Lews Castle College

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

2012/13

Scott-Moncrieff
business advisers and accountants

Lews Castle College

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

Executive Summary

Finance

Our audit of Lews Castle College is complete and our opinions on the truth and fairness of the financial statements of the College for the year ended 31 July 2013 and on the regularity of transactions are unqualified.

Financial position

The College has reported an operating deficit for the year to 31 July 2013 of £0.078m which is broadly consistent with budgeted deficit of £0.058m. The College is forecasting a break even position for 2013/14 and a small surplus of £0.013m for 2014/15.

Balance sheet

The College has a healthy net asset position of £5.465m, although this is due to a deficit on reserves of £2.549m being off-set by substantial deferred capital grants (£8.014m).

Going concern and subsequent events

The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate for the 2012/13 financial statements.

Governance

The College's Corporate Governance Statement for 2012/13 explains how the College has applied the principals of the UK Corporate Governance Code throughout the period. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

We have not identified any areas of concern from our review of the College's corporate governance arrangements.

Looking Forward

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 College will operate. The reclassification will come into effect from 1 April 2014.

The Financial Reporting Council has adopted 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. The FE/HE SORP Board has developed a draft SORP which takes account of the key requirements of the new Financial Reporting Standards. The new accounting standards come into force for financial years commencing on or after 1 January 2015.

Conclusion

This report concludes the 2012/13 audit of Lews Castle 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 and agreed with the Principal. 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 summarises the findings from our external audit of Lews Castle College ("the College") in 2012/13. The scope of our audit was set out in our External Audit Strategy and Plan at the outset of our audit. 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:

   - Financial position.
   - Greenspace Live Limited.
   - Pension Fund liabilities.
   - Early retirement liabilities.
   - Management override and revenue recognition.

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

3. *International Standard on Auditing (UK & Ireland) 260: Communication with those charged with governance* (ISA 260) requires us 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.

4. 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 ISAs. Our audit does not necessarily disclose every weakness and for this reason the matters referred to may not be the only shortcomings which exist.

5. The report has been discussed and agreed with the Principal.

6. We would like to thank the Principal and his staff for their kind co-operation and assistance during our audit.

7. 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

8. 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

9. 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.

10. 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

11. 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.

12. We 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.

13. We express an opinion on whether the information in the Operating and Financial Review is consistent with the financial statements.

14. 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

15. *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.

16. 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

17. 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.
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, with existing disclosure of any pertinent issues deemed appropriate.
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 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. We identified three immaterial adjustments which have not been reflected in the financial statements. The aggregate impact of these adjustments would be to decrease the College’s deficit by £5,000 (to £73,000). A detailed list of the unadjusted differences will be appended to our letter of representation.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

Overall conclusion

An unqualified audit opinion on the financial statements

18. The annual accounts are due to be approved by the College on 9 December 2013. We plan to give an unqualified opinion on the financial statements for the year ended 31 July 2013 in our independent auditor's report.

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

An unqualified audit opinion on the regularity of transactions

20. 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 plan to issue an unqualified opinion on the regularity of transactions in the College's accounts.

Financial statements preparation

21. We received draft annual accounts and supporting papers of a good standard. We are grateful to the Principal and his staff for their assistance and support during the course of the audit.

Audit adjustments

22. No significant adjustments were made that impacted on the surplus for the year or the income and expenditure reserve. The audit identified various disclosure and presentational adjustments, all of which have been reflected in the College's updated financial statements

Unadjusted differences

23. We identified three immaterial adjustments which have not been reflected in the financial statements. The adjustments relate to the College's accounting for income and expenditure accruals and its pension liability. The aggregate impact of these adjustments would to decrease the College's deficit by £5,000 (to £73,000). A detailed list of the unadjusted differences will be appended to our letter of representation. The College agrees that these unadjusted differences are immaterial both individually and in aggregate to the financial statements as a whole.

Review of accounting systems

Review of journals

24. Journals are not always subject to review before being posted to the financial ledger. Although the College has some mitigating controls in place, through a monthly reconciliation process and the review of Management Accounts, there remains a risk that inaccurate or inappropriate journals are posted.

