Scott-Moncrieff
business advisers and accountants

Glasgow Kelvin College

Annual report on the 2014/15 audit
to the Board of Management and the Auditor General for Scotland

December 2015

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Executive summary

Annual report and accounts

The annual report and accounts for the period ended 31 July 2015 were approved by the College on 14 December 2015. Our independent auditor's report gives an unqualified opinion on the annual report and accounts, the regularity of transactions, and on other prescribed matters. We are also satisfied that there are no matters which we are required to report by exception.

The annual report and accounts and supporting schedules prepared by the College were of a good standard. Our thanks go out to all management and staff at the College for their co-operation and assistance.

Financial management

The College has adequate arrangements in place for managing its financial position and its use of resources.

The College reported an operating deficit for the 16 month period to 31 July 2015 of £2.948million, after an impairment to plant and equipment in respect of Stow Campus totaling £0.387million, undertaking a voluntary severance scheme at a cost of £0.428million and adjustments in respect of pensions arising from FRS 17 with an impact on the results of a cost of £0.203million.

As at 31 July 2015, the College had reserves of £2.662million. The College's reserves have reduced by £8.766million since March 2014, due to the operating deficit recognised in the period, an increase in the pension liability, and a £3.935million impairment of the City Campus land and buildings, following the strategic decision by the College to close this campus in Summer 2016, and dispose of the asset in due course. The College is reporting a balance of £42.132million in respect of deferred capital grants, resulting in net assets reported of £44.794million.

We have evaluated the College's key financial systems and determined whether these are adequate to prevent material misstatements in the financial statements. We have not identified any significant deficiencies in the operation or design of the key financial systems.

Arrangements for the prevention and detection of fraud and irregularity are operating effectively.

Financial sustainability

The College's financial budget for 2015/16 forecasts a break-even position.

The College sets an annual budget and has medium-term financial planning arrangements in place covering the period to 31 July 2017.

Any longer-term financial planning is currently not performed, as funding allocations from the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available.

- **The College spent £30.172million on staff costs during the 16 month period ended 31 July 2015, which approximates to 67% of total expenditure for the same period.**
- **A further voluntary severance scheme was undertaken during the period at a cost of £0.428million (2014: £1.792 million).**
- **During the 16 month period ended 31 July 2015 the College made no donations to arm's length foundations (2014: £3.2million).**
- **As at 31 July 2015 the College reported bank balances totaling £0.494million.**
- **The College's share of the Strathclyde Pension Fund liability increased from £4.726million as at 31 March 2014 to £6.812million as at 31 July 2015.**
- **During 2014/15 the College invested £0.648million in property, plant and equipment.**

On 1 November 2013, the newly merged Glasgow Kelvin College, inherited a much weaker financial position than had been forecast within the Merger Business Case due to the financial performance in the 8 month period to 31 March 2014 being worse than forecast for all 3 individual colleges who came together as part of the merger process. As a result the overall inherited net asset position brought into the newly merged College was £5.2million instead of the predicted £6.3million. This combined with a difficult merger and transition period over the last two years has contributed to a weakened financial position.

Looking beyond 31 July 2016, a key approach to continuing to deliver cost reduction in subsequent years will be the fact that the College is vacating and selling its City Campus.

The Glasgow Regional Estates and Curriculum Review outlines a medium term plan for college provision in Glasgow which reallocates activity across the three Glasgow Colleges to take account of the new college estate and it outlines changes in the curriculum mix across the city to reflect the most current Labour Market Information. The main impact of the recommendations contained in the Review on Glasgow Kelvin College is a 6% reduction in funded activity in session 2015/16, with a further reduction of a similar magnitude in the following academic year. This has the impact of reducing core grant income by £1.2m in session 2015/16.

It also means that the College will be delivering less activity and will therefore employ fewer teaching staff. The College faces a similar reduction in income and activity in session 2016/17. This is the key driver for the need to reduce overhead costs; this will be done in three ways:

1. Restructuring of staffing to commence at the end of 2014/15;
2. Reductions in non-staff spend; and
3. Closure of City Campus in August 2016.

These activities are key priorities for the College for the coming months, in order to ensure financial sustainability going forward.

Governance and transparency

As part of the continuing restructure process being carried out by the College, the need for another round of voluntary severance was identified by the strategic management team during the period. As part of our audit work in relation to governance, we considered in detail the College's arrangements in this area.

A combined business case was prepared by the College's Vice Principal - Finance & Corporate Services on behalf of the entire Glasgow Region. This was submitted to the Glasgow College's Regional Board and the Scottish Funding Council for consideration and approval. Subsequent to this approval being given the College applied for funding to finance the voluntary severance scheme and this was also granted in the period. We have reviewed the aforementioned documentation, as well as minutes and papers submitted to the Remuneration Committee and confirm that all severance arrangements were approved by the Committee in advance of agreements being reached with individual staff members and that the whole process was carried out in line with best practice and guidance issued by the Scottish Funding Council in this area.

