City of Glasgow College

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

For year ended 31 July 2013

Scott-Moncrieff
business advisers and accountants

City of Glasgow College

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

Executive Summary

Finance

Our audit of City of Glasgow College ("the College") is complete. We have audited the financial statements of the College under the Further and Higher Education (Scotland) Act 1992 and Section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005.

Financial position

The College reported a surplus of £528,000 in 2012/13. The College's 2012/13 Financial Forecast Return (FFR) submitted to the Scottish Funding Council (SFC) projected a surplus of £86,000 for the year, and as such the reported outturn position is significantly above initial estimates. The improved surplus position is the result of depreciation being significantly lower than budgeted following a revision to the estimated useful lives of certain buildings, and a decrease in staff costs as efficiencies were created through the voluntary severance programme above those originally forecast.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the UK Corporate Governance Code during 2012/13. We have reviewed the College's statement and can confirm that this is in line with the SFC's guidance and is not inconsistent with our understanding of the College's governance arrangements based on the information gathered as part of our normal audit work.

We did not identify any areas of concern from our review of the College's corporate governance arrangements in so far as they relate to the prevention and detection of fraud and irregularity or standards of conduct and prevention and detection of corruption.

Looking forward

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

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

Conclusion

This report concludes the 2012/13 audit of City of Glasgow College. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed with the Vice Principal Finance and Planning, the Finance Director and the Head of Finance. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff

December 2013

Introduction

1. This report gives a summary of the findings from our external audit of City of Glasgow College ("the College") in 2012/13. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 28 May 2013. Our audit has focused on the financial statements and governance arrangements at the College.

2. Our plan summarised four key issues in relation to the 2012/13 audit:

   - Revaluation of fixed assets;
   - Pension fund liabilities;
   - Completeness and occurrence of income; and
   - Management override.

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

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

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

6. The report has been discussed and agreed with the Vice Principal Finance and Planning, the Finance Director and the Head of Finance.

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

8. The report is also addressed to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

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

Management responsibilities

10. Within the terms and conditions of the financial memorandum between the Scottish Funding Council (SFC) and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year. In preparing the financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

11. The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992 together with the Financial Memorandum issued thereunder and are presented in accordance with the Accounts Direction issued by the SFC.

Auditor responsibilities

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

- give a true and fair view of the state of the College's affairs as at 31 July 2013 and of its surplus or deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

13. We also confirm whether, in our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

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

15. We are also required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with SFC requirements.

Confirmation of auditor independence

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

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

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

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

Qualitative aspects of accounting practices and financial reporting

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

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

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

Overall conclusion

An unqualified audit opinion on the financial statements

19. The annual accounts are due to be approved by the College on 11 December 2013. Our independent auditor's report will include an unqualified opinion on the financial statements for the year ended 31 July 2013.

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

An unqualified audit opinion on the regularity of transactions

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

Financial statements preparation

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

Audit adjustments

23. We did not identify any audit adjustments arising from our audit other than amendments to disclosure notes.

Potential adjustments

24. We identified two potential adjustments during the course of the audit. It was agreed with the Finance Director and the Head of Finance that these amounts are not considered material and thus have not been incorporated into the financial statements. The effect of these potential adjustments is detailed below:

	Balance sheet		**Income and Expenditure**	
	DR	**CR**	**DR**	**CR**
	£	**£**	**£**	**£**
Accrued income	17,240			
Other creditors		17,240		
Being reallocation of credit balances from other debtors				
Trade debtors	19,683			
Trade creditors		19,683		
Being grossing up of debit balances within trade creditors				

The above potential adjustments did not have any impact on the reported surplus for the year.

Review of accounting systems

25. During our audit work we have considered the College's accounting systems and internal controls. Please refer to the action plan for details of control improvements detected during audit fieldwork. In general, the College's systems of internal financial control appear to be adequate, well designed and operating effectively.

Significant issues from the 2012/13 audit

26. As noted in our audit plan submitted to the audit committee on 28 May 2013, the following audit risk areas were identified and were therefore considered in detail during our audit fieldwork.