25. We have carried out detailed testing of journals during the year and have found no issues which we believe would lead to a material misstatement. However, the College should consider whether the current controls can be strengthened further, given the resources available to the finance team. One potential improvement could be for an experienced member of the finance team to carry out a review of all significant journals

posted on a monthly basis. Such a detective control could be effective so long as it did not constitute self-review.

Management action plan point 1

Payroll exception reporting

26. We carried out sample testing of new employees during the year to ensure that they were added to the payroll on a timely basis and that, more generally, sufficient controls were in place over amendments to the payroll standing data. Whilst we found no errors during our testing, we did identify two new employees who did not appear on the payroll exception reports. Exception reports should identify significant changes to the payroll data, including new employees. All relevant significant variances may not be identified by the exception reports currently being used by the College. The College should liaise with Comhairle Nan Eilean Siar to ensure that the reports generated from the payroll system are sufficient for the College's needs and are configured appropriately.

Management action plan point 2

Cash flow management

27. The College borrowed funds from the bursary bank account in order to meet cash flow commitments during 2012/13. This also occurred in 2011/12. All funds were returned to the bursary account by 31 July 2013. As in 2011/12, we have not identified any students being disadvantaged as a result of the College's actions. We have previously discussed this situation with SFC who advised that it is not good practice. The College should not rely on the use of bursary or other support funds to support its cash flow commitments.

Management action plan point 3

Greenspace Live Ltd funding

28. The College receives funding from Edinburgh Napier University for the ENERMAN project. This funding is subsequently forwarded to Greenspace Live Ltd, which conducts the project work. Whilst we have not identified any significant issues with the arrangements currently in place the College should consider whether the overall funding agreement should be amended so that the agreement is between Edinburgh Napier University and Greenspace Live Ltd. This may be a more efficient way for the project to be conducted.

Management action plan point 4

Related parties

29. In accordance with *Financial Reporting Standard 8: Related Party Disclosures* (FRS 8) institutions should disclose all material transactions undertaken with related parties. *The Statement of Recommended Practice: Accounting for Further and Higher Education 2007* ("the SORP") states that related parties are most likely to be found amongst:

- those members of the governing body (and their 'close family') who hold influential posts in public bodies and private sector organisations with which the institution has transactions;
- senior staff, including those who hold influential posts on other bodies with which the institution has transactions; and

- associates, collaborations and joint venture entities.

30. We have reviewed the College's disclosure of related party transactions and found it to be appropriate. However, the pro-forma register of interests and the guidance circulated to the Board of Management do not include clear prompts that the interests of close family members should be included on the declarations. The College may not identify all potential related parties if the individuals involved are not aware that their declarations should include the interests of close family members. The College should include clear guidance on the information required in Board Member's declaration of interests.

Management action plan point 5

Asset verification

31. The College does not carry out a verification exercise. There is a risk that assets are scrapped or disposed without the knowledge of the finance team. The College should carry out a periodic review of the assets in the Fixed Asset Register to confirm whether they are still in use. This could be carried out in line with current asset controls, such as PAT testing, as well as any records maintained by the IT team.

Management action plan point 6

Significant issues from the 2012/13 audit

32. The following audit risk areas were considered in detail during our audit fieldwork. Discussion of the College's financial position is carried out through the "Use of Resources" section later in this report.

Greenspace Live Ltd

33. The College retains a 27% share in the voting rights of Greenspace Live Ltd, a company involved in low carbon building design. The company was only spun out of the College in 2011/12, and so it is at a crucial point as it looks to establish and maintain sustainable business performance.

34. FRS 9: *Associates and Joint Ventures* (FRS 9) presumes that a 20% share of the voting rights in a company would provide the College with significant influence over that company. Where significant influence is held the company should be consolidated as an associate. The College has rebutted the presumption of significant influence as it does not actively participate in the operating and financial policies of Greenspace Live Limited or influence strategic issues such as determining the balance between dividend and reinvestment.

35. Greenspace Live Limited has been accounted for as an investment in the College's financial statements. We have reviewed the accounting treatment of Greenspace Live Limited and found that, particularly given the immaterial nature of the transactions, this treatment is reasonable.

Pension Fund liabilities

36. The College's employees belong to two principal defined benefit pension schemes; the Scottish Teachers' Superannuation Scheme (STSS) for teaching staff and the Highland Council Pension Fund (HCPF) for the non-teaching staff.

