Wylie + Bisset LLP

Chartered Accountants, Business & Tax Advisers

WEST COLLEGE SCOTLAND

ANNUAL REPORT TO THE BOARD OF MANAGEMENT & THE AUDITOR GENERAL FOR SCOTLAND

ON THE EXTERNAL AUDIT FOR THE PERIOD ENDED 31 MARCH 2014

Topic	Date
Commencement of final visit	2 June 2014
Audit clearance meeting	24 June 2014
Date of presentation to Audit Committee	9 September 2014
Proposed presentation to Board of Management	22 September 2014

TABLE OF CONTENTS

SectionPage

1 EXECUTIVE SUMMARY

1.1 FINANCIAL REVIEW

The College returned a surplus of £12,000 for the 8 month period ended 31 March 2014. The comparative result for the 12 months ended 31 July 2013 was a deficit of £113,000. This is after accounting for exceptional restructuring costs of £752,000 (2012/13: £4,655,000).

The College maintains a strong overall balance sheet position with net assets of £54,387,000 (2013 £55,480,000). It is noted that this is after accounting for a pension reserve deficit of £20,285,000 (2013 £15,391,000).

1.2 FINANCIAL STATEMENTS

We have issued an unqualified opinion on the accounts of West College Scotland for the period ended 31 March 2014.

There were a number of adjustments made to the draft figures presented for audit. The financial statements have been updated by the College to reflect these adjustments.

1.3 GOVERNANCE & INTERNAL CONTROL

We have undertaken an overall review of the corporate governance arrangements and processes of internal control in place at the College. Based on the audit work undertaken and the findings made by the internal auditors the College has adequate 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 two recommendations relating to:

- Loan Covenant compliance
- Employer’s national insurance rates used in accrual calculations.

2 INTRODUCTION

2.1 APPOINTMENT

Wylie & Bisset LLP were appointed by Audit Scotland as the External Auditors of West College Scotland 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 on the College's financial statements and, the regularity of transactions;
- 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, and
- 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 period. 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 of the College's financial position and the income and expenditure for the period ended 31 March 2014 and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006. We are satisfied that funds received have been applied for their intended purpose.

3.3 SUBMISSION OF WORKING PAPERS

The financial pages of the accounts submitted for audit were complete and included all the relevant financial information. Working papers provided have been of a high standard and queries arising from the audit have all been resolved. Key staff members were available for consultation throughout the audit process.

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

Following discussion with the auditors it was agreed at the beginning of the final audit visit to make an adjustment to the draft financial statements to incorporate £1,058k of assets which have been purchased by the College. These assets were substantially in use at the balance sheet date and due to the unique situation this year, with the college being categorised as a non departmental government body from 1 April 2014, and there being no budget cover for these capital assets in 2014/15, we are in agreement with this approach.

3.4 INCOME AND EXPENDITURE ACCOUNT

	8 months to 31 March 2014 £'000	Year ended 31 July 2013 £'000
Income		
SFC Grants	28,291	48,181
Tuition fees and education contracts	5,173	7,437
Other grant income	726	335
Other operating income	2,546	4,325
Investment income	84	141
	36,820	60,419
Expenditure		
Staff costs	23,924	36,490
Exceptional restructuring costs	752	4,655
Other operating expenses	9,240	15,337
Contribution to charitable foundation	450	-
Depreciation	2,189	3,108
Interest and other finance costs	253	942
	36,808	60,532
Surplus/(Deficit)	**12**	**(113)**

- The result for the period is a surplus of £12,000, including a credit of £255,000 in relation to FRS17.
- Both income and expenditure have decreased in comparison to the year ended 31 July 2013 due to the current reporting period being 8 months compared to 12 months for the prior year.
- If the income for 2013/14 is annualised the reduction in Total Income is equivalent to £5,189,000 when compared to 2012/13. The major components of this reduction are:
  - SFC recurrent grant reduction of £2,610,000 is due primarily to the cessation of Economic Downturn Funding;
  - SFC Estates and College Transformation funding reduction of £2,739,000 which is partially offset by a reduction in expenditure in exceptional restructuring costs and other non-staff expenditure (estates expenditure);
  - Tuition Fees and Other Operating Income have reduced by £184,000 overall. There are a number of classification issues which have resulted in anomalies in the comparative figures. Going forward these anomalies have been resolved. The movement is due to a reduction in rental and other miscellaneous income collected during the year;
  - Other Grant Income has increased by £754,000 due to the recognition of European Funds as old projects were closed out.
- Recurring staff costs when the impact of FRS17, restructuring costs and the impact of the holiday pay provision are removed represents 63% of total income (2012/13: 61%).

