Wylie+Bisset LLP

Chartered Accountants, Business & Tax Advisers

GLASGOW CLYDE COLLEGE

**GLASGOW CLYDE COLLEGE**

**ANNUAL REPORT TO THE BOARD OF DIRECTORS, THE AUDITOR GENERAL AND THE SCOTTISH GOVERNMENT**

**ON THE EXTERNAL AUDIT FOR THE PERIOD ENDED 31 MARCH 2014**

| Topic | Date |
|---|---|
| Interim visit | w/c 24 February 2014 |
| Commencement of final visit | w/c 2nd June 2014 |
| Audit clearance meeting | 8 August 2014 |
| Presentation to Audit Committee | 28 August 2014 |
| Proposed presentation to Board of Management | 11 September 2014 |

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

# 1 EXECUTIVE SUMMARY

## 1.1 FINANCIAL REVIEW

The College returned an effective operating surplus of £2,545,000, prior to accounting for a transfer to an arms length foundation (ALF) of £14,400,000, for the period ended 31 March 2014. The comparative result for the three legacy colleges for the year ended 31 July 2013 was a surplus of £1,489,000. This is after accounting for exceptional restructuring costs of £804,000 (2013 £4,774,000).

The College maintains a strong overall balance sheet position with net assets of £140,098k (2013: £123,518k). This is principally due to an estates revaluation exercise which resulted in an uplift in the asset carrying value of £33,572k (net book value increase of £18,728k), which was offset by the decrease in cash balances held following a £14,400k transfer to the arms length foundation.

Glasgow Clyde College was created from the merger of Cardonald College, Anniesland College and Langside College on 1 August 2013. The merger was enacted by way of a Scottish Statutory Instrument which transferred all assets, liabilities and activities to Glasgow Clyde College and also enacted the winding up of Langside and Anniesland Colleges' as an individual entity. All legal obligations now rest with the Board of Glasgow Clyde College.

## 1.2 FINANCIAL STATEMENTS

We have issued an unqualified audit opinion on the accounts of Glasgow Clyde College for the eight month period ended 31 March 2014.

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

## 1.3 GOVERNANCE & INTERNAL CONTROL

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

## 1.4 REGULARITY

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

## 1.5 RECOMMENDATIONS TO MANAGEMENT

We have made recommendations relating to:

- Bank accounts

# 2 INTRODUCTION

## 2.1 APPOINTMENT

Wylie & Bisset LLP were appointed by Audit Scotland as the External Auditors of Glasgow Clyde College with effect from 1 August 2013 until 31 March 2016. This Annual Report has been prepared following the conclusion of our audit of the financial statements of the college for the period ended 31 March 2014.

## 2.2 RESPECTIVE RESPONSIBILITIES

Our audit has been carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice (the "Code") issued by Audit Scotland in May 2011. The "Code" states that the auditor's objectives are to:

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

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

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

## 2.3 REPORTING

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

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

Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

# 3 FINANCIAL REVIEW

## 3.1 FINANCIAL STATEMENTS

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

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

## 3.2 AUDIT OPINION

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the period ended 31 March 2014, as, in our opinion, the financial statements give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 March 2014 and of its deficit for the year then ended; and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

We are satisfied that in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers and that the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

### 3.3 SUBMISSION OF WORKING PAPERS

The audit was undertaken in early June 2014 which was a challenging deadline given the merger process and internal resource available within the College to prepare audit working papers. Some of the summarised financial information requested for audit was not fully available at the outset of the audit visit however key staff members were available for consultation throughout the audit process at all times and we have worked with the college to ensure any queries arising from our audit have been resolved.

The College provided the audit team with access to their accounting system. This allowed access to "drill down" into accounts to the relevant supporting documentation and this increased the efficiency of our audit.

## 3.4 INCOME AND EXPENDITURE ACCOUNT

- The College returned an effective operating surplus of £2,545,000 (2013 : £1,489,000) , prior to accounting for a transfer to an arms length foundation (ALF) of £14,400,000. *(see section 9.1 for further details).*
- There has been a period of rationalisation following funding cuts which has resulted in restructuring costs which were partly funded by SFC.
- During this financial period, restructuring costs have decreased significantly compared to the prior year due to a large amount of staff taking up the voluntary severance scheme which ran in 2012/13, with the staff in question leaving the College at 31 July 2013.

