Glasgow Kelvin College (formerly known as North 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

Glasgow Kelvin College
(formerly known as North Glasgow College)

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Executive Summary

Finance

Our audit of Glasgow Kelvin College (formerly known as North 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 incurred a deficit of £574,000 in 2012/13. It is important to note that the financial statements subject to audit reflect the results of North Glasgow College for the year ended 31 July 2013. The College's 2012/13 Financial Forecast Return (FFR) submitted to the Scottish Funding Council (SFC) projected a surplus of £17,000 for the year. The variance between actual and projected results arises mainly from elements of voluntary severance arrangements which did not meet the criteria for SFC Merger Transformation Funding, and a reduction in overall grant income, more than the level that was predicted when the FFR was originally prepared.

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.

From our review of the College's corporate governance arrangements, with reference to "Guidance on severance arrangements to senior staff in Scottish further education colleges", produced by the Scottish Funding Council and "Managing early departures from the Scottish public sector" produced by Audit Scotland, our audit work was directed to ensure that best practice in relation to Board review and approval of voluntary severance agreements, particularly those of senior post holders, was being applied. The guidance states that Board members should approve early departure schemes ensuring that proposals represent value for money as well as approving specifically proposals affecting senior managers to ensure that each application is independently authorised. We understand, from discussion with the previous Chair of the Board of Management of the College, that the proposed severance arrangements for both the then Principal and Vice Principal were considered by the Remuneration Committee and we have seen evidence of legal advice received by the committee in support of these proposals. However, the Remuneration Committee minutes and papers held by the College do not provide sufficient documentary evidence that the business cases for these severance proposals were discussed and approved. Nor was the minute of the Remuneration Committee submitted to the full Board for approval. A point has been raised in the Management Action Plan in Appendix 1.

Looking forward

North Glasgow College merged with Stow and John Wheatley Colleges on 1 November 2013 to form Glasgow Kelvin College. Senior management from across the three colleges worked together to ensure a smooth transition. A shadow board consisting of members from the existing three colleges was established to oversee the merger process.

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 Glasgow Kelvin College (formerly known as North 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 Principal of Glasgow Kelvin College (appointed 1 November 2013) and the Director of Finance of North Glasgow College. 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 Glasgow Kelvin College (formerly known as North 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 21 May 2013. Our audit has focused on the financial statements and governance arrangements at the College.

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

   - Voluntary severance scheme;
   - Post balance sheet events;
   - 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. This report has been discussed with the Principal of Glasgow Kelvin College (appointed 1 November 2013) and the Director of Finance of North Glasgow College.

7. We would like to thank all members of staff who were involved in the audit for their kind co-operation and assistance.

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 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 audit”.
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 9 December 2013. Our independent auditor's report will include an unqualified opinion on the financial statements for the year ended 31 July 2013.

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

An unqualified audit opinion on the regularity of transactions

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

Financial statements preparation

22. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable, however delays were experienced as the finalisation of the financial statements took longer than anticipated. We are grateful to the finance staff for their assistance and support during the course of the audit.

Audit adjustments

23. We identified one significant adjustment that impacts on the deficit for the year that has been adjusted for by management. The effect of this journal is detailed below:

	Balance sheet		**I & E Account**	
	DR	**CR**	**DR**	**CR**
	£	**£**	**£**	**£**
SFC income			98,557	
Accrued income		98,557		

Being adjustment to reduce Transformation Funding income accrued based on SFC notification that funding claimed will be restricted

24. The adjustments above had the effect of increasing the deficit by £98,557.

Potential adjustments

25. We identified three potential adjustments during the course of the audit. It was agreed with the Director of Finance of North Glasgow College 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		I & E Account	
	DR	**CR**	**DR**	**CR**
	£	**£**	**£**	**£**
Trade debtors	21,749			
Trade creditors		21,749		
Being grossing up of debit balances within trade creditors				
SFC income			50,000	
Deferred income		50,000		
Being deferral of transformation funding received to cover 2013/14 merger expenses – see appendix 1 - action plan – observation 2				
Interest payable			15,000	
Investment income				15,000
Being reallocation of net cost on pension liabilities in the year to interest payable				

The above potential adjustments would increase the deficit for the year by £50,000.

