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South Lanarkshire College

Annual audit report to the Board of Management of
South Lanarkshire College and the Auditor General for Scotland

Year ended 31 July 2013

16 December 2013

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This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code"). This report is for the benefit of the Board of Management of South Lanarkshire College and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

We also draw your attention to the following:

- management of South Lanarkshire College is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve the Board of Management of South Lanarkshire College from its responsibility to address the issues raised and to maintain an adequate system of control.

This annual audit report summarises our work for the year ended 31 July 2013.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code").

This report also sets out those matters specified by ISA (UK and Ireland) 260: *Communication with those charged with governance* in relation to the financial statements for the year ended 31 July 2013.

We wish to record our appreciation of the co-operation and assistance extended to us by College staff during the course of our work.

Area	Summary observations	Analysis
Strategic overview and use of resources		
Key issues	<p>In the ongoing regionalisation of further education, South Lanarkshire College has maintained its own identity and, although it will receive its funding via the Lanarkshire Federation going forward, it plans to maintain its own stand alone, independent status.</p> <p>Given the relative size and number of colleges envisaged in Lanarkshire, consultation is underway to consider the type of regional strategic body and structure in the region.</p> <p>The College's activity is forecast to increase significantly from 42,000 WSUMs to 50,000 WSUMs and work is ongoing to develop the required teaching space and resources.</p>	Page 6
Financial position	<p>The College made an overall surplus of £48,000 (2011-12: £172,000 surplus).</p> <p>Income and expenditure increased, primarily as a result of increased activity in comparison with the previous year and additional IT expenditure and marketing costs incurred in anticipation of increased target activity in future periods.</p> <p>The balance sheet reflects a decrease in net assets of £200,000, primarily associated with a reduction of £650,000 in fixed asset net book value due to relatively few additions and large depreciation charge, which is partially offset by a reduction in pension liabilities of £250,000 and a fall in year end payables balance of £170,000.</p>	Pages 7-8
Financial planning	<p>The Lanarkshire region will receive £37.5 million core funding from the Scottish Funding Council in respect of the academic year 2013-14. South Lanarkshire College prepared a financial budget on a stand alone basis, based on anticipated activity.</p>	Page 8
Financial statements and accounting		
Accounting policies	<p>There have been no substantive changes to the financial reporting framework as set out in the Statement of Recommended Practice: Accounting for Further and Higher Education (2007) ("the SORP").</p> <p>There have been no changes to accounting policies in 2012-13. All accounting policies have been applied consistently.</p> <p>The financial statements have been prepared on a going concern basis.</p>	Page 10
Audit conclusions	<p>We have issued an unqualified audit opinion on the financial statements.</p>	Page 11

Financial statements and accounting (continued)		
Year end process	The unaudited financial statements were made available on a timely basis, appropriately supported by working papers.	Page 12
Financial accounting framework	<p>A new SORP, that is consistent with FRS102 will be applied in respect of the year ending 31 March 2016. The College will require to prepare a transitional balance sheet as at 1 April 2014.</p> <p>Management will need to take account of changes to the classification of further education colleges with effect from 1 April 2014. This will affect the accounting reference date, budgeting arrangements, ability to carry forward surpluses and the accounting framework.</p> <p>There remains uncertainty over the interaction of the SORP and the IFRS-based Government Financial Reporting Manual.</p>	Page 12
Key judgment areas	We are in agreement with judgements made by management in respect of actuarial assumptions used to provide a valuation of the College's net pension liabilities.	Page 13
Performance management arrangements		
Performance management	<p>The College produces quarterly management accounts which compare actual expenditure to budget and in particular staff costs as this is the College's biggest area of expenditure. There can be significant variations in the staff costs over the year due to temporary staff costs, etc.</p> <p>Performance against sector indicators and other colleges is measured by the College.</p>	Page 15
Governance and narrative reporting		
Governance arrangements	<p>The statement of corporate governance and internal control identifies no major weaknesses in governance or internal control arrangements.</p> <p>We have reviewed the statement of corporate governance and consider it consistent with our understanding of the process followed by the College during the year.</p> <p>Management has not identified any significant frauds or irregularities.</p>	Page 17
Systems of internal control	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively subject to recommendations made to enhance those controls.	Page 18

Background

The purpose of this report is to set out certain matters which came to our attention during the course of our audit of the financial statements of South Lanarkshire College (“the College”) for the year ended 31 July 2013.

