevant to its strategic management role from the Scottish Funding Council and other regulatory or advisory bodies, such as Audit Scotland to ensure it is appropriately aware of sector issues and developments and that it complies with the terms and conditions of funding. Our testing of transactions did not indentify instances of mis-application.

Governance and narrative reporting

Update on your governance arrangements

Our overall perspective on your narrative reporting.

Corporate governance arrangements (continued)

The statement of corporate governance and internal control identifies no major weaknesses in governance or internal control arrangements.

We have reviewed the statement of corporate governance and consider it consistent with our understanding of the process followed by the College during the year.

Arrangements in respect of the voluntary severance of the Principal, deferred until 31 July 2014 and appointment as Project Executive Director of West College Scotland on an increased salary were considered against Audit Scotland, internal and external audit guidance and comments.

Management has identified no significant fraud or irregularities.

Corporate governance and internal control arrangements	The College has made a compliant corporate governance and internal control statement. We are required to review this to assess whether the description of the process adopted by the College in reviewing the effectiveness of the system of internal control is consistent with our understanding of the process and report any inconsistencies. We are not required to provide an opinion on the College's system of internal control. The statement of corporate governance and internal control provides detail on the governance framework, the system of internal control, internal audit, internal financial controls and risk management arrangements, and analyses the effectiveness of these elements of the framework. It describes a number of sources of assurance for the accountable officer. We have reviewed the statement of corporate governance and internal control and consider it consistent with our understanding of the process followed by the College during the year.
Senior post-holders' emoluments	The Accounts Direction, issued by the Scottish Funding Council, sets out certain disclosures required in respect of senior post-holders' emoluments. We tested a sample of disclosures to ensure that they were prepared in accordance with the requirements of the Accounts Direction. We were asked by members of the Board to give early consideration to potential arrangements in respect of the voluntary termination of the College principal's position. The Principal has been appointed, on a continuous basis, as Project Executive Director of West College Scotland for a period of 12 months from the vesting date of the new merged college while deferring voluntary redundancy until the end of that period (31 July 2014). The salary determined for the Project Executive Director role is above that previously applicable to the role as Principal. We set out a number of recommended actions in respect of the proposals based on Audit Scotland's guidance, *Buy Now, Pay Later* and HM Treasury pay guidance *Managing Public Money*. These included: the role of the Principal in considering the arrangements; consideration in respect of potential special payments; the total cost of proposed arrangements; and, the future role of the Principal as a director of West College Scotland. We also recommended consideration of any implications arising as a result of the Principal's membership of the Scottish Teachers' Superannuation Scheme, due to its complex rules and options in respect of voluntary severance and the determination of pensionable salary. Our recommendations were tabled and considered at a meeting of the remuneration committee on 21 February 2013 where the majority of points appear to have been considered together with relevant Audit Scotland and internal auditor's guidance. The committee noted that it did not have discretion in terms of pay in lieu of notice which is a requirement of the College's voluntary severance scheme. The Principal also confirmed to the committee that no pension strain costs would be incurred as a result of the proposed arrangement.

Corporate governance arrangements (continued)

Management has identified no significant fraud or irregularities.

Prevention and detection of fraud	A key mechanism in the allocation of authority, accountability and responsibility and the prevention and detection of fraud is the existence and maintenance of strategic and financial documentation. The College has established appropriate processes for the prevention and detection of fraud. During 2012-13, management identified no significant fraud or irregularities.
Maintaining standards of conduct and the prevention and detection of corruption	The College has appropriate policies and codes of conduct for staff and members, including the use of a register of members' interests.

Corporate governance arrangements (continued)

Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively subject to recommendations made to enhance those controls.

Systems of internal control	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively subject to recommendations made to enhance those controls.
Internal audit	As set out in our audit plan and strategy, we have evaluated the work of internal audit. The content of the internal audit plan is in line with our expectations. We considered internal audit's work in relation to the wSUMs audit. Internal audit reported that *"On the basis of work undertaken for the year ended 31 July 2013 as set out in the Internal Audit Plan approved by the Audit Committee, we consider that Clydebank College generally has an adequate framework of control over the systems we examined…"*

Appendices

Mandatory communications

There were no changes to the core financial statements, no adjusted audit differences and no unadjusted audit difference.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the unaudited financial statements which impacted on the net assets or the surplus and deficit for the year.	-
Unadjusted audit differences	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued by KPMG LLP to the audit committee	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our Audit Director and audit staff. There were non-audit fees payable in the year associated with due diligence in advance of the establishment of West College Scotland.	Appendix 3
Draft management representation letter Proposed draft of letter to be issued by the College to KPMG prior to audit sign-off	There are no changes to the representations required for our audit from last year.	-

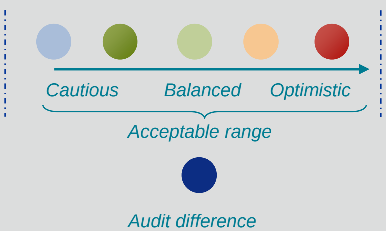
Appendix two

Pensions assumptions

Presented below is a comparison of the assumptions used by Hyman Roberts who advise the College in respect of the Strathclyde Pension Fund Scheme, alongside the typical assumptions we would anticipate in relation to each aspect:

Assumptions	Employer	KPMG central	Assessment	KPMG comments
Overall				■ The overall assumptions proposed were within our expected range.
Discount rate	4.60%	4.40%		■ The proposed discount rate is slightly weaker (lower liability) than our central rate but is within the range that we would normally consider acceptable.
RPI inflation	3.60%	3.50%		■ The proposed RPI inflation rate of 3.6% is slightly stronger (higher liabilities) than KPMG's central rate for a scheme with an average duration of 17 years but is within a range we consider to be acceptable for the purposes of FRS17.
CPI inflation / Pension increases	2.80% RPI less 0.8%	2.50% RPI less 1.0%		■ The assumptions is more prudent (higher liability) than KPMG's central rate and is at the upper limit of what we would consider acceptable. ■ Following announcement by the National Statistician in January 2013, which was in response to the ONS consultation regarding the calculation of RPI and the difference in calculation between RPI and CP, we would expect the RPI – CPI gap to be around 1% at 31 July 2013.
Net discount rate (Discount rate – CPI)	1.80%	1.90%		■ The range we would normally consider reasonable for the purposes of FRS17 as at 31 July 2013 is 1.9% +/-0.3%, for a scheme with liabilities with a duration of 17 years. The net discount rate is within our generally expected range.
Salary growth	1% pa until 31 March 2015, 5.1%/4.6% from 31 March 2015 (RPI + 1.5%/1.0%)	0.5-1.5% above RPI inflation		■ The assumptions is in line with the requirements of FRS17. ■ We note that the salary increase assumption for LGPS employers will typically be restricted to 1% p.a. for the first two years given public sector pay constraints.
Life expectancy Current male pensioner (age 65) Future male pensioner (age 45)	Based on latest formal funding valuation	Dependent on assumption		■ The mortality assumptions proposed are those used for the most recent signed off formal actuarial valuation, which is a reasonable approach.

Level of prudence compared to KPMG central assumptions



Auditor independence and non-audit fees

Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the College.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the College and its related entities for professional services provided by us during the reporting period. The fees paid to us by the College for significant professional services provided by us during the reporting period, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted are £64,000. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the board of governors.

Confirmation of audit independence

We confirm that as of 11 December 2013, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of audit committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

Audit Scotland code of audit practice – responsibilities of the Board of Governors

Financial statements

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

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

Systems of internal control

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

Prevention and detection of fraud and irregularities

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

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

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

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

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

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