Review of accounting systems

26. 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

27. As noted in our audit plan presented to the audit committee on 21 May 2013, the following audit risk areas were identified and were therefore considered in detail during our audit fieldwork.

Voluntary severance scheme

28. As part of the route to merger, North Glasgow College undertook two voluntary severance programmes, one in July and the other in October 2013. However, as a constructive obligation existed at 31 July 2013, the October 2013 scheme required all costs to be included in the 2012/13 financial year. Funding to match a significant proportion of the cost of these programmes was made available through the Transformation Fund.

29. *Guidance on severance arrangements to senior staff in Scottish further education colleges* produced by the Scottish Funding Council provides guidance to colleges on managing severance schemes. As part of our audit we reviewed severance settlements for senior staff to confirm that severance arrangements conformed to the guidance.

30. From our review, we identified that there was insufficient evidence of the North Glasgow College Remuneration Committee reviewing and approving severance proposals including discretionary pension enhancements paid to senior post holders. The guidance, as detailed above, provides good practice for the review and approval of these proposals. The guidance states that Board members should approve early departure schemes ensuring that proposals represent value for money as well as specifically approving proposals affecting senior managers to ensure each application is independently authorised. It also states that proposals should be supported by business cases, showing the full additional costs of early departures and their anticipated savings. We understand, from discussion with the previous Chair of the Board of Management of the College, that the proposed severance arrangements for both the then Principal and Vice Principal were considered and approved by the Remuneration Committee and we have seen evidence of legal advice received by the committee in support of these proposals. However, the Remuneration Committee minutes and papers held by the College do not provide sufficient documentary evidence that the business cases for these proposals were discussed and approved. Nor was the minute of the Remuneration Committee submitted to the full Board for approval. A point has been raised in the Management Action Plan in Appendix 1 in relation to this.

Post balance sheet events

31. The Boards of Management of North Glasgow College, John Wheatley College and Stow College merged on 1 November 2013. As the merger took place in the period between the balance sheet date and formal approval of the financial statements, sufficient disclosure was required to be reflected within the Board of Management Report and within the notes to the financial statements to explain the event.

32. We reviewed the disclosures included within the Board of Management Report and within the notes to the financial statements and can confirm that the disclosure included is sufficient and appropriate.

Pension fund liabilities

33. The College's employees belong to two principal defined benefit 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.

34. 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 £1.094 million at 31 July 2013, a decrease on the £2.233 million position as at 31 July 2012.

35. 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

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

37. 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

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

39. 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

40. 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.

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

Legality

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

43. 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

44. 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

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

46. 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 deficit of £574,000 for the year to 31 July 2013

47. 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.

48. This was slightly offset by an increase in the College's other operating income from £332,000 to £624,000. This was mainly due to the receipt of a new funding contract from SDS worth £195,000 for the financial year.

49. During 2012/13 the College undertook two voluntary severance programmes to generate efficiency savings and reduce operating costs to support the delivery of a balanced budget in future years. The College incurred restructuring costs of £1.276 million in the year and utilised £866,000 of Scottish Funding Council merger support funding to meet these costs. Due to the timings of the severance programmes the College did not generate any savings from a reduction in staff costs in the current year.

50. The merger support funding did not cover strain on fund costs through the pension scheme i.e. the cost incurred in making good any shortfall in future pension contributions, the discretionary pension enhancement paid to the then Principal and certain payments in lieu of notice. The College has therefore incurred costs of approximately £410,000 which were unfunded, and due to the timing of preparation of original forecasts were not included in initial budget projections.

Balance sheet

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

51. The College has reserves of £4.475 million at 31 July 2013 (£3.814 million as at 31 July 2012) and holds £30.987 million of deferred capital grants (£32.513 million at 31 July 2012). The increase in the reserves balance during the year was due to a reduction in the negative pension reserve balance of £1.139 million which was offset by an overall deficit for the year of £574,000. This reduction in the pension liability reflected an increase in the net value of employer assets in the scheme as a result of more favourable forecast returns on assets than in previous years.

