HENDERSON LOGGIE
Chartered Accountants

Forth Valley College

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

External Audit Report No: 2013/02

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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 Forth Valley 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 20 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 College has shown a surplus for the year of £0.495 million (2011/12 (restated): deficit of £0.062 million before exceptional estates items and deficit of £4.119 million after exceptional estates items). The College has an Income and Expenditure Account balance of £(4.379) million at 31 July 2013 (31/07/12 (restated): £(5.918) million).
- The annual financial statements of the College comply with the Accounts Direction issued by the Scottish Funding Council (SFC) and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.
- 11 audit and accounting adjustments were made to the draft financial statements presented for audit; which had the impact of reducing the reported surplus for the year by £0.054 million. In addition a prior period adjustment was made which had the impact of reducing the reported deficit for 2011/12 by £0.450 million.
- A 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 exceeded its WSUMs target for 2012/13 by 229 WSUMs (0.2%) (2011/12 – 110 WSUMs (0.1%) over target).
- The College's pension liability decreased in total by £1.955 million to £7.178 million which was largely due to changes in key actuarial assumptions relating to discount rates.

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. Some areas were however identified from our interim testing during 2012/13 where controls could be further improved to bring more into line with good practice.
- 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 had an on-going process for identifying, evaluating and managing its significant risks.

Performance

- The College management and committee structure included mechanisms to monitor and manage financial and non-financial performance which are considered appropriate.
- A Regional Outcome Agreement with the SFC is in place for 2013/14.

Outlook

- The funding position will remain challenging going forward. The voluntary severances undertaken in recent years has helped to reduce pay costs and assist the College in coping with the funding reductions, however robust budget setting and monitoring arrangements will be essential in helping to retain sustainability.
- The College's total funding allocations for 2013/14 from the SFC for Teaching and Fee Waiver, Additional Growth, Employability and the Skills Fund have increased by £0.300 million (1.5%) over 2012/13 to £19.767 million. It should be noted however that the College's WSUMs target has increased by 6,270 WSUMs (5.6%) on 2012/13 to 118,503.
- The Scottish Government has identified Forth Valley College as making up the Central region and it is not included in a regional grouping with any other college. Ministers plan to formally designate Forth Valley College, and the other nine colleges in single college regions, as regional colleges in March 2014 although this proposal is currently out for consultation.
- 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 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.

Introduction

Background

1. 2012/13 was the second year of our five year appointment as external auditors of Forth Valley 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 International Standard on Auditing (ISA) (UK and Ireland) 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 on 3 May 2013 and considered and approved by the Audit Committee. 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 Financial Reporting Council;

   - 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, 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 Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

HENDERSON LOGGIE

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 20 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.

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 in the period up to 20 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 on 26 September 2013 in advance of the final audit visit commencing on 30 September 2013. The first draft did not include the Operating and Financial Review, Corporate Governance information and a number of financial statement disclosures and these were received after the audit fieldwork had been completed. These were of a high standard and required minimal presentational changes as part of the audit process.
Quality of supporting working papers Working papers provided to support financial statement figures were of a satisfactory standard.
Response to audit queries Most 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 appropriately 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. In Table 2 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process which had the impact of reducing the 2012/13 surplus by £0.054 million. In addition a prior period adjustment was made which had the impact of reducing the reported deficit for 2011/12 by £0.450 million. There were no adjustments identified that were not processed.

