



**John Wheatley  
College**

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

**For the year end ended 31 July  
2013**



**Scott-Moncrieff**  
business advisers and accountants





# John Wheatley College

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

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# Executive Summary

## Finance

Our audit of John Wheatley College (“the College”) is complete. We audit the financial statements of the College under the Further and Higher Education (Scotland) Act 1992.

### Financial position

The College generated a surplus of £35,000 in 2012/13. This was in line with the College’s 2012/13 Financial Forecast Return (FFR) submitted to the Scottish Funding Council (SFC) which projected a surplus of £31,000 for the year. The surplus position was generated after a reduction of approximately 10% of core SFC funding. The College ran a voluntary severance programme in the year which was predominately funded through additional merger support funding from SFC. This aims to generate future savings on operational staff costs.

## 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

The Board of Management has approved the merger with North Glasgow and Stow Colleges with a vesting date of 1 November 2013. The assets, liabilities, rights, obligations and staff of John Wheatley College will transfer to the new merged institution, Glasgow Kelvin College, through a Scottish Statutory Instrument. Senior management from across the three colleges have been working together to ensure a smooth transition to the new College. A shadow board consisting of members from the existing three colleges has been established to oversee the merger process.

Over the coming years the further education sector will continue to go through 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 John Wheatley 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 Acting Vice Principal and the Audit Committee. 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**  
**October 2013**

# Introduction

1. This report gives a summary of the findings from our external audit of John Wheatley 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 5 June 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:
  - Financial Position and the effect that the reduction in core SFC grant and fee waiver income has had on the College’s ability to meet their outflows;
  - Strategic Partnerships and the proposed merger with Stow and North Glasgow colleges;
  - Voluntary severance scheme; and
  - Pension fund liabilities.
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 Acting Vice Principal.
7. We would like to thank the Acting Vice Principal 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](http://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 agreed 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 2005 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 given 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 auditors' 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 basis 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 31 October 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. We have worked with management to bring forward our audit completion and reporting timetable to enable the accounts to be signed by 31 October 2013. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.
23. We are grateful to the Acting Principal, the Acting Vice Principal and the finance staff for their assistance and support during the course of the audit.

## Audit adjustments

24. In addition to a number of disclosure adjustments required to the draft financial statements, we identified one adjustments that impact on the surplus for the year or income and expenditure reserve that have been adjusted for by management. The effect of these journals are detailed below:

	Balance sheet		Income and Expenditure	
	DR	CR	DR	CR
	£	£	£	£
Dr Income and Expenditure reserve	145,000	-	-	-
Cr Pension reserve	-	145,000	-	-
Dr Pension liability	145,000	-	-	-
Cr Provisions	-	145,000	-	-
<i>Being reclassification of unfunded pension liabilities and reserve balances held.</i>				
Dr Pension reserve	28,000	-	-	-
Cr Income and expenditure reserve	-	28,000	-	-
Dr Accruals	28,000	-	-	-
Cr Pension liability	-	28,000	-	-

*Being reclassification of losses on curtailments and settlements within the pension liability rather than separate disclosure as an accrual*

25. The adjustments above did not impact on the Colleges draft surplus for the year.

#### Potential adjustments

26. We are pleased to report that we have not identified any unadjusted audit differences.

## Significant issues from the 2012/13 audit

27. As noted in our audit planning letter submitted to the audit committee in June 2013, the following audit risk areas were identified as significant matters and therefore considered in detail during our audit fieldwork

#### Voluntary severance scheme

28. To deliver a balanced budget for 2012/13, the College has identified the need to reduce activity levels and further increase efficiencies. During 2012/13 the College ran a voluntary severance programme. The programme reflected areas that the College had identified could deliver efficiency savings, primarily through the merger process. During 2012/13, the College incurred costs of £0.640 million voluntary severance payments, primarily funded through merger support funding from the Scottish Funding Council.

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. We are satisfied, from the audit work performed as detailed above, that the voluntary severance scheme has conformed to guidance and has been accounted for and disclosed correctly in the 2012/13 financial statements.

