



New College Lanarkshire

**Annual Audit Report for 2014/15
to the Board of Management and
the Auditor General for Scotland**

External Audit Report No: 2015/02

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Notice: About this report

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

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

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against Henderson Loggie CA (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive Summary

Financial Statements

- On 14 December 2015 we issued an audit report with an unqualified opinion on the financial statements of the College for the period ended 31 July 2015, on the regularity of the financial transactions reflected in those financial statements, and other prescribed matters, being the part of the Remuneration Report to be audited and the consistency of the information in the Operating and Financial Review with the financial statements
- The current financial period covers the 16 months from 1 April 2014 to 31 July 2015. The previous period covered the eight months to March 2014. The March period end was required following Scottish colleges being reclassified as Government Bodies by the Office for National Statistics (ONS), effective from 1 April 2014. The change in year-end back to July was as a result of the Cabinet Secretary for Education accepting the Chief Secretary to the Treasury's offer of derogation to all colleges to change their year-end from 31 March to 31 July on 5 September 2014. This change has allowed the College's financial year to be aligned to its academic year, although the College is still required to meet HM Treasury budgeting and reporting requirements at a March year end.
- Coatbridge College merged with New College Lanarkshire on 1 April 2014 and therefore the comparative figures in the 2014/15 accounts are the 2013/14 results of the two colleges added together.
- The College is the Regional College for Lanarkshire, with South Lanarkshire College as an assigned college. Direction from the Scottish Funding Council indicates that consolidated regional accounts are likely to be required, however due to the timing of the Regional arrangements being introduced the Group accounts do not include South Lanarkshire College for 2014/15. The Group has shown a deficit for the 16 month period ended 31 July 2015 of £9.933 million (deficit of £10.547 million for the eight months ended 31 March 2014). The Group has an Income and Expenditure Account balance of £7,189 million at 31 July 2015 (31/03/14: £17.320 million).
- The deficit has primarily arisen as a result of the College making use of depreciation money of £2.426 million, (£0.967 million of which was transferred to South Lanarkshire College to cover student support funding); the loss on revaluation of the College's assets of £6.120 million, and the increase for funded and unfunded pension liabilities of £0.444 million. In 2013/14 the deficit arose primarily from New College Lanarkshire's transfer to the arms-length Foundation of £9.315 million.
- The College met its core WSUMs target for the academic year to 31 July 2015 (2013/14: target met). The New College Lanarkshire WSUM target consists of 172,660 core WSUMs and 7,826 ESF match funded WSUMs giving a total target of 180,486 WSUMs. The College as a whole delivered 172,660 core WSUMs (100% of core target) and 1,894 ESF match funded WSUMs (24% of ESF target) totalling 174,553 WSUMs (97% of total target). Under delivery of the ESF target was principally due to uncertainty surrounding student support funding necessary to deliver the courses and the timing of the uncertainty being resolved. ESF activity was over delivered in 2013/14. The SFC confirmed that for the 18 month period to 31 July 2015 the Lanarkshire region had a "balanced delivery" of the ESF project and as such did not clawback funding for this under delivery in 2014/15.

Financial Statements (continued)

- The College did not make any donations to the Lanarkshire Further Education Foundation during the period (2013/14 - £9.315 million). During the period the Lanarkshire Further Education Foundation awarded total grants of £7.519 million to the College for assistance with several mainly capital projects all of which was received prior to 31 July 2015.
- The College's pension liability increased in total by £1.533 million to £9.871 million at 31 July 2015 (2013/14: increased in total by £3.024 million) which was largely due to the former Coatbridge College unfunded early retirement costs now being included within the liability. There have also been changes in key actuarial assumptions relating to discount rates, and higher pensionable pay as a result of auto-enrolment legislation taking effect which led to an increase in staff enrolled in the LGPS pension scheme. This increase in pensionable pay also had an impact in the increase of £0.544 million in Financial Reporting Standard (FRS) 17 pension costs recognised in the Income and Expenditure Statement. There was also a 2% staff pay increase award for all staff from August 2014, a slight increase in staff numbers, and harmonisation of teaching staff terms and conditions, all of which increased pay costs.
- The annual financial statements of the College comply with the Accounts Direction issued by the Scottish Funding Council (SFC), the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education and, as far as applicable, the Government Financial Reporting Manual 2014/15 ('the FReM').
- Eight composite audit and accounting adjustments were made to the draft financial statements presented for audit; which had the impact of increasing the reported deficit for the period by £3.817 million.
- A number of disclosure and clarification adjustments were made to the financial statements to ensure SORP, FReM and Accounts Direction compliance and improve the overall presentation of the financial statements.

