Wylie + Bisset LLP

Chartered Accountants, Business & Tax Advisers

REID KERR COLLEGE

ANNUAL REPORT TO THE BOARD OF MANAGEMENT, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH GOVERNMENT ON THE EXTERNAL AUDIT FOR THE YEAR ENDED 31 JULY 2013

Topic	Date
Commencement of final visit	16 September 2013
Audit clearance meeting	18 October 2013
Presentation to Audit Committee	19 November 2013
Proposed presentation to Board of Management	9 December 2013

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Disclaimer

This report has been prepared for the purposes of the College Management, Board and the Auditor General for Scotland and should not be issued to third parties without our prior written consent. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visit. Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

1 EXECUTIVE SUMMARY

1.1 FINANCIAL REVIEW

The college returned a deficit of £148,000 for the year ended 31 July 2013. The comparative result for year ended 31 July 2012 was a deficit of £23,000. This is after accounting for severance costs of £2,449,000 (2012 : £617,000). The voluntary severance for 2012-13 was entirely funded by Scottish Funding Council (SFC).

The College maintains a strong overall balance sheet position with net assets of £15,257,000 (2012 : £13,307,000). It is noted that this is after accounting for a pension reserve deficit of £4,324,000 (2012 : £6,115,000). The improvement in the net asset position is due principally to the actuarial gain experienced during the year of £1,823,000.

Reid Kerr College merged with James Watt College (Greenock) and Clydebank College to form West College Scotland on 1 August 2013. The merger was enacted by way of a Scottish Statutory Instrument which transferred all assets, liabilities and activities to West College Scotland and also enacted the winding up of Reid Kerr College as an individual entity. All legal obligations now rest with the Board of West College Scotland.

Following the merger, the operations and services of the College will continue to be provided using the same assets which have been transferred to West College Scotland. Consequently, the use of the going concern concept in the final set of financial statements is considered to be appropriate and in accordance with accounting standards as interpreted for the public sector.

For the eight month period ended 31 March 2014, the merged college has predicted a surplus of £53k within its budget.

1.2 FINANCIAL STATEMENTS

We have issued an unqualified opinion on the accounts of Reid Kerr College for the year ended 31 July 2013.

There have been no adjustments to the draft figures arising from our audit.

1.3 GOVERNANCE & INTERNAL CONTROL

We have undertaken an overall review of the Corporate Governance arrangements in place at the College. Based on our findings it appears that the College has strong systems in place to comply with Corporate Governance requirements.

1.4 REGULARITY

We have issued an unqualified regularity opinion. There are no significant issues that we wish to draw to the Board's attention in this regard.

1.5 RECOMMENDATIONS TO MANAGEMENT

We have made recommendations to management with regard to internal systems and controls in the following areas:

- Corporate Governance
- Governance Self evaluation
- Risk Register
- Board of Management
- Fixed Asset
- Bank
- ESF Income

2 INTRODUCTION

2.1 APPOINTMENT

Wylie & Bisset LLP were appointed as the External Auditors of Reid Kerr College with effect from 1 August 2011 for a period of 5 years. This appointment has been transferred to the audit of West College Scotland from 1 August 2013.

2.2 RESPECTIVE RESPONSIBILITIES

Our audit has been carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice (the 'Code') issued by Audit Scotland in March 2007. Paragraph 24 of the 'Code' states that the auditor's objectives are to:

- Provide an opinion on whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
- Review and report on the College's corporate governance arrangements as they relate to:
  - The College's review of its systems of internal control
  - The prevention and detection of fraud and irregularity
  - Standards of conduct, and the prevention and detection of corruption
  - Its financial position, and
- Review aspects of the College's arrangements to manage its performance.

The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.

The responsibilities of Wylie & Bisset LLP with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.

2.3 REPORTING

Our audit work has been designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the College's systems and financial statements.

This Annual Report has been prepared for the purposes of the College's management and Board and should not be issued to third parties without our prior written consent. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visit.

3 FINANCIAL REVIEW

3.1 FINANCIAL STATEMENTS

The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year. The Accounts Direction requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ("the SORP").

The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

3.2 AUDIT OPINION

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the year ended 31 July 2013, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year ended 31 July 2013 and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and 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. We are satisfied that funds received have been applied for their intended purpose.