In our opinion, the College's corporate governance arrangements as they relate to standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate.

Conclusion

This report concludes our audit of Glasgow Kelvin College for the 16 month period to 31 July 2015. 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.

Scott-Moncrieff
December 2015

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Introduction

Introduction

1. This report summarises the findings from our 2014/15 audit of Glasgow Kelvin College. The scope of the audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee at the outset of the audit.

2. The main elements of our work in 2014/15 have been:

   - An audit of the annual report and accounts, including a review of the annual governance statement, the annual internal control statement and the remuneration report;
   - A review of governance arrangements, internal controls and financial systems;
   - High level review of overall performance arrangements; and
   - Completion of a minimum dataset of information that is submitted to Audit Scotland.

3. As part of our audit, we have also relied on the work of the College's internal audit service and Audit Scotland where possible and appropriate.

4. The College is responsible for preparing its annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. Each recommendation has been given a grading to help the College assess their significance and prioritise the actions required.

6. This report is addressed to both Glasgow Kelvin College and the Auditor General for Scotland and will be published on Audit Scotland's website. .

7. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

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Annual report and accounts

Annual report and accounts

8. The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the College and the auditor in relation to the financial statements are outlined in Appendix 1.

9. In this section we summarise the issues arising from our audit of the 2014/15 annual report and accounts.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

10. The annual report and accounts for the 16 month period ending 31 July 2015 are due to be approved by the College on 14 December 2015. Our independent auditor's report gives:

- an unqualified opinion on the annual report and accounts;
- an unqualified opinion on the regularity of transactions; and
- an unqualified opinion on other prescribed matters.

11. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

12. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to staff at the College for their assistance with our work.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.1 New finance system

Throughout the 2013/14 accounting year 3 separate finance systems, controls and procedures were in operation. On 1 April 2014 the finance system, controls and procedures were rationalised. As a result of this key control environment change, we must document and gain an understanding of the key finance systems and controls in operation at the College. We will subsequently perform walkthrough testing of the key finance systems to ensure that the systems and controls are operating in line with our understanding and as documented within the College's procedures manual.

Noted in 2014/15 External Audit Strategy & Plan

14. As part of the merger in November 2013 the College found itself having to operate three separate accounting packages which were used by the legacy colleges. During the current period the College undertook to merge the nominal ledgers into a new accounting package, Sun6.

15. The new package was operated from the beginning of the current period, with the closing

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

balances from the three "legacy" systems being migrated over the period October to December 2014 to form the opening balances within the new system.

16. We reviewed the "migration journals" to ensure that there were no irregularities and incorporated testing of these journals into our work on opening balances.

17. Our testing found no issues surrounding the migration and we are satisfied that this process was carried out accurately.

18. We documented the key finance systems and controls in operation at the College, and performed walkthrough testing to ensure that the systems and controls are operating in line with our understanding and as documented within the College's procedures manual. We did not identify any issues from our work performed in this area.

1.2 Fixed assets – valuation of City Campus land & buildings

We understand that the Board are considering the disposal of the City Campus land and buildings, with a view to disposal by Summer 2016. If the decision is taken to dispose of the land and buildings prior to 31 July 2015, the basis upon which these assets are valued within the financial statements should be amended from depreciated replacement cost to market value. We understand that the College has appointed DTZ to produce a valuation report in respect of these assets. We will monitor the position, with the assistance from senior finance personnel, in order to ascertain whether the valuation report indicates an impairment in value.

Noted in 2014/15 External Audit Strategy & Plan

19. During the 16 month period to 31 July 2015 the Board of Management of the College approved a plan to dispose of the City Campus during the 2015/16 financial year. Previously the campus was valued on a depreciated replacement cost basis, however following the decision to close this campus, this valuation basis no longer remained appropriate. In order to assess if the value of the City campus had become impaired the College commissioned a valuation on a market value basis in March 2015.

20. This valuation exercise was carried out by DTZ Chartered Surveyors who returned a market value of £1.8million for the campus. The College have therefore impaired the asset within the financial statements for the 16 month period ended 31 July 2015 to this value, resulting in an impairment to asset cost of £3.935million, which is reported through the Statement of Total Recognised Gains and Losses, as a result of a change to the valuation basis used.

21. We have reviewed the impairment workings alongside the report produced by the chartered surveyor and found them to be accurate and reasonable. We also reviewed correspondence in relation to the progress of the sale and confirmed that, based upon the interest generated to date and representations from the estate agents, the assumption made by the College that the impaired value of the asset was achievable via a sale on the open market was reasonable and that no further impairment in asset value was required.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.3 Fixed assets – potential impairment of the Springburn campus following closure of the games hall

Following our planning discussions with the Principal and the Vice Principal – Finance & Corporate Services, we understand that the games hall situated within the Springburn Campus has been closed for use following water ingress, and the identification of what is believed to be a latent defect in its construction. We will monitor the progress of discussions between the College, the Quantity Surveyor and the main contractor in relation to this issue to ascertain whether there has been an impairment in value of the building as a result.