Revaluation of fixed assets

27. Financial Reporting Standard 15 'Tangible fixed assets' (FRS 15) states that a full valuation of assets should be undertaken at least every five years and an interim valuation in year three. As identified within our 2011/12 annual report, note 10 to the 2011/12 financial statements referred to a full valuation exercise being conducted as at 31 July 2008 for the former Metropolitan College land and buildings and as at 31 July 2010 for the former Central and Nautical Colleges.

28. James Barr, Chartered Surveyors were instructed to perform the full revaluation exercise on behalf of the College as at 31 July 2013 to ensure compliance with the provisions of FRS 15.

29. We have reviewed the valuation reports produced by James Barr, and the required accounting adjustments arising therefrom produced by the College, and are satisfied that the impact of the revaluation exercise has been correctly reflected and disclosed within the financial statements.

Pension fund liabilities

30. The College's employees belong to two principal defined benefit pension schemes; the Scottish Teachers' Superannuation Scheme (STSS) for teaching staff and the Strathclyde Pension Fund (SPF) for non-teaching staff. The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with Financial Reporting Standard 17 – Retirement Benefits (FRS 17), the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

31. The SPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability on its balance sheet. The College reported a liability of £2.682 million at 31 July 2013, decreased from £6.747 million as at 31 July 2012.

32. We have reviewed the College's accounting for the pension liability and confirm that it complies with the requirements of FRS 17 and that the disclosure is consistent with the actuaries' valuation. We have also performed sufficient audit work to gain assurance that the actuarial assumptions underpinning the valuation are reasonable and reflective of the College's circumstances.

Completeness and occurrence of income

33. There is a presumption under International Standard on Auditing 240 that the recognition of income is a significant risk in all financial statements.

34. We have performed sufficient testing in respect of income capture to provide assurance of the completeness and occurrence of income recognised in the financial statements and we are satisfied that income is correctly stated in the financial statements.

Management override

35. Additionally in accordance with International Standard on Auditing 240, management override is a presumed risk.

36. We performed sufficient audit testing to gain evidence and assurance in respect of this risk e.g. review of journal entries processed in year and at the year-end. We are satisfied that there are no indications of management override in the year.

Fraud and irregularity

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

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

Legality

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

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

Management representations

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

Use of Resources

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

43. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and to consider the College's governance arrangements in relation to the College's financial position.

Financial position

The College has reported a surplus of £528,000 for the year to 31 July 2013

44. In line with the rest of the sector, the College suffered a reduction of approximately 9.8% in core teaching and fee waiver income from the SFC between 2011/12 and 2012/13.

45. However, this has been offset by the College's Tuition fees and education contracts which have increased by over 9% from 2011/12, increasing income by £1.4m. In addition, a one-off education contract with Skills Development Scotland made a significant contribution to the increased income.

46. During 2010/11 and 2011/12 the College ran a voluntary severance programme to generate efficiency savings and reduce operating costs to support the delivery of a balanced budget in future years. The programme was undertaken with a focus on the College's resource requirements following the merger. In 2011/12 the College incurred voluntary severance costs of £1.28 million, with £80,000 being incurred this year as further efficiencies were identified.

47. As a result of the voluntary severance programme detailed above, staff savings have been generated this year with staff costs (excluding severance costs) decreasing from £38.333 million in 2011/12 to £36.136 million in 2012/13.

Balance sheet

The College has a strong net asset position, with a healthy bank balance

48. The College has reserves of £33.141 million at 31 July 2013 (£22.364 million as at 31 July 2012) and holds £8.885 million of deferred capital grants (£11.763 million at 31 July 2012). The increase in the reserves balance during the year was primarily due to the surplus generated, the revaluation of land and buildings and the reduction in the pension reserve arising from the FRS 17 valuation.