3.3 SUBMISSION OF WORKING PAPERS

The audit process was conducted smoothly with all relevant financial information being available when originally agreed. On commencement of the audit process the financial pages of the accounts submitted were substantially complete and included all the relevant financial information. Working papers provided have been of a good standard and queries arising from the audit have all been resolved. Key staff members were available for consultation throughout the audit process.

In particular, the College provided the audit team with access to their accounting system. This allowed access to “drill down” into accounts to the relevant supporting documentation. This increased the efficiency of our audit and reduced the time commitment required from the College’s finance staff.

3.4 INCOME AND EXPEDITURE ACCOUNT

- The retained result of the College for the year is a deficit of £148,000.
- Scottish Funding Council (SFC) grant income has increased by £1,213,000 to £17,413,000 in line with budget based on available funding from SFC. The funding includes £2,438,000 for the West Region Transitional Funding.
- Tuition fees and education contract income has increased by £530,000 to £2,965,000 due to additional income from Skills Development Scotland earned. This is in line with expectation.
- European grant income has reduced by £28,000 to £166,000 due to a reduction in available European funding.
- Other operating income has decreased by £540,000 to £2,782,000 primarily due to a decrease in income generation with regards to overseas students from Libya and Saudi Arabia.
- During this financial year, the College incurred voluntary severance costs of £2,449,000 (2012 : £617,000). These costs have been incurred as the college brings costs into line following cuts in SFC funding. The voluntary severance has been funded by SFC for 2012-13 only.
- The recurring staff costs, including FRS 17 Pension costs have reduced by £757,000 to £14,134,000 (2012 : £14,891,000). FRS17 pension costs result in a debit of £32,000 (2012 (£196,000)) to the I&E account; a movement of £228,000 on the prior year.

	Y/E 31/7/13	Y/E 31/7/12
	£'000	**£'000**
Income		
Scottish Funding Council Grants	17,413	16,200
Tuition fees and education contracts	2,965	2,435
European grant income	166	194
Other operating income	2,782	3,322
Investment income	-	68
	23,326	22,219
Expenditure		
Staff costs	14,134	14,891
Voluntary severance	2,449	617
Other operating expenses	5,406	5,356
Interest payable	533	364
Depreciation	952	1,014
	23,474	24,242
Surplus / (deficit)	(148)	(23)

3.5 BALANCE SHEET

- Land and buildings of the 3 merging colleges have been revalued during the year. The revaluation meets the requirements of FRS15.
- Debtors have increased by £551,000 to £1,763,000 (2012 : £1,212,000). This increase is due primarily to £781,000 of accrued severance costs to be funded by SFC offset by a £90,000 reduction in prepayments due to the timing of invoices.
- Creditors due in less than one year have increased by £434,000 to £6,034,000 (2012 : £5,600,000). There have been a number of significant movements in the liabilities with trade, payroll taxes and bank loan and overdraft balances decreasing by £1,563,000, offset by an increase in accruals & deferred income balances of £1,980,000. The uplift in accruals and deferred income is due primarily to £1,718,000 of severance cost accruals and £526,000 of Skills Development Scotland monies received in advance for 2013-14 offset by an approximate £250,000 reduction in purchase ledger accruals.
- Creditors due in greater than one year have decreased by £595,000 to £4,658,000 (2012 : £5,253,000). This is following repayment of bank and other loans in line with scheduled payments.
- The net assets of the College have increased by £1,950,000 to £15,257,000 (2012 : £13,307,000). This is primarily due to a decrease in the pension deficit to £4,324,000 from £6,115,000 in 2012 following the revaluation process which has been undertaken in accordance with the requirements of FRS 17.
- The income and expenditure reserve, excluding pension reserve, has increased by £123,000 to £3,162,000 (2012 : £3,039,000), and includes £227,000 released from the revaluation reserve in relation to historical cost depreciation.

	31/07/13	31/07/12
	£'000	£'000
Tangible fixed assets	28,477	29,029
Stocks	5	5
Debtors	1,763	1,212
Cash in hand and at bank	28	29
Current assets	1,796	1,246
Creditors: amounts falling due in less than one year	(6,034)	(5,600)
Creditors: amounts falling due after more than one year	(4,658)	(5,253)
Pension liability	(4,324)	(6,115)
Net assets	15,257	13,307
Deferred capital grants / Capital	6,441	6,594
Designated reserve	0	12
Income & Expenditure reserve excluding pension reserve	3,162	3,039
Pension reserve	(4,324)	(6,115)
Revaluation reserve	9,978	9,777
Total Funds / Capital & Reserves	15,257	13,307

4 AUDIT APPROACH & KEY FINDINGS

4.1 OUR APPROACH

Our audit approach recognises the requirements of the Code and is designed to adhere to the general principles outlined therein. Our approach is also designed to address the requirements of the Financial Memorandum between the Scottish Funding Council (SFC) and the Boards of Management of the Colleges of Further Education.