#### Pension Fund Liabilities

31. As at 31 July 2013, the College had a total of three members who receive enhanced pension benefits (two members of the Local Government Pension Scheme and one member of the Scottish Teachers Superannuation Scheme). These benefits were awarded a number of years ago in exchange for the employees agreeing to their employment contracts being terminated before the normal retirement date, which was common practice in the public sector at the time. The present value of enhanced benefits was £145,000 at 31 July 2013.

32. Within the draft annual accounts, the College had accounted for these enhanced pension benefits within the pension fund liability in line with the treatment followed in previous years. However Financial Reporting Standard 17: Retirement Benefits (FRS 17) does not permit enhanced benefits of this type to be included within the overall pension liability as they were not given in exchange for services rendered by employees. Instead, these benefits should be recognised, measured and provided for in accordance with Financial Reporting Standard 12: Provisions (FRS 12).

33. We have therefore raised an audit adjustment to move the enhanced pension benefits from the FRS 17 pension provision into an FRS 12 provision. The impact of this is that there is an equivalent transfer from the pension reserve into the income and expenditure reserve.

## Fraud and irregularity

- 34. 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.
- 35. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

## Legality

- 36. We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.
- 37. 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

- 38. 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

39. 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. We also discuss any significant issues identified during our audit.
40. 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 £0.036 million for the year to 31 July 2013

41. In line with the rest of the college 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.
42. During 2012/13 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 has been undertaken with a focus on the College's likely resource requirements post following the proposed merger. The College incurred restructuring costs £0.657 million in the year and utilised £0.615 million of SFC merger support funding to meet these costs. The severance programme enabled the College to generate some in year savings on payroll costs towards the end of the financial year with the reduction in staffing numbers.
43. The College generated approximately £1.2 million of income above its original budget forecasts. This income was primarily related to additional funding for specific projects such as income from the Big Lottery funding as well as additional funding to support merger costs. The additional income received is generally funding for the College's cost in delivering specific activities or those incurred in the merger process. Consequently the additional income is offset by additional costs therefore the outturn position is in line with forecasts.

## Balance sheet

### The College has a healthy current asset position

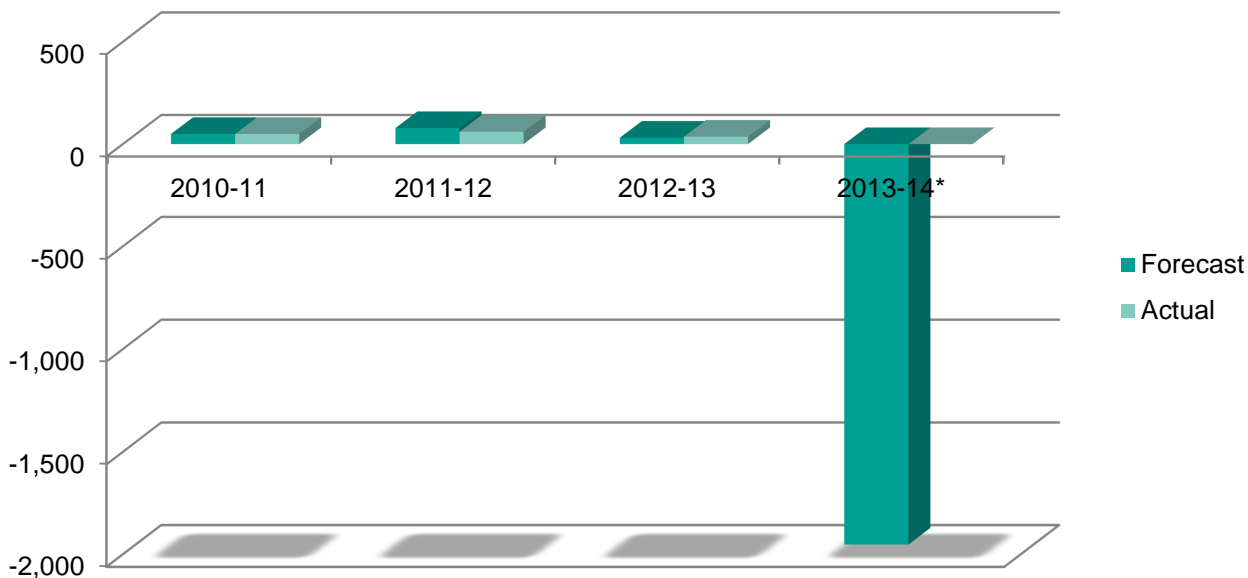
44. The College has reserves of £5.632 million at 31 July 2013 (£5.013 million as at 31 July 2012) and holds £15.692 million of deferred capital grants (£16.224 million at 31 July 2012). The increase in the reserves balance during the year was primarily due to the reduction in the negative pension reserve balance. This reduction reflected an increase in the net value of employer assets in the scheme reflecting more favourable forecast returns on assets than in previous years.
45. As at 31 July 2013, the Income and Expenditure (I&E) reserve had a surplus balance of £1.628 million. The I&E reserve position reflects the impact of the change in accounting treatment for unfunded pension scheme liabilities described in the previous section. The net impact of the adjustment described below has been to reduce the I&E reserve balance reported in the draft accounts by £0.117million.
46. The College maintained a healthy cash balance throughout the year and held a cash and bank balance of £1.538 million.

