HENDERSON LOGGIE
Chartered Accountants

Coatbridge College

Annual Audit Report for 2012/13 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2013/02

Draft Issued: 29 November 2013
11 December 2013

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Contents

Notice: About this report

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

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

Nothing in this report constitutes a valuation or legal advice.

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

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

Financial Statements

- On 18 December 2013 we issued an audit report with an unqualified opinion on the financial statements of the College for the year ended 31 July 2013 and on the regularity of the financial transactions reflected in those financial statements.

- The annual financial statements of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- There were a number of adjustments identified during the audit process. Following discussion with management, it was agreed to make adjustments for the majority of these items which had an impact of increasing the surplus by £0.012 million. A further four potential misstatements items were not adjusted for, and if adjusted would have decreased the surplus by £0.025 million.

- A small number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

- The College has shown a surplus for the year of £0.257 million (2012/13 - £0.256 million), and had an income and expenditure account balance (including the Pension Reserve) of £6.237 million at 31 July 2013 (31 July 2012 - £4.823 million).

- Phase two of the College's estates redevelopment is complete with £2.341 million of capital expenditure during 2012/13.

- The College's land and buildings were revalued at the end of 2012/13 and the revaluation was incorporated into the financial statements. Componentisation will be brought into 2013/14 financial statements.

Corporate Governance

- The College's Corporate Governance Statement confirms that the College complies with all of the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2013.

- No material weaknesses in the accounting and internal control systems were identified during the 2012/13 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

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

- The College also has an on-going process for identifying, evaluating and managing its significant risks.

Performance

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

Outlook

- In January 2013 Motherwell and Cumbernauld Colleges announced merger plans and invited the other regional colleges to join them. Coatbridge College agreed to become part of the merger plans and at the date of this report the merger consists of Motherwell, Cumbernauld and Coatbridge Colleges. Motherwell and Cumbernauld Colleges will vest on 1 November 2013 with Coatbridge College merging at the later date of 1 April 2014.

- The Motherwell and Cumbernauld combination will be treated as a merger for accounting purposes as opposed to an acquisition. The subsequent joining of Coatbridge College will also be treated as a merger.

- In order to be ready for merger on 1 April 2014, the College has already undertaken a substantial amount of work during 2013. A significant amount remains to be completed.

- Following reclassification as Central Government bodies the financial year-end of colleges is changing from the academic year-end of 31 July to the Government year-end of 31 March. The first financial period under this new regime will be the eight months from 1 August 2013 to 31 March 2014.

- The format of financial statements will also have to change from 1 April 2014 as Central Government bodies use the Government Financial Reporting Manual ('the FReM'). The changes for 2014/15 are not significant as the Education SORP takes precedence over the FReM.

- A new SORP incorporating International Financial Reporting Standards (IFRS) accounting has been developed in line with Financial Reporting Standard (FRS) 102. This will be finalised in 2014 and is expected to apply to accounts for 2015/16 onwards. The 2014/15 comparative figures and opening balances at 1 April 2014 will require restatement in the new format.

- The funding position will remain challenging.

Introduction

Background

1. 2012/13 was the second year of our five year appointment as external auditors of Coatbridge College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance.

2. The audit framework is outlined in our Strategic Planning Memorandum and 2012/13 Annual Audit Plan, issued in draft on 29 May 2013 and finalised on 5 June 2013, which was considered and approved by the Audit Committee in June 2013. The scope of the audit was to:

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

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

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

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

   - compliance with legislation and financial regulations;

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

   - recoverability of debtors;

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

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

   - compliance with the SORP on Accounting for Further and Higher Education.

Basis of Information

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

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

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

Acknowledgement

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

Audit Opinion

8. On 18 December 2013 we issued an audit report with an unqualified opinion on the Financial Statements of the College for the year to 31 July 2013 and on the regularity of the financial transactions reflected in those financial statements.

9. We are required to undertake audit work from the Balance Sheet date up to the date of signing the financial statements and this was undertaken for the period up to 18 December 2013. No post balance sheet events were identified that required adjustment to be made to the financial statements or additional disclosure in a note thereto.