Table 2: Audit and accounting adjustments

	Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
1	Plant and equipment – Cost				301
	Plant and equipment – Accumulated Depreciation			151	
	Land and buildings – Cost			301	
	Land and buildings – Accumulated Depreciation				151
	Being transfer of plant and equipment items purchased pre 2012/13 that should have been classified as land and buildings				
2	Revaluation Reserve			150	
	Land and buildings – Cost				301
	Land and buildings – Accumulated Depreciation			151	
	Being write-out of the above expenditure, which should have been done as part of the revaluation adjustment at 31 July 2012				
3	Revaluation Reserve				5
	Income and Expenditure Account			5	
	Correction to the release from the Revaluation Reserve to the Income and Expenditure Account as a result of the above adjustment				
4	Plant and equipment - Cost				324
	Plant and equipment – Accumulated Depreciation			324	
	Being write-off of fully depreciated IT equipment no longer in use				
5	Plant and equipment – Depreciation expense		32		
	Plant and equipment – Accumulated Depreciation				8
	Land and Buildings – Accumulated Depreciation			40	
	SFC release of Deferred Capital Grants	47			
	Deferred Capital Grants				47
	As a result of reclassification of plant and equipment items, adjustments were made to useful life assumptions leading to changes in depreciation expense recognised. Deferred capital grants were released to offset the impact of these changes.				
6	Other operating expenditure	37			
	Other grant income	2			
	Accruals and deferred income				37
	Late accrual / deferral adjustments				
	C/F	86	32	1,122	1,176

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
	B/F	86	32	1,122	1,176
7	Land and buildings – Cost			279	
	Accruals				279
	Being accrual for capital works relating to new Oil and Gas training facility				
8	Other operating expenditure		40		
	Plant and equipment - Cost			40	
	Deferred Capital Grants				40
	SFC release of Deferred Capital Grants	40			
	Plant and equipment - Depreciation	10			
	Plant and equipment – Accumulated Depreciation				10
	SFC release of Deferred Capital Grants		10		
	Deferred Capital Grants			10	
	Being capitalisation of IT equipment and subsequent depreciation, offset by release from deferred capital grants				
9	Land and buildings - Cost			111	
	Plant and equipment - Cost				111
	Being reclassification of 2012/13 additions incorrectly classified as plant and equipment				
10	Accruals and deferred income				1,332
	Deferred Capital Grants			1,332	
	Being reclassification of grants included in deferred capital grants at 31 July 2013 but not utilised at that date				
11	Trade Debtors			41	
	Trade Creditors				41
	Reclassification of credit balances within debtors				
	Total	136	82	2,935	2,989
		=====	=====	======	======
	Prior period adjustment				
1	Deferred Capital Grants			450	
	Release of SFC deferred capital grants		450		
	Being release of grants received for expenditure relating to the master plan for a new Falkirk Campus. The expenditure was written-off to the Income & Expenditure Account in 2011/12 as part of the Exceptional Estates Development Costs figure of £3.440 million. The related grants were however retained in Deferred Capital Grants in error.				
	Total	-	450	450	-
		=====	=====	======	======

16. In addition, a 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.

Audit and Accounting Adjustments and Confirmation (Continued)

Confirmations and Representations

17. We confirm that as 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.

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

Financial Position

19. 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.'

20. Table 3 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. Figures for 2013/14 are for the eight month period to 31 March 2014.

Table 3: Comparison of planned and actual financial results

	2011/12 Actual (Restated) £000	2012/13 Planned £000	2012/13 Actual £000	2013/14 Planned £000
Financial outturn Surplus/(Deficit)	(4,119)	120	495	(98)
Income and expenditure reserves (excluding pension reserve)	(5,918)	(991)	(4,379)	(4,530)
Cash balances	3,377	2,962	6,292	4,880

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

21. Overall, College income in 2012/13 decreased by £0.096 million (0.3%) over 2011/12 to £30.044 million. The major movements in income were: a reduction in core SFC teaching grant (£0.856 million); increased income from education and other contracts (£0.633 million), mainly related to new Skills Development Scotland contracts; and there was also a one-off receipt of £0.216 million included in other operating income.

Financial Position (Continued)

22. Expenditure before exceptional estates items has decreased by £0.653 million (2.2%) from 2011/12 to £29.549 million. There were no exceptional estates items in 2012/13. The following are the main items and reasons for movements.