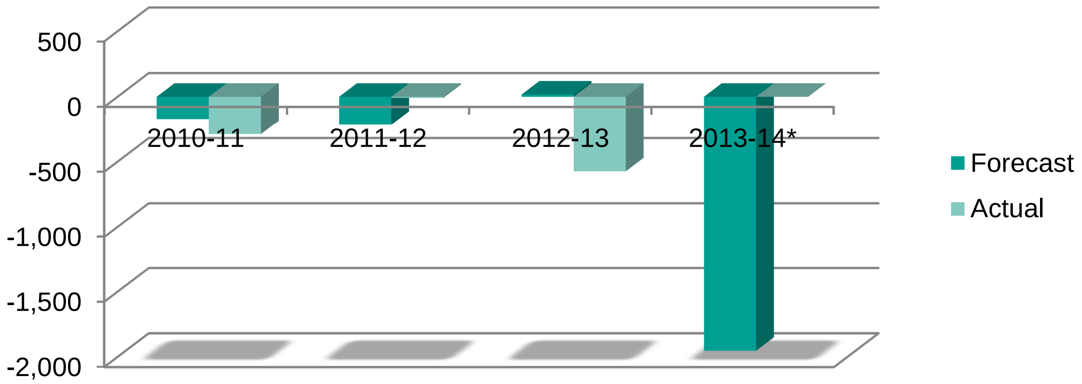
52. The College maintained a healthy cash balance throughout the year and held a cash and bank balance of £5.292 million at the year end.

Financial forecasts

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

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

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



Source: Financial Forecast Returns

*Based on financial forecasts included within merger business case

54. The diagram shows that the College did not achieve the surplus of £17,000 by £591,000. The outturn deficit of £574,000 in the current year reflected unforecast voluntary severance costs.

55. The 2013/14 forecast position reflects the anticipated position of the new merged College, Glasgow Kelvin College, up to 31 March 2014. The forecast deficit of £1.9 million incorporates the additional merger costs anticipated up to 31 March 2014. These include the cost of ensuring a consistent pay structure across the new College as well as additional costs incurred in delivering the merger. A breakeven position is forecast for the year to 31 March 2015.

Future financial forecasts reflecting the consolidated position

56. The reduction in commercial and SFC income was forecast by the College prior to the start of the financial year. In response to the reduced recurring income base, the College has made a number of efficiency savings, primarily through reductions in staffing levels, which will reduce expenditure in future years.

57. With the on-going regionalisation developments across the FE sector and changes to funding methodology, there is some uncertainty over future levels of funding for the new College. The College has participated in discussions at a Glasgow regional level and is proactively planning its curriculum for the future alongside partner Colleges to meet the challenges of the on-going reductions in funding levels.

Going concern and subsequent events

58. 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.

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

- reviewing bank facilities;
- performing a review of budgets and cash flow projections covering a period of 12 months from the expected signing of the audit report, together with post year end management accounts. In particular consideration of the financial forecasts contained within the College's proposed merger business case;
- reviewing minutes of post balance sheet board meetings;
- enquiring of senior management and the College's solicitors concerning litigation, claims and assessments;
- consideration of future SFC funding;
- consideration of the impact of the merger with John Wheatley and Stow Colleges; and
- performing sample testing of post balance sheet transactions.

60. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. Glasgow Kelvin College expects to be financially sustainable in the long term and all the assets, liabilities, rights, obligations, and staff of John Wheatley and Stow Colleges has transferred to the new merged institution through a Scottish Statutory Instrument.

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

Governance

62. 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.

63. We reported on the corporate governance arrangements in relation to its financial position in the Financial Statements section of this report. This section includes our comments on other aspects of the College's arrangements.

Corporate Governance

Current governance arrangements

64. 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.

65. 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.

66. 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.

67. 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

68. 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 these risks.

69. The College had a Risk Management Policy and Risk Management Procedures in place. The College had a risk register which was maintained by the Senior Management Team (SMT) and reviewed and updated on a regular basis. The Audit Committee considered the risk register at each committee meeting and the Board of Management reviewed the risk register on a continuum and also annually. However any significant changes in the risk register were notified immediately to both the audit committee and the full board.

70. We have concluded that the College had robust risk management systems in place.

Internal audit

71. 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.

72. For 2012/13 the internal audit service has been provided by Wylie & Bisset 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

73. Internal audit has concluded in its annual report that management has an adequate framework of control over the systems examined.