# Financial forecasts

## SFC funding has been confirmed for 2012/13 and a surplus has been forecast

47. 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 (£'000)



Source: Financial Forecast Returns

\*Based on Glasgow Kelvin College forecast to 31 March 2014

48. The diagram shows that the College achieved the forecast surplus position for 2012/13.
49. The 2013/14 forecast position reflects the anticipated position of the new merged college, Glasgow Kelvin College, up to 31 March 2013. The forecast deficit of £1.9 million incorporates the additional merger costs anticipated up to 31 March 2014. These include the cost of ensuring 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

50. The College has been working with Stow and North Glasgow Colleges and have developed a combined Financial Forecast Return (FFR) for the new Glasgow Kelvin College.
51. We reviewed the College's budgets and Financial Forecast Return (FFR) for 2013/14 and are satisfied that the College has taken sufficient steps to ensure that the reduction in SFC income will not impact on the going concern status of the College.

## Going concern and subsequent events

52. We are required under International Standard on Auditing (UK & Ireland) 570, "Going Concern" to consider the appropriateness of the board of management' 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.
53. 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;
  - the impact of the merger with Stow and North Glasgow Colleges; and
  - performing sample testing of post balance sheet transactions.
54. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. The Board of Management has approved the merger with North Glasgow and Stow Colleges. The targeted vesting date for the merger is 1 November 2013, upon which date John Wheatley College will cease to exist. However, the new college expects to be financially sustainable in the long term and all the College's assets, liabilities, rights, obligations, and staff will transfer to the new merged institution through a Scottish Statutory Instrument.
55. In our opinion the going concern assumption remains appropriate.



# Looking forward

## Impact of the College merger

56. The targeted vesting date for the merger of the College with Stow and North Glasgow Colleges is 1 November 2013. From this date John Wheatley College will no longer exist and the College's assets, liabilities, rights and obligations and staff will transfer to the new College, Glasgow Kelvin College.
57. The College is undergoing a significant period of change as it prepares for 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, including a member of the Senior Management Team have left or are due to leave over the coming months. This will represent a significant loss of 'corporate knowledge', including an understanding of the key systems and process in place as well as relationships with students and stakeholders. It will be essential that, over the coming months, arrangements are put in place to support the transfer of this knowledge to the new Glasgow Kelvin College.
58. A shadow Board for the new Glasgow Kelvin College has been established. The Shadow Board held its first meeting on 19 August 2013. The Shadow Board will play a pivotal role in overseeing the merger process and supporting the development of a new College management structure.

## Office of National Statistics reclassification

59. 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.
60. 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)

61. 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.
62. 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) based. 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.

63. 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.
64. 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.
65. 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 – Your audit team

Your team were:

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**Chris Brown**  
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