Our audit approach is risk based and focused on the key risks facing the College.

During our initial planning procedures, we identified a number of areas where we considered the risk of misstatement in the accounts to be greater than normal. Our audit procedures were designed and undertaken to ensure greater focus on these risk areas in order that specific conclusions could be made with regard to the identified risks. Details of the risks identified, our audit response and our conclusions are included within Appendix D.

As part of our prior year procedures, we documented the systems and controls in place at the College and obtained an understanding of their operation. In accordance with auditing standards during our procedures we reconfirmed our documented understanding of the main operating cycles and associated accounting systems via interviews of staff and the performance of walk through tests. This process has allowed us to review, in the course of our audit, the key elements of the College’s systems of internal financial controls in the main operating cycles.

Based on both our interim review and our main audit procedures, we have not identified any areas where the operation of internal financial controls could be improved.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the College’s accounts as a whole. An audit does not examine every operating activity and accounting procedure in the college, nor does it provide a substitute for management’s responsibility to maintain adequate controls over the college’s activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the colleges systems and working practices, or of all improvements that could be made.

4.2 AUDIT ISSUES ARISING

During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance & Corporate Services. This practice is an established part of the audit process. This report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit, noted as follows:

- **Accounting Policies**: In accordance with FRS18, the Audit Committee should formally review the accounting policies included in the Annual Accounts. There have been no changes to the accounting policies in this year. We have not identified any instances where we consider the accounting policies to be inappropriate.

- **Early retirement provision:** The College has previously given early retirement to staff and makes payments to the pension fund to cover any shortfall arising from the decision to grant access to retirement benefits early.

  The FE SORP considers unfunded pension benefits arising in relation to early retirement costs as follows:

  "*Early Retirement Costs*

  FRS 17 notes that 'Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.' Therefore payments made to employees as a result of early retirement, arising from these circumstances, would need to be recognised, measured and provided for in full and in accordance with FRS 12."

  FRS 12 requires that "provisions *should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed*".

Any movement required in the provision should be recognised in the I&E account for that year.

This would indicate that under the FE SORP the treatment adopted for early retirement costs should be accounted for under FRS12. The college has accounted for the actuarial gain on the pension scheme through the STRGL. The accounting treatment adopted by the College in relation to the pension scheme and the early retirement provision is in accordance with applicable guidance issued by Audit Scotland which indicates under certain circumstances early retirement benefits can be accounted for along with the defined benefit deficit. The College recognises a liability for future payments in relation to these early retirements in conjunction with the aforementioned SPF liability and has accounted for both under the requirements of FRS 17.

4.3 OTHER MATTERS

Pension Fund liabilities: The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Strathclyde Pension Fund (SPF) for the 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.

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 in the balance sheet. The College has consistently reported significant FRS 17 liabilities over the past few years. The Strathclyde Pension Fund's actuaries provide the College with an updated valuation on an annual basis which is reflected in the pensions liability disclosed on the balance sheet. We have reviewed the College's accounting for these pension schemes and found that it complies with the requirements of FRS 17 and that disclosure is consistent with the actuarial report.

Going Concern: Wylie & Bisset LLP, in accordance with International Standard on Auditing (UK & Ireland) ISA 570 : Going concern, are required to consider the Board of Management's use of the going concern assumption in relation to the financial statements of the College for the year ended 31 July 2013. Following the merger, the operations and services of the College will continue to be provided using the same assets which have been transferred to West College Scotland. Consequently, the use of the going concern concept in the final set of financial statements is considered to be appropriate and in accordance with accounting standards as interpreted for the public sector. It is the Board of Management's responsibility to consider a period of at least 12 months from the date of approval of the financial statements in relation to whether the entity is a going concern. This period will take the College to December 2014 and requires the Board to consider, in conjunction with fellow merger partners, the entity's ability to continue in existence during this merged period beyond 1 August 2013.

Commercial debt monitoring: The College requires to continue to monitor and actively chase commercial debts. The current bad debt provision in the accounts is deemed to be adequate by Management in light of the likelihood of recoverability.

