City of Glasgow College

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

For 8 months ended 31 March 2014

Scott-Moncrieff
business advisers and accountants

City of Glasgow College

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

Executive Summary

Finance

Our audit of City of Glasgow College ("the College") for the 8 month period to 31 March 2014 is complete. We have audited the financial statements of the College under the Further and Higher Education (Scotland) Act 1992 and Section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005.

Financial position

The College reported a deficit of £21.693 million for the 8 month period to 31 March 2014. This significant deficit is due to donations of £21.702 million to the City of Glasgow College Foundation and the Scottish Colleges Foundation. These donations were approved by the Board of Management on 19 March 2014. These transactions occurred in preparation for the College's reclassification as a central government body from 1 April 2014, as the change in classification restricts the level of reserves a College can hold.

The College's 2012/13 Financial Forecast Return (FFR) submitted to the Scottish Funding Council (SFC) projected a deficit of £21.314 million for the 8 month period to 31 March 2014, as the donations mentioned above were predicted.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the UK Corporate Governance Code 2010 during 2013/14. We have reviewed the College's statement and can confirm that this is in line with the SFC's guidance and is consistent with our understanding of the College's governance arrangements based on the information gathered as part of our normal audit work.

We did not identify any areas of concern from our review of the College's corporate governance arrangements in so far as they relate to the prevention and detection of fraud and irregularity or standards of conduct and prevention and detection of corruption.

Looking forward

From 2015/16 a new *Statement of Recommended Practice (SORP): Accounting for further and higher education* will align UK Generally Accepted Accounting Practice with International Accounting Standards. Preparation for the transition to the new SORP will need to commence in 2014/15.

The Board continues to progress with key construction phases of the New Campus Project. The projected capital spend to be incurred by the College in 2014/15 is £8.764 million, which is expected to be funded through Scottish Funding Council grants and grants from arm's length foundations.

Conclusion

This report concludes the audit of City of Glasgow College for the 8 month period to 31 March 2014. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Introduction

1. This report summarises the findings from our external audit of City of Glasgow College (“the College”) in 2013/14. The scope of our audit was set out in our External Audit Strategy and Plan, which was presented to the Audit Committee on 5 March 2014. Our audit has focused on the financial statements and governance arrangements at the College.

2. Our plan summarised four key issues in relation to the 2013/14 audit:

    - Revenue recognition in relation to the change in year end;
    - Voluntary severance scheme;
    - Completeness and occurrence of income; and
    - Management override.

3. This report includes our findings in relation to these key issues and any other significant findings from the audit.

4. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Our audit does not necessarily disclose every weakness and for this reason the matters referred to may not be the only shortcomings which exist.

5. The report has been discussed and agreed with the Executive Director - Finance and the Head of Finance.

6. We would like to thank the Executive Director - Finance, Head of Finance and the rest of the staff for their kind co-operation and assistance during our audit.

7. The report is also addressed to the Auditor General for Scotland and will be published on Audit Scotland’s website, www.audit-scotland.gov.uk.

Financial statements

Introduction

8. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the College. In this section we summarise the issues arising from our audit of the financial statements for the 8 month period to 31 March 2014.

ONS Reclassification

9. In 2012, the Scottish Government announced that a decision by the UK Office for National Statistics to reclassify Further Education Institutions as central government bodies would come into force on 1 April 2014. This reclassification led to all Scottish colleges, excluding UHI incorporated colleges, changing their year ends to 31 March and therefore the College is reporting on its financial performance from 1 August 2013 to 31 March 2014.

Management responsibilities

10. Within the terms and conditions of the financial memorandum between the Scottish Funding Council (SFC) and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the College and the surplus or deficit for that period. In preparing the financial statements the Board is required to:

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

11. The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992 together with the Financial Memorandum issued thereunder and are presented in accordance with the Accounts Direction issued by the SFC.

Auditor responsibilities

12. We audit the financial statements and give an opinion on whether they:

- give a true and fair view of the state of the College's affairs as at 31 March 2014 and of its surplus or deficit 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.

13. We also confirm whether, in our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

14. We express an opinion that the information in the Operating and Financial Review is consistent with the financial statements.

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

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

Confirmation of auditor independence

16. Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor's objectivity and independence.

17. We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

    a) There are and have been no relationships between Scott-Moncrieff and the Board of Management or senior management that may reasonably be thought to bear on our objectivity and independence,

    b) Scott-Moncrieff has not provided significant consultancy or non-audit services to the College.