37. 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 FRS 17: *Retirement Benefits*, 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.

38. The HCPF 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 in its balance sheet. The College reported a liability of £1.069m as at 31 July 2013, a decrease on the £1.201m equivalent position as at 31 July 2012.

39. 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 actuarial valuation. We have also confirmed that the actuarial assumptions underpinning the valuation are reasonable and reflective of the College's circumstances.

Early retirement liabilities

40. The College has previously offered early retirement to staff, and makes monthly payments to the pension fund to cover any shortfall arising from the decision to grant early access to retirement benefits. In line with FRS 12: *Provisions, Contingent Liabilities and Contingents Assets*, the College creates a provision for the future payments in relation to these early retirements. The provision for early retirement of teaching staff was £1.025m at 31 July 2013 (£1.032m at 31 July 2012)

41. We reviewed the College's accounting treatment of its liabilities arising from early retirements and confirmed that this was reasonable and appropriate.

Management override and revenue recognition

42. Management override and revenue recognition are presumed risks under ISA 240: *The auditor's responsibilities relating to fraud in an audit of financial statements* and are tested as part of our standard audit approach. Management are in a unique position to override controls that otherwise may appear to be operating effectively, potentially facilitating fraud. Although the level of risk of management override of controls varies from entity to entity, the risk is nevertheless present in all entities.

43. There is also a risk that the College is misreporting its income through an inaccurate or inappropriate approach to revenue recognition. However, this is generally of much lower risk in public sector bodies than in commercial entities.

44. We have reviewed the accounting records for significant transactions outside the normal course of business and have obtained supporting evidence to ensure that these transactions are valid and accounted for correctly. We have also evaluated each material revenue stream, considered the College's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied to each material stream.

Management representations

45. 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

46. 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.

47. 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 £0.078million for the year to 31 July 2013

48. The College has reported an operating deficit for the year to 31 July 2013 of £0.078m which is broadly consistent with budgeted deficit of £0.058m.

49. In line with the rest of the sector, the College suffered a reduction in its recurrent grant from the SFC. SFC recurrent grant has reduced by £0.147m since 2011/12, to £2.272m. However, this reduction has been off-set by an increase of £0.129m in the recurrent grant received from UHI, to £1.173m. Overall there has been a reduction in income of £0.457m (6.7%) compared to 2011/12. This has included significant reductions in funding on specific projects the largest of which has seen the Heb Marine project receive £0.140m less funding compared to last year.

50. Expenditure in the year was £6.387m, which was £0.426m less than in 2011/12. The largest influences on this figure have been a decrease in staff costs of £0.163m and a decrease in other operating expenditure of £0.277m. Staff costs have reduced in line with a small reduction in staff numbers compared to 2011/12. The reduction in other expenditure is attributable to a reduction in equipment purchases of £0.183m and a reduction in professional fees related to projects of £0.095m. In particular, equipment purchases for the Heb Marine project have fallen by £0.138m, as would be expected given the fall in income on this project (noted above).

Balance sheet

The College has a healthy net asset position due to the substantial balance of deferred capital grants

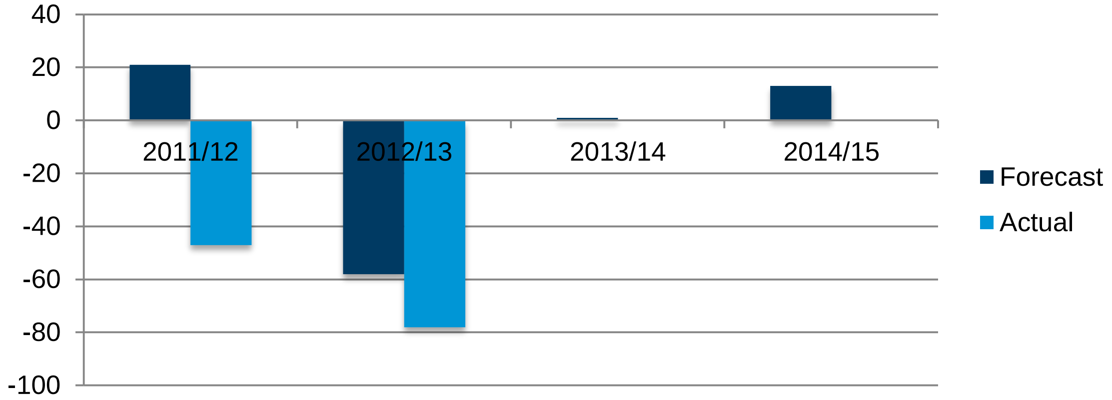
51. The College has an overall deficit balance on reserves of £2.549m (£2.727m at 31 July 2012) and holds £8.014m of deferred capital grants (£8.604m at 31 July 2012). This gives a net asset position of £5.465m (£5.877m as at 31 July 2012).

