HENDERSON LOGGIE
Chartered Accountants

Coatbridge College

Annual Audit Report for 2013/14 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2014/02

Draft Issued: 23 March 2015

Final Issued: 31 March 2015

Contents

Notice: About this report

This report has been prepared in accordance with our responsibilities under International Standards on Auditing (ISAs) and those set out within Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only New College Lanarkshire as the successor to Coatbridge College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes 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 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 Henderson Loggie CA (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 Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

Financial Statements

- The Coatbridge College (Transfer and Closure) (Scotland) Order came into force on 1 April 2014. The Order made provision for all property, rights, liabilities and obligations of Coatbridge College Board to be transferred to the New College Lanarkshire College Board. Contracts of employment of all employees were also transferred and the Coatbridge Board was wound up.

- On 30 March 2015 we issued an audit report with an unqualified opinion on the financial statements of Coatbridge College (the College) for the eight month period ended 31 March 2014 and on the regularity of the financial transactions reflected in those financial statements. The opinion included an "emphasis of matter" paragraph, drawing attention to the governance issues identified at the College, and the voluntary severance (VS) payments made. These issues are discussed at paragraphs 13 to 22, 36 and 37.

- The accounts' signing was significantly delayed from the original timetable and has missed the deadline for signing and laying in Parliament of 31 December 2014. This was due to the number of adjustments required to the accounts, the loss of key staff affecting continuity and available resources, delays related to obtaining information regarding issues raised by an internal audit report on voluntary severance at Coatbridge College, how these should be presented, and consideration of matters arising in the post balance sheet period.

- The annual financial statements of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- There were a number of adjustments identified during the audit process. Following discussion with management, it was agreed to make adjustments for the majority of these items which had an impact of increasing the deficit by £0.569 million. The impact of these adjustments was offset by adjustment of items identified by the finance team which decreased the deficit by £0.034 Million, ie., a net increase in the deficit of £0.535 million. A further 6 potential misstatements items were not adjusted for, and if adjusted would have increased the deficit by £0.029 million. The number of adjustments is significantly higher than would ordinarily be found during an audit and was primarily the result of resource and continuity issues rather than a fundamental issue with records and controls.

- A number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

- The College has shown a deficit for the period of £1.002 million (2012/13 surplus of £0.257 million), and had an income and expenditure account balance (including the Pension Reserve) of £4.310 million at 31 March 2014 (31 July 2013 - £6.237 million).

- The College allowed staff the opportunity for voluntary severance during the period to 31 March 2014 with costs of early retirements/voluntary severance payments for 2013/14 totalling £1.704 million. £1.306 million of this will be funded by the SFC, with the College funding the remaining £0.398 million.

- The College's FRS17 pension liability increased in total by £0.956 million up to £1.992 million at 31 March 2014 (2012/13: decreased in total by £1.038 million) which was largely due to changes in key actuarial assumptions relating to discount rates.

- The College's land and buildings were revalued at the end of 2013/14 and the revaluation was incorporated into the financial statements.

Corporate Governance

- The College's Corporate Governance Statement notes weaknesses in governance during 2013 stemming from actions around how the Voluntary Severance arrangements for the Principal, the Senior Management Team and staff were considered, implemented and reported; and the arrangements for senior staffing and salary approval following the departure of the Principal in October 2013. The statement confirms that with the exception of these issues the Board of New College Lanarkshire are not aware of any issues that would mean that the College did not comply with all of the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector and the Guide for College Board members 2012 for the period ended 31 March 2014.

- No material weaknesses in the accounting and internal control systems were identified during the 2013/14 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

- Internal audit reviewed Coatbridge College severance schemes and concluded control in this area was "weak" meaning "controls were unsatisfactory and major system weaknesses identified". The equivalent audit at New College Lanarkshire concluded their arrangements were "Strong". The Coatbridge report noted that there were "seven instances where employees at Coatbridge College were awarded packages over and above the terms of the New College Lanarkshire Voluntary Severance Scheme, resulting in a potential overpayment." Following receipt of this report in September 2014 we undertook further work to help understand the issues raised and their impact on the financial statements. We concluded that although the Board was legally allowed to decide on the severance schemes in place weaknesses in governance had led to a lack of audit trail for the decision making process and from the evidence that is available there is significant doubt over whether they had the correct, and sufficient, information presented to them to make the decisions. Information about the weaknesses and VS payments are noted at paragraphs 15 to 22, 36 and 37.

- The arrangements for maintaining standards of conduct and the prevention and detection of corruption are considered to have been appropriate. However the application of the arrangements for standards of conduct was compromised by the governance weaknesses identified by the Internal Audit report on the Coatbridge Voluntary Severance arrangements.

- The College had an on-going process for identifying, evaluating and managing its significant risks.

Performance

- The College management and committee structure included mechanisms to monitor and manage financial and non-financial performance which are considered to have been appropriate.

Outlook

- The implications of ONS reclassification; the decisions to revert to the 31 July accounting year end date; the new SFC financial memorandum; FRS 102 and the new Education SORP; and Regional Outcome Agreements have all been discussed in our annual report to New College Lanarkshire.