Qualitative aspects of accounting practices and financial reporting

18. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided in the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the College.

Qualitative aspect considered	Audit conclusion
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate. Estimates and judgements have been applied in respect of depreciation rates, the valuation of the defined benefit scheme deficit and the valuation of provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied.
The potential effect on the financial statements of any uncertainties including significant risks and disclosures such as pending litigation.	There are no significant uncertainties or risks that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From the testing we performed, we identified no unusual transactions in the period.
Apparent misstatements in the Operating and Financial Review and inconsistencies with the financial statements.	There are no misstatements or material inconsistencies between the financial statements and the Operating and Financial Review.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit with regards to any accounting treatment or disclosure.
Difficulties encountered in the audit.	See paragraph 22 below.

Overall conclusion

An unqualified audit opinion on the financial statements

19. The annual accounts are due to be approved by the Board of Management on 24 September 2014. Our independent auditor's report includes an unqualified opinion on the financial statements for the 8 month period ended 31 March 2014.

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

An unqualified audit opinion on the regularity of transactions

21. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to confirm that, in all material respects, the expenditure and receipts shown in the accounts was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in the College's accounts.

Financial statements preparation

22. We received draft annual accounts and supporting papers of a high standard, in line with our agreed audit timetable. We did encounter issues in completing our on-site fieldwork due to staff illness. We have worked with the College to revise the timetable and all reporting deadlines will be achieved.

Audit adjustments

23. No adjustments have been made to the draft financial statements arising from our audit other than amendments to disclosure notes.

Potential adjustment

24. We identified one potential adjustment during the course of the audit. It was agreed with the Executive Director - Finance and the Head of Finance that this amount is not considered material and thus has not been incorporated into the financial statements. The potential adjustment would not have any impact on the reported deficit for the year. It is detailed below:

		Balance Sheet		Income & Expenditure account	
		Dr	Cr	Dr	Cr
		£	£	£	£
1	Trade Debtors	10,639			
	Trade Creditors		10,639		
	Being grossing up of debit balances within trade creditors				

Follow up of previous audit findings

25. All prior year audit recommendations have been satisfactorily implemented by the College.

Review of accounting systems

26. During our audit work we have considered the College's accounting systems and internal controls. In general, the College's systems of internal financial control appear to be adequate, well designed and operating effectively. We identified some opportunities for improvement, which are set out in the action plan.

Key areas of audit focus and significant findings

27. As noted in our audit plan submitted to the audit committee on 5 March 2014, the following audit risk areas were considered in detail during our audit fieldwork.

Revenue recognition

28. The change in year-end to 31 March has resulted in the accounting period end concluding during the College's academic year. This resulted in the requirement for the College to recognise revenue earned up to the 31 March 2014. UK Generally Accepted Accounting Practice states that income should be recognised when it is earned. In the case of a College, this can be measured with reference to the delivery of courses. As the previous financial year ran in line with the academic year, the majority of course income could be recognised as earned by the year end, as most courses were completed. The change in the accounting year end date raised the issue as to how much income the College could recognise up to 31 March 2014.

29. Scottish Funding Council issued guidance notes for the completion of the 2013/14 financial statements, however the guidance did not state any specific methodology that should be used in recognising income, but stated that "it is for individual colleges to demonstrate that they have applied an appropriate methodology to arrive at an acceptable estimate."

30. We have reviewed the College's accounting treatment for income recognition in respect of the period ended 31 March 2014. The College calculated the income to be recognised in respect of each course, based on the percentage of the course that was completed as at 31 March 2014. This was calculated based on the number of teaching days delivered over the duration of a course.

31. All SFC grant in aid which was received up to 31 March 2014 was recognised, and the College included an accrual for the income earned, but not yet received, based on the total SUMs delivered as at 31 March 2014.

Voluntary severance scheme

32. The College undertook a voluntary severance scheme during the 8 month period to 31 March 2014. This resulted in 32 applications being accepted for voluntary severance, at a total cost to the College of £1.604m. The Finance and Physical Resources Committee was responsible for the voluntary severance budget, with the Board of Management approving the £1.6 million budget on 19 March 2014. The total costs of the scheme have been accurately reflected in the financial statements.

33. The College had sufficient arrangements in place to ensure the voluntary severance arrangements were appropriately authorised before being concluded. These included approval from the College Board of Management and the Performance, Remuneration and Nominations Committee. Voluntary severance applications were considered for approval or rejection, with reference to the College's 'Proposed Future Structure', which was approved by the Board on 17 September 2013.