The purpose of our audit

The main purpose of our audit which is carried out in accordance with International Statements on Auditing (ISAs) (UK and Ireland) issued by the Auditing Practices Board, is to report to the board of management and Auditor General for Scotland on whether in our opinion the financial statements:

- give a true and fair view of the state of the affairs of the College as at 31 July 2013 and of the College’s income and expenditure, historical cost surplus or deficit, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education; and
- the expenditure disbursed and income received during the year ended 31 July 2013 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The purpose of this report

Our objective is to use our knowledge of the College gained during our routine audit work to make useful comments and suggestions for you to consider. However, you will appreciate that our routine audit work is designed to enable us to form the above audit opinions on the annual

financial statements of the College and should not be relied upon to disclose errors or irregularities which are not material in relation to those financial statements. All issues raised in the report have been discussed with management and we have included responses where appropriate in the action plan. In order to provide an indication of the level of importance of the recommendations made, we have prioritised our recommendations on the basis shown in the action plan.

Independence

ISA (UK and Ireland) 260: *Communication with those charged with governance* requires us to communicate at least once a year regarding all relationships between KPMG and the College that may be reasonably thought to have bearing on our independence.

KPMG conforms to the highest governance standards at all times and we will ensure that any additional services are approved by the audit committee to ensure transparency. No additional services have been provided in respect of the year ended 31 July 2013.

Strategic overview and use of resources

Our perspective on the College's approach to key issues affecting the further education sector and its use of resources

In the ongoing regionalisation of further education, South Lanarkshire College has maintained its own identity and, although it will receive its funding via the Lanarkshire Federation going forward, will maintain its own stand alone, independent status.

Given the relative size and number of colleges envisaged in Lanarkshire, consultation is underway to consider the type of regional strategic body and structure for the region.

The College's activity is forecast to increase significantly from 42,000 WSUMs to 50,000 WSUMs and work is ongoing to develop the required teaching space and resources.

Sector organisational and structure changes

On 1 February 2012, the Scottish Government announced 12 newly created regions with a further one added in the following month. Since then, a number of college mergers have been agreed and begun to take place. In the ongoing regionalisation of further education, South Lanarkshire College has maintained its own identity and, although it will receive its funding via the Lanarkshire Federation going forward, will maintain its own stand alone, independent status.

There are likely to be three regions with more than one college including Lanarkshire and the Scottish Government has initiated a consultation on *Designating Colleges as Regional Colleges and Assigning Colleges to Regional Strategic Bodies*, with a response due from the College by 17 January 2014. Given the relative size and number of colleges envisaged in Lanarkshire, the consultation includes consideration of the type of regional strategic body and structure in the region.

There are two proposed options:

- Establishing a regional board for Lanarkshire colleges, assigning both New College Lanarkshire and the College to the regional board; or
- Designating New College Lanarkshire as a regional college with Ministers assigning South Lanarkshire College to it.

Until the consultation process is concluded and regional structure confirmed, the federation board continues to meet and the College leads three of the associated work streams in respect of quality, internationalisation and human resources.

The College is also pursuing the creation of a Scottish Charitable Incorporated Organisation ("SCIO") for the purposes of receiving funding from the College to be held and used in future periods as directed by the trustees, primarily for the benefit of the College.

Staff and resources

Associated with the significant increase in forecast activity levels, which will increase from 42,000 WSUMs in 2012-13 to 50,000 WSUMs in 2013-14, the College anticipates a need to recruit additional teaching resources and has progressed the development of additional and reconfigured teaching space. In September 2013, the board of management approved a project to build a new, standalone teaching facility containing eight classrooms. The aim is for the building to achieve an 'outstanding' BREEAM rating and £700,000 of the estimated £2.1 million cost has been secured from the European Regional Development Fund.

Outcome agreement

The Lanarkshire region outcome agreement with the Scottish Ministers has been established for 2013-14 with an overall aim of ensuring that the colleges in Lanarkshire contribute to a strong local and national economy through effective education and skills training.