Noted in 2014/15 External Audit Strategy & Plan

22. There has been a longstanding issue with the games hall at the Springburn campus whereby water damage has resulted in its closure for much of the time that the campus has been open. This is an issue which the College inherited on merger from legacy North Glasgow College.

23. Investigations carried out by the College, utilising professionals as appropriate, have led to the conclusion that the damage is the result of a defect in the building's original construction.

24. During the period the College appointed a new project manager, and have since conducted additional investigation and engagement with the original builders. The result of this work has identified that the damage is correctable, which means that no impairment of the campus value is required.

25. The College is now confident that the corrections will be in place for the beginning of the 2016/17 academic year.

1.4 Voluntary severance scheme

There is a risk that the costs associated with voluntary severance agreements have not been correctly reflected in the financial statements and the appropriate disclosures are not included. We understand that this scheme will be closed and decisions approved and communicated prior to the end of July, which would allow the related expenditure to be reflected in the 2014/15 financial statements, even though staff may not leave the College until sometime in 2015/16.

Identified post preparation of the 2014/15 External Audit Strategy & Plan

26. As part of the continuing restructure process being carried out by the College the need for another round of voluntary severance was identified by the strategic management team during the period.

27. A combined business case was prepared by the College's Vice Principal - Finance & Corporate Services on behalf of the entire Glasgow Region. This was submitted to the Glasgow College's Regional Board and the Scottish Funding Council for consideration and approval.

28. Subsequent to this approval being given the College applied for funding to finance the voluntary severance scheme and this was also granted in the period.

29. We have reviewed the aforementioned pieces of documentation, as well as minutes and

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

papers submitted to the Remuneration Committee and confirm that all severance arrangements were approved by the Committee in advance of agreements being reached with individual staff members and that the whole process was carried out in line with best practice and guidance issued by the Scottish Funding Council in this area.

1.5 Going concern

As at 31 July 2015, the College is reporting a deficit on general reserves of £0.919million. We must consider, with reference to budgets and projections for future periods, whether the College is a going concern for a period of at least 12 months from approval of the financial statements in December 2015.

Identified post preparation of the 2014/15 External Audit Strategy & Plan

30. The College inherited a much weaker Balance Sheet upon merger than it anticipated, and this combined with the financial pressures of merger and the ONS reclassification, has resulted in the College incurring large deficits in 2013/14 and in 2014/15, leaving the College with a general reserve deficit of £0.919million at 31 July 2015.

31. We have reviewed College budgets for the subsequent two years and discussed their contents with management, as well as obtaining and reviewing all documentation which supports the assumptions underpinning the College's assertion that it remains a going concern. Our review has concluded that the College is a going concern for a period of at least 12 months from approval of the financial statements in December 2015.

1.6 Management override

In any organisation, there is a risk that management have the ability to process transactions or make adjustments to the financial records outside of the normal financial control processes. Such transactions could lead to a material misstatement in the financial statements. We treat this as a presumed risk area in accordance with International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".

Whilst we do not suspect any incidences of management override, we will review the accounting records for significant transactions that are outside the normal course of business and obtain evidence to ensure that these are valid and accounted for correctly.

Noted in 2014/15 External Audit Strategy & Plan

32. Our audit work included a review of journal entries processed in the period and around the period end. We are satisfied that there are no indications of management override in the period.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.7 Completeness and occurrence of income

Under International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements" there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the College could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported revenue position.

Whilst we do not suspect any incidences of fraud or error, we will evaluate each type of revenue transaction and document our conclusions.

Noted in 2014/15 External Audit Strategy & Plan

33. We have performed sufficient testing to provide assurance on the completeness and occurrence of income and we are satisfied that income is correctly stated in the financial statements.

Our application of materiality

34. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual report and accounts.

35. Our initial assessment of materiality for the annual report and accounts was £641,000 and it remained at this level throughout our audit. Our assessment of materiality is set with reference to a range of benchmarks (including total income and gross assets). We consider these to be the principal considerations for the users of the accounts when assessing the performance of the College.

36. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We then perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£289,000
Medium	55%	£353,000
Low	67.5%	£433,000

37. We report to the Audit Committee all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Audit differences

Actual adjustments

38. We are pleased to report that there were no material adjustments to the draft annual report and accounts. We identified some minor disclosure and presentational adjustments

during our audit, which have been reflected in the final set of accounts.

Unadjusted differences

39. We identified one unadjusted difference during our audit work. This difference is not considered to be material to the accounts. Through discussion with the Acting Head of Finance the decision was taken not to adjust the annual accounts. This unadjusted item is included in our representation letter and shown in the table below:

	DR £	CR £
Accrued holiday pay (Balance Sheet)	92,379	
Wages and salaries (I&E)		92,379
Being correction of the holiday pay accrual		

Management representations

40. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the annual report and accounts.