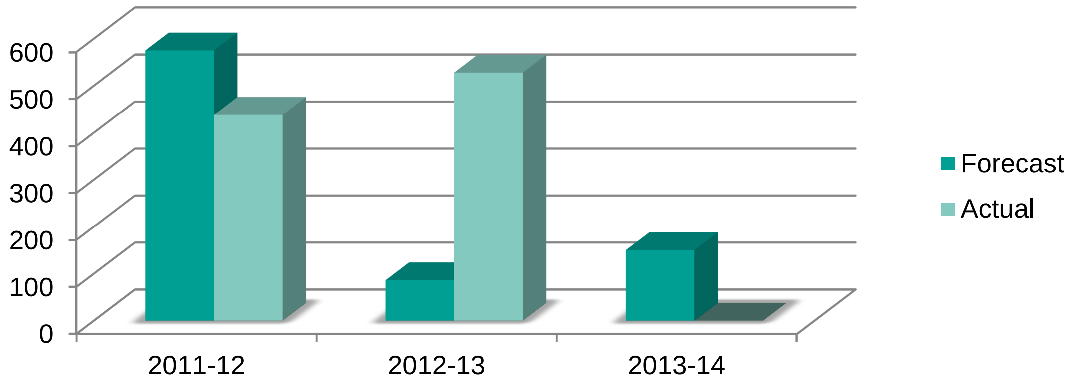
49. The College maintained a healthy cash balance throughout the year and held a cash and bank balance of £26.339 million at the year end.

Financial forecasts

SFC funding has been confirmed for 2013/14 and a surplus has been forecast

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

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



Source: Financial Forecast Returns

51. The diagram shows that the College exceeded the forecast surplus position for 2012/13. The outturn surplus of £528,000 in the current year reflected a decrease in depreciation following a revision to the estimated useful lives of certain buildings, and a decrease in staff costs as efficiencies were generated above those forecast when the 2012 FFR was originally prepared and submitted.

52. The 2013/14 forecast position reflects the anticipated position of the College for the 8 months to 31 March 2014. The forecast surplus of £150,000 includes an accrual for grant income and holiday pay deemed necessary due to the change in accounting reference date no longer being aligned to the academic year. A smaller surplus of £50,000 is forecast for the year to 31 March 2015.

Going concern and subsequent events

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

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

- reviewing bank facilities;
- performing a review of budgets and cash flow projections covering a period of 12 months from the expected signing of the audit report, together with post year end management accounts;
- reviewing minutes of post balance sheet board meetings;
- enquiring of senior management and the College's solicitors concerning litigation, claims and assessments;
- consideration of future SFC funding; and
- performing sample testing of post balance sheet transactions.

55. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future.

56. In our opinion the going concern assumption remains appropriate. From the audit work performed and through discussions with the Finance Director and the Head of Finance, we are satisfied that all subsequent events have been disclosed.

Governance

57. It is the College's responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:

- the College's review of its systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and other irregularities;
- standards of conduct and arrangements for the prevention and detection of corruption;
- the College's financial position.

Corporate Governance

58. Colleges are required to include in their financial statements a statement covering the responsibilities of their Board of Management in relation to corporate governance arrangements. The statement should describe the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and report on the College's compliance with the UK Corporate Governance Code.

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

60. We reviewed the Corporate Governance Statement by:

- checking the statement against Scottish Funding Council guidance;
- considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control;
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

61. We are satisfied that the statement is consistent with the Scottish Funding Council's guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Risk management

62. Risk management is important to the establishment and regular review of systems of internal control. The College's annual accounts outline the principal risks and uncertainties of the College and confirm that mitigating controls are in place in response to those risks.

63. The College has a Risk Management Policy and Risk Management Procedures in place. The College has a risk register which is maintained by the Executive Leadership Team (ELT) and reviewed and updated on a regular basis. The Board of Management reviews the top level risks at each meeting and the full risk register annually. In addition any significant changes in the risk register are notified immediately to the full Board.

64. We have concluded that the College has robust risk management systems in place.

Internal audit

65. The internal audit service is a key component of the College's internal control framework. As part of our corporate governance responsibilities, we have considered the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice.

66. For 2012/13 the internal audit service has been provided by BDO LLP. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate.

Internal audit's annual opinion statement

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

Prevention and detection of fraud and irregularity

68. As part of our audit we consider how the College ensures compliance with all relevant guidance and regulations. This includes a consideration of the College's arrangements for the prevention and detection of fraud and irregularity.

69. The College has an anti-bribery policy and a code of practice on whistle blowing in place. There were no frauds identified during the year.