| | P/E 31/3/14 £'000 | Y/E 31/7/13 £'000 |
|---|---|---|
| **Income** | | |
| Scottish Funding Council Grants | 24,858 | 34,959 |
| SFC Exceptional income | 643 | 4,122 |
| Tuition fees and education contracts | 4,047 | 6,058 |
| Other grant income | 675 | 1,168 |
| Other operating income | 2,846 | 4,438 |
| Investment income | 253 | 214 |
| | 33,322 | 50,959 |
| **Expenditure** | | |
| Staff costs | 19,446 | 29,217 |
| Staff costs – restructuring | 804 | 4,474 |
| Exceptional restructuring costs | - | 300 |
| Other operating expenses | 9,083 | 10,894 |
| Depreciation | 3,126 | 4,550 |
| Transfer to Arms Length foundation | 14,400 | - |
| Interest and other finance costs | - | 34 |
| | 46,859 | 49,469 |
| **(Deficit)/Surplus** | **(13,537)** | **1,490** |
| **Gain/(loss) on sale** | **1,683** | **(1)** |
| **(Deficit)/surplus retained in reserves** | **(11,854)** | **1,489** |

## 3.5 BALANCE SHEET

- At 31 March 2014 the College had net assets of £140,099k, (2013 £123,519k). The increase can be principally attributed to a £33,272k uplift in the asset carrying value following estates revaluation. This is offset by the decrease in cash balances held following a £14,400k transfer to the ALF.
- Cash held on short term investment was released for transfer to facilitate the donation to the ALF.
- The non current assets held for sale were two properties which have been sold during 2013-14.
- The provision for liabilities comprises the unfunded pension scheme liability in relation to early retired staff £3,339,000.
- The restatement of the prior year figures is discussed in detail in *section 4.3 Other Matters* on page 12.

| | 31/3/14 £'000 | As restated 31/7/13 £'000 |
|---|---|---|
| **Fixed Assets** | | |
| Tangible fixed assets | 149,504 | 116,232 |
| **Current Assets** | | |
| Stock | 18 | 13 |
| Debtors | 6,832 | 1,994 |
| Short term investments | - | 3,678 |
| Non Current Assets held for Sale | - | 1,311 |
| Cash in hand and at bank | 5,597 | 14,815 |
| **Creditors : amounts falling due in less than one year** | (10,443) | (5,263) |
| **Creditors: amounts falling due after more than one year** | (2,921) | (2,763) |
| Provision for liabilities | (3,339) | (4,385) |
| Pension liability | (5,151) | (2,113) |
| **Net assets** | **140,099** | **123,518** |
| | | |
| Deferred capital grants | 97,155 | 99,119 |
| Income & Expenditure reserve excluding pension reserve | 2,795 | 14,664 |
| Pension reserve | (5,151) | (2,113) |
| Revaluation reserve | 45,300 | 11,849 |
| **Total Funds** | **140,099** | **123,519** |

# 4 AUDIT APPROACH & KEY FINDINGS

## 4.1 OUR APPROACH

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

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

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

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

Based on our procedures, we have identified certain areas where the operation of internal financial controls could be improved. These areas are highlighted within subsequent sections of this report.

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

## 4.2 AUDIT ISSUES ARISING

During the course of the audit a number of matters arose which were clarified and agreed in discussion with, or formally reported to the Vice Principal Resources and Director of Finance. This practice is an established part of the audit process. This report draws to the attention of the Board of Management any matters of particular significance or interest, which arose from the audit, noted as follows:

- **Accounting Policies**: In accordance with FRS18, we understand the Audit Committee will formally review the accounting policies included in the Annual Accounts. There have been no changes to the accounting policies in the period (using Cardonald College policies as the host college). We have not identified any instances where we consider the accounting policies to be inappropriate.

## 4.3 OTHER MATTERS

**Pension Fund liabilities**: The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Strathclyde Pension Fund (SPF) for the non-teaching staff. The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with Financial Reporting Standard 17 - Retirement Benefits (FRS 17), the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

The SPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in the balance sheet. The College has consistently reported significant FRS 17 liabilities over the past few years. The Strathclyde Pension Fund's actuaries provide the College with an updated valuation on an annual basis which is reflected in the pensions liability disclosed on the balance sheet. We have reviewed the College's accounting for these pension schemes and found that it complies with the requirements of FRS 17 and that disclosure is consistent with the actuarial report.

Following a revaluation process, carried out by Hymans Robertson, of the unfunded pension liability for all three legacy colleges it became apparent the provision for unfunded pension liabilities for "the Cardonald College element" was overstated by £197k. This is not material in the context of our audit and the adjustment has been made to the provision in the 2013/14 financial statements. The prior year figures have not been restated for this amount.