- Governance structures in New College Lanarkshire were approved by the Board in December 2013. Further changes are in hand following the move to being the Regional College in October 2014.

Introduction

Background

1. 2013/14 was the third year of our appointment as external auditors of Coatbridge College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance. Due to the merger with New College Lanarkshire on 1 April 2014 those charged with governance are the Board of New College Lanarkshire.

2. The audit framework is outlined in our Strategic Planning Memorandum and 2013/14 Annual Audit Plan which was considered and approved by the Audit Committee in March 2014. The scope of the audit was to:

   - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;

   - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and

   - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include;

   - compliance with legislation and financial regulations;

   - fixed assets transactions, including consideration of any impairment, revaluation of land and buildings and the potential impact on the financial statements; on-going estate improvements and maintenance; and compliance with relevant financial reporting standards;

   - recoverability of debtors;

   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure. There was increased risk in this area for 2013/14 given that SFC funding is provided on an academic year basis to 31 July and the financial year-end has moved to 31 March;

   - compliance with Financial Reporting Standard (FRS) 17 Retirement Benefits and provision for pension liabilities for early retirals; and

   - compliance with the SORP on Accounting for Further and Higher Education.

Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

5. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College and New College Lanarkshire. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.

6. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light. Weaknesses or risks identified by us are only those that have come to our attention during our normal audit work in accordance with the Audit Scotland Code of Audit Practice, and may not be all that exist.

Acknowledgement

7. Our audit has brought us in contact with a range of College and New College Lanarkshire staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by them in the discharge of our responsibilities.

Financial statements

Audit Opinion

8. On 30 March 2015 we issued an audit report with an unqualified opinion on the Financial Statements of the College for the eight months to 31 March 2014 and on the regularity of the financial transactions reflected in those financial statements. The opinion included an "emphasis of matter" paragraph, drawing attention to the governance issues identified at the College and the VS payments made. These issues are discussed at paragraphs 13 to 22, 36 and 37.

"We draw attention to the Context Statement on page 1 and the Corporate Governance Statement on page 5, which describe governance weaknesses stemming from actions around how Voluntary Severance arrangements for the Principal, the senior management team and staff were considered, implemented and reported;, and the arrangements for senior staffing and salary approval following the departure of the Principal in October 2013; the Corporate Governance Statement on page 6 which describes the operation of the Remuneration Committee; and Note 7 on page 20 which describes the voluntary severance arrangements for senior staff. Our opinion is not modified in respect of these matters."

9. We are required to undertake audit work from the Balance Sheet date up to the date of signing the financial statements and this was undertaken for the period up to the date of signing the accounts. No post balance sheet events have been identified that required adjustment to be made to the financial statements or additional disclosure in a note thereto other than those already included. These are

- changes as a result of reclassification as Central Government bodies from 1 April 2014,
- the merger with New College Lanarkshire on 1 April 2014, and
- a provision of £0.244 million for a claim for breach of contract and £0.030 million for legal fees related to the claim.

Audit Completion

10. Audit fieldwork commenced on 27 May 2014 using trial balance figures. Due to resource pressures at the College a set of draft financial statements was not received until 31 July 2014. OFR and the majority of note information was received on 16 September 2014. A significant number of potential adjustments were identified by New College Lanarkshire staff and us. There were also a number of presentational changes made as part of the audit process. The adjustments are discussed further at pages 10 to 15. Ex Coatbridge college staff, including the former Director of Finance who had taken voluntary severance, were initially involved in the accounts preparation and NCL staff became involved once the NCL accounts and audit process was completed.

11. On 16 September we received a copy of the Internal Audit report on the Review of Severance Schemes. This report raised a number of issues that required us to ask for additional information and seek views from the Scottish Funding Council. Due to a number of factors, including difficulty in locating information at Coatbridge campus, these additional matters were not concluded until March 2015.

Corporate Governance Statement

12. A proposed final draft set of accounts was received 4 December 2014 however further discussion about how governance and VS payments should be described took place. In February 2015 the College received a claim against it and provision of £ 0.224 million was made in the accounts. A provision for legal fees of £0.030 million relating to the claim and an accrual of £0.035 million for additional audit work were also processed. Further changes were made to the Corporate Governance Statement and the Operating and Financial Review. Final draft accounts were received on 17 March 2015.

13. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

14. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control reflects the process and report where the statement is not consistent with our knowledge of the body and report if the statement does not comply with SFC requirements.

15. The College's Corporate Governance Statement notes weaknesses in governance during 2013 stemming from actions around how the Voluntary Severance arrangements for the Principal, the Senior Management Team and staff were considered, implemented and reported; and the arrangements for senior staffing and salary approval following the departure of the Principal in October 2013. The statement confirms that with the exception of these issues the Board of New College Lanarkshire are not aware of any issues that would mean that the College did not comply with all of the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector and the Guide for College Board members 2012 for the period ended 31 March 2014.