Audit Completion

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

Table 1: Key elements of the audit process

Completeness of draft financial statements
A set of draft financial statements was received prior to the start of the final audit visit. Although a number of misstatements were identified by either the College or ourselves which were mostly adjusted for, the draft financial statements were of a high standard. There were also a small number of presentational changes made as part of the audit process.

Quality of supporting working papers
In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. A full set of working papers were provided in line with this list from the outset of the audit and were of a suitably high standard.

Response to audit queries
We are pleased to note that all audit queries were dealt with in a timely manner.

Corporate Governance Statement

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

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

13. The College's corporate governance statement for 2012/13 states the College complies with all of the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2013.

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

Audit and Accounting Adjustments and Confirmation

15. A number of audit and accounting adjustments were identified during the audit which, following discussion with management, were agreed to be adjusted in arriving at the final position.

16. Table 2 sets out the audit and accounting adjustments affecting the current year. The overall impact of these adjustments on the financial statements has been to increase the reported surplus for the year by £0.012 million.

Table 2: Audit and accounting adjustments

	Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
1	Income and expenditure reserve			15	
	Revaluation reserve				15
	Adjustment to the transfer between the revaluation reserve and the general reserve.				
2	Depreciation charge	26			
	Fixed assets				26
	Undercharge of depreciation on phase 1 building.				
3	Trade creditors			12	
	Other operating expenses		12		
	Write off of older balance on the purchase ledger - Turner & Townsent.				
4	Other operating expenses	4			
	Accruals				4
	Additional invoices identified in the post year end invoice review.				
5	Other income	358			
	Educational Contract Income		358		
	Reclassification of SDS as educational contract income.				
6	PAYE/NI liability			10	
	Staff costs		10		
	Adjustment to write off brought forward differences on PAYE/NI creditor.				
7	Accruals		19		
	Other operating expenses			19	
	Adjustment to write off old accruals brought forward but no longer needed.				
8	SFC loan funding debtor < 1 year			81	
	Bank loan < 1 year				81
	Adjustment to correct balance on the SFC loan funding debtor and corresponding bank loan creditor.				
9	VAT debtor			36	
	Other operating expenses	15			
	Social security and other taxes liability				51
	Adjustment to year end VAT debtor for spreadsheet error and to reallocate from creditors.				
	Carried forward	**403**	**399**	**173**	**177**

Audit and Accounting Adjustments and Confirmation (Continued)

Table 2: Audit and accounting adjustments (Continued)

	Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
	Brought forward	**403**	**399**	**173**	**177**
10	Accrued income			59	
	Deferred income				59
	Reallocation of SDS College Learning Programme deferred income originally offset SDS Employability Fund Deferred Income.				
11	Fixed assets			49	
	Depreciation charge		49		
	Overcharge of depreciation resulting negative nbv assets at the year end.				
12	Other operating expenses	31			
	Bad debt provision				31
	Bad debt identified during audit review.				
13	Fixed assets - accumulated depreciation			797	
	Fixed assets – cost				772
	Revaluation reserve				25
	Revaluation of property brought into the year end fixed assets.				
14	Other operating expenses	2			
	Accruals				2
	Adjustment to bring in HE Discretionary Fund creditor.				
		______	______	______	______
	Total	**436**	**448**	**1,078**	**1,066**
		======	=====	=====	=====
	Net impact on Income and Expenditure Account Surplus		**12**		
			======		

Audit and Accounting Adjustments and Confirmation (Continued)

17. A small number of potential audit adjustments were identified which management decided not to adjust. These have been listed in Table 3 below and the total of these items is below our materiality level. The effect of adjusting for these items would be to decrease the surplus for the year by £0.025 million.

Table 3: Unadjusted audit items

	Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
1	Other income	2			
	Trade debtors				2
	Post year end income credit notes.				
2	Fixed assets - cost			3	
	Accruals				3
	Morris & Spottiswood retention not accrued.				
3	Other debtors			5	
	Other income		5		
	Grant income potentially under accrued.				
4	Other income	28			
	Accrued income				28
	VAT claim from contractors outstanding from prior year.				
	Total	**30**	**5**	**8**	**33**
		======	=====	=====	=====
	Net impact on Income and Expenditure Account Surplus	**25**			
		======			

18. A small number of other disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

Confirmations and Representations

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

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

Financial Position

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

22. Table 4 provides a summary of the College’s planned and actual financial results, based on the formal returns submitted by the College to the Funding Council.