52. The deficit on the income and expenditure reserve has decreased to £1.505m (£1.551m as at 31 July 2012) as a result of the deficit in the year being outweighed by a transfer from the pension reserve due to the movement on the pension liability. There has been a slight reduction in the pension liability from £1.201m at 31 July 2012 to 1.069m at 31 July 2013. This reduction reflected an increase in the net value of employer assets in the scheme due to more favourable forecast returns on assets than in previous years.

Financial forecasts

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 and 2014/15

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



Source: Previous annual reports & 2013 Financial Forecast Return

54. Notwithstanding the impact of the eight month reporting period expected for 2013/14, the College is forecasting that income will be slightly lower in 2013/14 and then steady into 2014/15. With expenditure also expected to match that trend a break even position has been forecast for 2013/14 and a small surplus of £0.013m for 2014/15.

Going concern and subsequent events

55. We are required under ISA 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.

56. 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 and UHI funding.
- Performing sample testing of post balance sheet transactions.

57. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate.

Governance

58. 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; and
- the College's financial position.

59. We have reported on the corporate governance arrangements in relation to its financial position in the "Use of Resources" sections of this report. This section includes our comments on other aspects of the College's arrangements.

Corporate Governance

Governance structures in place at the College are appropriate

60. Colleges have to include a statement covering the responsibilities of their Board of Management in relation corporate governance arrangements in their annual accounts. 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.

61. The College's Corporate Governance Statement for 2012/13 explains how the College has applied the principals of the UK Corporate Governance Code throughout the period.

62. We reviewed the Corporate Governance Statement by:

- checking the statement against SFC and Audit Scotland 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.; and
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

63. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Risk management

The College has risk management systems in place

64. Risk management is important to the establishment and regular review of systems of internal control. The College's financial statements outline the principal risks and uncertainties of the College and the College's response. We have found that the College has adequate risk management arrangements in place to monitor and help mitigate key strategic risks to the College.

Internal Audit

65. The internal audit service is a key component of the College's internal control framework. We have reviewed the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice. Our review was performed in accordance with the Code of Audit Practice and ISA 610: *Considering the work of internal audit*.

Considering the work of internal audit

66. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. For 2012/13 the internal audit service has been provided by Wylie and Bisset. We have considered the findings of the work of internal audit within our audit process and have sought to minimise duplication of effort, to ensure the total audit resource to the College is used efficiently and effectively.

67. Wylie and Bisset have concluded in their annual report that the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives. The report also commented that the College has proper arrangements in place to promote and secure value for money. We are grateful to Wylie and Bisset for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

68. 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.

69. We have considered how the College ensures compliance with all relevant guidance and regulations and find arrangements to be adequate. This has included a consideration of the College's arrangements for the prevention and detection of fraud and irregularity.

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

Standards of conduct

71. We have considered the arrangements made by management in relation to standards of conduct and prevention and detection of corruption. 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 have also considered arrangements in place for ordering and procurement and disposal of assets.

72. We have found the College's arrangements to be appropriate in these areas.

Looking forward

Office of National Statistics reclassification

73. 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 College will operate. The reclassification will come into effect from 1 April 2014.

74. The full impact of the reclassification has yet to be fully understood but colleges will be required to prepare financial statements with an accounting period to 31 March each year. Furthermore, like other central government bodies, colleges 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)

75. Colleges are required to follow 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.

76. 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, based on IFRS.

77. 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.

78. The draft SORP includes changes in disclosure and terminology within the accounts, including the names of the primary financial statements.

79. 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

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2012/13. These are the issues that we believe need to be brought to the attention of the College.