34. *Guidance on severance arrangements to senior staff in Scottish further education colleges* produced by the Scottish Funding Council provides guidance to public bodies on managing severance schemes. We found that the College complied with the majority of the requirements within the guidance, with the exception that the College did not have an approved Severance Policy in place.

Action Plan: Point 1

Completeness and occurrence of income

35. There is a presumption under International Standard on Auditing 240 that the recognition of income is a significant risk in all financial statements.

36. We have performed sufficient testing in respect of income capture to provide assurance on the completeness and occurrence of income recognised in the financial statements and we are satisfied that income is correctly stated in the financial statements. In particular, as described above, we considered the impact on revenue recognition of the change to the College's financial year end.

Management override

37. Additionally in accordance with International Standard on Auditing 240, management override is a presumed risk. We performed sufficient audit testing to gain assurance in respect of this risk. Our audit work included a review of journal entries processed in the period and around the period end, 31 March 2014. We are satisfied that there are no indications of management override in the period.

Other observations arising from our audit work

Early retiral pension provision

38. The College provides for retirement benefits for previous employees who obtained early retirement. The provision is calculated based on the expected costs of the pension payments across the employees' estimated lives. The provision is calculated using a Scottish Funding Council template which estimates the cost to the College based on the employees' current date of birth, gender and annual payments.

39. During our audit, in respect of a number of sampled individuals, we were unable to confirm the provision calculation was accurately derived as some of the employees' dates of birth could not be confirmed to underlying records. There is therefore a risk that the pension provision within the financial statements is incorrectly stated.

Action Plan: Point 4

Bad debt provision and write off

40. Our review of the College's aged debt position as at 31 March 2014 identified that the College is providing for outstanding debts, some of which date back to July 2011. The value of debts that have been outstanding for over 12 months amounts to £0.8 million. Although all of these debts have been provided against, it is now unlikely that the majority will be recovered, and therefore any irrecoverable balance should be written off.

Action Plan: Point 3

Fraud and irregularity

41. Responsibility for preventing and detecting fraud and other irregularities lies with the Board of Management. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

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

Legality

43. We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.

44. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Management representations

45. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements.

Use of Resources

46. This section of the report summarises our findings in relation to the College's financial performance for the 8 month period ended 31 March 2014.

47. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and to consider the College's governance arrangements in relation to the College's financial position.

Financial position

The College has reported a deficit of £21.693 million which included a gift of funds to the Scottish Colleges Foundation and the City of Glasgow College Foundation totalling £21.702m

48. As from 1 April 2014, the College is classified as a central government entity. As a government body, the College is no longer able to utilise retained income and expenditure reserves in future years. The Board of Management took the decision, prior to the reclassification, to transfer its retained income and expenditure reserves to foundations independent to the College. A total of £11.702 million was donated to the Scottish Colleges Foundation, with the remaining £10.000 million being transferred to the City of Glasgow College Foundation. In the absence of these one-off donations, the College would have reported a surplus of £9,000 in respect of the 8 month period to 31 March 2014. It is also worth highlighting that this is after incorporation of £1.604 million of voluntary severance costs.

49. In line with the rest of the sector, the College suffered a reduction in core teaching and fee waiver income from the SFC for the 8 month period to 31 March 2014. The College had a reduction in SFC grants of £0.487 million, mostly relating to a decrease in the estates maintenance grant.

50. The College's staff costs account for 74% of its total expenditure (excluding the transfer to arm's length foundations), and therefore in order to deliver a balanced budget in future years, it was essential that savings were identified in this area. The College has made significant progress in reducing its staff costs, and achieving savings through its voluntary severance programmes. In the 8 months to 31 March 2014, the College reported an underspend against its projected target of £1.142 million.

51. As mentioned previously, the College has undertaken a further voluntary severance programme in the 8 month period to 31 March 2014. The programme was undertaken in order to meet its future staffing requirements as outlined in the College's future structure document, which was approved at the September 2013 Board of Management meeting. The voluntary severance scheme for 2013/14 resulted in a cost to the College of £1.604 million, however it is expected that savings will be achieved which will outweigh the costs incurred.

Balance sheet

The College balance sheet remains strong, despite the reduction in current assets and total reserves following the donations to the Scottish Colleges Foundation and the City of Glasgow College Foundation totalling £21.702 million

52. The College has reserves of £7.904 million at 31 March 2014 (£33.141 million at 31 July 2013), and holds £8.448 million of deferred capital grants (£8.885 million at 31 July 2013). The decrease in the reserves balance is primarily due to the donations totalling £21.702 million to the City of Glasgow College Foundation and Scottish Colleges Foundation.