Table 4: Comparison of planned and actual financial results

	2011/12 Actual £000	**2012/13 Planned £000**	**2012/13 Actual £000**	**2013/14 Planned £000**
Financial outturn Surplus	256	118	245	21
Income and expenditure reserves (incl pension reserve)	4,823	7,377	6,240	5,325
Cash balances	1,628	504	1,782	1,131

Source: Audited financial statements and Financial Forecast Return (FFR)

23. Overall, College income in 2012/13 has decreased by £0.049 million (0.4%) over 2011/12 to £11,437 million. The College’s expenditure has decreased £0.050 million (0.4%) over 2011/12 to £11.180 million.

2012/13 SUMs Outturn

24. The College’s outturn against its 2012/13 SUMs target is shown in table 5.

Table 5: 2012/13 SUMs outturn

	2011/12	**2012/13**
SUMS target	39,896	37,972
SUMS actual	40,630	38,186
Excess	734	214

Source: Audited SUMs returns

25. The audit of the SUMs return for 2012/13 was carried out by Wylie + Bisset LLP who concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

26. The 2013/14 Weighted SUMs (WSUMs) target for the College has been revised upward to 39,586 as advised in the Lanarkshire Region Outcome Agreement 2013-14 issued by the SFC in June 2013.

Financial Position (Continued)

FRS 17 Retirement Benefits

27. In 2012/13 the College accounted for its participation in the local government pension scheme as if it were a defined benefit scheme. This is consistent with the accounting treatment adopted in previous years.

Provisions

28. The College has a provision in its balance sheet for £0.521 million (31/07/12 - £0.547 million, restated) relating to pension costs from early retirements awarded to former employees. The College has used an independent actuary to value the provision as at 31 July 2013. We concluded that the provision has been correctly included and disclosed in the financial statements.

29. The College opened a new voluntary severance scheme in response to the merger with Motherwell and Cumbernauld Colleges. No provision has been made for this voluntary severance scheme in the 2012/13 financial statements and this treatment has been confirmed as being appropriate since the scheme was not offered to staff members until after the 2012/13 year end. It is understood that the costs of this voluntary severance scheme will be funded by SFC, up to a maximum limit set by SFC, with the expectation that voluntary severance packages will have a one year payback period.

Capital Expenditure

30. The second phase of the College's estate redevelopment project is nearing completion. During the year £2.341 million (2011/12 - £6.140 million) was spent on capital items which were funded from college reserves and deferred capital grants.

31. Capital projects are underway within Coatbridge College and funding of these is planned from accumulated reserves. In order to be certain that this funding mechanism can be used, these projects need to be completed by 1 April 2014. It is currently unclear whether accumulated reserves will be available to fund these projects after this date under central government budget arrangements. It is the intention of the board to address this issue through the provision of an arm's length trust and other mechanisms.

32. The campus was originally completed in 2010/11 and has been carried at cost in the financial statements to date. The valuation of the campus was updated at the end of the 2012/13 year end using information provided by James Barr who were involved in the original campus construction.

33. In the past, the College has not componentised its fixed assets into sub categories in order to apply the most relevant depreciation rates. Following on from the revaluation of fixed assets at the end of the current year, the College will apply componentisation in the 2013/14 financial statements.

34. The College is continuing negotiations with Barr Construction regarding the final account and remedial works on the South Building which was completed in 2010/11. As noted last year, the costs involved and which party will be liable are uncertain and so this event has been correctly disclosed in the financial statements as a contingent liability.

Corporate Governance

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

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

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

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

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

Systems of Internal Control

Control Environment

39. No material weaknesses in the accounting and internal control systems were identified during the 2012/13 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

40. We performed testing during the year-end audit and we concluded that in general the key controls for the main financial systems tested were in place and operating as expected. No significant weaknesses or issues were found that would impact adversely on the accounts or our year-end audit.

Internal Audit

41. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Wyllie + Bisset LLP provided internal audit services to the College in 2012/13. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate. We have also considered the adequacy of the provision and are content that the audit service is of good quality.

42. The annual internal audit report issued in June 2013 did not identify any issues that affect our audit conclusions.

Risk Management

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

44. The College has a Risk Management Policy and Strategy and risk management procedures are in place that are actively monitored and reported on. This includes an on-going process for identifying, evaluating and managing its significant risks.