Prevention and detection of fraud and irregularity

74. As part of our audit we consider how the College ensured 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.

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

76. All SFC and other guidance and circulars were received by the then Principal's Secretary and the Vice Principal of North Glasgow College. All relevant regulatory information was distributed to the appropriate members of staff. All Circulars raised were acted upon by Senior Management at the appropriate Committee meetings.

Standards of conduct

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

78. 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.

79. 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.

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

Looking forward

Impact of the College merger

81. The College is undergoing a significant period of change due to the merger and is likely to continue to do so as the new College structure is embedded. The College has already undergone a significant voluntary severance programme and a number of key members of staff of the former North Glasgow College, including the Principal, Vice Principal and members of the Senior Management Team have left. As with other colleges in the sector, it will be essential that, over the coming months, arrangements are put in place to manage the transition to the new Glasgow Kelvin College.

Office of National Statistics reclassification

82. 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 new Glasgow Kelvin College will operate. The reclassification will come into effect from 1 April 2014.

83. 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)

84. 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.

85. 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.

86. 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.

87. 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.

88. 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 four observations which we consider require management action. We are pleased to report that all prior year management actions have 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	1	-
3	Moderate risk exposure - Not all key control procedures are working effectively	2	1
2	Limited risk exposure - Minor control procedures are not in place / not working effectively	1	2
1	Efficiency / housekeeping point	-	-

Action plan

1	Governance
Observation	As part of the route to merger, North Glasgow College undertook two voluntary severance programmes, one in July and the other in October 2013. *Guidance on severance arrangements to senior staff in Scottish further education colleges* produced by the Scottish Funding Council and *Managing early departures from the Scottish public sector* produced by Audit Scotland provide guidance to colleges on managing severance schemes. As part of our audit we reviewed severance settlements for senior staff to confirm that severance arrangements conformed to the guidance. From our review, we identified that there was insufficient evidence of the North Glasgow College Remuneration Committee reviewing and approving all severance proposals including discretionary pension enhancements and payments in lieu of notice paid to senior post holders and also early retirement proposals which included significant pension strain costs for the College. The guidance, as detailed above, provides good practice for the review and approval of these proposals. The guidance states that Board members should approve early departure schemes ensuring that proposals represent value for money as well as specifically approving proposals affecting senior managers to ensure each application is independently authorised. It also states that proposals should be supported by business cases, showing the full additional costs of early departures and their anticipated savings. We understand, from discussion with the previous Chair of the Board of Management of the College, that the proposed severance arrangements for both the then Principal and Vice Principal were considered and approved by the Remuneration Committee and we have seen evidence of legal advice received by the committee in support of these proposals. However, the Remuneration Committee minutes and papers held by the College do not provide sufficient documentary evidence that the business cases for these proposals were discussed and approved. Nor was the minute of the Remuneration Committee submitted to the full Board for approval.
Risk and recommendation	There is a risk that the College has not complied with the principles of good practice as described in the Scottish Funding Council and Audit Scotland guidance as sufficient documented evidence of the approval process has not been retained. We recommend that Glasgow Kelvin College establishes a robust governance framework to ensure that the guidance is adhered to in respect of any future severance arrangements. **Grade 4**
Management response	Accepted Responsible officer: Principal Glasgow Kelvin College & Clerk to the Board (on appointment)

2	Transformation funding
Observation	During the year North Glasgow College received £50,000 of transformation funding from SFC, and our fieldwork identified that sufficient evidence of how this funding had been utilised has not been documented *(paragraph 25 –*

	potential adjustment 2).
Risk and recommendation	There is a risk that the College has not complied with the conditions attached to the funding where sufficient documentation evidencing the spend has not been retained. We recommend that Glasgow Kelvin College establishes a robust process in relation to the documentation of expenditure in order to ensure compliance with conditions of funding. **Grade 3**
Management response	The College will ensure it has detailed records in place in respect of all expenditure on the merger project. Responsible officer: Vice Principal – Finance and Corporate Services