53. The remaining movement can be explained by a significant increase in the defined benefit pension scheme liability from £2.682 million at 31 July 2013 to £6.112 million at 31 March 2014. This is based on the results of the actuarial report prepared by Hymans Robertson LLP for the period ending 31 March 2014.

Financial forecasts

SFC funding has been confirmed for 2014/15 and a surplus of £84,000 has been forecast

54. The SFC uses the Financial Forecast Return (FFR) to assess the financial position and performance of individual colleges and the sector as a whole. The College's FFR for 2013 forecast a deficit of £21.314 million for the 8 month period to 31 March 2014, which is only marginally different to the £21.693 million actual deficit for the period.

55. The College expect to achieve a surplus of £84,000 for the year to 31 March 2015.

Going concern and subsequent events

56. We are required under International Standard on Auditing 570, "Going Concern" to consider the appropriateness of the Board of Management's use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about the College's ability to continue as a going concern which need to be disclosed in the financial statements.

    In order to gain assurance on these matters our work has included:
    - reviewing bank facilities;
    - performing a review of budgets and cash flow projections covering a period of 12 months from the expected signing of the audit report, together with post period end management accounts;
    - reviewing minutes of post balance sheet Board of Management meetings;
    - enquiring of senior management and the College's solicitors concerning litigation, claims and assessments;
    - consideration of future SFC funding; and
    - performing sample testing of post balance sheet transactions.

57. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future.

58. In our opinion the going concern assumption remains appropriate. From the audit work performed and through discussions with the Executive Director - Finance and the Head of Finance, we are satisfied that all subsequent events have been disclosed.

Governance

59. It is the College's responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:

- the College's review of its systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and other irregularities;
- standards of conduct and arrangements for the prevention and detection of corruption;
- the College's financial position.

Corporate Governance

60. Colleges are required to include in their financial statements a statement covering the responsibilities of their Board of Management in relation to corporate governance arrangements. The statement should describe the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and report on the College's compliance with the UK Corporate Governance Code.

61. The College's Corporate Governance Statement for 2013/14 states that the College was fully compliant with the UK Corporate Governance Code 2010 throughout the period.

62. We reviewed the Corporate Governance Statement by:

- checking the statement against Scottish Funding Council guidance;
- considering the adequacy of the processes put in place by the Principal and Board of Management to obtain assurances on systems of internal control;
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

63. We are satisfied that the statement is consistent with the Scottish Funding Council's guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Risk management

64. Risk management is important to the establishment and regular review of systems of internal control. The College's annual accounts outline the principal risks and uncertainties of the College and confirm that mitigating controls are in place in response to those risks.

65. The College has a Risk Management Policy and Risk Management Procedures in place. The College has a risk register which is maintained by the Executive Leadership Team and reviewed and updated on a regular basis. The Board of Management reviews the top level risks at each meeting and the full risk register annually. In addition any significant changes in the risk register are notified immediately to the full Board.

66. We have concluded that the College has robust risk management systems in place.

Internal audit

67. The internal audit service is a key component of the College's internal control framework. As part of our corporate governance responsibilities, we have considered the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice.

68. For 2013/14 the internal audit service has been provided by BDO LLP. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate.

Internal audit's annual opinion statement

69. Internal audit has concluded in its annual report that control and governance arrangements were operating with sufficient effectiveness to provide reasonable assurance that the related risk management, control and governance objectives were achieved.

Prevention and detection of fraud and irregularity

70. As part of our audit we consider how the College ensures compliance with all relevant guidance and regulations. This includes a consideration of the College's arrangements for the prevention and detection of fraud and irregularity.

71. The College has an anti-bribery policy and a code of practice on whistle blowing in place. There were no frauds identified during the period.

72. The SFC has a circulation list, tailored by the College, to ensure that specific responsible individuals within the College receive the relevant circulars. Circulars received that require a response are included on the Senior Management Team meeting agenda. Once discussed, a member is nominated to be responsible for coordinating any response to the circular, monitoring any responses which are required from other members of staff and for reporting to the Finance Committee which then submits the response to the Funding Council.

73. We identified no issues of concern in relation to the arrangements for the prevention and detection of fraud, with regard to the legality of transactions or in relation to compliance with relevant guidance and regulations.

Standards of conduct

74. We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption.

75. Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness have been issued by the Scottish Government.

76. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over ordering and procurement and disposal of assets.