Operating and Financial review: The 2007 SORP recommends that an Operating and Financial Review (OFR) should be included as part of the financial statements. This review should provide an overview of the institution's finances and operations and should take account of good practice as set out in the Reporting Statement 'The Operating and Financial Review' issued by the ASB in 2006. The College currently does not include any of the suggested core performance indicators developed by SFC in conjunction with the Finance Community of Practice in its accounts. We believe the College should give consideration to their inclusion.

Pension Strain Costs: From discussion with College management we understand Strathclyde Pension Fund are looking at the three colleges in the process of merging together with regards to establishing any potential liability for strain costs. We understand provided the colleges are within set parameters there will be no liability on the entities. No provision has been made in the accounts in terms of pension strain costs.

4.4 UNADJUSTED ERRORS

Appendix C includes a copy of the letter of representation which we have sought from the Board in support of the matters reported to us during our audit procedures. This letter also includes reference to the summary of unadjusted errors and deviations. A copy of the errors and deviations identified during our procedures requiring to be brought to the attention of The Board of Management is attached to the letter of representation.

4.5 INDEPENDENCE

International Standard on Auditing (UK and Ireland) 260: Communication with those charged with governance, requires that we communicate at least annually with you regarding all relationships between our firm and Reid Kerr College which, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff and to detail the related safeguards in place.

We are not aware of any such relationships between our firm and Reid Kerr College that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff.

In our professional judgement, as of the date of this report, Wylie & Bisset LLP is independent of Reid Kerr College within the meaning of United Kingdom regulatory and professional requirements and the objectivity of Allister Gray and the audit staff is not impaired.

5 GOVERNANCE & INTERNAL CONTROLS

5.1 GOVERNANCE

Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. The respective responsibilities of the College and Wylie & Bisset are summarised in appendix A.

Although we are not required to form an opinion on the adequacy and effectiveness of the individual components of the college's code of corporate governance, we are required under the Code to consider the corporate governance arrangements in place at the college.

5.2 INTERNAL AUDIT

Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

The College's internal auditors during the year ended 31 July 2013 were Deloitte.

In the course of the year ended 31 July 2013 the following areas were scheduled to be reviewed by the Internal Auditor:

- Review of core financial controls.
- Follow up on prior recommendations.

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the reports issued by the Internal Auditor. At the time of our audit, reporting was complete in relation to the scheduled work to be undertaken and the annual report has been issued.

Minutes of the audit committee were also reviewed.

Our findings in this area proved satisfactory, allowing us to conclude that the internal audit function is operating effectively.

No formal reliance has been placed on the work of internal audit with regards to the work undertaken during our audit process.

5.3 STATEMENT OF CORPORATE GOVERNANCE

We have reviewed the Colleges Statement of Corporate Governance included within the financial statements. Whilst we do not express an opinion on this statement, we are required to report where a statement does not comply with the requirements of SORP or other guidance, or if it is misleading or inconsistent with other information of which we are aware. The content of this statement is consistent with our understanding of Reid Kerr College.

As part of our audit we have performed a limited review and assessment of the College’s Corporate Governance systems relating to standards of conduct, openness and integrity. In addition, we reviewed the College’s Risk Register and risk management arrangements along with the minutes of meetings of key College committees issued during the year.

The College is committed to exhibiting best practice in all aspects of Corporate Governance and, in the opinion of the Board of Management the College complies with all the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector.

The College's full Board of Management meets four times a year and has several committees through which it conducts its business. Each committee has formally constituted terms of reference and standing orders. These committees include: a Finance Committee, a Strategic Planning Committee, an Audit Committee, an Estates Committee, a Remuneration Committee, a Human Resources Committee and a Business and Enterprise and Learning and Teaching Committee. They comprise mainly lay members of the Board, one of whom is the Chair.

Board members also include members from College staff and students.

We have also considered the arrangements made by the college in order to address the requirements of the Bribery Act 2010 that came into force on 1 July 2011 in order to assess their appropriateness and adequacy.

Based on our review, we are satisfied that the College operates appropriate Corporate Governance procedures and that management has adequate arrangements in place covering standards of conduct.

We found no matters therein to impact upon our audit opinion and we have no recommendations in this area to strengthen the Corporate Governance arrangements currently in place.

6 FRAUD AND IRREGULARITIES

6.1 BEST PRACTICE

Best practice requires that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Governance procedures

An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities during our audit planning procedures.