Corporate Governance

- The College's Statement of Corporate Governance and Internal Control confirms that corporate governance has been exercised throughout the period in accordance with the principles of the Code of Good Governance for Scotland's Colleges, the Scottish Public Finance Manual (SPFM) and the new SFC Financial Memorandum with colleges.
- No material weaknesses in the accounting and internal control systems were identified during the 2014/15 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
- We did not identify any matters of concern relating to the College's corporate governance arrangements regarding the prevention and detection of fraud, or standards of conduct and the prevention and detection of corruption.
- The College has good on-going processes for identifying, evaluating and managing its significant risks and these work well in practice.
- Several legacy issues from Coatbridge College have arisen during 2014 and 2015. Some of these issues have had financial implications which are reflected within the 2014/15 accounts where appropriate. Ongoing review of some legacy issues is still underway.

Performance

- The College management and committee structure included mechanisms to monitor and manage financial and non-financial performance which are considered appropriate.
- A Regional Outcome Agreement with the SFC was in place for 2014/15 and the Self-Evaluation review of this found that all key targets had been met.
- Education Scotland's annual engagement review in March 2015 awarded the College the highest possible grading of Effective.

Outlook

- The funding position will remain challenging going forward. Education contracts and commercial work has been an important income source to generate extra income for the College. Robust budget setting and monitoring arrangements will be essential in helping to retain sustainability of these revenue streams.
- The College's funding allocations for the 2015/16 academic year from the SFC, excluding student funding, are:

Table 1: SFC funding and activity

	2015/16 target (12 months)		2014/15 actual (16 months)	
	£'000	Activity	£'000	Activity
Teaching and Fee Waiver	29,565,	129,898 credits	38,887	172,660
ESF activity	1,814	8,860 credits	1,323	1,894
Capital/maintenance	1,522	n/a	2,195	n/a

From 2015/16 academic output is now measured in credits rather than WSUMs. The target core academic output for 2015/16 of 129,989 credits is a slight increase on the annualised equivalent credit value of the delivered 2014/15 WSUMs of 172,660. The ESF target in 204/15 was 7,286 WSUMs. As noted above the SFC did not reclaim the funding related to the underactivity in ESF.

- Three new accounting standards (FRS 100, 101 and 102) come into force in 2015/16 and a new Education SORP has been developed following the publication of the new FRSs, which will also be effective from 2015/16. Comparative figures for 2014/15 will required to be restated using these new standards.
- The consolidation of the Lanarkshire Region's colleges' accounts (New College Lanarkshire and South Lanarkshire College) is likely to be required and the audit timetable should be reviewed to accommodate this if necessary.
- New College Lanarkshire will continue to develop its role as the Regional Board for Lanarkshire and to work with South Lanarkshire College to develop regional arrangements. The College is taking appropriate action to achieve this and is being supported in this by the Scottish Funding Council.