- there were a small number of voluntary severances made in 2012/13 with a cost of £0.073 million, whereas in 2011/12 the College ran a voluntary severance scheme for which 35 staff were accepted with a total cost of £1.053 million;
- the early retirement pension charge decreased by £0.704 million from £0.990 million in 2011/12 to £0.286 million which was due to the actuary's assumptions being amended, including using a higher discount rate on liabilities;
- the depreciation charge increased by £0.475 million on 2011/12 to £2.651 million as a result of the new Alloa and Stirling campuses being depreciated on a component accounting basis for the first time and other new assets being depreciated; and
- the interest expense increased by £0.283 million on 2011/12 to £0.429 million. This was due to the fact that the first draw down on the bank term loan occurred part way through 2011/12.

23. In recent years, voluntary severance costs and accounting for estates developments (including repayable advances by the SFC) has led to the College reporting an Income and Expenditure Account reserve deficit (£4.829 million at 31 July 2013). The underlying position in 2012/13 continues to be robust and projections show that the College should be able to manage the position long term.

2012/13 SUMs Outturn

24. The College's outturn against its 2012/13 Weighted SUMs target is shown in Table 4.

Table 4: 2012/13 Weighted SUMs outturn

	2011/12	**2012/13**
WSUMs target (including ESF and PACE WSUMs)	114,506	112,233
WSUMs actual	114,616	112,462
Excess	110	229

Source: Audited SUMs returns

25. The audit of the SUMs return for 2012/13 was carried out by Baker Tilly 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 has been revised upwards to 118,503, which includes Additional Growth, Employability and Skills Fund WSUMs allocated to the College by the SFC, offset by a transfer of WSUMs for Skills Development Scotland contracts.

FRS 17 Retirement Benefits

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

28. The College's pension liability decreased in total by £1.955 million to £7.178 million which was largely due to changes in key actuarial assumptions relating to discount rates.

Financial Position (Continued)

Capital Income and Expenditure

29. The College's new Alloa campus was opened in September 2011 and the new Stirling campus development was completed in March 2012. The main capital additions in 2012/13 related to the College's new Oil and Gas facility, which is being funded by the SFC.

30. FRS 15 – Tangible Fixed Assets and the SORP require that where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. The requirements of FRS 15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the assets are charged to the Income and Expenditure Account over the periods in which they are consumed. The new Alloa and Stirling campuses have been depreciated on a component accounting basis in 2012/13 for the first time. We note however that the Falkirk campus buildings have been depreciated over 32 years as a whole and not as separate components. We have recommended that component accounting is considered further for the College's other buildings in future years.

Provisions

31. The College has a provision in its balance sheet at 31 July 2013 of £7.200 million (31/07/12 - £7.293 million) relating to pension costs from early retirements awarded to former employees. The College's approach to the valuation of the provision is to have an independent actuarial firm calculate this provision annually.

32. A provision also exists for £3.0 million (31/7/12 - £3.0 million) for amounts that will have to be repaid to the SFC when the College sells surplus land at Branshill, up to a maximum of £3.0 million. The College has advised that it will hold onto this land until land values recover and hopes to receive over £3.0 million when it eventually sells the land.

Corporate Governance

33. 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.

34. 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; and
- The financial position of audited bodies.

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

36. 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.

Risk Management

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

38. The College's Risk Management Policy and Procedure details the College's approach to risk capture, monitoring and reporting.

39. The College has a Strategic Risk Register which is reviewed by the Audit Committee. Risk is a standing item on the agenda for the Senior Management Team, all Board sub-committees and the Board. There are also risk registers which are compiled and reviewed by each operating area of the College.

Systems of Internal Control

Control Environment

40. 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.

41. Some areas were however identified from our interim testing during 2012/13 where controls could be further improved to bring more into line with good practice. These have been raised with management in order to consider possible mitigating action and some have already been addressed. Actions for improvement included:

- incorporating further segregation into the Sun finance system access controls for some members of staff;
- making sure that staff do not have the ability to both raise and authorise a purchase request on the FIDO purchase order authorisation system;

Systems of Internal Control (Continued)

Control Environment (Continued)

- remind staff that purchase orders must be completed for all transactions with the exception of those where the Finance procedures do not require this;
- considering what controls could be put in place to ensure that transactions processed by the administrator of the FIDO and Sun systems are appropriate;
- reviewing the BACS transaction limits and requiring two electronic signatories;
- ensuring that all cash income banking sheets are correctly completed and signed-off and that till rolls are always attached where available; and
- implementing procedures to ensure that all journals and month-end reconciliations are reviewed and evidence of review is recorded.