An overview of the scope of our audit

41. The scope of our audit was detailed in our External Audit Strategy & Plan, which was presented to the Audit Committee in May 2015. The External Audit Strategy & Plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

42. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

43. Our standard audit approach is based on performing a review of the key accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Regularity

44. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the College's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

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

Other matters identified during our audit

46. During the course of our audit we noted the following:

Annual governance statement

47. The annual report and accounts must include a statement covering the responsibilities of the governing body in relation to corporate governance. The statement is required to indicate how the College has complied with good practice in this area, including the 2014 Code of Good Governance for Scotland's Colleges.

48. The College's Governance Statement explains that the College was compliant with the principles of the 2014 Code of Good Governance for Scotland's Colleges. This is consistent with the requirements outlined in the

2014/15 Accounts Direction, released by the SFC.

49. We reviewed the Governance Statement by:

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

50. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Remuneration report

51. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared. We have found that the Remuneration Report includes all relevant disclosures and is in agreement with the accounting records.

Budgeting arrangements

52. As part of the revised budgeting process introduced in respect of the 2015/16 budget, individual budget holders will be provided with monthly budget information in relation to their cost centre. This will include variances between actual and budgeted expenditure for the period. These variances will be discussed with staff at regular budget meetings; however, no written explanations are required to be provided by individual budget holders.

53. Where individual budget holders are not required to provide explanations for variances identified there is a risk they will not take full ownership of their budget. Individual budget holders may rely on the finance team to provide information, rather than taking action themselves to fully investigate underlying reasons for variances and implementing actions to address identified issues.

54. The College should set a tolerance level above which variances are considered significant; where such variances arise, individual budget holders should be required to provide written explanations for these variances and the action taken to address them. These actions should be followed up at monthly budget meetings.

55. We have raised an action plan point in respect of this issue within Appendix 2 of this report.

Action plan point 1

Journal back up and segregation of duties

56. Within our 2013/14 Annual Report action plan we highlighted that our audit testing in respect of journal entries identified instances where an individual had created, approved and posted the same journal, i.e. there was a lack of segregation of duties in operation, and that supporting documentation was not always attached to all journals raised.

57. Our testing in 2014/15 identified that the issue in relation to segregation of duties has been addressed, although we identified further instances where supporting documentation was not retained to support journals raised.

Action plan point 2

Grant funded assets

58. During the 2013/14 audit, the finance team was unable to provide us with any information in respect of which assets belonging to legacy Stow College were funded by capital grants. Therefore we were unable to conclude as to whether deferred capital grants are being released in line with depreciation for legacy Stow College assets. However, given that the value of legacy Stow College's depreciation charge for the period was immaterial, we were satisfied that the potential error could not be materiality misstated. This issue remains to be addressed.

Action plan point 3

Credit control

59. In 2013/14, during testing over the accounts receivable processes, including ensuring that where invoices had been outstanding for a significant length of time, that the debt was being actively pursued or was being considered for write-off, if recoverability was deemed unlikely, we identified two invoices which had been outstanding since October/November

2013. Follow-up testing in 2014/15 identified 38 invoices dating back to 2012/13 totalling £44,105 which may not be recoverable.

Action plan point 4

Follow up of prior year audit recommendations

60. As part of our audit we have followed up on the recommendations raised in our previous Annual Report. The table below indicates the number of issues that have not been completed. Those actions which are yet to be completed relate to the following areas:

- Journal back up and segregation of duties (paragraphs 56-57)
- Grant funded assets (paragraph 58)
- Credit control (paragraph 59)

Total number of recommendations raised in our previous Annual Report	Complete	Not yet complete
9	6	3

Qualitative aspects of accounting practices and financial reporting

61. 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 by the annual report and accounts. 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 annual report and accounts, and we consider these to be appropriate to the College.
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 accounts are considered appropriate on the whole. Estimates and judgements have been adopted over fixed asset valuations, depreciation rates, pension liabilities 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 annual report and accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual report and accounts.	All significant risks and uncertainties have been appropriately reflected in the annual report and accounts.
The extent to which the annual report and accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual report and accounts.	The College has recognised an impairment charge in the period in respect of some assets at its City Campus. From the testing performed, we have concluded that these transactions have been appropriately accounted for in the annual report and

Qualitative aspect considered	Audit conclusion
	accounts. We did not identify any other significant unusual transactions in the period.
Apparent misstatements in the Operating & Financial Review or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies between the annual accounts and the Operating & Financial Review.
Any significant annual accounts disclosures to bring to your attention.	No significant annual accounts disclosures were identified that we consider should be brought to your attention.
Disagreement over any accounting treatment or annual accounts disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure. We identified no adjustments, material or immaterial, which were required to be made to the annual report and accounts.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

Looking forward

FE College Statement of Recommended Practice (SORP) - readiness for FRS 102

62. 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.

63. With effect from the year ending 31 July 2016, the College will be required to present its financial statements under FRS 102 (new UK GAAP), in line with all further education entities, reporting under the new Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP 2015). FRS 102 is a single set of accounting standards developed by the Financial Reporting Council (FRC) and replaces current UK GAAP.