The priority impacts to be achieved by the region include:

- achieving a 7.8% increase in planned wSUMs to 221,394 for 2013-14;
- raised education and skills levels;
- sector leading achievements;
- an appropriate set of vocational programmes; and
- meeting Scottish Government guarantees to priority groups.

The College made an overall surplus of £48,000 (2011-12: £172,000 surplus).

Income and expenditure increased, primarily as a result of increased activity in comparison with the previous year and additional staff costs, IT and marketing expenditure.

This section of our report summarises the main features of the financial statements and key movements from the prior financial year.

Income and expenditure account

Income and expenditure account		
£'000	2013	2012
Income		
Funding council grants	8,409	8,118
Tuition fees and education grants	2,998	2,500
Other grant income	110	111
Other operating income	119	156
Interest receivable	68	106
Total income	11,704	10,991
Expenditure		
Staff costs	(7,783)	(7,402)
Other operating expenses	(3,052)	(2,586)
Interest Payable	(9)	-
Depreciation	(812)	(831)
Total expenditure	(11,656)	(10,819)
Surplus before the disposal of assets	48	172
Disposal of fixed assets	-	-
Surplus after the disposal of assets	48	172

Source: 2012-13 draft financial statements

Result for the year

The College made a surplus of £48,000 (2011-12: £172,000). Total income increased by £713,000 when compared to 2011-12:

- Funding Council grants increased by £291,000, primarily as a result of increased spend on projects such as IT, which is to be matched against non-recurrent funding income. The College has retained past income in this regard and will be expending it to meet current

capital replacement requirements.

- Tuition fee and education grants have increased, primarily in respect of education contracts (£588,000).

Expenditure has increased by £837,000 when compared to 2012-13:

- Staff costs have increased, largely due to a 2.95% salary increase and large increase in temporary staff costs, in line with the increase in activity.
- Other operating expenses have increased by £466,000. This is primarily due to additional investment in IT and equipment (£230,000), investment in marketing (£58,000) and associated irrecoverable VAT (£66,000). Much of this investment is in anticipation of planned increased activity in 2013-14.
- Around £50,000 was spent during 2012-13 to reconfigure existing teaching space to accommodate some larger class sizes and increase flexibility.

Adjusted result for the year

A number of significant items have had an impact on the reported surplus for both 2012-13 and 2011-12; these are analysed in the table below, which shows the adjusted underlying operating surplus after removing them, on a consistent, comparable basis.

£'000	2013	2012
Surplus for the year	48	172
Restructuring costs	-	25
Net FRS 17 pension costs	59	9
Adjusted operating surplus for the year	107	206
Adjusted operating surplus as a % of total income	1.0%	1.9%

Net assets have decreased £200,000, primarily associated with a reduction of £650,000 in fixed asset net book value due to relatively few additions and large depreciation charge, which is partially offset by a reduction in pension liabilities of £250,000 and a fall in year end payables balance of £170,000.

The Lanarkshire region will receive £37.5 million core funding from the Scottish Funding Council in respect of the academic year 2013-14.

A financial budget was prepared on a stand alone basis, based on anticipated activity, in conjunction with the regional outcome agreement with the Scottish Ministers, to monitor the College's future performance.

Activity levels are forecast to increase substantially.

Balance sheet

Balance sheet as at 31 July		
£000	2013	2012
Fixed assets		
Tangible assets	28,269	28,920
Current assets		
Stocks	8	8
Debtors: Amounts falling due within one year	711	731
Cash at bank and in hand	645	437
Short term investments	1,800	2,000
Creditors: Amounts falling due within one year	(2,683)	(2,669)
Net current assets	481	507
Creditors: Amounts falling due after one year	(1,266)	(1,435)
Provisions for liabilities	(604)	(644)
Net pensions liability	(650)	(901)
Net assets including pension liability	26,230	26,447
Deferred capital grants	25,183	25,766
Reserves		
Income and expenditure reserve (including pension reserve)	1,047	681
Total funds	26,230	26,447

Source: 2012-13 draft financial statements

The balance sheet reflects a decrease in net assets of £200,000, primarily associated with the large depreciation charge in the year.