- During the financial period, the College incurred restructuring costs of £752,000 (2013: £4,655,000). This relates to voluntary severance payments incurred as a result of the merger. Overall the West College Scotland merger has resulted in 122 FTE staff leaving the employment of the College with an annualised salary saving of £5,600,000 being realised.
- Other Operating Expenses if annualised has reduced by £802,000. The major components of this reduction are:
    - A £450,000 donation to the West College Scotland Foundation; and
    - A reduction in premises costs of £401,000 mainly as a result of reduced SFC estates maintenance funding being spent in year.
- Interest Payable is distorted by the inclusion of pension finance costs (FRS17) which if removed results in an annualised reduction in interest payable of £135,000. This is mainly as the result of the removal of historic overdraft facility servicing costs.

3.5 BALANCE SHEET

	8 months to 31 March 2014 £'000	Year ended 31 July 2013 £'000
Tangible fixed assets	83,658	80,794
Stocks	17	11
Debtors: amounts falling within one year	6,038	4,379
Cash at bank and in hand	7,536	12,077
Creditors: amounts falling due within one year	(17,440)	(20,186)
Creditors: amounts falling due after one year	(5,137)	(6,204)
Pension liability	(20,285)	(15,391)
Net assets	**54,387**	**55,480**
Deferred capital grants	38,543	34,499
Income & Expenditure reserve excluding pension reserve	9,709	9,308
Pension reserve	(20,285)	(15,391)
Revaluation reserve	26,420	27,064
Total Funds	**54,387**	**55,480**

- Tangible fixed assets have increased by £2,864,000 due to continued planned capital expenditure of £5,053,000 which is offset by depreciation charge of £2,189,000. This capital expenditure is primarily at the Greenock campus of the College and includes installation of two new roofs and a link corridor.

- Debtors due in less than one year have increased by £1,659,000 to £6,038,000 (2013: £4,379,000) mainly due to:
  - A £1,203,000 increase in trade debtors. This is due largely to £780,000 of bursary income being owed to the College at the period end;
  - Prepayments have also increased by £782,000 to £4,215,000 (2013: £3,433,000) due to the inclusion of a debt owed from the SFC re recurrent grant funding due to the revised year end date; and
  - Both European Funding and Other Debtors have reduced by £326,000 to £40,000 and £107,000 respectively. These movements are due to the revision of the year-end date with it now occurring during the academic year rather than at the end of it.

- Creditors due in less than one year have decreased by £2,746,000 to £17,440,000 (2013: £20,186,000). This is due in the main to the:
  - Repayment of overdraft of £1,325,000;
  - Expenditure of £2,682,000 of SFC capital maintenance funds; and
  - The above decreases in creditors have been offset by increases in trade creditors and accruals of £1,216,000 due primarily to the revised year end date.

- Creditors due in more than one year have reduced by £1,067,000 to £5,137,000 (2013: £6,204,000) due to continued repayment of bank loans in line with scheduled payments.
- The defined benefit pension liability has increased by £4,894,000 to £20,285,000 (2013: £15,391,000). The loss in the period has been taken through the STRGL.
- As a result of these movements, the net assets of the College have decreased by £1,093,000 to £54,387,000 (2013: £55,480,000).

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 focussed on the key risks facing the College.

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

As part of our prior period 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 audit procedure, 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 main audit procedures, we have not identified any areas where the operation of internal financial controls could be improved.

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

4.2 AUDIT MATTERS 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 Principal Accountant and Director of Finance and Estates. This practice is an established part of the audit process. This report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit, noted as follows:

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

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

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

"Early Retirement Costs

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

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

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

This would indicate that under the FE SORP the treatment adopted for early retirement costs should be accounted for under FRS12.