Introduction

Background

1. 2014/15 was the fourth year in our five year appointment as external auditors of New College Lanarkshire ('the College') and the legacy colleges. This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by International Standard on Auditing (ISA) (UK and Ireland) 260: Communication of Audit Matters with Those Charged with Governance. The financial statements for 2014/15 cover a 16 month period to July 2015 and the comparative figures are for an eight month period to 31 March 2014. Paragraph 25 explains the reasons for this.
2. The audit framework is outlined in our Strategic Planning Memorandum and 2014/15 Annual Audit Plan issued on 25 May 2015 and considered and approved by the Audit Committee at its meeting on 1 June 2015. The scope of the audit was to:
 - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Financial Reporting Council;
 - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and
 - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.
3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include:
 - compliance with legislation and financial regulations;
 - fixed assets transactions, including consideration of any impairment as a result of revaluation or asset conditions, on-going estate improvements and maintenance; and compliance with relevant financial reporting standards;
 - recoverability of debtors;
 - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;
 - the accounting for transfers made to or from the Lanarkshire Further Education Foundation (arms-length foundation);
 - compliance with FRS 17 – Retirement Benefits and provision for pension liabilities for early retirees; and
 - compliance with the SORP on Accounting for Further and Higher Education, FReM and Accounts Direction. In particular, the additional disclosures required this year where the FReM requirements go beyond the SORP.

Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
5. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.
6. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light. Weaknesses or risks identified by us are only those that have come to our attention during our normal audit work in accordance with the Audit Scotland Code of Audit Practice, and may not be all that exist.

Acknowledgement

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

Financial Statements

Audit Opinion

8. On 14 December 2015 we issued an audit report with an unqualified opinion on:
- the financial statements of the College for the period ended 31 July 2015;
 - the regularity of the financial transactions reflected in those financial statements; and
 - other prescribed matters, being the part of the Remuneration Report to be audited and the consistency of the information in the Operating and Financial Review with the financial statements.
9. We are required to undertake audit work from the Balance Sheet date up to the date of signing the financial statements and this was undertaken in the period up to 14 December 2015. No events that required adjustment to be made to the financial statements were identified. One post balance sheet event requiring disclosure was identified by the College and appropriate disclosure was made in the accounts.

Audit Completion

10. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. Table 1 summarises the three key elements of the audit process.

Table 2 Key elements of the audit process

Completeness of draft financial statements

A set of draft financial statements was received on 9 November 2015, the first day of the audit fieldwork. The first draft did not include a number of financial statement disclosures. These were received during the course of the audit and after the audit fieldwork had been completed. These were of a reasonable standard however they required a number of presentational changes as part of the audit process.

Quality of supporting working papers

Working papers provided to support financial statement figures were of a satisfactory standard.

Response to audit queries

Audit queries were dealt with in a timely manner.

For the majority of the period the College operated the financial systems of the three legacy colleges. In May 2015 a new financial system was implemented. Prior to 1 May this involved the migration of all transactions from the legacy systems to an interim system, before final transition to the live system. Issues with alignment in accounts coding required additional work by College staff to ensure all balances and transactions were correctly identified and presented in the accounts. The timing of this additional work gave rise to the delay in the draft accounts being ready for audit at the planned date of 19 October. We are satisfied, from the audit work we and internal audit have carried out to check the process, that the balances are now properly aligned and presented in the accounts.

Corporate Governance Statement

11. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.
12. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process and report where the statement is not consistent with our knowledge of the body and report if the statement does not comply with SFC requirements.
13. The College's Statement of Corporate Governance and Internal Control for 2014/15 confirms that corporate governance has been exercised throughout the period in accordance with the principles of the Code of Good Governance for Scotland's Colleges, the SPFM and the new SFC Financial Memorandum with colleges.
14. From our audit work and our review of the College's statement we have no issues to report within our audit opinion.

Remuneration Report

15. 2014/15 is the first time a Remuneration Report has been required in college financial statements. The information to be included is prescribed by the FReM.
16. We are required to audit part of the Remuneration Report and review the remainder as part of our review of the Operating and Financial Review. We express a specific opinion on whether the audited part has been properly prepared.
17. We received the Remuneration Report for audit on 9 November 2015 and from the work done as part of the audit process the disclosure narrative appears adequate.