6.2 AUDIT FINDINGS

In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:

a) The monitoring and compliance with financial procedures;
b) The college's strategy to prevent and detect fraud and other irregularities;
c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.

No areas of significant concern were found during normal audit procedures.

We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Overall we concluded that management has an adequate approach to fraud prevention and detection and has reasonable controls in place to ensure that potential areas for fraud are detected and dealt with in an appropriate manner.

There are no specific recommendations made in this area.

7 AUDIT RECOMMENDATIONS – 31 JULY 2012

7.1 PRIOR YEAR MANAGEMENT LETTER

A management letter was prepared by Wylie & Bisset LLP in relation to the accounts of Reid Kerr College for the year ended 31 July ended 31 July 2012. The recommendations made have been followed up on and progress noted below.

7.2	**Register of Interests**
Observation	At the time of the audit, the Register of Interests had not been updated since March 2009. Although the declaration of interests is a standing issue on the board agenda, the college should still ensure that the register of interests is completed and signed on an annual basis to ensure that related parties are being adequately disclosed.
Implication	The College may not be fully aware of its related parties and therefore potential conflicts of interest may not be identified and disclosure of related party transactions may be inaccurate.
Recommendation	We recommend that the register of interests for every board member is updated on an annual basis. If there are no changes to the existent register a note should be added to register to evidence it has been reviewed.
Priority	Medium
2013 update	Signed declarations of interest for all Board members are now held and updated on an annual basis. No further action required.

7.3	**Board of Management self evaluation**
Observation	The Board of Management's self-evaluation day was postponed and ultimately did not occur during the course of the year. The self-evaluation should address each committee's effectiveness, individual member's performance, the Chair's performance, and an assessment of the committee's responsibilities and resources. We do recognise that a self-evaluation process where each sub-committee evaluates its own performance is to begin post year end.
Implication	The Board of Management do not effectively discharge their responsibilities and operate in an effective manner.
Recommendation	We recommend that the Board of Management evaluates its performance annually. The Board should introduce formalised self-assessment procedures to determine how effectively it is discharging its responsibilities.
Priority	Low
2013 update	We note that the self-evaluation process has begun and that the Learning & Teaching committee have completed their assessment. The remainder of the sub-committees' evaluations have been set as low priority due to the workload created by the upcoming merger. No further action required.

7.4	**Committee Membership**
Observation	The chair of the Finance committee is also a member of the Audit Committee. This is not in line with Corporate Governance best practice.
Implication	There is a conflict of interests between Committees resulting in the Chair not discharging responsibilities correctly.
Recommendation	Ideally there should be exclusivity of membership between Finance and Audit Committees however the College may wish to consider inviting the Chair of the Finance Committee to meetings of the Audit Committee without being a member of that committee.
Priority	**Low**
2013 update	The Finance and Audit Committees are now exclusive of each other. No further action required.

8 AUDIT RECOMMENDATIONS – 31 JULY 2013

8.1 CURRENT YEAR RECOMMENDATIONS

Those additional matters which were highlighted as a result of our current year audit procedures are noted below, detailing the observation and implications thereof along with our recommendation for improvement.

The points within the report have been assigned a priority level based on the urgency required in addressing the matters highlighted. An explanation of the priority is as follows:

High Priority - Recommendations addressing significant control weaknesses which should be implemented immediately.

Medium Priority - Recommendations addressing significant control weaknesses which should be addressed in the medium term.

Low Priority - Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the college matches current best practice.

8.1	**Corporate Governance**
Observation	The Combined Code on Corporate Governance requires that the chairman should hold meetings with non-executive members without the executives present. Led by the senior independent member, the non-executive members should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate. This is not done at the College.
Implication	The performance of officials at certain levels is not appraised in any way.
Recommendation	We recommend that the non-executive directors meet periodically without the chairman in order to appraise his performance.
Priority	Medium
Management response	Agreed and will be picked up under the new West College Scotland Governance Policy.

8.2	**Risk Register**
Observation	Our review of the college risk register indicated no consideration to the threat of terrorism..
Implication	The risk register may not be adequately complete.
Recommendation	It is recommended that the College give consideration to the inclusion of an entry in the risk register in relation to the risk of terrorism.
Priority	Low
Management Response	The threat of terrorism was not identified by the Board of Reid Kerr College as a threat, however this will be considered, in due course, by the new West College Scotland Board.