77. We identified two areas of improvement, which if implemented, could further strengthen the College's arrangements in relation to its standards of conduct. These are discussed below.

Declarations of interest

78. We reviewed the College's arrangements for declaring Board members' interests. Although it is required by the College's governance arrangements that all Board members declare any new interests at Board meetings, our audit work identified that there has been no formal declaration submitted by each of the Board members since September 2012. We would recommend that formal declarations of interests are submitted by all Board members annually in accordance with an agreed timetable. To further strengthen the governance arrangements in this area, we would also recommend that such declarations are provided by senior management.

Action Plan: Point 5

Succession planning and resources

79. We have identified that there are no formal succession plans in place at the College in respect of key members of the senior management team. The College has taken steps to improve arrangements in this area, including the appointment of a Convener and Vice Convener for all committees. However, we would recommend that the College takes action to implement succession plans across the College, to ensure all responsibilities will be met where key members of management are absent, for whatever reason. Particularly within the Finance team the resource levels have reduced significantly post merger, and with additional reporting and analysis linked to the ONS reclassification, it would appear that additional staff resource is required.

Action Plan: Point 2

Looking forward

FE College Statement of Recommended Practice (SORP)

80. Colleges are currently required to follow the Statement of Recommended Practice: *Accounting for Further and Higher Education 2007* ('the SORP'). The SORP reflects UK Generally Accepted Accounting Practice (UK GAAP) and aims to combine the requirements of further and higher education institutions and key stakeholders into recommended accounting practice.

81. Over the last ten years, the Financial Reporting Council has been working on a conversion programme to base all financial reporting in the UK on International Financial Reporting Standards (IFRS). As a result of this conversion programme the Financial Reporting Council has adopted into UK GAAP, Financial Reporting Standards 100, 101 and 102 for financial years beginning on or after 1 January 2015. These three standards effectively become the new UK GAAP, one which is IFRS based.

82. The FE/HE SORP Board, consisting of key stakeholders from Higher and Further Education bodies across the UK, accounting practitioners, as well as representatives from funding bodies, has developed a SORP which takes account of the key requirements of the new Financial Reporting Standards.

83. The SORP represents a significant change in financial reporting across the College sector. This includes changes in disclosure and terminology within the accounts including the names of the primary financial statements. There are also some fundamental changes to accounting practice.

84. The new accounting standards come into force for financial years commencing on or after 1 January 2015, which means 2015/16 will be the first reporting year for institutions. However, comparative figures for 2014/15 are required, which in turn will require an opening balance sheet as at 1 April 2014 to be prepared.

New campus project

85. The College's new campus project commenced its construction phase in August 2013. The College's FFR forecasts that the total capital spend to be incurred by the College up to 31 March 2018 will be £37.867 million. This will be funded by £18.488 million in SFC funding and £19.379 million from the City of Glasgow College Foundation and Scottish Colleges Foundation. See the table below for further details:

Table: Capital Expenditure Plans and Forecast Methods of Financing

	Actual 31.07.13	Forecast 31.03.14	Forecast 31.03.15	Forecast 31.03.16	Forecast 31.03.17	Forecast to 31.03.18
	£000	£000	£000	£000	£000	£000
Expenditure:						
Land & buildings	1,003	823	6,924	8,748	2,891	364
Equipment & others	763	564	1,840	4,436	8,468	1,043
	1,766	**1,387**	**8,764**	**13,184**	**11,359**	**1,407**
Financed by:						
Arm's length foundation grants	1,112	1,142	6,039	8,249	2,579	258
SFC grant	654	245	2,725	4,935	8,780	1,149
	1,766	**1,387**	**8,764**	**13,184**	**11,359**	**1,407**

Source: Financial Forecast Return 2014

Appendix 1 – Management action plan

We identified six observations which we consider require management action. All prior year management action plan points have been addressed in the current period.