Operating and Financial Review

18. The SORP sets out the requirements for an Operating and Financial Review to be included in the financial statements. The content is prescribed through the Accounts Direction from the SORP and the FReM.
19. We review the information provided in the Operating and Financial Review and consider whether or not it is consistent with the financial statements and other information we have gathered in the course of our audit. We are not required to verify, or report on, the completeness of the information in the Operating and Financial Review, with the exception of the audited element of the Remuneration Report.
20. We received a first draft Operating and Financial Review (OFR) on 6 November 2015. The content was revised and updated during the course of the audit and a final draft was received on 9 December. We have concluded an unqualified opinion can be provided for this

Audit and Accounting Adjustments and Confirmation

21. In Table 2 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process which had the impact of increasing the 2014/15 deficit by £3.817 million. The major adjustment related to the revaluation of land and buildings. Based on the figures reported in the draft financial statements received on 9 November our original materiality figure of £0.447 million reported to you at the planning stage was revised to £0.723 million, performance materiality £0.361 million, and the amount below which items were deemed to be clearly trivial £0.036million.

Table 3: Audit and accounting adjustments

Description	I&E	I&E	B/Sheet	B/Sheet
	DR	CR	DR	CR
	£'000	£'000	£'000	£'000
1 Fixed Assets – Land & Buildings Additions Other Creditors <i>Being reallocation of asset additions</i>			259	259
2 Impairment of Fixed Assets – Land & Buildings (I&E) Fixed Assets – Land & Buildings Cost <i>Being inclusion of impairment of land at the Motherwell campus following external revaluation to harmonise treatment</i>	4,988			4,988
3 Revaluation Reserve I&E Reserve <i>Being correction to release from the revaluation reserve</i>			56	56
4 Accruals SFC Grants Other Creditors <i>Being release of ESF funding, including for legacy colleges, following announcement by SFC that there will be no clawback of funds in 2014/15</i>		620	752	132
5 Other Creditors Other Operating Expenses SFC Grants - Childcare Other Income <i>Being correction to student support funds mis-postings and errors</i>	9 115	327 276	594	115
6 Reclassifications Other Creditors Tuition Fees and Education Contracts <i>Being mis-posting of ESOL income</i>		22	22	
7 Late Adjustments made by the College Other Creditors Tuition Fees and Education Contracts <i>Being release of historic unclaimed SAAS fees</i>		50	50	
Total	5,112	1,295	1,733	5,550
Overall increase in Net Deficit	3,817			

Audit and Accounting Adjustments and Confirmation (Continued)

22. A number of potential audit adjustments were identified which management decided not to adjust. Non-trivial adjustments have been listed in Table 3 below and the total of these items is below our performance materiality level of £0.361 million. The effect of adjusting for these items would be to increase the deficit for the year by £0.075 million.

Table 4: Unadjusted audit differences – impact on the financial statements

Description	I&E	I&E	B/Sheet	B/Sheet
	DR	CR	DR	CR
	£000	£000	£000	£000
1 Other Operating Expenses	75			
VAT			15	
Fixed Assets – Land & Buildings Additions			69	
Accruals				159
<i>Being additional accruals identified post-year end</i>				
Total	75	-	84	159
	=====	=====	=====	=====
Net impact on Income and Expenditure Account deficit	75			
	=====			

23. In addition, a number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

Confirmations and Representations

24. We confirm that as at the date of this report, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.
25. In accordance with auditing standards, we obtained representations from the College on material issues.