3	Capitalisation policy
Observation	It was noted that 40 computers with individual costs of less than £5,000 had been capitalised. Although the overall value of the batch purchased was greater than £5,000, the College accounting policy states that assets will only be capitalised if the individual cost of the item is greater than £5,000.
Risk and recommendation	There is a risk that the accounts are not being prepared in line with the stated accounting policy in this area. It is recommended that the accounting policy is reviewed for reasonableness and that in future any capitalisation of fixed assets is performed in line with the accounting policy. **Grade 3**
Management response	Accepted Responsible officer: Vice Principal – Finance and Corporate Services

4	Year end routine
Observation	It was noted from review of opening balances that the year-end routine on Symmetry had not been performed for either the 2011 or 2012 year end. This means that the 2011 and 2012 results have not been rolled into the Income and Expenditure Reserve total per the trial balance.
Risk and recommendation	There is a risk that the Income and Expenditure reserve does not show the correct figure and that the ledger is therefore not accurate. It is recommended that full year end procedures are performed on Symmetry at the end of every financial year to ensure that the Income and Expenditure Reserve is correctly stated to include all prior year results. **Grade 2**
Management response	Accepted Responsible officer: Vice Principal – Finance and Corporate Services

Follow up on prior year action plan

1	Posting of purchase invoices
Observation	Whilst performing supplier statement testing it was noted than an invoice dated June 2012 was posted into the period August 2012/13. As such, the invoice was recorded in the incorrect financial year.
Risk and recommendation	There is the risk that cut-off is incorrect where invoices are not posted using the invoice date. It is recommended that finance staff are reminded of the importance of posting purchase invoices to the ledger in the period to which they relate. **Grade 2**
Prior year management response	Noted.
Audit observation in current year	From all testing performed, including purchase cut-off and supplier statement testing, there were no instances where transactions were posted into the incorrect period. **Issue addressed**

2	Trade Debtors Control Account Reconciliation
Observation	Whilst performing a reconciliation of the trade debtors listing to the trade debtors control account in the general ledger, a variance of £10k was noted which could not be explained by the finance team.
Risk and recommendation	There is a risk that as this key control is not being performed, that either the control account total in the balance sheet is incorrectly stated or the listing is not reflective of current outstanding debtors. It is recommended that this variance is immediately investigated and corrected. Going forward we recommend that monthly reconciliations of the trade debtors listing to the trade debtors control account are performed, and any variances investigated and resolved on a timely basis. **Grade 2**
Prior year management response	Noted. The difference has been investigated and written off post year-end. Reconciliations will now be performed monthly going forward.
Audit observation in current year	From testing performed, trade debtor reconciliations are now being performed on a monthly basis and no further issues were identified. **Issue addressed**

3	Review of Bad Debts
Observation	Whilst performing a review of older debts it was discovered that there were approximately £38k of sales invoices outstanding within one debtor account (DCONSTRUCTION/1) which had been raised in error and thus required credit notes to be raised. Two control weaknesses were identified as arising from this issue as follows: 1. In this situation the sales invoices were either raised in error or raised twice, and on investigation it was identified that the then sales ledger clerk did not adhere to the internal processes. 2. The invoices were classed as debtors in the 120 days + category within the debtors listing as at 31 July 2012, which illustrates that the debt management process is not working efficiently. The current process in place is that a letter is issued to the debtor once an invoice has been outstanding in excess of 30 days, with another letter issued after 45 days, at which point it is then passed to the Lewis Group to pursue recovery.
Risk and recommendation	The implication of this issue is that debtors and income were over-stated. We recommend that in future, new staff to the department are adequately trained and supervised. Additionally we would recommend that the debt recovery process is re-considered, first of all to identify why it took in excess of 6 months for this error to be identified, and then secondly to implement procedural changes to ensure that this issue will not arise again in the future. **Grade 3**
Prior year management response	Personnel and processes were changed during the summer months.
Audit observation in current year	Formal bad debt reviews are now being performed and from a review of debtor balances, a bad debt write-off of all balances deemed irrecoverable was performed prior to the year-end. **Issue addressed**

Appendix 2 – Your audit team

Chris Brown

Audit Partner

chris.brown@scott-moncrieff.com

Allison Gibson

Audit Director

allison.gibson@scott-moncrieff.com

Jennifer Hempsey

Audit Senior

jennifer.hempsey@scott-moncrieff.com