- Fixed asset additions of £161,000 were offset by the annual depreciation charge (£812,000). There is anticipated to be considerable spend in the next 12 months, with £2.1m capital expenditure committed towards development of a new teaching block containing eight learning areas. The facility has been awarded £700,000 European Regional Development funding.
- Cash at bank and in hand balance remains largely unchanged, increasing £8,000 year on year. A large portion of this cash will be used to support the proposed capital spend in the coming year.
- Debtors also remain largely unchanged year on year, down £20,000. This is attributable to the reduction in fees receivable from foreign students.
- Creditors due within one year are largely similar year on year. Creditors due after one year (Lennartz payable balance) has fallen due to payments made in the year, in line with expectations. Discussions with College tax advisers post year end indicate total Lennartz liability could decrease (due to the mix of fee paying and non-fee paying students attending the College), but this has not been finalised and liability could increase/decrease in future periods depending on student mix, no adjustments have been recognised.
- Provisions for early retirement pension liability has fallen £40,000 year on year. This is in line with expectation as the scheme was closed to new members several years ago.

Budget 2013-14

The Lanarkshire Region will receive £37.5 million core funding from the Scottish Funding Council in respect of the academic year 2013-14.

Activity levels are forecast to increase substantially.

Financial statements and accounting

Our perspective on the preparation of the
financial statements and key accounting
judgements made by management

There have been no substantive changes to the financial reporting framework as set out in the *Statement of Recommended Practice: Accounting for Further and Higher Education (2007)* (“the SORP”).

There have been no changes to accounting policies in 2012-13. All accounting policies have been applied consistently.

The financial statements have been prepared on a going concern basis.

Accounting framework and application of accounting policies	
Area	KPMG comment
Statement of Recommended Practice: Accounting for Further and Higher Education (2007) (“the SORP”).	<ul style="list-style-type: none"> ■ The 2012-13 financial statements have been prepared in accordance with the SORP. ■ During the year there have been no substantive changes in financial reporting requirements, and consequently there are no material changes to the College’s accounting policies. ■ We are satisfied that the accounting policies adopted remain appropriate to the business, and have been applied consistently.
Impact of revised accounting standards	<ul style="list-style-type: none"> ■ There are no newly effective accounting standards which are considered to have a material impact on the College’s financial statements.
Going concern	<ul style="list-style-type: none"> ■ Although now part of the Lanarkshire Federation, the College will remain an independent entity and will be one of the few stand alone colleges remaining in Scotland which has not been merged with another college(s). ■ Management has considered the funding available to the federation in 2013-14 and consider it appropriate to adopt a going concern basis for the preparation of these financial statements. ■ We are satisfied that the going concern basis of preparation of the financial statements is appropriate.

We have issued an unqualified audit opinion on the financial statements.

Audit conclusions

We have issued an unqualified opinion on the truth and fairness of the state of the affairs of the College as at 31 July 2013 and of the College's income and expenditure, historical cost surplus, recognised gains and losses and cash flows for the year then ended. The financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the SORP.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks;
- reviewed internal audit reports to ensure all key risk areas having a potential financial statements impact have been considered;
- reviewed assumptions and judgements made by management and considered these for appropriateness;
- considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to the prevention and detection of fraud with the potential to impact on the financial statements;
- held discussions with senior management; and
- attended a meeting with those charged with governance to communicate our findings, but also to update our understanding of the key governance processes and obtain key stakeholder insights.

The unaudited financial statements were made available on a timely basis.

A new SORP, that is consistent with FRS 102, will be applied in respect of the year ending 31 March 2016. The College will need to prepare a transitional balance sheet as at 1 April 2014.

Management will need to take account of changes to the classification of further education colleges with effect from 1 April 2014. This will affect the accounting reference date, budgeting arrangements, ability to carry forward surpluses and the accounting framework.

There remains uncertainty over the interaction of the SORP and the IFRS-based Government Financial Reporting Manual.

Financial statements preparation

- High quality working papers and complete unaudited financial statements were provided on 7 October 2013 in line with the agreed timetable. This included the operating and financial review and statement of corporate governance and internal control.
- We provided feedback to management on the content of the financial statements, operating and financial review and statement of corporate governance and internal control, which were subsequently adjusted in the financial statements. We are satisfied that these are materially prepared in accordance with relevant regulations and guidance as appropriate.
- There are no audit differences which exceed KPMG reporting thresholds, and there were no adjusted audit differences. There are no significant matters in respect of (i) auditor independence and non-audit fees and (ii) management representation letter content, as reported in appendix one.