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

4.3 OTHER MATTERS

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

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

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

4.4 JOURNAL ADJUSTMENTS

Appendix C includes a copy of the letter of representation which we have sought from the Board of Management in support of the matters reported to us during our audit procedures. This includes reference to the agreed journal adjustments which have been process through the financial statements. There is one deviation identified during our audit procedures which is noted in appendix C which was not 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 West College Scotland 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 West College Scotland 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 West College Scotland 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 CORPORATE GOVERNANCE & INTERNAL AUDIT

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 period.

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

The final 2013/14 Internal Audit Plan showed six areas that were scheduled to be reviewed during the period with all the intended work being completed apart from the Risk Management Workshop. This audit was reduced in scope due to the timing of the intended work and will be fully included in the 2014/15 audit plan.

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

- Review of Core Financial Controls Framework
- Review of Key System Changes and Transitions (Finance and Student Funding)
- Review of Key System Changes and Transitions (HR / Payroll and Student Data)
- Risk Management Workshop and Risk Register Refresh
- Review of General Governance Arrangements and Compliance and Good Practice
- Review of Follow Up Progress

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the reports issued by the Internal Auditor. At the time of our audit, internal audit reporting was complete and the Annual Report has been issued.

Minutes of the Audit Committee were also reviewed.

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

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 West College Scotland.

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 and all its Committees have completed a self-evaluation exercise which is based on the responsibilities of the Board and Committees and on the 'Good Governance Standard for Public Services'. The outcome of the exercise will be fed back to the Board in September 2014 along with individual Committee action plans to take forward into 2014/15.

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 College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Governance procedures.

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

6.2 AUDIT FINDINGS

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

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

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

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

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

There are no specific recommendations made in this area.

7 AUDIT RECOMMENDATIONS – 31 JULY 2013

7.1 PRIOR YEAR RECOMMENDATIONS

All the matters that were raised on the previous year for the three colleges have been mostly complied with now and all were low to medium risks. A summary of the significant management letter points raised for Clydebank, Reid Kerr and James Watt Colleges are summarised below:

- No assessment of the Chairman of the Board was carried out by non-executive members.
- Self-evaluation of Board members was not completed.
- Conflict of committee membership.
- Risk register to be updated.
- Bank covenant relating to the James Watt College bank loan was breached as net assets were below £10m.
- Physical verification of assets exercises were not carried out throughout the year.
- Old outstanding cheques not included in the year end bank reconciliation.
- Supplier statement reconciliations were not carried out on a monthly basis.

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 LOAN-COVENANT COMPLIANCE

8.2	**Loan Covenant Compliance**
Observation	During our review of the bank loan covenants we found that the change of year end approval covenant had not been adhered to. The covenant states that the College must receive prior written consent to alter its financial year end, and although the banks were aware of the change in year end to 31 March, we have found that written consent was not formally received prior to the change. We have received confirmation from the banks stating that they have no issues with the breach of the covenant and they do not consider the fact that prior approval was not obtained to be a breach. There is no adjustment to the financial statements required.
Implication	The bank may demand the full repayment of the loan and the liabilities may have to be re-classified.
Recommendation	We recommend that the College complies with the bank covenants and if there are indications that the covenants may be breached, the bank is kept fully informed. We also recommend that the College renegotiates certain covenants contained within the Clydesdale Bank loans to ensure they are more easily complied with.
Priority	**Low**
Management Response	The College agrees with the recommendation regarding review of covenants and continues to maintain a close working relationship with both loan providers. The College is currently in negotiation with Clydesdale Bank to review the covenant requirements. This review will be completed by the end of October 2014. Director of Finance and Estates.

8.3 EMPLOYER'S NATIONAL INSURANCE RATE USED IN ACCRUAL CALCULATIONS

8.3	**Employer's National Insurance rate used in accrual calculations**
Observation	We note that in the holiday pay and back pay award accrual workings the incorrect employer's national insurance rate was used. The current rate of employer's NI is currently 13.8%, the College had used a rate of 6% for the holiday pay and 8.5% for the back pay awards.
Implication	The use of the incorrect rates could lead to a material misstatement in the financial statements although in this instance the use of an incorrect rate did not lead to a material misstatement.
Recommendation	We recommend that the College uses the correct rates, checked to the HMRC website, when computing the accrual calculations.
Priority	**Low**
Management Response	The College agreed with the recommendation. The rate used was an average rate based on the management accounts figure. After discussion with the auditor a revised rate was applied to the calculation and the immaterial error was corrected in the financial statements.