Financial Reporting

26. Scottish colleges were reclassified as Government Bodies from 1 April 2014, resulting in a change of financial year-end to 31 March. From 1 April 2014 Incorporated Colleges and Regional Boards were required to comply with the SPFM, except where directed by SFC's Accountable Officer. Financial reporting is now undertaken in accordance with HM Treasury's FReM 2014/15 in addition to the SORP on Accounting for Further and Higher Education and the SFC's Accounts Direction. As a result:
- in 2013/14 colleges prepared financial statements for an eight month period to 31 March 2014;
 - following this change colleges have been allowed to return to the 31 July financial year end although they are still required to meet HM Treasury annual budgeting and reporting requirements at March. The current financial period for 2014/15 covers the 16 months from 1 April 2014 to 31 July 2015.

- in April 2015 the College submitted the required Resource and other returns for 31 March 2015 to the SFC. In September, as allowed, an update was submitted which made the following adjustment. The revaluation of Fixed Assets information was not received in time for its impact to be included:

◆ Pension liability accrual (as at 31 July 2015) (£1.505m)

27. The application of the FReM results in some changes and additional disclosure. The College has valued assets at current value with a valuation taking place and being applied in the financial statements every five years (with an interim valuation in year three) for some time. In 2013/14 the College also included an accrual for holiday pay in the financial statements. As a result changes that might have been required in 2014/15 to comply with these elements of the FReM were already in place in the College's financial reporting. Other changes to reporting in 2014/15 are the inclusion of the Accounts direction as an appendix to the accounts and inclusion of the following information in the Operating and Financial Review:

- Estates Strategy information; and
- Remuneration Report.

Financial Position

28. Colleges are required to break even in line with their agreed spending budgets each year to 31 March. Updated returns at 31 March show a resource overspend of £2.173m, due in the main to the use of depreciation cover of £2.426m. For 2014/15, as noted under the Financial Results section in the OFR, the SFC has allowed colleges to treat the depreciation allocation of their budgets as if it was a cash resource, thereby resulting in a deficit in the Income and Expenditure Account. There are also a number of other non-cash items impacting on the deficit position. Table 3 provides a summary of the College's planned and actual financial results.

Table 5 Comparison of planned and actual financial results

	2013/14 (8 months) Actual £000	2014/15 (16 months) Planned £000	2014/15 (16 months) Actual £000	2015/16 (year) Planned £000
Financial outturn Surplus/(Deficit)	(10,547)	(2,581)	(9,933)	-
Income and expenditure reserves (excluding pension reserve)	(25,658)	(23,364)	(17,060)	(13,867)
Cash balances	4,155	3,513	2,724	3,373

Source: Audited financial statements and July 2015 Forecast Financial Return (FFR)

The deficit has primarily arisen as a result of the College making use of depreciation money of £2.426 million, (£0.967 million of which was transferred to South Lanarkshire College to cover student support funding); the loss on revaluation of the College's assets of £6.102 million, and the increase for funded and unfunded pension liabilities of £0.444 million. In 2013/14 the deficit arose primarily from New College Lanarkshire's transfer to the arms-length Foundation of £9.315 million.

Financial Position (continued)

29. The 2014/15 deficit of £9.933 million includes the following non-cash items:

	£'000
Use of depreciation cover	2,426
Increase in funded and unfunded pension liabilities	444
Loss on revaluation of land & buildings	6,102
Loss on disposal of buildings	403

30. A direct comparison of College income in 2014/15 of £72.303 million against last financial period is not possible given the change in accounting year-end. Points to note for 2014/15 include:

- Other SFC Grant income has decreased as 2013/14 included £2.900 million to cover the costs of voluntary severance payments and other merger activity; and
- there has been increased income from both commercial and SDS contracts

31. A direct comparison of College expenditure in 2014/15 of £78.016 million against last year is not possible given the change in accounting year-end. Points to note for 2014/15 include:

- there was a 2% staff pay increase award for all staff from August 2014, a slight increase in staff numbers, and harmonisation of teaching staff terms and conditions, all of which increased pay costs.; and
- a £0.860 million increase in pension costs (including FRS17 pension cost increase of £0.544 million and £0.316 million increase as a result of the pension revaluation adjustment) was noted. This was largely due to higher pensionable pay as a result of the number of staff enrolled in the LGPS pension scheme increasing by 21% through implementation of the Government's auto-enrolment legislation.