70. The SFC has a circulation list, tailored by the College, to ensure that specific responsible individuals within the College receive the relevant circulars. Circulars received which require a response are included on the Senior Management Team meeting agenda. Once discussed, a member is nominated to be responsible for coordinating any response to the circular, monitoring any responses which are required from other members of staff and for reporting to the Finance Committee which then submits the response to the Funding Council.

71. We identified no issues of concern in relation to the arrangements for the prevention and detection of fraud, with regard to the legality of transactions or in relation to compliance with relevant guidance and regulations.

Standards of conduct

72. We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption.

73. Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness have been issued by the Scottish Government.

74. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over ordering and procurement and disposal of assets.

75. We are pleased to report that our audit identified no issues of concern in this area.

Looking forward

Office of National Statistics reclassification

76. In 2012, the Scottish Government announced that a 2010 decision by the UK Office for National Statistics reclassified Further Education Institutions as being part of the public sector. The change in classification will have a significant impact on the budgetary and financial accounting framework in which the City of Glasgow College will operate. The reclassification will come into effect from 1 April 2014.

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

FE College Statement of Recommended Practice (SORP)

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

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

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

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

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

Appendix 1 – Management action plan

We identified two observations which we consider require management action. In addition, there is one point from the prior year management action plan which has not been addressed in the current year.

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

Action plan

1	VAT return submission
Observation	During our audit testing, it was noted that the VAT return for the quarter ended 31 July 2013 was not submitted by the required due date.
Risk and recommendation	There is a risk that the College may incur penalties and interest on late payments. It is recommended that all VAT returns are submitted to HMRC before the required submission date to ensure penalties are not incurred. **Grade 1**
Management response	Agreed Responsible officer : Finance Director

2	Late payment of pension contributions
Observation	It was noted that the July pension contributions were not paid to the Strathclyde Pension Fund until 22 August 2013. Pension contributions should be paid before the 19th of the following month therefore this payment was late. However, we note that the Finance Manager phoned the Pension Contact to advise that the contributions for July would be late due to reduced staff numbers over the summer and the contact had no issue with this payment being late.
Risk and recommendation	There is a risk that the College may incur penalties and interest on late payments. It is recommended that contributions to the pension fund are paid before the 19th of the following month. Where there are staff issues throughout the year, this should be planned for in advance to ensure deadlines are met. **Grade 1**
Management response	Agreed Responsible officer : Finance Director

3	FTE Numbers
Observation	At the audit planning stage, we requested a summary of FTE numbers be available for the audit commencing. This information was not made available to the audit team during the fieldwork.
Risk and recommendation	It is recommended that HR ensure FTE numbers and the split of contracted in/out and temporary staff be completed in time for commencement of audit fieldwork to ensure the efficient running of the audit process. We recommend that in respect of the College's 2014 audit timetable that this information is prepared by the end of May 2014. **Grade 1**
Management response	Agreed Responsible officer : HR Director

Follow up on prior year action plan

1	Title deeds
Observation	We understand that the College does not have full recorded title in respect of certain areas of land at Cathedral Street and Thistle Street.
Risk and recommendation	There is a risk that as the College does not have full title to certain areas, the construction process could be disrupted. We recommend that resolution of this issue is pursued vigorously to ensure that the titles are complete before construction commences. **Grade 3**
Prior year management response	The College has lodged all the required documents and have secured insurance coverage to minimise the risk and impact.
Audit observation in current year	We have confirmed that the College has “registered notice of title” for all areas that will be affected by the construction process. **Issue addressed**

2	Supplier statement reconciliations
Observation	During testing of creditors, it was noted that supplier statement reconciliations were not being performed.
Risk and recommendation	There is a risk that trade creditor balances could be over or under stated as these are not being confirmed to supplier statements. We recommend that supplier statement reconciliations be performed monthly, or at the minimum annually as at 31 July, in respect of key suppliers to strengthen the internal control environment in this area. **Grade 2**
Prior year management response	Annual supplier statement reconciliations will be performed in respect of key suppliers.
Audit observation in current year	No supplier statement reconciliations were performed during the year or at the year end. College management have reconsidered the prior year response, and on the basis of staffing levels have deemed that there are sufficient procedures and controls in place to mitigate any risk arising from the non-performance of such reconciliations, and will not be implementing this recommendation. **Issue deemed to be addressed**