9 EMERGING ISSUES

As Clydebank College, James Watt College and Reid Kerr College ceased to exist as individual entities on 1 August 2013 the following is included for reference of the Board of Management of West College Scotland.

9.1 CLASSIFICATION CHANGE FOR INCORPORATED COLLEGES

During 2013 The Office of National Statistics 'ONS' reviewed the classification of further education colleges in the UK and concluded that all incorporated FE colleges should be classified as non departmental public sector bodies ("NDPB"). This 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 the UK and Republic of Ireland in March 2013. This is the third new standard to be issued by the FRC since November 2012 and represents the most significant element of the new UK GAAP reporting regime. FRS 102 is applicable for accounting periods beginning on or after 1 January 2015, 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 BOARD OF MANAGEMENT'S RESPONSIBILITIES

The Board of Management are required to present audited financial statements for each financial period.

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

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education and other relevant accounting standards.

In addition, within the terms and conditions of the Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management through its designated office holder, is required to prepare financial statements for each financial period 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 period.

These financial statements are 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.

In preparing the financial statements, the Board of Management 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;

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

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 taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the College and prevent and detect fraud;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

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

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;

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

Any system of internal control can, however, only provide reasonable but not absolute assurance against material mis-statement or loss.

B INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of the Board of Management of West College Scotland 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 Cost Surpluses and Deficits, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of 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 and disclosures 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 college'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 material inconsistencies with the audited financial statements and 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 there under by the Scottish Funding Council of the state of the college'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 there under by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on regularity

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

Opinion on prescribed matters

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

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

Chartered Accountants

168 Bath Street

Glasgow, G2 4TP

Date: 22nd 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

West College Scotland
Queens' Quay
Clydebank
G81 1BF

22 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 31st March 2014.

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

a) the financial statements are free of material misstatements including omissions .
b) that the financial statements give a true and fair view of the state of affairs of the College as at31 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 Management by the SFC.

2. We have appointed Deloitte 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 period any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

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

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

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

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

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

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

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

	Assets £	Liabilities £	Funds £	Income & Expenditure £
Being shortfall in WSUMs activity from SUMS audit	**-**	**(41,409)**	**-**	**41,409**
TOTAL IMPACT OF UNADJUSTED MISSTATEMENTS	**-**	**(41,409)**	**-**	**41,409**

15. We confirm that we approve the enclosed journal adjustments which have been processed in drafting the statutory accounts.

JOURNAL ADJUSTMENTS

	Assets £	Liabilities £	Funds £	Income & Expenditure £
Being incorporation of additional holiday pay accrual	-	(152,000)	-	152,000
Being National Insurance accrual on the above	-	(18,000)	-	18,000
Being release of SAAS creditor to income	-	102,000	-	(102,000)
Being incorporation of assets	1,058,000	(1,058,000)	-	-
Being shortfall in WSUMs activity	-	(371,000)	-	371,000
TOTAL IMPACT OF AUDIT ADJUSTMENTS	**1,058,000**	**(1,497,000)**	**-**	**439,000**

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

Yours faithfully

…………………………………………… Chairman

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

D IDENTIFIED AUDIT RISKS

IDENTIFIED AUDIT RISK, APPROACH & CONCLUSION

Risk	Audit response	Conclusion
Financial performance: The level of Scottish Government funding available to the College is tight resulting in the College's ability to generate surpluses being minimal. There is an increased risk associated with the demand this places on current resources. The risks associated with reporting a surplus will become even greater in future years with the re-classification of the college as a non departmental public body (NDPB).	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 ensuring adherence with the requirements of the relevant accounting standard. In particular, any severance provision will be assessed to ensure they meet the criteria to be booked as a provision at the balance sheet date.	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. All significant deviations from budget have been adequately explained and supported. We are satisfied that non-standard transactions have been processed correctly.
Financial Systems: Following merger of three colleges to form West College Scotland, the College is operating one financial system from three campus locations. There is an increased risk of errors if each campus follows a different process. Furthermore, the newly merged College is still using different payroll	We will review transactions from each finance portal system and ensure processes are being applied consistently. Each payroll system will be subject to our transaction testing ensuring	We are satisfied the payroll costs are accurately reflected in the financial statements.