Changes to the classification of further education institutions

- Following the creation of sixth form college corporations on 1 April 2010 (which are classified as local government entities) the Office of National Statistics (“ONS”) decided to review the classification of all further education colleges in the UK. The key factors examined by ONS are the ‘public sector powers’ held by government Ministers, and their public agencies, such as the Scottish Funding Council, over further education colleges. As a result of their evaluation, the ONS concluded that all further education colleges should be classed as public sector bodies. This decision does not require legislative change.
- This has wide implications for colleges who will need to change their budgeting, reporting and accounting practices to align with those that applicable for central government organisations. Colleges currently budget and account on an academic year basis but will need to switch to the same financial year basis used across the public sector (April to March). For the purposes of HM Treasury budgeting, incorporated colleges will be classified as ‘Arms-Length Bodies’ (“ALBs”) analogous to non-departmental public bodies. This will restrict colleges’ abilities to use carried forward surpluses and require that all revenue and capital expenditure is within the Scottish Government’s annual expenditure limits.
- In consultation with the college sector, the Scottish Funding Council is reviewing the likely impact of this reclassification and giving consideration to the impact.

Changes to Statement of Recommended Practice: Accounting for Further and Higher Education

- In March 2013, the Financial Reporting Council (“FRC”) issued FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. This is the main part of the new UK GAAP regime and follows the issue in November 2012 of FRS 100 (overview of the framework) and FRS 101 (reduced disclosure framework).
- FRS 102, which is based on International Financial Reporting Standards (“IFRS”) is applicable for accounting periods beginning on or after 1 January 2015. In response, the Further and Higher Education SORP Board has recently completed the development of a new SORP, which is currently subject to a process of consultation. The College will need to prepare a transitional balance sheet as at 1 April 2014.

We are in agreement with judgements made by management in respect of actuarial assumptions used to provide a valuation of the College's net pension liabilities.

Key accounting judgements and other accounting and audit matters

Area	KPMG comment
Retirement benefits	<p>The College accounts for its participation in the Strathclyde Pension Fund in accordance with FRS 17 <i>Retirement benefits</i>, using a valuation report prepared by actuarial consultants. Our audit of the accounting for retirement benefits includes consideration of the data underlying the actuarial report. This includes the level of contributions made during the year, the financial assumptions and membership data provided to the actuary and the College's share of the pension fund assets.</p> <p>No such requirement exists for Scottish Teachers' Superannuation Scheme obligations as this is a multi-employer scheme where the individual assets and liabilities cannot be separately identified for each employer and therefore accounted for as a defined contribution scheme under the provisions of FRS 17.</p> <p>The level of contributions made by the College in the year is estimated based on data prior to the year end. It is important that this number is accurate as it is used to inform the calculation of the liabilities at the year end. Our testing included review of actual data against that used in the actuarial calculations. No issues were identified.</p> <p>The actuaries use a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. Our actuarial colleagues have reviewed the assumptions and concluded that those used fall within the range that we would normally consider acceptable for the purpose of FRS 17 for a typical employer. A breakdown of the assumptions against our expectations is included in Appendix three.</p> <p>The rate of salary increases is set taking into account the College's expected long-term rate of salary increases, including incremental drift. The rate assumed in 2013-14 is 1% per annum until 31 March 2015 followed by 5.1%/4.6% (RPI plus 1.5%/1.0%) thereafter.</p> <p>The assumptions used by the College as at 31 July 2013 are within our acceptable range.</p> <p>Total pension cost for the year, including Strathclyde Pension Fund contributions and the net interest cost, was £847,000 compared to £791,000 in 2011-12. The net FRS 17 pension liability has decreased by £250,000 at 31 July 2013 compared to 2012. The movement in the pension deficit over 2012-13 is largely due to an increase in the value of the scheme's assets.</p>

Performance management

Our perspective on the performance
management arrangements, including follow
up work on Audit Scotland reports

The College produces quarterly management accounts which compare actual expenditure to budget and has a procurement strategy which seeks to use the most advantageous supplier that is available.

Performance against sector indicators and other colleges is measured by the College.