64. 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 treatment e.g. income recognition, treatment of capital grants, and accounting for employee benefits.

65. For Glasgow Kelvin College the transition date is 1 April 2014 with the first FRS 102 compliant accounts being prepared for year ended 31 July 2016. The comparative figures for the period ended 31 July 2015 will also require to be restated as part of the transition process.

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Financial management

Financial management

66. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

67. It is the College's responsibility to conduct its financial affairs in a proper manner.

Overall conclusion

68. Overall, we found that the College has adequate arrangements in place for financial management and the use of resources. Our conclusion has been based on a review of the College's financial performance, financial position and financial forecasts. Each of these elements is discussed in more detail below.

The College's financial performance in 2014/15

69. The College has reported an operating deficit for the 16 month period to 31 July 2015 of £2.948million.

Glasgow Kelvin College	2014/15 £million	2013/14 £million	Movement £million
Income	42.203	25.204	16.999
Expenditure	(45.151)	(29.630)	(15.521)
(Deficit)	**(2.948)**	**(4.426)**	**(1.478)**

70. The College has seen an increase of £16.999million (67.4%) in income. This is due to the following reasons:

- The change in the year-end accounting date twice in the past two years has led to a significant proportion of this increase.
- Grant funding from the SFC has increased by £13.216million and tuition fees by £2.272million as the change in accounting period from the prior year has meant that there were 12 academic months in the current period to 31 July 2015 compared to seven in the prior period to 31 March 2014.
- Despite this, there has been a year on year decrease in SFC funding between academic year 2013/14 and 2014/15 of £4.248million. This is due to a combination of government mandated budget cuts and a strategic decision taken at the regional level to allocate less of the region's funding budget to the College. This decision was made as part of the Regional Board's plan to ensure that the region meets the requirements of the Regional Outcome Agreement 2014/15 – 2017/18.

71. Expenditure was £45.151million in 2014/15, an increase of £15.521million (52.4%) on the prior period. This variance is again principally due to the change in accounting year end dates from an 8 month period in 2014 to a 16 month period in 2015.

72. Furthermore, there have been one off costs incurred in both periods which should be considered: in 2014 a £3.2million donation to the Glasgow Kelvin Learning Foundation was made and in 2015 an impairment charge of £0.387million has been incurred in respect of the impairment of City Campus equipment assets.

73. Additionally it must be noted that in 2014 staff costs in respect of voluntary severance totalling £1.792million were incurred, reducing to £0.428million in 2015. The cost savings of the voluntary severance schemes run in prior years resulted in a reduction in both teaching and support staff numbers which flow through to a reduction in associated monthly payroll charges.

The College has maintained a net asset position due to substantial deferred capital grants

74. The College has an overall surplus balance on reserves of £2.662million. However this surplus is driven by a revaluation reserve of £10.393million, down from £14.725 million as at 31 March 2014 following an impairment of £3.935million in respect of City campus buildings charged against the reserve in the

period ended 31 July 2015. The general reserve is in deficit by £0.919million. This has reduced from a prior period surplus balance of £1.429million. The pension reserve shows a deficit of £6.812million, an increase of £2.086million on the deficit at 31 March 2014. The overall surplus on reserves is bolstered by a balance of £42.132million in respect of deferred capital grants, resulting in net assets being reported of £44.794million.

75. As at 31 July 2015 the College had a cash balance of £0.494million. This was £1.644million (76.9%) lower than the balance held as at 31 March 2014. The reduced balance reflects the impact of the ONS reclassification in so far as that as the College is now part of central government it is not permitted to hold significant cash reserves at the period end.

76. The College's current liabilities balance has fallen by £2.826million (40.4%) to £4.161million as at 31 July 2015. This is principally due to the different period end dates between the two reporting periods which has impacted on the level of accruals and deferred income reported. The prior period end of 31 March 2014 was in the middle of the academic year while the current period end of 31 July 2015 was during the summer recess. As a result there is less activity within the College as at 31 July 2015 which drives less spending and fewer accruals.

Financial capacity in public bodies

77. The Auditor General for Scotland and the Accounts Commission are interested in the impact that reductions in staff numbers are having on back-office functions and specifically finance. As part of the 2014/15 audit we have collected baseline information on the finance function at the College. This information will be submitted to Audit Scotland who will be assessing the findings across a number of public sector organisations, to identify any common or emerging issues.