		No of Audit Observations	
Grade	**Definition**	**Current period**	**Prior year**
5	Very high risk exposure - Major concerns requiring immediate attention	-	-
4	High risk exposure - Absence / failure of significant key controls	-	-
3	Moderate risk exposure - Not all key control procedures are working effectively	1	-
2	Limited risk exposure - Minor control procedures are not in place / not working effectively	2	-
1	Efficiency / housekeeping point	3	3

Action plan

1	Policy Statement on Severance
Observation	As outlined in the guidance *"Severance Arrangements to Senior Staff in Scottish Further Education Colleges"*, issued by the Scottish Funding Council, Colleges should have a clear policy statement on severance. The guidance also details the importance of a College obtaining sufficient legal advice, to ensure the policy is in compliance with employment law. During our review of the severance procedures, we identified that the College did not have any policies in place for voluntary severance schemes.
Risk and recommendation	There is a risk that the College has not complied fully with the aforementioned guidance issued by the Scottish Funding Council. We recommend that the College develop a clear policy statement for voluntary severance, seek legal advice as appropriate, and ensure the policy is approved by the Board of Management. We would encourage the College to undertake regular reviews of the policy to ensure its content remains compliant with employment law and regulation. **Grade 3**
Management response	**Agreed** Responsible officer **: Executive Director People & Culture**

2	Succession planning and resources
Observation	Although the College has made arrangements across its various committees to promote succession planning, for example by introducing Conveners and Vice Conveners into committees, we did not identify any evidence to illustrate that succession planning has been considered across the College, in particular at the senior management level. Particularly within the Finance team the resource levels have reduced significantly post merger, and with additional reporting and analysis linked to the ONS reclassification, it would appear that additional staff resource is required.
Risk and recommendation	There is a risk that insufficient plans are in place, were a key member of staff or member of senior management absent for a pro-longed period of time. We would recommend that the College implement a formal succession plan, which details how the College will ensure that it meets its responsibilities in the absence of key members of staff. Additionally we would recommend that consideration is given to the staff resource levels within the Finance team, as recent staff illness has resulted in significant pressures upon the team to ensure key reporting milestones are achieved. **Grade 2**
Management response	**Agreed, a proposal will be presented to ELT.** Responsible officer **: ELT**

3	Bad debt provision and write off
Observation	Our review of the College's aged debt position as at 31 March 2014 identified outstanding debts, some of which date back to July 2011. The value of debts that have been outstanding for over 12 months totals £0.802 million. Although all of these debts have been provided against, it is now unlikely that they will be recovered, and therefore any irrecoverable balance should be written off.
Risk and recommendation	There is a risk that the College's aged debt procedures are not operating effectively. We recommend that all debts which are deemed to be irrecoverable are written off. **Grade 2**
Management response	**Agreed, we will review the debt within the provision and where appropriate write off these debts.** Responsible officer **: Executive Director Finance**

4	Early retiral pension provision
Observation	During our testing of the early retirement pension provision, we were advised that, following the merger of the three colleges, some employees' details could not be traced to source documentation, including the dates of birth. For a sample of individuals selected for testing, we identified that in most circumstances, the former employees' age is determined based on previous years' working paper information.
Risk and recommendation	There is a risk that the early retirement pension provision as recorded within the financial statements is inaccurately calculated and the financial information disclosed in the accounts is incorrect. We would recommend that the College source the relevant documentation to confirm the dates of birth for all individuals included in the early retirement pension provision, and subsequently assess the impact of the information on the value of the provision disclosed within the accounting records. **Grade 1**
Management response	**Agreed, we have requested confirmation of the missing dates from the pension agencies.** Responsible officer **: Executive Director Finance**

5	Declarations of interest
Observation	Our audit work identified that there has been no formal declaration of interests submitted by each of the Board members since September 2012.
Risk and recommendation	There is a risk that, without a formal annual review of the interests of Board of Management members, the register of interests will not represent a complete listing of all interests held. We would recommend that formal declarations of interest are submitted by all Board members annually in accordance with an agreed timetable. To further strengthen the governance arrangements in this area, we would also recommend that such declarations are provided by senior management. **Grade 1**
Management response	**Agreed, the forms will be issued to all Board members in September to update the declaration of interests register.** **The senior management declaration of interests register is currently incomplete. We will ensure this is completed.** Responsible officer **: Board Secretary & Executive Director People & Culture**

6	Reconciliation of income per management accounts to income disclosed in the VAT returns
Observation	A reconciliation of income as disclosed in the VAT returns to income within the accounting records had not been completed this year. Without the preparation of such reconciliations we were unable to verify that output VAT disclosed to HMRC was accurate.
Risk and recommendation	There is a risk that if HMRC were to perform a VAT control visit, the College may not be able to explain variances or un-reconciled items, especially those relating to previous financial years. From past experience, we understand that this is one of the first reconciliations which HMRC request as part of a control visit. We recommend that such a reconciliation is performed quarterly, to ensure that such issues are identified on a timely basis. **Grade 1**
Management response	**Agreed** Responsible officer **: Executive Director Finance**

Appendix 2 – Your audit team

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