The action plan details the officers responsible for implementing the recommendations and implementation dates. The College should assess these recommendations for their wider implications before approving the action plan. Following submission of this report to the Audit Committee, we will send a copy to the Auditor General.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

We identified six observations which we consider requires management action this year.

Grade	Definition	Recommendations
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	2
2	Limited risk exposure - Minor control procedures are not in place / not working effectively	3
1	Efficiency / housekeeping point	1

Action plan

1.	Review of journals (paragraph 25)
Observation	Journals are not always subject to review before being posted to the financial ledger. We have carried out detailed testing of journals during the year and have found no issues which we believe would lead to a material misstatement.
Risk and recommendation	Although the College has some mitigating controls in place, through a monthly reconciliation process and the review of Management Accounts, there remains a risk that inaccurate or inappropriate journals are posted. The College should consider whether the current controls can be strengthened further, given the resources available to the finance team. One potential improvement could be for an experienced member of the finance team to carry out a review of all significant journals posted on a monthly basis. Such a detective control could be effective so long as it did not constitute self-review. **Grade 3**
Management response	A review of journal processes will be undertaken to identify suitable thresholds for monthly reviews and regular monthly reviews will be put in place. **Responsible officer:** Principal **Implementation date:** 31 January 2014

2.	Payroll exception reporting (paragraph 26)
Observation	We carried out sample testing of new employees during the year to ensure that they were added to the payroll on a timely basis and that, more generally, sufficient controls were in place over amendments to the payroll standing data. Whilst we found no errors during our testing, we did identify two new employees who did not appear on the payroll exception reports.
Risk and recommendation	Exception reports should identify significant changes to the payroll data, including new employees. All relevant significant variances may not be identified by the exception reports currently being used by the college. The College should liaise with Comhairle Nan Eilean Siar to ensure that the reports generated from the payroll system are sufficient for the College's needs and are configured appropriately. **Grade 2**
Management response	Exception report content and review will processes will be refreshed. **Responsible officer:** Principal **Implementation date:** 31 January 2014

3.	Cash flow management (paragraph 27)
Observation	The College borrowed funds from the bursary bank account in order to meet cash flow commitments during 2012/13. This also occurred in 2011/12. All funds were returned to the bursary account by 31 July 2013. As in 2011/12, we have not identified any students being disadvantaged as a result of the College's actions.
Risk and recommendation	We have previously discussed this situation with SFC who advised that it is not good practice. The College should not rely on the use of bursary or other support funds to support its cash flow commitments. **Grade 2**
Management response	Agreed. **Responsible officer:** Principal **Implementation date:** Immediately

4.	Greenspace Live Ltd funding (paragraph 28)
Observation	The College receives funding from Edinburgh Napier University for the ENERMAN project. This funding is subsequently forwarded to Greenspace Live Ltd, which conducts the project work.
Risk and recommendation	Whilst we have not identified any significant issues with the arrangements currently in place, the College should consider whether the overall funding agreement should be amended so that the agreement is between Edinburgh Napier University and Greenspace Live Ltd. This may be a more efficient way for the project to be conducted. **Grade 2**
Management response	Review will be undertaken and more efficient process identified. **Responsible officer:** Principal **Implementation date: 3**1 January 2014

5.	Related parties (paragraph 30)
Observation	We have reviewed the College's disclosure of related party transactions and found it to be appropriate. However, the pro-forma register of interests and the guidance circulated to the Board of Management do not include clear prompts that the interests of close family members should be included on the declarations.
Risk and recommendation	The College may not identify all potential related parties if the individuals involved are not aware that their declarations should include the interests of close family members. The College should include clear guidance on the information required in Board Member's declaration of interests. **Grade 2**
Management response	Guidance will be provided and Register of Interests updated **Responsible officer:** Principal **Implementation date:** 31 January 2014

6.	Asset verification (paragraph 31)
Observation	The College does not carry out a verification exercise.
Risk and recommendation	There is a risk that assets are scrapped or disposed without the knowledge of the finance team. The College should carry out a periodic review of the assets in the Fixed Asset Register to confirm whether they are still in use. This could be carried out in line with current asset controls, such as PAT testing, as well as any records maintained by the IT team. **Grade 1**
Management response	Review will be undertaken **Responsible officer:** Principal **Implementation date:**30 August 2014

Appendix 2 – Your audit team

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