32. During the period the Horticulture Unit at the Motherwell campus was demolished and a new facility built on the site. This resulted in a loss on disposal of £0.403 million.

2014/15 SUMs Outturn

33. The College's outturn against its 2014/15 Weighted SUMs target is shown in Table 4 below.

Table 6: 2014/15 Weighted SUMs outturn

	2013/14	2014/15
WSUMS Core target		172,660
WSUMS ESF target		7,826
Total WSUMs target (including ESF WSUMs)	174,544	180,486
WSUMS Core actual		172,660
WSUMS ESF actual		1,894
Total WSUMs actual	174,940	174,554
Over delivery/(Shortfall)	396	(5,932)

Source: Audited SUMs returns

Under delivery of the ESF target in 2014/15 was principally due to uncertainty surrounding student support funding necessary to deliver the courses and the timing of the uncertainty being resolved. ESF activity was over delivered in 2013/14.

Financial Position (Continued)

Accrued Income

34. In 2013/14 due to differences between the timing of SFC teaching grant in aid payments and the amount of SFC income recognised there was £0.601 million of teaching grant income accrued at 31 March 2014. As the year end has changed back to a July year end there is no need to accrue such income in 2014/15 and this has led to a material decrease in accrued income.

Accruals and Deferred Income

35. In 2013/14, due to the 31 March year end, there was a significant accrual for holiday pay which was due to staff earning holidays which they would mostly use in June, July and August. Due to the change in year end to July, the holiday pay accrual is not as significant and this partly explains the reason for the decrease in the accruals and deferred income figure.

FRS 17 Retirement Benefits

36. In 2014/15 the College accounted for its participation in the local government pension scheme as a defined benefit scheme. This is consistent with the accounting treatment adopted in previous years.
37. In 2013/14 the College had been accounting for the unfunded early retirement costs for the Strathclyde Pension Fund as a defined contribution pension scheme as it was not previously possible to identify each institution's share of the underlying assets and liabilities of the scheme. The underlying assets and liabilities have now been accurately quantified and so the unfunded element has been recognised in 2014/15 as part of the FRS pension liability. This resulted in a pension revaluation adjustment of £0.316 million in 2014/15 which is included within Exceptional Staff Costs.
38. The College's pension liability increased in total by £1.553 million (2013/14: increased in total by £3.409 million) to £9.871 million at 31 July 2015 which was largely due to changes in key actuarial assumptions relating to discount rates and the inclusion of the previously unfunded pension provision detailed in paragraph 36 above.

Capital Income and Expenditure

39. Arrangements to access capital funding have changed under the FReM.
40. The majority of the £7.474 million of capital additions in 2014/15 related to the Student Hub and HGV facility at the Motherwell campus.

Provisions

41. The College has a provision in its balance sheet at 31 July 2015 of £1.430 million (31/03/14: £1.553 million) relating to pension costs from early retirements awarded to former employees. The College's approach to the valuation of the provision is to have an independent actuarial firm calculate this provision annually.
42. The 2014/15 Coatbridge College accounts included a provision of £0.244 million for a claim for breach of contract and £0.030million for related legal fees. The provisions have been released in the New College 2014/15 accounts as the College's insurers have now agreed to cover the claim.

Financial Position (Continued)

Lanarkshire Further Education Foundation

43. An arms-length foundation, the Lanarkshire Further Education Foundation, was set up in January 2014. The objects of the Foundation are to advance the charitable purposes of the College to include the advancement of education by making grants and financial support for projects and activities being carried out by and supported by the College. The main reason for setting up the Foundation is that the Central Government budget mechanisms mean that the ability to use college reserves and surpluses in future periods is restricted. The College previously donated £9.315 million to the Foundation in March 2014.
44. During the period the College made a number of applications to the Foundation for grants to contribute towards capital projects aimed at redeveloping the three main campuses. These were approved by the Foundation and a total £7.499 million was received by the College in 2014/15.
45. To ensure that the Foundation is not consolidated into the College's financial results it requires to be independent of the College. College management determined, and we concur, that the Foundation is at arms-length from the College and does not require to be consolidated at 31 July 2015. This position will be reviewed annually.