8.3	**Board Meetings**
Observation	Attendance at board meetings was found to be below the level expected for certain Board members.
Implication	Decisions made during meetings are not subject to the full expertise of the Board.
Recommendation	It is recommended that all board members ensure they are attending an acceptable level of meetings and are committing their time to board activities.
Priority	Medium
Management Response	Agreed and will be picked up under the new West College Scotland Governance Policy.

8.4	**Fixed Assets**
Observation	The college does not carry out a physical check of the assets during the course of the year.
Implication	The fixed asset register may not be representative of the assets which are actually held by the college.
Recommendation	It is recommended that during the course of the year the college should physically spot check the assets. The evidence of these checks should be filed and any corrective adjustment to the fixed assets should be implemented.
Priority	Medium
Management Response	Agreed however it has to be noted that land and buildings form the vast majority of the value of the Fixed Assets.

8.5	**Bank**
Observation	There were a number of outstanding cheques over 6 months old detailed on the bank reconciliation provided by the client.
Implication	The monthly bank reconciliation becomes cumbersome and it can become difficult to determine what the true available cash balance of the college is at any given time.
Recommendation	We recommend that the college review bank reconciliations timeously and give consideration to reviewing cheques which are greater than 6 months old to determine if any further action is required.
Priority	Medium
Management Response	Agreed

8.6	**Income**
Observation	Prepaid income in relation to ESF funding was overstated.
Implication	Income was overstated resulting in understatement of the College deficit.
Recommendation	We recommend that care is taken in the collation of and recognition of income in relation to ESF funding to avoid double counting of claims.
Priority	Medium
Management Response	Agreed

9 EMERGING ISSUES

As Reid Kerr College ceased to exist as an entity on 1 August 2013 the following is included for reference of the Board of Management of West College Scotland.

9.1 CLASSIFICATION CHANGE FOR INCORPORATED COLLEGES

The Office of National Statistics 'ONS' has reviewed the classification of further education colleges in the UK and concluded that all incorporated FE colleges should be classified as non departmental public sector bodies ("NDPB"). This will impact upon colleges' ability to use carry forward surpluses and will require revenue and capital spend to be within Scottish Government spending limits.

This has significant implications for the sector with colleges now required to report, budget and align accounting practice with that applicable to central government organisations.

9.2 YEAR END CHANGE

As a consequence of the classification change discussed in section 9.1, colleges will require to apply the same financial year basis as is currently used in the public sector (April to March).This will take effect from the 31 March 2014 with colleges required to report on the 8 month period then ended.

The impact of the change in the financial year end for all Scottish Colleges is ultimately unknown. With the financial year now differing from the academic year the recognition of income and expenditure will have to be reviewed carefully in order to present an accurate financial result. This will require consideration across the sector to ensure results are reported on a consistent basis. This will have particular significance in the initial 8 month period to 31 March 2014.

The year end change which will result in an alteration to the annual reporting deadline for Colleges to SFC and Audit Scotland. As a consequence college management will have to consider the timing of their diet of Board and Committee meetings. There is currently a lack of clarity with regards to when the annual reporting deadline will be however college management need to be aware of the need to be flexible to meet the imminent change.

9.3 MANAGEMENT OF RESERVES AND SURPLUSES

The reclassification of colleges affects their ability to use carry forward surpluses. The SFC has issued guidance on a potential solution to the future management of reserves and surpluses, through the use of arms-length charitable foundations. Currently the sector has been asked to consider 3 possible models:

a) a separate foundation for each college or region;

b) a single umbrella foundation with designated sub funds for each college; or,

c) a number of foundations based on geographical or other groupings.

College Management are aware of the currently identified ramifications of the reclassification in this regard and are considering the most appropriate course of action.

9.4 CHANGES IN ACCOUNTING FRAMEWORK

The Financial Reporting Council (FRC) issued FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland in March 2013. This is the third new standard to be issued by the FRC since November 2012 and represents the most significant element of the new UK GAAP reporting regime. FRS 102 is applicable for accounting periods beginning on or after 1 January 2015, ie 31 March 2016 year ends.

The Further and Higher Education SORP Board has recently developed a new SORP, which is currently out for consultation. It is expected that the revised SORP will be issued in summer 2014. Whilst this will only apply to college financial statements from 31 March 2016 management should be aware of the need to draw up a transitional balance sheet at 1 April 2014 in order to facilitate the composition of restated comparative figures at 31 March 2015.