45. Risk management is seen as a Board matter, with the key strategic risks being identified and reported to the Board. We noted that there are clear links drawn between the key risks in the Strategic Risk Register and the College's Strategic Plan.

46. The major estates redevelopment projects have utilised professional project managers who have detailed project risk registers which are monitored and updated on a regular basis.

Fraud and Irregularity, Standards and Conduct, and Prevention and Detection of Corruption

47. During 2012/13 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

48. The College has appropriate arrangements in place regarding the prevention and detection of fraud, including current versions of its Constitution and Articles of Government (incorporating Standing Orders), Financial Regulations and an Anti-Fraud Policy.

49. No frauds were identified during 2012/13 or in the period since 31 July 2013 to the date of this report.

50. The College has in place the following procedures/policies in relation to standards of conduct and prevention and detection of corruption.
    - Code of Conduct for the Members of the Board of Management
    - Register of Board Members' Interests
    - Anti-Fraud Policy
    - Anti-Bribery Policy
    - Whistleblowing Policy

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

Performance Audit

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

53. No mandatory performance audit studies were identified by Audit Scotland for the College during 2012/13.

National Performance Reports

54. *Scotland's Colleges – current finances, future challenges* was issued in October 2012. The report makes recommendations for the Scottish Government, the SFC, and existing colleges and regional boards. In particular the report made recommends around strategic planning for course provision; ensuring that planning for course provision is based on robust financial and other resource plans; effective management of mergers; opportunities to reduce costs through economies of scale, joint working and better partnership working; and workforce planning.' These issues have featured in the planning for the merger with Cumbernauld and Coatbridge Colleges.

55. *Scotland's colleges 2013* was published in August 2013 and provided an update on the college sector and the progress being made towards structural reform. The following key recommendations were identified for colleges:
- identify the risks to future capacity and ability to meet learning needs associated with reducing staff numbers, and take appropriate steps to mitigate these risks;
- consider what steps are required to meet the needs of older people and other groups of learners; and
- implement the Scottish Government's recommendations to improve the application process to help monitor the demand for college places.

College Performance Arrangements

56. Audit Scotland's national performance reports are considered by the Senior Executive Team (SET) and where appropriate the Principal will update the Board or appropriate committee where the content and recommendations are relevant to the College.

57. Arrangements for financial and non-financial management are well established in the College, through the operation of the senior management team and the Board and its various committees. This includes budget setting and monitoring structures.

58. The College's Constitution and Articles of Government, including its Scheme of Delegations, record the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. These key documents are regularly reviewed. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner.

59. The College's arrangements for performance management as outlined above are considered to have been appropriate.

Performance Audit (Continued)

Education Scotland Review

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

61. Education Scotland published a report on the education provision of the College in its annual engagement review issued in May 2013. The report noted no main points for action and identified two examples of excellent practice within the College.

2013/14 and Beyond

Post-16 Education (Scotland) Act 2013

62. The Post-16 Education (Scotland) Act 2013 makes provision: about the support for, and the governance of, further and higher education institutions, including provision for the regionalisation of colleges; for reviews of how further and higher education is provided; for sharing information about young people's involvement in education and training; and for connected purposes. The Bill for this Act of the Scottish Parliament was passed by the Parliament on 26 June 2013 and received Royal Assent on 7 August 2013.

63. Under the Act, Coatbridge College is part of the Lanarkshire region, along with Motherwell, Cumbernauld, and South Lanarkshire Colleges. It was anticipated that a new Regional Strategic Body would be created which would, amongst other things, be responsible for distributing funds to the individual colleges in the region. All colleges in the region would be assigned to the Regional Body. Creation of the Regional Body requires further legislative action and on 23 October 2013 the Scottish Government began a consultation about this process. They are seeking views on whether a new body should be created or whether New College Lanarkshire should become the Regional Body. The consultation closes on 17 January 2014 in relation to the questions about the Lanarkshire Region.

64. Cumbernauld College joined Motherwell College to form New Lanarkshire College, with Motherwell College as the host. The vesting date for this merger was 1 November 2013. Coatbridge College plans to join the merger on 1 April 2014.