<p>Best value</p>	<p>In April 2002 the Scottish Ministers introduced a non-statutory duty on accountable officers to ensure arrangements exist to secure Best Value.</p> <p>Audit Scotland has been committed to extending the Best Value audit regime across the whole public sector for some time now. Using the Scottish Executive's nine Best Value principles as a basis for audit activity, Audit Scotland previously selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).</p> <p>A series of toolkits covering financial, performance and governance processes are available for public sector organisations and auditor to use, but auditors were not required to complete specific toolkit(s) in 2012-13.</p> <p>The College produces quarterly management accounts which compare actual expenditure to budget and has a procurement strategy which seeks to use the most advantageous supplier that is available. Efficiency savings are planned as part of the move to a Lanarkshire Federation.</p>																					
<p>Performance indicators</p>	<p>In accordance with Scottish Funding Council requirements, the College is required to publish and report progress against national priorities. These indicators monitor the implementation of the College's financial objectives.</p> <table border="1" data-bbox="700 711 1435 1049"> <thead> <tr> <th>KPI</th> <th>Actual 2012-13</th> <th>Actual 2011-12</th> </tr> </thead> <tbody> <tr> <td>Performance against WSUMs target</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>Prompt payment to suppliers</td> <td>21 days</td> <td>20 days</td> </tr> <tr> <td>Non SFC income a % of income</td> <td>28.2%</td> <td>26.1%</td> </tr> <tr> <td>Gearing</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>Current assets : current liabilities</td> <td>1.18:1</td> <td>1.19:1</td> </tr> <tr> <td>Days cash</td> <td>82</td> <td>89</td> </tr> </tbody> </table> <p>The activity target set by the Scottish Funding Council for 2012-13 was 42,282 wSUMs. The College delivered 42,329 wSUMs in 2012-13, and is forecast to deliver 50,707 wSUMs in 2013-14.</p>	KPI	Actual 2012-13	Actual 2011-12	Performance against WSUMs target	100%	100%	Prompt payment to suppliers	21 days	20 days	Non SFC income a % of income	28.2%	26.1%	Gearing	0%	0%	Current assets : current liabilities	1.18:1	1.19:1	Days cash	82	89
KPI	Actual 2012-13	Actual 2011-12																				
Performance against WSUMs target	100%	100%																				
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Current assets : current liabilities	1.18:1	1.19:1																				
Days cash	82	89																				
<p>Regularity</p>	<p>As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements.</p> <p>The executive team considers all incoming correspondence relevant to its strategic management role from the Scottish Funding Council and other regulatory or advisory bodies, such as Audit Scotland to ensure it is appropriately aware of sector issues and developments and that it complies with the terms and conditions of funding.</p>																					

Governance and narrative reporting

Update on your governance arrangements.

Our overall perspective on your narrative reporting.

The statement of corporate governance and internal control identifies no major weaknesses in governance or internal control arrangements.

We have reviewed the statement of corporate governance and consider it consistent with our understanding of the process followed by the College during the year.

Management has not identified any significant fraud or irregularities, although one instance of inappropriate conduct was identified. This was not deemed to have had a significant impact on the financial statements or the audit.

<p>Corporate governance and internal control arrangements</p>	<p>The College has made a compliant corporate governance and internal control statement. We are required to review this to assess whether the description of the process adopted by the College in reviewing the effectiveness of the system of internal control is consistent with our understanding of the process and report any inconsistencies. We are not required to provide an opinion on the College's system of internal control.</p> <p>The statement of corporate governance and internal control provides detail on the governance framework, the system of internal control, internal audit, internal financial controls and risk management arrangements, and analyses the effectiveness of these elements of the framework. It describes a number of sources of assurance for the accountable officer.</p> <p>We have reviewed the statement of corporate governance and internal control and consider it consistent with our understanding of the process followed by the College during the year.</p>
<p>Senior post-holders' emoluments</p>	<p>The Accounts Direction, issued by the Scottish Funding Council, sets out certain disclosures required in respect of senior post-holders' emoluments.</p> <p>We tested a sample of disclosures to ensure that they were prepared in accordance with the requirements of the Accounts Direction.</p>
<p>Prevention and detection of fraud</p>	<p>A key mechanism in the allocation of authority, accountability and responsibility and the prevention and detection of fraud is the existence and maintenance of strategic and financial documentation. The College has established appropriate processes for the prevention and detection of fraud. During 2012-13, there was one instance of inappropriate conduct by a member of staff within the estate maintenance department who failed to disclose an interest in one of the bidding companies involved in a tender to perform work on the College building. This member of staff is no longer employed by the College and a detailed investigation was conducted by the internal auditors at the time. The College was satisfied with the work performed by the contractor involved and the amount paid for their work was in line with market rate, therefore no significant financial impact or further testing required as part of our audit procedures.</p>
<p>Maintaining standards of conduct and the prevention and detection of corruption</p>	<p>The College has appropriate policies and codes of conduct for staff and members, including the use of a register of members' interests. Apart from incident mentioned above, no further instances of inappropriate conduct identified.</p>

Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively subject to recommendations made to enhance those controls.

Systems of internal control	<p>Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively subject to recommendations made to enhance those controls.</p>
Internal audit	<p>As set out in our audit plan and strategy, we have evaluated the work of internal audit. The content of the internal audit plan is in line with our expectations. We considered internal audit's work in relation to:</p> <ul style="list-style-type: none"> ■ Purchasing and payments; ■ Treasury ■ Budgetary setting and controls; ■ Income collection and debt recovery; ■ Education Maintenance Allowance audits; and ■ SUMs audit.

Appendices

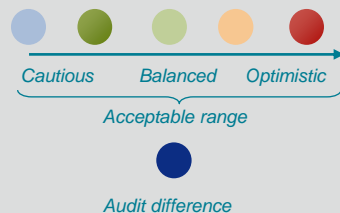
There were no changes to the core financial statements, no adjusted audit differences and no unadjusted audit difference.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the unaudited financial statements which impacted on the net assets or the surplus for the year.	-
Unadjusted audit differences	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued by KPMG LLP to the audit committee	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our Audit Director and audit staff. There were no non-audit fees payable in the year.	Appendix 3
Draft management representation letter Proposed draft of letter to be issued by the College to KPMG prior to audit sign-off	There are no changes to the representations required for our audit from last year.	-

Presented below is a comparison of the assumptions used by Hymans Robertson who advise the College in respect of the Strathclyde Pension Fund, alongside the typical assumptions we would anticipate in relation to each aspect:

Assumptions	Employer	KPMG central	Assessment	KPMG comments
Overall				<ul style="list-style-type: none"> The overall assumptions fall within the range KPMG consider acceptable for the purposes of FRS17.
Discount rate	4.6%	4.4%		<ul style="list-style-type: none"> The proposed discount rate is slightly weaker (lower liability) than our central rate but is within the range that we would normally consider acceptable.
RPI inflation	3.6%	3.5%		<ul style="list-style-type: none"> The proposed RPI inflation rate of 3.6% is slightly stronger (higher liabilities) than KPMG's central rate for a scheme with an average duration of 17 years but is within a range we consider to be acceptable for the purposes of FRS17.
CPI inflation / Pension increases	2.8% RPI less 0.8%	2.5% RPI less 1.0%		<ul style="list-style-type: none"> The assumption is more prudent (higher liability) than our central rate and is at the upper limit of what KPMG consider acceptable for FRS 17 purposes.
Net discount rate (Discount rate – CPI)	1.8%	1.9%		<ul style="list-style-type: none"> The range we would normally consider reasonable for the purposes of FRS17 as at 31 July 2013 is 1.9% +/-0.3%, for a scheme with liabilities with a duration of 17 years. The net discount rate is within our generally expected range.
Salary growth	1% until March 2015 5.1%/4.6% from 31 March 2015 (RPI +1.5%/1.0%)	0.5-1.0% above RPI inflation		<ul style="list-style-type: none"> The assumptions are in line with the requirements of FRS17.
Life expectancy	Current male pensioner (age 65) Future male pensioner (age 45)	Dependent on assumption		<ul style="list-style-type: none"> The mortality assumptions proposed are those used for the most recent signed off formal actuarial valuation, which is a reasonable approach and consistent with the prior year.

Level of prudence compared to KPMG central assumptions



Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with the College.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the College and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the board of management.

Confirmation of audit independence

We confirm that as of 16 December 2013, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of audit committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.



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