systems across the three campuses. There is an increased risk of errors during the consolidation process to produce one set of accounts.	entries are correctly processed in line with College policy. We will review the consolidation of payroll costs for inclusion in the final accounts.	
Opening Balances: 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.	We will ensure the balances maintained in the financial systems of the three merging colleges are correctly reflected in the financial systems of the merged entity by reference to the July 2013 approved financial statements.	The balances from the three merging entities have been correctly input into the financial system and we are satisfied as to the accuracy of the opening balances.
Cut Off: As a consequence of the classification change of incorporated colleges the financial year end has been changed to 31 March from 31 July. 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 accounting period.	We will review how the College has accounted for SFC income at the financial year end and ensure appropriate cut off procedures have been applied to the eight month period under review.	We are satisfied with the revenue recognition basis, and specifically the cut off of SFC income, in the financial statements.
Bank Covenants: As a result of the formation of the newly merged College the covenants associated with some of the loans have been revised. There is increased risk that the college is not aware of the revised covenants which could lead to a breach.	As part of our audit testing we will review the new bank covenants in place and examine the College's compliance.	We undertook work in this area and our findings and conclusion are reported at section 8.2 in this report.

VAT Partial exemption methodology A new partial exemption calculation has been agreed with HMRC for the new College. Consequently, there is a risk that the new P/E calculation is not being applied correctly.	Our audit testing will include checking the validity of the partial exemption calculation to ensure the College is recovering the VAT they are entitled to.	We are satisfied as to the validity of the partial exemption calculation.
Provisions: Due to the recategorisation from 1 April 2014 as a Non-Departmental Public Body "NDPB" 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: In the period under review the staff structure below Principal, Vice Principal and Director level was still uncertain. Due to the on-going staff restructuring process there may have been a lack of clarity and certainty over some roles. As such there is increased uncertainty over who is performing certain tasks which may result in processes being missed and/or errors occurring.	Our audit procedures will involve sample testing in a number of areas to ensure that items are being processed correctly. Analytical reviews will also be undertaken to identify any omitted items.	We are satisfied with regards to this risk. Our sample testing undertaken and analytical review has provided satisfactory results and we can conclude, based on our sample testing, that the position has not resulted in material error.

Override of Internal Controls: Fraud or error arising due to management override of controls. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs.	Our audit procedures will include testing the appropriateness of journal entries recorded within the general ledger and other adjustments made in the preparation of the financial statements, along with a review of accounting estimates for any evidence of bias. We will also consider specifically any significant transactions outside the normal operations of the College.	Satisfactory. Our testing has highlighted no issues in this area. There are no indicators of inappropriate management override of controls.
Revenue Recognition: Material misstatement due to errors in revenue recognition. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs unless it can be specifically rebutted.	Our standard testing procedures in this area will adequately address the associate 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.
Revised FE/HE SORP: The revised FE/HE SORP will be compulsory for accounting periods beginning on or after 1 January 2015, ie 31 March 2016 year ends. Consideration to it's 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	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.

be collated from 1 April 2014 to allow for comparative information to be available at 31 March 2015. 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.		
Merger accounting: As this is the first year as a merged entity there is the 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 of 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.
Capital Spend: There are a number of significant capital projects on going at the Finnart Street campus in Greenock. There are risks associated with this project in relation to validity of capital spend, accounting for retentions, year-end accruals accounting and the application of component accounting.	We will review the appropriateness of spend and ensure year end accruals are correctly stated and component accounting is appropriately applied.	We are satisfied with the appropriateness of the treatment adopted in relation to capital items.

E CONTACT DETAILS

Name	Position	Email
Ross McLauchlan	Audit Partner	ross.mclauchlan@wyliebisset.com
Scott Gillon	Associate, Audit Manager	scott.gillon@wyliebisset.com
Anil Chumbhit	Audit Manager	anil.chumbhit@wyliebisset.com

Wylie & Bisset LLP

168 Bath Street

Glasgow

G2 4TP

Tel: 0141 566 7000

Fax: 0141 566 7001