In order to align accounting policies between the three legacy colleges" the Anniesland College element" of the unfunded pension liability has been transferred to Provisions for liabilities from reserves. This was previously accounted for under the auspices of FRS17 and therefore through the statement of total recognised gains and losses (STRGL). The other two legacy colleges still maintained a separate provision for unfunded liabilities and accounted for these under FRS12 "Provisions, Contingent Liabilities and Contingent Assets". In order to align accounting policy a restatement of Provisions for liabilities has been made in the accounts for the Anniesland

College element. £767,000 has been transferred from reserves to Provisions for liabilities by way of a prior year adjustment with the appropriate comparative notes in the accounts being restated.

**Going Concern:** Wylie & Bisset LLP, in accordance with International Standard on Auditing (UK & Ireland) ISA 570 : Going concern, are required to consider the Board of Management's use of the going concern assumption in relation to the financial statements of the College for the period ended 31 March 2014. Following the merger, the operations and services of the College continue to be provided using the same assets which have been transferred to Glasgow Clyde College. Consequently, the use of the going concern concept in the financial statements is considered to be appropriate and in accordance with accounting standards as interpreted for the public sector.

**VAT Partial Exemption**: The College has not performed a VAT partial exemption calculation for the year. This was under review in 2013/14 due to the potential settlement of the Lennartz liability. As the Lennartz liability was not settled prior to the end of March the College VAT advisor is currently preparing a partial exemption calculation which will be backdated accordingly to ensure the relevant VAT is recovered in 2014/15.

## 4.4 UNADJUSTED ERRORS

Appendix C includes a copy of the letter of representation which we have sought from the Governors in support of the matters reported to us during our audit procedures. This also includes reference to the summary of unadjusted errors and deviations. There were no errors or deviations that were identified during our procedures other than clearly trifling which have not been amended within the accounts.

## 4.5 INDEPENDENCE

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

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

In our professional judgement, as of the date of this report, Wylie & Bisset LLP is independent of Glasgow Clyde College within the meaning of United Kingdom regulatory and professional requirements and the objectivity of the audit engagement partner and the audit staff is not impaired.

# 5 GOVERNANCE & INTERNAL CONTROLS

## 5.1 GOVERNANCE

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

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

## 5.2 INTERNAL AUDIT

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

The College's internal auditors during the period ended 31 March 2014 were BDO LLP.

In the course of the period ended 31 March 2014 the following areas were scheduled to be reviewed by the Internal Auditor:

- Risk Management and Governance

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the report issued by the Internal Auditor. At the time of our audit, reporting was incomplete and the Annual Report has still to be issued. BDO LLP was in office for only three months during 2013/14 and consequently we carried out additional financial system testing to gain sufficient assurance for the audit.

Minutes of the audit committee were also reviewed.

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

Where relevant, reliance has been placed on the work of internal audit with regards to the work undertaken during our audit process.

## 5.3 STATEMENT OF CORPORATE GOVERNANCE

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

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

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

The Board is scheduled to complete an exercise on self-evaluation which is based on the responsibilities of the Board and on the 'Good Governance Standard for Public Services'. Each committee of the Board will also complete an annual self-evaluation exercise based on the remit of the committee.

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

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

We found no matters therein to impact upon our audit opinion.

# 6 FRAUD AND IRREGULARITIES

## 6.1 BEST PRACTICE

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

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

## 6.2 AUDIT FINDINGS

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

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

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

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

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

There are no specific recommendations made in this area however, it is highlighted that all the recommendations made have an implicit impact on the prevention and detection of fraud and other irregularities within the College.

# 7 AUDIT RECOMMENDATIONS – 31 JULY 2013

## 7.1 PRIOR YEAR RECOMMENDATIONS

All the matters that were raised on the previous year for the three legacy colleges have been substantially complied with now. A summary of the more significant management letter points raised for Cardonald, Langside and Anniesland are summarised below:

- Formal asset disposal procedures should be in place which involves the monitoring of equipment via an Assets register which can be reconciled to the nominal ledger on a regular basis to ensure all additions and disposals are correctly recorded in a timely manner. (Anniesland College);
- The College provides nursery facilities to members of the public. This activity is outside the College’s charitable activities and therefore if the value of income received from the general public is greater than the small trades exemption limit of £50,000 this may jeopardise the College’s corporation tax exemption status. (Anniesland College) ;
- Severance packages were evaluated and approved through the voluntary severance scheme in 2012/13 excluding the impact of pension strain fund costs as these were not planned to be paid at that stage. It was later clarified that it was a requirement to fund the pension strain fund costs. In a few instances the cost of the pension strain fund payments significantly increased the overall cost of the severance package. (Cardonald College);
- The requirements of FRS 15 require land and buildings to have a full valuation completed every 5 years. The College did not undertake such a valuation as it was known that a further valuation would be required as at March 2014 following merger. Upon advice from the previous valuer there was likely to be a small increase in the building valuation resulting in understatement in the building valuation of £235,000 which was not material (Cardonald College); and
- Ledger balances recording bursary and EMA fund transactions had not been cleared down annually resulting in cumulative balances being held on the ledgers. A variance was identified between the ledger balances and the underlying records and cash held which could not be reconciled due to the volume of transactions recorded. (Cardonald College).

These points relate to the 3 legacy colleges and were carried forward in the annual rolling action plan, there is no evidence of such practice in relation to Glasgow Clyde College in 2013/14.

# 8 AUDIT RECOMMENDATIONS – 31 MARCH 2014

## 8.1 31 MARCH 2014 RECOMMENDATIONS

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

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

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

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

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

| 8.2 | **Bank Accounts** |
|---|---|
| Observation | From review of the college’s bank accounts, a number are still held in the names of the legacy colleges. |
| Implication | A high number of bank accounts increases control risk. |
| Recommendation | We recommend that the college ensure all accounts are updated to reflect the name of Glasgow Clyde College. |
| Priority | **Medium** |
| Management Response | Some income was still being received into the legacy Colleges’ bank accounts, despite the fact that the College has contacted relevant individuals/organisations to advise them of the new College bank details. Therefore there was a delay in closing some old accounts and others had to be renamed. In addition the banks involved did not action the College’s requests to update such accounts in a timely fashion due to changes in bank personnel. The College has since been assured by said banks that subsequent requests are being actioned as a matter of urgency. |
| | |

# 9 EMERGING ISSUES

As Cardonald College, Langside College and Anniesland College ceased to exist as individual entities on 1 August 2013 the following is included for reference of the Board of Management of Glasgow Clyde College.

## 9.1 CLASSIFICATION CHANGE FOR INCORPORATED COLLEGES

During 2013 The Office of National Statistics 'ONS' reviewed the classification of further education colleges in Scotland and concluded that all incorporated Scottish Colleges should be classified as centralised public bodies (CPB). This change was effected from 1 April 2014 and impacts upon colleges' ability to use carry forward surpluses and will require revenue and capital spend to be within Scottish Government spending limits.

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

## 9.2 FINANCIAL MEMORANDUM

A new Financial Memorandum is in the process of being drafted by Scottish Funding Council 'SFC' with an interim Memorandum being in place, effective from 1 April 2014. All FE sector colleges require to comply with the content of the memorandum. As external auditors we require to ensure the College is acting in accordance with the content therein. On publication of the final memorandum we will ensure this is reviewed and cognisance taken of the content and ensure the college is acting in accordance with the requirements during 2014/15.

## 9.3 SCOTTISH PUBLIC FINANCE MANUAL

From 1 April 2014 colleges in Scotland are now part of the Central Government Accounting Framework and there is an expectation by Scottish Government that colleges will comply with the Scottish Public Finance Manual (SPFM) except where specific exemption has been granted. The requirements of this change have been reported to Colleges over the course of the last year and despite the exemptions it is expected this will place added restrictions and burden on the College going forward. The implications and practicalities of which will become apparent throughout 2014/15. We will work with the college and review compliance with the SPFM in relation to 2014/15 reporting.

## 9.4 CHANGES IN ACCOUNTING FRAMEWORK

The Financial Reporting Council (FRC) issued FRS 102 - "The Financial Reporting Standard applicable in UK & Republic of Ireland" (FRS102) in March 2013. This is the third new standard to be issued by the FRC since November 2012 and represents the most significant element of the new UK GAAP reporting regime. FRS 102 is applicable for accounting periods beginning on or after 1 January 2015, i.e. 31 March 2016 period ends.

The Further and Higher Education SORP Board has recently developed a new SORP, which was finalised earlier this year and has been issued. Whilst this will only apply to college financial statements from 31 March 2016 management should be aware of the need to draw up a transitional balance sheet at 1 April 2014 in order to facilitate the composition of restated comparative figures at 31 March 2015.