16. From our audit work and our review of the College's statement we have no issues to report within our audit opinion to amend the statement however we have included an "emphasis of matter" paragraph in our opinion to draw attention to the reported lapses in governance and voluntary severance arrangements. This is discussed in paragraphs 17 to 22 below.

17. The College governance system has previously been assessed as robust by both us and internal audit and our observation had been that it operated well in practice. Work by internal audit, New College Lanarkshire and us has identified significant weaknesses in the operation of the governance system during 2013 and 2014. These weaknesses primarily stemmed from actions around how the voluntary severance arrangements for the Principal, the Senior Management Team and staff were considered, implemented and reported. No issues with voluntary severance governance arose in New College Lanarkshire. The weaknesses in governance included:

- The Principal making decisions he did not have authority to make
- Agendas and papers for Remuneration Committees either not being fully prepared or not kept
- Minutes for the Board and Remuneration Committee did not record fully the discussions and decisions made
- Minutes from Remuneration Committee meetings not being produced or reported to the Board timeously

Corporate Governance Statement (continued)

18. The consequences of these lapses in governance and poor record keeping is that:

- There is no robust audit trail of how the College made decisions about the VS schemes in place at the College prior to October 2013.
- Lack of clarity about the presentation and consideration of general and specific Scottish Funding Council guidance and advice on VS in the decision making process, and limited evidence of decisions about how the guidance and advice was, or was not, implemented.
- There is no evidence of a costed business case consideration in relation to the VS package awarded to the Principal in January 2013 (subsequently re-approved in October 2013) or the salary increases awarded to him in January and August 2013.
- Although there is agreement about the separate arrangement made for the Principal, there is disagreement about what was discussed and decided in relation to the VS scheme for the Senior Management Team members at the Remuneration Committee meeting in January 2013; the minutes of the January meeting were approved by a majority in October 2013.
- Decisions taken by the Remuneration Committee about annual pay increases are not included in minutes.
- Requests from the Scottish Funding Council for information about the VS schemes and their application were not dealt with timeously.
- Full information about the College's VS arrangements were not disclosed to us in 2013.
- The VS payments made to the Senior Management Team and one other member of staff in 2014 were higher than the New College Lanarkshire VS scheme (NCL scheme) would have allowed. The NCL scheme was introduced in September 2013 and should have applied to Coatbridge College staff following the decision to re-enter the merger process and the decision of the Remuneration Committee to apply this scheme for all staff except the Principal in November 2013. We have seen evidence in some cases that initial approval of the VS applications from members of the Senior Management Team in November 2013 intimated a payment that was in line with the NCL scheme. This was changed later to provide a higher amount.
- VS payments for other Coatbridge staff followed the NCL scheme.
- Settlement agreements were put in place for the Principal, the Senior Management Team and one other member of staff.
- The decision to pay a higher contribution to legal fees for senior managers and one other member of staff than was allowed in the NCL scheme was not recorded.
- Holiday pay payments are allowed by the NCL scheme however the holiday pay amounts included in the VS settlements for the Principal, the management team and the other member of staff could not be verified as holiday records were not available.
- Following the departure of the Principal at the end of October 2013 several members of the Senior Management Team took on additional duties and were awarded additional salary as a result. Although it is minuted that these were approved by the Remuneration Committee reports supporting the decision making process are not available.

Corporate Governance Statement (continued)

19. From late October 2013 onwards the governance position improved although:

- There is still a lack of clarity around some decision making in relation to the VS packages of the Senior Management Team and another member of staff.
- By December 2013 three members of the Senior Management Team were on sick leave. The Principal of NCL was asked to provide operational input to maintain delivery of services to students. We understand this decision was taken by the Board on 18 December but it is not minuted. The Board of Coatbridge College continued to govern until 31 March 2014.
- Approval for backdated additional annual salary increases for two members of the Senior Management Team was formally agreed on 4 March 2014 by members of the Remuneration Committee, although not at a formal meeting that was minuted, Settlement agreements for these staff, with VS payments based on the increased salary, were signed on 27 February 2014 and 4 March 2014 respectively.

Conclusion

20. New College Lanarkshire has found it difficult to clarify decision making and actions taken in relation to VS payments at Coatbridge College due to a lack of paperwork, limited retained corporate knowledge as no Coatbridge Senior Management Team members remained with New College Lanarkshire, and settlement agreements being in place. This has been a major factor in the delay in signing off the 2013/14 accounts.

21. The governance lapses arose as a result of the established and expected processes and procedures that had previously operated well within the College not being followed by a small number of people. The lack of openness and information about the actions that were being taken made it difficult for Board members to scrutinise and challenge these actions. Legal advice about the implications of these actions impacted on subsequent action that the College Board took to limit costs to the College. There is insufficient evidence to assess if a different course of action would have cost less or not.

22. The Board and Remuneration Committee were legally able to make decisions about the VS schemes to be implemented, however from the evidence that is available there is significant doubt over whether they had the correct, and sufficient, information presented to them to make the decisions.