78. A summary of our findings are highlighted below:

Theme	Audit findings
Financial capacity	The finance function at the College is overseen by the Vice Principal – Finance & Corporate Services. Through his position within the organisation and his attendance at Strategic Management Team (SMT) meetings, Board meetings, Audit committee meetings, and Financial Control committee meetings, the Vice Principal – Finance & Corporate Services has sufficient status to ensure financial performance is managed effectively at both a strategic and operational level. The Vice Principal – Finance & Corporate Services has responsibility for finance, estates, business development, administration & governance, and ICT. He is supported in this role by 15 finance staff, three of which are professionally qualified posts. Prior to merger the three legacy colleges had an equivalent 19 finance staff members in post.
Financial strategy and sustainability	The College sets an annual budget and has medium-term financial planning arrangements in place. The medium-term financial budget covers the period to 31 July 2017. Financial strategies set out the College's commitments, strategic priorities, cost pressures as well as projected income over a period of time. Such budgets allow the College to identify the funding shortfalls that they face over time and to devise an appropriate course of action to address the funding gaps. Financial plans are updated on a regular basis. Any longer-term financial planning is currently not performed, as funding allocations from

Theme	Audit findings
	the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available.
Budget monitoring and control	The College has adequate controls in place to ensure that spend against its revenue budget is appropriately monitored and controlled throughout the year. Budget updates contain commentary on the variances in the main revenue and expenditure items in a period, rather than on a line-by-line basis. In-year adjustments to the original forecast are highlighted in Board papers, illustrating the value of the amendment along with the reasons.

Systems of internal control

79. During our audit work we have considered the College's accounting systems and internal controls. We have found the College's systems of internal financial control to be adequate and operating effectively. Please refer to the action plan (appendix 2) for details of control improvements identified during audit fieldwork.

Internal audit

80. The internal audit service is a key component of the College's internal control framework. We have reviewed the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice. Our review was performed in accordance with the Code of Audit Practice and ISA 610: Considering the work of internal audit.

81. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. Wylie & Bisset LLP provided the internal audit service during the period to July 2015 and we have considered their findings within our audit process. Wylie & Bisset LLP has concluded in their annual report that the College operated adequate and effective internal control systems in the period.

Fraud and irregularity

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

83. Our work has included a consideration of the College's arrangements for the prevention and detection of fraud and irregularity. We are pleased to report that we did not identify any issues of concern in this area.

4

Financial sustainability

Financial sustainability

84. Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial forecasts

Funding has been confirmed for 2015/16 and a break even position has been forecast

85. The College's revenue budget, as reported to the Financial Control Committee in June 2015, forecasts a break even position for 2015/16. The SFC has confirmed funding for 2015/16 that will be allocated on a regional basis through outcome agreements. Glasgow Kelvin College is part of the Glasgow region, along with City of Glasgow College and Glasgow Clyde College.

86. The budget for 2015/16 was based on the most reliable information available at the time. As a result it reflects, amongst other things, indicative funding allocations for the 2015/16 capital/estates maintenance grant. The Glasgow region allocation is £1.3million less than the 2014/15 allocation and therefore the College, in preparing the budget, have assumed that a fair proportion of this reduction will be reflected in the funding they are allocated.

87. The College are projecting WSUMs of 112,765 for 2015/16, a reduction of 6% on the 120,141 WSUMs which was the targeted level for 2014/15. The College faces a reduction in its core teaching grant of £1.17million in line with the reduction in WSUMs due to activity being reallocated to the City of Glasgow College.

88. The 2015/16 budget was presented along with a risk assessment showing the estimated impact of the key financial risks facing the College. The net risk associated with these factors equates to additional costs of £3.200million, as shown below:

Risk	Probability	Estimated potential impact (£)
The College does not achieve planned levels of non-SFC income.	Medium	300,000
There is excess demand for student support funding.	High	250,000
The voluntary service scheme is not effective in delivering the required level of savings from the staffing structure or funding is insufficient.	Medium	300,000
The SFC does not provide sufficient transitional funding to facilitate required Estates works to enable vacation of City Campus.	Medium	600,000
The Glasgow Kelvin Learning Foundation is unwilling to provide financial assistance in the event of adverse variances or additional investment needs.	Medium	650,000
The Glasgow Regional Board, once established, changes the allocation of resources within the region.	Low	500,000
The College is unable to deliver its core activity target and secure ESF funding.	Low	600,000

Source: Glasgow Kelvin College, Financial Plan and Budget – Academic Year 2015/16, Presented to Finance Control Committee, June 2015

89. The College sets an annual budget and has medium-term financial planning arrangements in place covering the period to 31 July 2017.

90. Any longer-term financial planning is currently not performed, as funding allocations from the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available.

91. On 1 November 2013, the newly merged Glasgow Kelvin College, inherited a much weaker financial position than had been forecast within the Merger Business Case due to the financial performance in the 8 month period to 31 March 2014 being worse than forecast for all 3 individual colleges who came together as part of the merger process. As a result the overall inherited net asset position brought into the newly merged College was £5.2million instead of the predicted £6.3million. This combined with a difficult merger and transition period over the last two years has contributed to a weakened financial position.

92. Looking beyond 31 July 2016, a key approach to continuing to deliver cost reduction in subsequent years will be the fact that the College is vacating and selling its City Campus.