Internal Audit

42. 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. Baker Tilly provided internal audit services to the College in 2012/13.

43. 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.

44. The annual internal audit report for the year ended 31 July 2013 did not identify any issues that affect our audit conclusions although highlighted some weaknesses identified in reviews undertaken subsequent to the year-end in relation to business continuity and the control of catering stock (although the level of stock held was deemed immaterial). These issues are currently being addressed by College management.

Fraud and irregularity, standards and conduct, and prevention and detection of corruption

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

46. The College has appropriate arrangements in place regarding the prevention and detection of fraud, including Standing Orders and Operating Guidelines and Code of Conduct, Financial Regulations and an Anti-Fraud and Anti-Corruption Policy and Procedure.

47. No frauds were identified during the period from 1 August 2012 up to the date of this report.

48. The College has in place the following procedures / policies in relation to standards of conduct and prevention and detection of corruption:

    - Standing Orders and Operating Guidelines and Code of Conduct;
    - Register of Board Members' Interests;
    - Anti-Fraud and Anti-Corruption Policy and Procedure;
    - Anti-Bribery Policy; and
    - Whistleblowing Policy.

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

Performance Audit

Introduction

50. 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.

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

National Performance Reports

52. The main report relevant to the College is *Scotland's Colleges – current finances, future challenges* issued in October 2012. The report makes recommendations for the Scottish Government, the SFC, and existing colleges and regional boards. In particular the report recommends that: 'existing colleges and regional boards should:

- ensure that strategic planning for course provision in their areas responds to the national objectives and priorities for post-16 education, and also reflects the needs of local employers and students, and the views of community planning partners;
- ensure that planning for course provision is based on robust financial and other resource plans; and
- explore opportunities to reduce their costs through economies of scale, joint working and better partnership working. Colleges should develop clear assessments of the workforce skills and attributes needed in future to inform their strategies and procedures for staff changes and reductions.'

53. The College has a Regional Outcome Agreement which is aimed at responding to the national objectives and priorities for post-16 education, and works with Local Authorities, Community Planning Partnerships, Skills Development Scotland and employers to ensure its education provision meets the needs of learners and the community. The College continues to work in partnership with organisations to achieve economies of scale and better efficiency.

Education Scotland Review

54. 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.

55. Education Scotland published a positive report on the education provision of the College in its annual engagement review and there were no main points for action noted.

College Performance Arrangements

56. The College does not have a formal mechanism to consider Audit Scotland reports however we have been advised this will be implemented in future when any new reports are received.

57. Arrangements for financial and non-financial management are 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 Standing Orders and Operating Guidelines and Code of Conduct, including its Scheme of Delegation records the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner.

Performance Audit (Continued)

College Performance Arrangements (Continued)

59. The College has a Corporate Plan 2011-14 and an annual 2012/13 Operational Plan.

60. Key performance indicators are set out in the Operating and Financial Review in the College's annual report.

61. In October 2013 the College undertook a self-evaluation against the targets set out in the 2012/13 Regional Outcome Agreement.

62. The College's arrangements for performance management as outlined above are considered to be appropriate.

Outlook

2013/14 and beyond

63. The funding position will remain challenging going forward. The voluntary severances undertaken in the College in recent years has helped to reduce pay costs and assist the College in coping with the funding reductions, however robust budget setting and monitoring arrangements will be essential in helping to achieve sustainability.

64. The College's total funding allocations for 2013/14 from the SFC for Teaching and Fee Waiver, Additional Growth, Employability and the Skills Fund have increased by £0.300 million (1.5%) over 2012/13 to £19.767 million. It should be noted however that the College's WSUMs target has increased by 6,270 WSUMs (5.6%) on 2012/13 to 118,503.