Audit and Accounting Adjustments and Confirmation

23. A number of audit and accounting adjustments were identified during the audit which, following discussion with management, were agreed to be adjusted in arriving at the final position.

24. Table 2 sets out the audit and accounting adjustments affecting the current period. Some of the accounting adjustments were for items that would normally be made before we receive the accounts for audit. The overall impact of these adjustments on the financial statements has been to increase the reported deficit for the year by £0.569 million.

Audit and Accounting Adjustments and Confirmation (continued)

25. The material adjusting items, all increasing the deficit, are:

- £0.161 million relating to accrued voluntary severance costs not reclaimable from the Scottish Funding Council, (items 10, 18 and 19)
- £0.141 million relating to incorrect calculation of SDS Employability Fund and ScotGap contract income (item 12).
- £0.254 provided in relation to a claim for breach of contract (items 21 and 22),

Table 2: Audit and Accounting Adjustments

	Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
1	**Other operating expenditure**		43		
	Prepayments – exam fees				53
	Accruals – exam fees			96	
	Adjustment to exam fee prepayments and accruals due to exams not having taken place at the year end.				
2	**Other operating expenditure**	13			
	Education contract income		13		
	Grossing up of 'Be all you can be' income rather than offsetting against expenditure				
3	**Other operating expenditure**	20			
	Debtors – bad debt provision				20
	Extra provision for old debtors unlikely to be collected				
4	**Other operating expenses**	9			
	Accruals				9
	Accrual for HE fee income identified by SAAS as requiring to be repaid				
5	**Other income**	768			
	Educational Contract Income		768		
	Reclassification of SDS as educational contract income.				
6	**Student Support fund creditor**	6			
	Other operating expenditure	2			
	Fixed Assets			65	
	Accruals				73
	Additional invoices identified in the post year end invoice review, relating to bursary expenditure, audit fee and capital items				
	Carried forward	**818**	**824**	**161**	**155**

Audit and Accounting Adjustments and Confirmation (Continued)

Table 2: Audit and Accounting Adjustments (Continued)

	Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
	Brought forward	**818**	**824**	**161**	**155**
7	**Education contract income**		34		
	Deferred income			34	
	Adjustment to SDS CLP contract income recognised due to final figures becoming available				
8	**Hospitality income**	42			
	Hospitality expense		42		
	Adjustment to cancel out internal hospitality income and expenditure				
9	**Other operating expenditure**		18		
	Accrued income			18	
	Being adjustment to gas expenditure due to VAT refund				
10	**Exceptional staff costs**	1,017			
	Staff costs		49		
	Accruals – severances				968
	Other SFC Grants income		987		
	Accrued income			987	
	Accrual for severances not paid at 31 March 2014, and recognition of grant funding from SFC to offset part of this				
11	**Other operating expenditure**	16			
	Prepayments				16
	Reduction of insurance prepayment due to double counting of prepayment				
12	**Education contracts income**	141			
	Deferred income				33
	Accrued income				108
	Adjustment for incorrect calculation of SDS Employability Fund and ScotGap contract income				
13	**Fixed assets**			17	
	Other operating expenditure		17		
	Capitalisation of computer equipment originally expensed.				
14	**SFC deferred grant release**	15			
	Other Grants deferred grant release		15		
	Misallocation of release of deferred capital grant between SFC and non-SFC categories				
	Carried forward	**2,049**	**1,986**	**1,217**	**1,280**

Audit and Accounting Adjustments and Confirmation (Continued)

Table 2: Audit and Accounting Adjustments (Continued)

	Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
	Brought forward	**2,049**	**1,986**	**1,217**	**1,280**
15	**Prepayments**			25	
	Other operating expenditure		25		
	Incorrect prepayment amount calculated for IT equipment contract (Apple)				
16	**Other operating expenditure**	34			
	Prepayments				34
	Reversal of IT equipment contract (Apple) debtor as no certainty of recoverability				
17	**Other operating expenditure**	25			
	Accruals				25
	Late purchase invoices now accrued				
18	**Exceptional costs**	39			
	Accruals				39
	Voluntary severance package accrued				
19	**Income**	144			
	Accrued income				144
	Decrease in accrued voluntary severance income				
20	**Other operating expenses**	35			
	Accruals				35
	Additional audit fee				
21	**Other operating expenses**	30			
	Provisions				30
	Provision for legal fees re claim				
22	**Other operating expenses**	224			
	Provisions				224
	Provision for claim				
		______	______	______	______
	Total	**2,580**	**2,011**	**1,242**	**1,811**
		======	=====	=====	=====
	Net increase in deficit	**569**			
		======			

Audit and Accounting Adjustments and Confirmation

In addition to the above there were 35 journals processed by the College which had an overall impact of further reducing the College's deficit by £0.034 million.