65. The Motherwell and Cumbernauld combination will be treated as a merger for accounting purposes as opposed to an acquisition. The subsequent joining of Coatbridge College will also be treated as a merger.

66. In order to be ready for merger on 1 April 2014, the College has already undertaken a substantial amount of work during 2013. A significant amount remains to be completed.

Regional Outcome Agreement

67. A Regional Outcome Agreement with the SFC has been finalised and the regional allocation of funding agreed for 2013/14.

68. The Coatbridge College indicative allocations for 2013/14 are teaching grant of £6,667 million, capital funding of £0.337 million and additional funding of £0.180 million.

69. In June 2013 the Director of Finance presented a draft budget for the Coatbridge College for 2013/14 to the Finance Committee for recommendation to the Board of Management. This showed a £21k surplus.

2013/14 and Beyond (Continued)

ONS Reclassification

70. There has been significant discussion within the sector regarding the Office of National Statistics (ONS) decision to reclassify incorporated colleges in Scotland as Central Government bodies from 1 April 2014. This has a number of implications for budgeting, reporting and accounting practices and issues for consideration which the SFC has addressed through a series of Reclassification Communications.

71. The immediate practical impact of this change is that colleges' financial year-end will move from 31 July to 31 March, with the first set of March financial statements being produced for the eight month period to 31 March 2014. The format of financial statements will also have to change from 1 April 2014 as Central Government bodies use the Government Financial Reporting Manual ('the FReM'). The changes for 2014/15 are not significant as the Education SORP takes precedence over the FReM. No changes in accounting treatment are likely to be required although additional disclosure will be required, particularly in relation to remuneration and out-turn against budget.

72. One key item that will require decisions and action before 1 April 2014 is in relation to the setting up of an arms-length foundation or trust. The Central Government budget mechanisms mean that the ability to use college reserves and surpluses in future periods is likely to be restricted. One proposed solution to this is for cash-backed income and expenditure reserves and future surpluses to be transferred to an arms-length foundation or trust in order to take these resources outwith the consolidated budget boundary and therefore out of the college budget. There are risks to this in that to be independent and avoid consolidation the college must relinquish control of how the funds will be spent, however this is being considered widely by colleges throughout Scotland. This is currently being considered by the College.

Further and Higher Education SORP 2015 Exposure Draft Consultation

73. A new SORP incorporating International Financial Reporting Standards (IFRS) accounting has been developed in line with FRS 102 and is currently being consulted on (closing date for comments is 17 November 2013). This will be finalised in 2014 and is expected to apply to financial statements for 2015/16 onwards. The 2014/15 comparative figures and opening balances at 1 April 2014 will require restatement in the new format. Further guidance on the changes required is planned once the SORP has been finalised.

Waste

74. The Waste (Scotland) Regulations 2012 come into effect on 1 January 2014 for all business and organisations in Scotland. This new regulation requires key recyclable material and food waste to be presented for separate collection with the aim of helping Scotland reach its ambitious target of 70% recycling of all waste by 2025. We considered the arrangements at the College and found there to be adequate procedures already in place to meet the new regulation.

Appendix I
Follow-up of 2011/12 Annual Audit Report Recommendations

Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date	Update at November 2013
Accounts preparation **R1** The number of journal entries that were required in the 2011/12 audit process highlights a potential weakness in the accounts preparation process.	B	We recommend that a debrief meeting should be held to identify lessons learned from the accounts preparation process, including involvement with external audit, to improve planning for 2012/13 accounts preparation and audit.	Y	Director of Finance & Estates	31 July 13	A debrief meeting was held at the end of the 2011/12 audit and the 2012/13 accounts and audit processes have been completed more efficiently and effectively.

Grade

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

Extracts from the Audit Scotland Code of Audit Practice

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

Financial statements

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

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

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

Audited bodies should prepare financial statements in accordance with statutory timescales or in good time to allow audits to be completed by any dates specified by sponsoring directorates or other bodies (eg, the relevant Scottish Government Health Directorate for NHS bodies). Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

Corporate governance arrangements

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

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

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

Appendix II
Audited Bodies' Responsibilities

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

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

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

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

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

Standards of conduct and arrangements for the prevention and detection of bribery and corruption
Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

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

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

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

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

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