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

# APPENDICES

## A STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

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

The Board of Management are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Constitution, the Statement of Recommended Practice: Accounting in Further and Higher Education Institutions and other relevant accounting standards.

In addition within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Governors, the Board of Governors, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

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

- suitable accounting policies are selected and applied consistently;
- make judgements and estimates are made that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the College will continue in operation.

Financial statements of the College may be published on the College’s website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the College’s website is the responsibility of the Board. The Board’s responsibility also extends to the ongoing integrity of the financial statements contained therein.

**The Board of Management has a responsibility to:**

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Further and Higher Education (Scotland ) Act 1992, the College's Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and hence to take reasonable steps to prevent and detect fraud;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure; and
- ensure sound corporate governance and the proper conduct of the College's operations.

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Governors;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Governors and whose head provides the Board of Governors with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

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

# B INDEPENDENT AUDITOR'S REPORT

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF GLASGOW CLYDE COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT**

We have audited the financial statements of Glasgow Clyde College for the period ended 31 March 2014 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, Statement of Historical Costs Surpluses and Deficits, Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounted Practice).

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

**Respective Responsibilities of the Board of Management and Auditor**

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

**Generic scope of the Audit of the Financial Statements**

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

**Opinion on Financial Statements**

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 March 2014 and of its surplus for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

**Opinion on Regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;

**Opinion on Other Prescribed Matters**

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

**Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters

**Ross McLauchlan, for and on behalf of Wylie & Bisset LLP**

Date: 11 September 2014

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

# C LETTER OF REPRESENTATION

**Glasgow Clyde College**
690 Mosspark Drive
Glasgow
G52 3AY

11 September 2014

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

Dear Sirs

**LETTER OF REPRESENTATION**

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the College's accounts for the period ended 31 March 2014.

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

a) the financial statements are free of material misstatements including omissions .
b) that the financial statements give a true and fair view of the state of affairs of the College as at 31 March 2014.
c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
d) all other records and related information, including minutes of all management meetings, have been made available to you.
e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and
f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Governors by the SFC.

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

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

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

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

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

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

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

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

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

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

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

13. We confirm that, in our opinion, the treatment of the College as a going concern within these financial statements is considered appropriate on the grounds that the operations and services of the College will continue to be provided using the same assets which have been transferred to Glasgow Clyde College. We are satisfied that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

14. We confirm that you have not identified to us any unadjusted errors other than those which are clearly trifling. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts.

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

Yours faithfully

…………………………………………….. Chairman

…………………………………………….. Principal

# D IDENTIFIED AUDIT RISKS, APPROACH & CONCLUSION

| Risk | Audit response | Conclusion |
|---|---|---|
| **Financial performance**<br><br>The level of funding available to the College is tight resulting in the College's ability to generate surpluses difficult. There is an increased risk associated with the demand this places on current resources. | As part of our audit process we will review the College's final outturn and ensure we can adequately explain any deviations from budget. Any non-standard transactions will be specifically reviewed as part of our audit testing and ensuring adherence with the requirements of FRS 12. In particular, any severance provision will be assessed. | We are satisfied that the procedures and processes operated by the College in this area are adequate to meet the needs of the College in a time of tight resources.<br><br>All significant deviations from budget have been adequately explained and supported.<br><br>We are satisfied that non standard transactions have been processed correctly. |
| **Financial Systems**<br><br>Following from the merger the College is operating one financial system from three campuses. There is an increased risk of errors if each campus follows a difference process. | We will review transactions from each campus system and ensure processes are being applied consistently. | We have reviewed a sample of transactions from each campus system and have obtained reasonable assurance that the processes are being applied consistently. |
| **Opening Balances**<br><br>The opening balances of the newly merged College will be created from the closing balances of the previous three Colleges. The amalgamation of these balances increases the risk of material misstatement in opening balances of the new College. | As part of our audit of opening balances we will review the final accounts of the three merged Colleges along with any adjusting journals to bring the balances into the new College. | We have reviewed the journals to incorporate the closing balances of the three previous Colleges and are satisfied that these items have been accurately incorporated into the new accounting system. |