26. Item 20 in the table relates to an increase in the audit fee for the accounts to 31 March 2014. The previously agreed fee was £14,780. This was originally agreed on the basis that all required information was presented timeously, and any adjustments required to the accounts were not excessive in number. The value of time spent to date on the audit is significantly in excess of this fee, and a fee of £50,000 has been agreed, resulting in an additional accrual of £0.035 million. The excess cost primarily relates to additional work required as a result of:
    - Late receipt of accounts
    - The number of adjustments made from audit findings and from the College revising figures during the audit
    - Checking several sets of draft accounts,
    - Considering issues arising in the extended post balance sheet period; and
    - The time spent on the governance issues arising from the VS payments.

27. A number of potential audit adjustments were identified which management decided not to adjust. These have been listed in Table 3 below and the total of these items is below our materiality level of £114,500. The effect of adjusting for these items would be to increase the deficit for the period by £0.029 million.

Table 3: Unadjusted Audit Items

	Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
1	**Tuition fee income**	10			
	Deferred income				10
	Deferral of PDA resilience, Digital inclusion and University of West of Scotland course income for portion of course not completed at 31 March 2014				
2	**Fixed Assets**			10	
	Trade creditors				10
	Revaluation Reserve			10	
	Fixed Assets				10
	Reversal of debit balance in trade creditors related to fixed assets, followed by adjustment to revaluation reserve as a result of revaluation.				
3	**Debtors**				10
	Education contract income	10			
	Reduction in income due to some invoices relating to work to be done for a primary school in 2014/15.				
4	**Tuition fee income**	14			
	Deferred income				14
	HE Tuition fees split between 2013/14 and 2014/15 incorrect				
	Carried forward	**34**	**-**	**20**	**54**

Table 3: Unadjusted Audit Items

	Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
	Brought forward	**34**	**-**	**20**	**54**
5	**Childcare income**	5			
	Accrued income				5
	Being overestimate of College nursery childcare fund income				
6	**Depreciation**		10		
	Revaluation Reserve			10	
	Being difference between audit depreciation calculation based on revalued amount and College calculation				
		______	______	______	______
	Total	**39**	**10**	**30**	**59**
		======	=====	=====	=====
	Net increase in deficit	**29**			
		======			

28. A number of other disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

Confirmations and Representations

29. We confirm that at the date of this report, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

30. In accordance with auditing standards, we obtained representations from the College on material issues.

Financial Position

31. SFC circular SFC/31/2009, issued on 16 October 2009, defines a sustainable college as one which 'continually develops the quality of its learning activities to meet the changing needs of its customers, society and the economy, controls its costs, and year on year secures sufficient income to resource its planned activities and enable a level of current and future investment necessary to maintain its assets.'

32. One impact of the ONS decision to reclassify incorporated colleges as Central Government bodies from 1 April 2014 is that college year-ends have changed to 31 March and in 2013/14 the accounting period for Coatbridge College was for the eight months to 31 March 2014. In September 2014 the SFC confirmed that all colleges would return to a 31 July accounting year-end from 2015. Resource Return information will still be required at March each year for Government accounting purposes. We understand there will be arrangements in place to allow amendments to the figures, if required, before the end of September each year.

Financial Position (continued)

33. Table 4 provides a summary of the College's planned and actual financial results, based on the formal returns submitted by the College to the Funding Council and the audited accounts.

Table 4: Comparison of Planned and Actual Financial Results

	2012/13 (Year) Actual £000	2013/14 (8 months) Planned £000	2013/14 (8 months) Actual £000
Financial outturn Surplus/(deficit)	257	21	(1,002)
Income and expenditure reserves (incl pension reserve)	6,237	5,325	4,310
Cash balances	1,782	1,131	782

Source: Audited financial statements and Financial Forecast Return (FFR)

34. A direct comparison of College income in 2013/14 of £9.040 million against last year is not possible given the change in accounting year-end and reduced period. Points to note for 2013/14 include:

- Overall, the College's income in for the eight month period 2013/14 has decreased by £2.397 million (20.9%) over 2012/13 to £9.040 million. Voluntary severance costs reimbursement from the SFC of £1.306 million is included.

- SFC ONS transition funding of £0.120 million was received and recognised as income;

- There was a significant increase in Skills Development Scotland (SDS) income due to a full period in which new Employability Fund, College Learning Programme and ScotGap programmes were run.

35. Given that SFC grant allocations follow the academic year to 31 July the College needed to consider how much teaching grant income had been 'earned' up to 31 March 2014 and should be recognised in the financial statements. Similarly, consideration also needed to be given as to how much tuition fee income should be recognised up to 31 March 2014. These issues were subject to discussion amongst all auditors at the Audit Scotland Further Education Sector Meeting in March 2014 and we had further discussions with the College's Finance Manager on the accounting treatment. In relation to income recognition no single methodology was seen as more correct and individual colleges were required to demonstrate to their auditors that they had applied an appropriate methodology to arrive at an acceptable estimate. The College has recognised 8/12 (67%) of total SFC teaching grant and fee income received for the 2013/14 academic year. This is based on a calculation of staff costs, the major element the teaching grant is used for, being relatively consistent over the course of the academic year. Tuition fee income earned was based on the percentage of the course in the academic year. These methods were considered to provide an acceptable estimate of the income 'earned' up to 31 March 2014.