3	Fixed asset register
Observation	During our audit testing, it was noted that the totals for certain classes of assets per the fixed asset register did not agree to the disclosures within the financial statements. Two issues were noted: 1) Certain land and buildings which had nil net book values, but which continued to be owned by the College, had been incorrectly removed from the fixed asset registers. 2) Items of equipment which had been disposed of and correctly removed from the fixed asset register, had not been removed from the disclosures within the financial statements
Risk and recommendation	While there is no overall impact on the net book value of the assets, there is a risk that costs and accumulated depreciation are overstated. We recommend that the items of land and buildings removed from the registers are re-instated. Additionally we recommend that a reconciliation is performed, at least annually, between the fixed asset registers and the financial statements, to ensure that the figures contained within the underlying records are mirrored in the disclosure notes contained within the financial statements. **Grade 2**
Prior year management response	Agreed.
Audit observation in current year	The fixed asset register agreed to the trial balance and the financial statements at the year end. **Issue addressed**

4	NCG Investment
Observation	We note that an application has been made to Companies House to strike off New Campus Glasgow Limited from the public record, however the investment has not been impaired within the financial statements.
Risk and recommendation	Although immaterial, the investment recorded within the financial statements is overstated. We recommend that when strike off is approved that the accounting records be updated to reflect this disposal. **Grade 2**
Prior year management response	Agreed.
Audit observation in current year	On further investigation by the College, it was noted that this investment actually related to Government stocks and not New Campus Glasgow Limited. As these stocks are still held, it is correct that they are included in the financial statements. **Issue addressed**

5	Level of petty cash
Observation	During our audit testing it was noted that the level of petty cash held by the College is high at circa. £20k, in comparison to our experience of other Colleges within the sector.
Risk and recommendation	There is an increased risk of misappropriation of cash due to the high level of cash being held. It is recommended that the level of petty cash which is required to be held within any given department is re-considered and reduced if appropriate. **Grade 2**
Prior year management response	Levels of petty cash held have been reviewed and subsequently reduced to circa. £15k.
Audit observation in current year	The level of petty cash at the year end was £12.5k therefore the levels required have been reviewed and reduced. **Issue addressed**

6	Reconciliation of income per management accounts to income disclosed in the VAT returns
Observation	While performing a reconciliation of income per the management accounts to income recorded within the VAT returns it was noted that the information within box 6 of the returns (Total value of sales excluding VAT) was incorrectly stated resulting in a £6.9 million difference. This was discussed with the Head of Finance who investigated the difference and noted that there was an error within the system in respect of the figures selected for disclosure within box 6 of the return. This did not have any impact on the Output VAT amount thus VAT due to HMRC is correct.
Risk and recommendation	There is a risk that if HMRC were to perform such a reconciliation they may conclude that VAT has been under declared. We recommend that such a reconciliation is performed quarterly, to ensure that such issues are identified on a timely basis. **Grade 1**
Prior year management response	The system has now been amended to pick up the correct figures in the future. The VAT return for the quarter ended 31 October 2012 was also amended to correct the income figure for 2011/12.
Audit observation in current year	The reconciliation is now being performed on a quarterly basis. However, an immaterial difference was noted in the annual sales to VAT reconciliation performed by Scott-Moncrieff as at 31 July 2013. **Issue addressed**

7	FTE Numbers
Observation	At the audit planning stage, we requested a summary of FTE numbers be available for the audit commencing. This information was not made available to the audit team during the fieldwork.
Risk and recommendation	It is recommended that HR ensure FTE numbers and the split of contracted in/out and temporary staff be completed in time for commencement of audit fieldwork to ensure the efficient running of the audit process. We recommend that in respect of the College's 2013 audit timetable that this information is prepared by the end of September 2013. **Grade 1**
Prior year management response	Agreed.
Audit observation in current year	The audit team received the FTE numbers on the final day of the audit fieldwork (11 October 2013) and this information was provided by the finance team as opposed from HR. As this information was requested for the commencement of the audit, this point is still valid. **Point carried forward**

Appendix 2 – Your audit team

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