Post-16 Education (Scotland) Act 2013

65. 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.

66. The Scottish Government has identified Forth Valley College as making up the Central region and it is not included in a regional grouping with any other college. Ministers plan to formally designate Forth Valley College, and the other nine colleges in single college regions, as regional colleges in March 2014 although this proposal is currently out for consultation.

67. The Board of Management has been kept up-to-date regularly with information about the regionalisation process including the duties of regional colleges.

ONS Reclassification

68. 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.

69. 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.

70. 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. We have been in discussion with College management over their plans to set up such an organisation.

Outlook

Further and Higher Education SORP 2015 Exposure Draft Consultation

71. 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

72. The Waste (Scotland) Regulations 2012 will 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 were advised that the College's facilities management contractor has reviewed these requirements and advised that they comply with these and a formal Waste Management Procedures document has been drawn up to give guidance on how to comply with these new regulations. A number of initiatives have been implemented throughout the College including separate bins for food waste.

Appendix I
Audited Bodies' Responsibilities

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. 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.

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.

Appendix II
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
Financial Position **Capital Income and Expenditure** **R1** For tangible fixed assets comprising two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life.	C	This was requested as part of the DM Hall valuation. This information is outstanding and when received will be incorporated into the 2012/13 Accounts.	Y	Alison Stewart	July 2013	Component accounting has been used for the new Alloa and Stirling campuses but not for the Falkirk campus. ***Recommendation*** **–** this should be considered for the other College buildings in future years. ***Management comment*** – the College does not intend to adopt component accounting for the current Falkirk Campus. If and when a new Falkirk Campus is brought into use component accounting will be adopted for that building.

Appendix II
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
R2 The College's fixed asset register should be updated to reflect the year-end accounting adjustments for the new campus developments and provide a sound basis for accounting for depreciation, disposals and revaluations going forward.	B	This will be done now that the final amount capitalised has been agreed.	Y	Alison Stewart	July 2013	The College's fixed asset register has been expanded to provide more detail on the new campus additions in 2011/12 and prior years.

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.

Observation	Recommendation	Priority	Original College Response, Responsibility and Timescale	Update
Corporate Governance The UK Corporate Governance Code requires the Chair should hold meetings with the non-executives without the executives present. The non-executive members should meet without the chair present at least annually to appraise the chair's performance and on such other occasions as are deemed appropriate. This is not done at the College.	We recommend that the non-executive directors meet periodically without the chair in order to appraise their performance.	Low	Agreed. Annual appraisal will be implemented. Ken Thomson September 2012	**November 2012:** Owing to the upcoming changes to the governance framework for further education in Scotland, the College has decided to hold implementation of this recommendation until the new systems / structure become clear. This was reported to, and approved by, the Audit Committee on 9 May 2012. **November 2013:** This did not happen in 2012/13 but arrangements are in place for this to be undertaken in 2013/14.
The College has no procedures on the 'fit and proper' persons test for the members in relation to 'management condition' as detailed in the Finance Act 2010.	It is recommended that relevant systems and procedures be put in place to comply fully with the provisions of the Act.	Low	Agreed. Procedure to be in place for new financial year. Ken Thomson May 2012	**November 2012:** Owing to the upcoming changes to the governance framework for further education in Scotland, the College has decided to hold implementation of this recommendation until the new systems / structure become clear. This was reported to, and approved by, the Audit Committee on 9 May 2012. **November 2013:** This did not happen in 2012/13 but has now been completed.

Observation	Recommendation	Priority	Original College Response, Responsibility and Timescale	Update
The College has no procedures in place to prevent persons associated with the college from bribing in relation to the Bribery Act 2010.	It is recommended that relevant systems and procedures be put in place to comply fully with the provisions of the Act.	Low	Agreed. Existing procedures to be reviewed to incorporate provisions. Ken Thomson May 2012	**November 2012:** Draft Policy completed and to go to Board for Approval in December 2012. **November 2013:** The Anti-Bribery and Corruption Policy was approved at the 12 December 2012 Board meeting.