Financial Position (continued)

36. A direct comparison of College expenditure in 2013/14 of £10,042 million against last year is not possible given the change in accounting year-end. Points to note for 2013/14 include:

- Increased staff costs due to extra staff being required to deliver Employability Fund (SDS) and College Learning Programme (SDS) work, staff overtime when working on merger, and increased sick leave;

- Severance costs expenditure of £1.704 million were incurred as a result of 33 staff being accepted for severance. Offsetting this expenditure is £1.306 million of income shown under SFC income. The college funded £0.398 million of the severance costs (see 37 below). This accounts for a large part of the decrease in the cash balances between 31 July 2013 and 31 March 2014;

- Relatively small increases in a large number of expenditure categories, including staff development, SDS course participant training allowances, costs relating to the College's Chinese student project and increased external consultancy; and

- During the post balance sheet date period before the accounts were signed New College Lanarkshire received a claim relating to breach of contract by Coatbridge College. Information to defend the college's position is being gathered but provision of £0.244 million has been made in the 2013/14 accounts for the claim and £0.030million for related legal fees.

37. Severance costs exceeded the amount that could be reclaimed from the Scottish Funding Council by £0.398 million. £0.302 million of this related to payments for seven members of staff (the Principal, the Senior Management Team and one other).

Financial Position (continued)

2013/14 SUMs Outturn

38. The College's outturn against its 2013/14 SUMs target is shown in table 5.

Table 5: 2013/14 SUMs Outturn

	2012/13	2013/14
SUMS target	37,972	38,586
SUMS actual	38,186	39,389
Excess	214	803

Source: 2012/13 - Audited SUMs returns; 2013/14 FES report at 18 August 2014

39. The audit of the SUMs return for the 2013/14 academic year was reported by Wylie & Bisset LLP in October 2014. They concluded that the College had reasonable procedures and controls over the collection of data for the SUMs return and assurance can be taken that the SUMs count for the College is not materially mis-stated.

FRS 17 Retirement Benefits

40. In 2013/14 the College accounted for its participation in the local government pension scheme as if it were a defined benefit scheme. This is consistent with the accounting treatment adopted in previous years.

41. The College's pension liability increased in total by £0.956 million to £1.992 million at 31 March 2014 which was largely due to changes in key actuarial assumptions relating to discount rates.

Provisions

42. The College has a provision in its balance sheet for £0.528 million (31/07/13 - £0.521 million, restated) relating to pension costs from early retirements awarded to former employees. The College has used an independent actuary to value the provision as at 31 March 2014. We concluded that the provision has been correctly included and disclosed in the financial statements.

43. Provision has been made in the accounts for £0.224 million relating to a claim for breach of contract and £0.030 million for related legal costs. The claim was received in February 2015 and relates to events dating back to 2010.

Accrued Expenditure and Accrued Income

44. An accrual of £1.026 million (31/07/13 - £Nil million) has been made in the 2013/14 financial statements for all staff accepted under the College voluntary severance scheme and this treatment has been confirmed as being appropriate since the scheme was offered to staff members before the end of the 2013/14 financial period. Funding of £1.306 million from the SFC to offset the total voluntary severance costs of £1.704 million has been included in accrued income.

Financial Position (continued)

45. The College has an agreement in place with CPU (Advent) in respect of the provision of iPad devices to students. The structure of the agreement means that it is CPU, rather than individual students, who pays back the College for the devices. Despite repeated attempts by the College and New College Lanarkshire, there has been a lack of information from CPU in the period and so there is no clarity over the amount of income that the College is due. The College has only recognised amounts physically received totalling £27k and has made no assumptions about income still due to be received which could potentially amount to a maximum of a further £40k. (see recommendation R1 Appendix II).

Capital Expenditure

46. A range of capital expenditure was made in the period totalling £0.902 million (2012/13 - £2.341 million) spent on capital items which were funded from college reserves and deferred capital grants received. Deferred capital grants have been correctly treated in line with relevant fixed assets.

47. The valuation of the campus was updated at the end of the 2013/14 financial period by James Barr, who were involved in prior year valuations. The overall gain on revaluation of £0.650 million increased the value of these assets to £29.190 million and has been properly accounted for and disclosed in the financial statements.

48. In the past, the College has not componentised its fixed assets into sub categories in order to apply the most relevant depreciation rates. New College Lanarkshire plans to apply componentisation in the 2014/15 year. Component accounting would be applicable for the College's properties but has not been applied in 2013/14. It has been accepted that, particularly with the corresponding release of deferred capital grants, it would not give rise to a material difference in the depreciation charge to the Income and Expenditure Account if this was applied. The land and buildings at the Coatbridge College were revalued at 31 March 2014 and suitable component values identified in order to facilitate componentisation of assets from 2014/15 (see recommendation R2 Appendix II).

Lanarkshire Further Education Foundation

49. An arms-length foundation, the Lanarkshire Further Education Foundation, was set up in January 2014. The objects of the Foundation "are to advance the charitable purposes of New College Lanarkshire, to include the advancement of education by making grants and financial support for projects and activities being carried out by and supported by New College Lanarkshire". The College did not transfer any funds into the foundation in 2013/14.