93. The Glasgow Regional Estates and Curriculum Review outlines a medium term plan for college provision in Glasgow which reallocates activity across the three Glasgow Colleges to take account of the new college estate and it outlines changes in the curriculum mix across the city to reflect the most current Labour Market Information. The main impact of the recommendations contained in the Review on Glasgow Kelvin College is a 6% reduction in funded activity in session 2015/16, with a further reduction of a similar magnitude in the following academic year. This has the impact of reducing core grant income by £1.2m in session 2015/16.

94. It also means that the College will be delivering less activity and will therefore employ fewer teaching staff.

95. The College faces a similar reduction in income and activity in session 2016/17. This is the key driver for the need to reduce overhead costs; this will be done in three ways:

- Restructuring of staffing to commence at the end of 2014/15;
- Reductions in non-staff spend; and
- Closure of City Campus in August 2016.

96. These activities are key priorities for the College for the coming months, in order to ensure financial sustainability going forward.

5

Governance and transparency

Governance and transparency

97. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the Designated Office Holder, the College is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Audit bodies usually involve those charged with governance in monitoring these arrangements.

Governance arrangements

98. During our audit we have reviewed the College's overall governance arrangements. This has included consideration of the College's arrangements as they relate to standards of conduct including the prevention and detection of bribery and corruption and risk management. Based on our review, overall governance arrangements are adequate and appropriate.

99. The Glasgow Colleges Regional Board (GCRB) became operational on 1 August 2014 and takes on more formal powers in the strategic management and coordination of the provision of further education across the three Glasgow Colleges, including Glasgow Kelvin College. GCRB has not, however, yet been awarded 'operational fundable body' status by the SFC and is not yet able to fully exercise its powers under the Post-16 Education (Scotland) Act. As a result the College's governance arrangements have not altered significantly during the period and it continues to be funded directly by the SFC. Current expectations are that GCRB will receive operational fundable body status during the 2016-17 financial year.

Changes to the Board of Management composition during the period

100. During the course of the 16 month period there have been four additions to the Board of Management, and six resignations. Since 31 July 2015 a further five appointments to the Board of Management have been made.

Corporate governance arrangements are appropriate

101. In December 2014, internal audit carried out a review of corporate governance procedures and arrangements and concluded that the systems now in place within the College were robust and compliant with best practice. No issues were identified by the internal auditor and no recommendations for improvement were made.

102. As part of the continuing restructure process being carried out by the College, the need for another round of voluntary severance was identified by the strategic management team during the period. As part of our audit work in relation to governance, we considered in detail the College's arrangements in this area.

103. A combined business case was prepared by the College's Vice Principal - Finance & Corporate Services on behalf of the entire Glasgow Region. This was submitted to the Glasgow College's Regional Board and the Scottish Funding Council for consideration and approval. Subsequent to this approval being given the College applied for funding to finance the voluntary severance scheme and this was also granted in the period. We have reviewed the aforementioned documentation, as well as minutes and papers submitted to the Remuneration Committee and confirm that all severance arrangements were approved by the Committee in advance of agreements being reached with individual staff members and that the whole process was carried out in line with best practice and guidance issued by the Scottish Funding Council in this area.

Code of Good Governance for Scotland's Colleges

104. The Board of Management initially considered the final version of the Code in December 2014, and instructed that an assessment of the operation of the Board against the requirements of the Code be undertaken. In March 2015, the findings of this assessment

were presented, which highlighted that the College’s corporate governance and operational arrangements and Board composition held up well against the requirements of the Code.

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

105. In our opinion the College’s arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct.

106. In February 2014 the Scottish Government published an updated model code of conduct for members of devolved public bodies. In June 2014 the Board agreed to adopt and implement the revised code of conduct.

Risk management

107. Risk management is important to the establishment and regular review of systems of internal control. The College’s financial statements outline the principal risks and uncertainties of the College and the College’s response. We have found that the College has robust risk management arrangements in place to monitor and help mitigate key strategic risks to the College.

Conclusion

108. Overall, we found that the College had operated with generally good governance arrangements during the period.

6

Appendices

Appendix 1: Respective responsibilities of the College's Board of Management and the Auditor

Responsibility for the preparation of the annual report and accounts

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 the annual report and accounts for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year.

In preparing the annual report and accounts, the Board is responsible for:
• selecting suitable accounting policies and applying them consistently; • making judgements and estimates that are reasonable and prudent; and • stating whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and • preparing financial statements on the going concern basis unless it is inappropriate to assume that the College with continue in operation.

The Board is also 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 annual report and accounts 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. • taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2015 and of its 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 (as amended).
- 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.
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and that the information in the Operating and Financial Review is consistent with the financial statements.

We are also required to report, 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.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

In particular, there 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.