At Wylie & Bisset we acknowledge this is a period of significant change and uncertainty for the FE sector. Our Education Unit continue to monitor developments during this time of change and will offer guidance and advice as clarity is attained.

A STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

The Board of Management is required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management 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 are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 *Statement of Recommended Practice – Accounting for Further and Higher Education* and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

The financial statements are prepared in accordance with the Accounts Direction issued by the Scottish Funding Council, which brings together the provisions of the Financial Memorandum with other formal disclosures that the Scottish Funding Council require the Board of Management to make in the financial statements and related notes.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments 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;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;

- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;

- Safeguard the assets of the College and prevent and detect fraud;

- Secure the economical, efficient and effective management of the College's resources and expenditure.

WEBSITE PUBLICATION STATEMENT

The College operates a website on the internet at www.reidkerr.ac.uk which contains information about the College, its courses and services.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;

- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;

- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;

- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;

- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit and Finance Committees;

- Professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against misstatement or loss.

B INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the Board of Management of Reid Kerr College for the year ended 31 July 2013 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, Statement of Historical Cost Surpluses and Deficits, Statement of Total Recognised Gains and Losses , Balance Sheet and Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities or to third parties.

Respective responsibilities of Board of Management and auditor

As explained more fully in the Statement of Responsibilities of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and income in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 July 2013 and of its deficit for the year then ended;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF REID KERR COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT (Continued)

- 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.

Opinion on regularity

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;

Opinion on prescribed matters

In our opinion the information given in the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are 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 Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Wylie & Bisset LLP

Chartered Accountants

168 Bath Street

Glasgow, G2 4TP

Date: 9 December 2013

Wylie & Bisset LLP is eligible to act as an auditor in terms of Section 21 of the Public Finance and Accountability (Scotland) Act 2000

C LETTER OF REPRESENTATION

Reid Kerr College
Renfrew Road

PAISLEY

PA11BU

9 December 2013

Messrs Wylie & Bisset LLP
Chartered Accountants
168 Bath Street
Glasgow
G2 4TP

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the year ended 31st July 2013.

1. We acknowledge as members of the Board of Management our responsibility for ensuring:

a) the financial statements are free of material misstatements including omissions .
b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2013.
c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
d) all other records and related information, including minutes of all management meetings, have been made available to you.
e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and

f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

2. We have appointed Deloitte as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you.

3. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

4. The College has no liabilities or contingent liabilities other than those disclosed in the accounts.

5. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

6. There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

7. The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

8. We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education or accounting standards.

9. The College has not contracted for any capital expenditure other than as disclosed in the accounts.

10. The College has satisfactory title to all assets and there are no liens or encumbrances on the College’s assets, except for those that are disclosed in the financial statements. Where these assets are included at market value in order to comply with accounting standards, we confirm that the market value has been determined based on our “best estimate” using relevant information currently available to us.

11. We are not aware of any irregularities, including fraud, involving management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.

12. We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.

13. We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

14. We confirm that we have considered the attached unadjusted errors discussed at our meeting. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts. The combined effect of the errors is not material and we do not consider that their absence from the financial statements affects the true and fair view given.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

…………………………………………….. Chairman

…………………………………………….. Principal & Chief Executive

SCHEDULE OF UNADJUSTED ERRORS AND DEVIATIONS

	Assets	Liabilities	Funds	I & E
	£	£	£	£
Being correction to overstatement in ESF income	(30,662)	-	-	30,662
TOTAL IMPACT OF UNADJUSTED ERRORS	**(30,662)**	**-**	**-**	**30,662**

D IDENTIFIED AUDIT RISKS

IDENTIFIED AUDIT RISK, APPROACH & CONCLUSION

Risk	Audit response	Conclusion
Override of Internal controls Fraud or error arising due to management override of controls. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs.	Our audit procedures will include testing the appropriateness of journal entries recorded within the general ledger and other adjustments made in the preparation of the financial statements, along with a review of accounting estimates for any evidence of bias. We will also consider specifically any significant transactions outside the normal operations of the College.	There was no evidence of management override uncovered during the audit process.
Revenue recognition Material misstatement due to errors in revenue recognition. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs unless it can be specifically rebutted.	Our standard testing procedures in this area will adequately address the associated risk such that a specific additional audit response is not required.	There was no evidence of misstatement of revenue recognition uncovered during the course of our audit work.

E CONTACT DETAILS

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