Corporate governance

50. The College is responsible for ensuring that governance arrangements follow the three fundamental principles of openness, integrity and accountability and that these arrangements are in place to ensure the proper conduct of its affairs. Mechanisms to monitor the adequacy and effectiveness of these arrangements should also be in place.

51. Our responsibility, as noted in the Code of Audit Practice, is to review and report on audited bodies' corporate governance arrangements as they relate to:

- Bodies' reviews of corporate governance and systems of internal control, including reporting arrangements
- The prevention and detection of fraud and irregularity
- Standards of conduct and arrangements for the prevention and detection of corruption
- The financial position of audited bodies

52. Comments on the College's financial position and the Corporate Governance Statement are covered in the Financial Statements section of this report.

53. We have considered the College's governance arrangements through formal review of documents and procedures and informal observation of the operation of committee arrangements and the relationships between Board members and staff. In particular we have considered arrangements for risk management and reporting to committees. We have not identified any areas of concern regarding the College's governance arrangements in the past, however as discussed in paragraphs 17 to 22, various concerns about the operation of committees and decision making processes during 2013 and 2014 have been highlighted following the review of voluntary severance arrangements.

54. The Senior Management Team of New College Lanarkshire became involved with the operational running of Coatbridge College from January 2014 following a request from the Coatbridge Board. The Board of Management of Coatbridge College continued to govern until 31 March 2014. The request was made due to capacity issues. Whilst this placed additional demands on the team's time the involvement has been seen as beneficial to the merger process.

Systems of Internal Control

Control Environment

55. No material weaknesses in the accounting and financial internal control systems were identified during the 2013/14 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

56. In addition to work undertaken by the College's Internal Auditors, which found financial controls to be "strong", we performed testing during the period-end audit. We concluded that in general the key controls for the main financial systems tested were in place and operating as expected. No significant weaknesses or issues were found that would impact adversely on the accounts or our period-end audit. We note however that resource issues at the College impacted on the preparation of the accounts and resulted in a significant number of audit and accounting adjustments after the audit had commenced. Ex Coatbridge finance staff, including the previous Director of Finance who had taken voluntary severance, initially worked on the accounts. New college Lanarkshire staff became involved after the New College Lanarkshire audit was completed.

Systems of Internal Control (continued)

Internal Audit

57. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Wyllie and Bisset provided internal audit services to the College in 2013/14.

58. We have reviewed the scope and extent of work performed by internal audit during the period and considered the impact of their findings and conclusions on our work, where appropriate. We have also considered the adequacy of the provision and are content that the audit service is of good quality.

59. In addition to reliance on the work of internal audit in relation to the financial control environment we also placed reliance on their work to review severance schemes. The overall conclusion from this work was that control in this area was "weak" meaning "controls were unsatisfactory and major system weaknesses identified". The report noted that there were "seven instances where employees at Coatbridge College were awarded packages over and above the terms of the New College Lanarkshire Voluntary Severance Scheme, resulting in a potential overpayment."

60. Following receipt of this report in September 2014 we undertook further work to help understand the issues raised and their impact on the financial statements. We concluded that although the Board was legally allowed to decide on the severance schemes in place weaknesses in governance had led to a lack of audit trail for the decision making process and doubt over the quality of information provided to the Remuneration Committee and Board in making these decisions. Information about the weaknesses is noted at paragraphs 17 to 22 above. Information about the payments is noted at paragraphs 36 and 37.

Risk Management

61. Risk management is important for the development and on-going review of systems of internal control.

62. The College had a Risk Management Policy and Strategy and risk management procedures were actively monitored and reported on. This includes an on-going process for identifying, evaluating and managing its significant risks.

63. Risk management was seen as a Board matter, with the key strategic risks being identified and reported to the Board. We noted that there were clear links drawn between the key risks in the Strategic Risk Register and the College's Strategic Plan.

64. The major estates redevelopment projects utilised professional project managers who had detailed project risk registers which were monitored and updated on a regular basis.

Fraud and Irregularity, Standards and Conduct, and Prevention and Detection of Corruption

65. During 2013/14 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

66. No frauds were identified during 2013/14 or in the period since 31 March 2014 up to the date of this report.

67. The College had appropriate arrangements in place regarding the prevention and detection of fraud, including its Constitution and Articles of Government (incorporating Standing Orders), Financial Regulations and an Anti-Fraud Policy.

68. The College had in place the following procedures/policies in relation to standards of conduct and prevention and detection of corruption.
    - Code of Conduct for the Members of the Board of Management
    - Register of Board Members' Interests
    - Anti-Fraud Policy
    - Anti-Bribery Policy
    - Whistleblowing Policy

69. The arrangements for maintaining standards of conduct and the prevention and detection of corruption are considered to have been appropriate. However the application of the arrangements for standards of conduct was compromised by the governance weaknesses identified by the Internal Audit report on the Coatbridge Voluntary Severance arrangements.