Appendix 2: Action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. We identified one new recommendation in 2014/15. Three recommendations raised in 2013/14 remain outstanding and are included in the action plan below.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1 **Rating** **Grade 3** **Paragraph ref** **52-55**	**Budget variances - investigation** As part of the revised budgeting process introduced in respect of the 2015/16 budget, individual budget holders will be provided with monthly budget information in relation to their cost centre. This will include variances between actual and budgeted expenditure for the period. These variances will be discussed with staff at regular budget meetings; however, no written explanations are required to be provided by individual budget holders. Where individual budget holders are not required to provide explanations for variances identified there is a risk they will not take full ownership of their budget. Individual budget holders may rely on the finance team to provide information, rather than taking action themselves to fully investigate underlying reasons for variances and implementing actions to address identified issues. The College should set a tolerance level above which variances are considered significant; where such variances arise, individual budget holders should be required to provide written explanations for these variances and the action taken to address them. These actions should be followed up at monthly budget meetings.	The College is currently developing its approach to management accounting. This recommendation is accepted. **Responsible officer**: Head of Finance **Implementation date**: February 2016

Action plan point	Issue & Recommendation	Management Comments
2 **Rating** **Grade 3** **Paragraph ref** **56-57**	**Journal back-up and segregation of duties** In 2013/14, audit testing in respect of journal entries identified instances where an individual had created, approved and posted the same journal, i.e. there was a lack of segregation of duties in operation. Testing also identified that supporting documentation was not always attached to all journals. There is a risk that inaccurate or inappropriate journals are posted to the accounting system. We recommended that arrangements in this area were reviewed in full to ensure that there is adequate segregation of duties	Recommendation accepted. **Responsible officer**: Head of Finance **Implementation date**: January 2016

Action plan point	Issue & Recommendation	Management Comments
	between those creating, approving and posting journals. Additionally we recommended that finance staff retain documentation to support the raising of journal entries. Implementation of segregation of duties in this area will assist with the authorisation process. **2013/14 management comments:** Recommendation accepted **Responsible officer**: Vice Principal - Finance & Corporate Services **Implementation date**: November 2014 **2014/15 audit observation:** Our review of controls during the audit identified a good level of segregation of duties, hence we are satisfied that this point has now been addressed. However, we identified further instances of journals being filed without adequate supporting documentation. We also noted that although journals are being signed as authorised, no date is noted meaning that we could not verify if authorisation was given before or after the journal was posted.	

Action plan point	Issue & Recommendation	Management Comments
3 **Rating** **Grade 3** **Paragraph ref** **58**	**Grant funded assets** During the 2013/14 audit, the finance team was unable to provide us with any information in respect of which assets belonging to legacy Stow College were funded by capital grants. Therefore we were unable to conclude as to whether deferred capital grants are being released in line with depreciation for legacy Stow College assets. However, given that the value of legacy Stow College's depreciation charge for the period was immaterial, we were satisfied that the potential error could not be materiality misstated. There is a risk that the amount of deferred capital grant funding released during 2013/14 did not match the corresponding depreciation charge of the relevant fixed assets.	The College will seek to address this issue during 2015/16. **Responsible officer**: Head of Finance **Implementation date**: August 2016

Action plan point	Issue & Recommendation	Management Comments
	We recommended that management should identify during 2014/15 which assets of the legacy Stow College were grant funded, where the asset has not been fully depreciated, to enable audit testing to be performed in full next year. **2013/14 management comments:** College will review available records and address this issue **Responsible officer:** Vice Principal - Finance & Corporate Services **Implementation date:** November 2014 **2014/15 audit observation:** Issue not addressed during 2014/15, and thus once again we were unable to obtain information in respect of the legacy Stow College assets funded by capital grant. Furthermore, from our testing this year we identified that in relation to certain historical capital grants provided to legacy John Wheatley College we were unable to trace these amounts to the corresponding assets in the fixed asset register, resulting in us being unable to test some of our sample population.	

Action plan point	Issue & Recommendation	Management Comments
4 **Rating** **Grade 2** **Paragraph ref** **59**	**Credit control** In 2013/14 we performed testing over the accounts receivable processes, including ensuring that where invoices had been outstanding for a significant length of time, that the debt was being actively pursued or was being considered for write-off, if recoverability was deemed unlikely. Testing identified two invoices which had been outstanding since October/November 2013. One of the invoices related to a Stow College debtor and the other related to a John Wheatley College debtor. There is a risk that the College is not following appropriate credit control procedures. Given the income and cost pressures facing the College it is imperative that all income due to the College is received in a timely manner. We recommended that the College agreed and implemented formal credit control	The College has appointed debt collectors and has improved its credit control procedures. The College will seek to address this issue during 2015/16. **Responsible officer**: Head of Finance **Implementation date**: February 2016

Action plan point	Issue & Recommendation	Management Comments
	procedures. This included a system log to note telephone calls made, reminder letters issued, and, if required, the debt being passed to a specialist debt recovery agency. **2013/14 management comments:** Recommendation accepted **Responsible officer:** Vice Principal - Finance & Corporate Services **Implementation date:** November 2014 **2014/15 audit observation:** Our review of accounts receivable found that despite the College having amalgamated its financial systems into a single finance package there were still a number of very old balances on the sales ledger which we do not believe to be recoverable (38 invoices dating back to 2012/13 totalling £44,105).	

Scott-Moncrieff
business advisers and accountants