| Risk | Audit response | Conclusion |
|---|---|---|
| **Cut Off**<br><br>The College has changed the year end from 31 July to 31 March, however SFC funding continues to be based on the academic year to 31 July and as such increases the risk of income being included within the wrong period. | We will review how the College has accounted for the SFC income in terms of any deferred/accrued income at the period end (31 March) and income recognised for the eight month period under review. | We have reviewed the college's revenue recognition model and SFC deferred and accrued income and have obtained reasonable assurance that the income recognised for the 8 month period is complete. |
| **Provisions**<br><br>Due to the re-categorisation from 1 April 2014 as a CPB and the need for surpluses reported to be backed by cash assets before they can be transferred to a Trust there is a risk that the College will look to flush out any unrequired provisions in the balance sheet prior to the implementation of the new regime. There is therefore increased risk of overstatement of profit due to the release of liabilities brought forward from the merging Colleges. | As part of our audit we will examine provisions to ensure they are genuine. For any provisions released we will consider the appropriateness of doing so. | The remaining provisions in the balance sheet are genuine, we are satisfied as to their appropriateness and they are in accordance with UK accounting principles. |
| **Staff Structure**<br><br>In the period under review the staff structure below Principal, Vice Principal and Director level is still uncertain. Due to the ongoing staff | Our audit procedures will involve sample testing a number of areas to ensure that items are being processed correctly. Analytical reviews will also be | We are satisfied with regards to this risk. Our sample testing undertaken and analytical review has provided |

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| restructuring process there may be a lack of clarity and uncertainty over who is performing certain tasks which may result in processes being missed and/or errors occurring. | undertaken to identify any omitted items. | satisfactory results and we can conclude, based on our sample testing, that the position has not resulted in material error. |
| **Risk** | **Audit response** | **Conclusion** |
| **Override of Internal Controls**<br><br>There is a risk of fraud or error arising due to management override of controls. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs. | Our audit procedures will include testing the appropriateness of journal entries recorded within the general ledger and other adjustments made in the preparation of the financial statements, along with a review of accounting estimates for any evidence of management bias. We will also consider specifically any significant transactions outside the normal operations of the College. | Satisfactory. Our testing has highlighted no issues in this area. There are no indicators of inappropriate management override of controls. |
| **Revenue Recognition**<br><br>There is a risk of material misstatement due to errors in revenue recognition. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs unless it can be specifically rebutted. | Our standard testing procedures in this area will adequately address the associated risk such that a specific additional audit response is not required. | Satisfactory. Our testing of the income balances has highlighted no issues with regard to revenue recognition providing adequate assurance over the figures included within the financial statements. |

| Risk | Audit response | Conclusion |
|---|---|---|
| **<u>Revised FE/HE SORP</u>**<br><br>The revised FE/HE SORP will be compulsory for accounting periods beginning on or after 1 January 2015, i.e. 31 March 2016 year ends. Consideration to its implementation must be given now with regards to comparative figures and the transitional balance sheet position at 1 April 2014. Specifically the College needs to consider if it has the mechanism in place to calculate holiday pay accruals for all staff. This information will need to be collated from 1 April 2014 to allow for comparative information to be available at 31 March 2015.<br><br>Furthermore, the College may wish to take advantage of the election to use the revaluation value of property, plant and equipment as its deemed cost at the revaluation date. Thus, allowing for a higher valuation to remain on the balance sheet without requiring further revaluation on a cyclical basis. | We will discuss the implications of the upcoming changes with college management throughout the audit process and ensure where possible relevant guidance is given to aid the run up to implementation of the new SORP. | This area has been reviewed throughout the audit process and we are satisfied with the procedures in place. |
| **<u>Merger accounting:</u>**<br><br>As this is the first year as a merged entity there is a risk that merger accounting will not be applied properly in the production of the first set of financial statements and in particular to the collation of the comparative figures in the accounts. | We will review the workings with regards to the collation and restatement if the comparative figures in the production of the March 2014 financial statements and ensure merger accounting rules have been appropriately applied. | We can conclude the comparative figures have been collated accurately in accordance with merger accounting principles. |

| Risk | Audit response | Conclusion |
| --- | --- | --- |
| **Sale of Property**<br><br>In the period to 31 March 2014 the College was selling two properties: Balshagray and Woodburn campuses. It is believed that the sale of Balshagray has completed and the sale of Woodburn has been agreed subject to a planning application. These are unusual transactions and as such the risk of error is increased. | We will review the transactions processed to the accounting system with regards to these items. We will also consider the necessary disclosures are included in the financial statements. | We are satisfied the appropriate accounting entries have been made to account for the property sales correctly. |

# E CONTACT DETAILS

| Name | Position | Email |
|---|---|---|
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