Performance audit

70. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

71. No mandatory performance audit studies were identified by Audit Scotland for the College during 2013/14 although Audit Scotland has requested auditors to provide information in a data set for use in a sector report. In particular it has requested information about voluntary severance schemes and payments. Details of the payments made under the voluntary severance scheme during the 2013/14 period can be found at paragraph 36 and 37 in this report. The late finalisation of these accounts has meant that the inclusion of the Coatbridge results within the sector overview report has been limited.

Education Scotland Review

72. We are required by Audit Scotland's Code of Audit Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.

73. Education Scotland reviews have been positive.

College Performance Arrangements

74. Audit Scotland's national performance reports were considered by the Senior Executive Team (SET) and where appropriate the Principal updated the Board or appropriate committee where the content and recommendations were relevant to the College.

75. Arrangements for financial and non-financial management were well established in the College, through the operation of the Senior Management Team and the Board and its various committees. This included budget setting and monitoring structures.

76. The College's Constitution and Articles of Government, including its Scheme of Delegations, recorded the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. These key documents were regularly reviewed. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to have been undertaken in an appropriate manner.

77. The College had a Regional Outcome Agreement which was aimed at responding to the national objectives and priorities for post-16 education, and works with Local Authorities, Community Planning Partnerships, Skills Development Scotland and employers to ensure its education provision meets the needs of learners and the community.

78. The College's arrangements for performance management as outlined above are considered to have been appropriate.

Outlook

2014/15 and Beyond

Post-16 Education (Scotland) Act 2013

79. The Post-16 Education (Scotland) Act 2013 received Royal Assent on 7 August 2013.

80. The College merged with New College Lanarkshire on 1 April 2014. Under the Act, an order designating New College Lanarkshire as the Regional College, with South Lanarkshire College as an assigned college, came into force on 1 October 2014.

81. In order to be ready for merger with New College Lanarkshire on 1 April 2014, both Colleges undertook a substantial amount of work prior to that date. A significant amount remains to be completed by New College Lanarkshire to harmonise financial systems and procedures and put in place new governance and performance arrangements to fulfil the responsibilities of the Regional Board. Plans are in place to take this forward however there are a number of cultural obstacles to overcome.

82. The governance structure for the New College Lanarkshire was approved by the Board in December 2013. Further changes are already in hand following the move to being the Regional College in October 2014.

83. New College Lanarkshire is in a unique position as the only operational College established as a Regional Board and with an assigned college (South Lanarkshire). At the date of finalising this report the account closure and accounting requirements for 2014/15 of New College Lanarkshire in that role have still to be confirmed by the Scottish Funding Council.

Other matters

84. The implications of ONS reclassification; the decisions to revert to the 31 July accounting year end date; the new SFC financial memorandum; FRS 102 and the new Education SORP; and Regional Outcome Agreements have all been discussed in our annual report to New College Lanarkshire.

Appendix I - Audited Bodies' Responsibilities

Extracts from the Audit Scotland Code of Audit Practice

The Scottish ministers, elected members, governing bodies, boards, accountable officers, managers and officials have primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with integrity and spent appropriately. Public bodies and those responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

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
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return

Many audited bodies publish other information, such as an annual report, alongside the financial statements.

Audited bodies should prepare financial statements in accordance with statutory timescales or in good time to allow audits to be completed by any dates specified by sponsoring directorates or other bodies. Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

Corporate governance arrangements
The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer

Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.

Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

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.

Rigorous self-evaluation should be a central part of audited bodies' performance management to support continuous improvement.

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
- 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
- developing, promoting and monitoring compliance with standing orders and financial instructions

Financial position of audited bodies
Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and future use
- the impact of planned future policies and foreseeable developments on their financial position

Best Value
The Scottish Public Finance Manual explains that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value is defined as the continuous improvement in the performance of functions. This includes having regard to the concepts of economy, efficiency and effectiveness and the need to meet equal opportunity requirements, and contributing to the achievement of sustainable development.

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

Appendix II - 2013/14 Annual Audit Report Recommendations

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
38	**Accrued Expenditure and Accrued Income** R1 The College should seek clarity of financial information from CPU regarding the provision of iPad devices to students to more accurately assess income due.	Low	The Finance Team has repeatedly contacted CPU to request information.	Y	Assistant Principal Finance	2014/15 period-end
41	**Capital Income and Expenditure** R2 Coatbridge assets should have component accounting applied in 2013/14.	Medium	Fixed asset componentisation has not been applied in the 2013/14 financial statements but a valuation of properties has been performed as at 31 March 2014 to allow Coatbridge to take this forward as part of New College Lanarkshire from 1 April 2014.	Y	Assistant Principal Finance	2014/15 period-end

High	Issue subjecting the organisation to material risk and which should be dealt with as a high priority
Medium	Issue subjecting the organisation to significant risk and which should be addressed by management.
Low	Less significant matters, which would enhance efficiency, or do not require urgent attention but which should be followed up within a reasonable timescale.