Corporate Governance

Corporate Governance

46. The College is responsible for ensuring that governance arrangements follow the three fundamental principles of openness, integrity and accountability and that these arrangements are in place to ensure the proper conduct of its affairs. Mechanisms to monitor the adequacy and effectiveness of these arrangements should also be in place.
47. Our responsibility, as noted in the Code of Audit Practice, is to review and report on audited bodies' corporate governance arrangements as they relate to:
- Bodies' reviews of corporate governance and systems of internal control, including reporting arrangements;
 - The prevention and detection of fraud and irregularity;
 - Standards of conduct and arrangements for the prevention and detection of corruption; and
 - The financial position of audited bodies.
48. Comments on the financial position and the College's Corporate Governance Statement are covered in the Financial Statement section of this report.
49. The Designation of Regional Colleges (Scotland) Order 2014 came into force on 3 March 2014. The Lanarkshire Colleges Order followed which came into force on 1 October 2014 and formally designated New College Lanarkshire as the Lanarkshire regional college of which South Lanarkshire College is an assigned college. A formal recruitment process for The Lanarkshire Board took place between May and August 2015 and, following the Cabinet Secretary's approval of the Chair's appointment recommendations, the new regional board met for the first time on 14 September 2015. The Lanarkshire Board includes representation from students and staff of New College Lanarkshire and also includes representation from South Lanarkshire College, as set out in The Lanarkshire Colleges Order 2014.
50. The Board of Management has been kept up-to-date regularly with information about the regionalisation process including the duties of regional colleges. During the period the Scottish Government appointed a Regional Chair and the new Regional Board was appointed. A skills matrix was developed to support the recruitment process and a panel consisting of the Chair, the Chair of South Lanarkshire College who was not up for reappointment at this stage, the former Chair of the New College Lanarkshire Board and an independent external member undertook this process.
51. The Post-16 Education (Scotland) Act 2013 includes provisions in relation to the identification of principles of good governance practice for the college sector. In December 2014 the 'Code of Good Governance for Scotland's Colleges' was published which is mandatory for Colleges to comply with. The Code sets out the principles of good governance across five main areas: Leadership and Strategy; Quality of the Student Experience; Accountability; Effectiveness; and Relationships and Collaboration. Colleges will be expected to comply with the new Code as condition of grant from the SFC or their regional strategic body. The College has reported in its March 2015 returns to SFC that it has the Code of Governance at the centre of its activities and governance arrangements and has undertaken an evaluation of their compliance with this internally and through review and assurance from external sources.. No areas of non-compliance were identified and the college was assessed as having good governance in place.

Corporate Governance (Continued)

52. Incorporated colleges and Regional Boards are required to comply with the requirements of the SPFM, except where directed by SFC's Accountable Officer. During the period College procedures have been updated to reflect SPFM / FReM requirements.
53. A new Financial Memorandum with Colleges has been agreed with the SFC setting out the formal relationship between the SFC and fundable bodies in the college sector, and the requirements with which fundable bodies are expected to comply in return for payment of grant by the SFC.
54. We have considered the College's governance arrangements through formal review of documents and procedures and informal observation of the operation of committee arrangements and the relationships between Board members and staff. In particular we have considered arrangements for risk management and reporting to committees. We did not identify any areas of concern regarding the College's governance arrangements.

Risk Management

55. Risk management is important for the development and on-going review of systems of internal control.
56. The College's Risk Management Policy and Procedure details the College's approach to risk capture, monitoring and reporting.
57. The College has a Strategic Risk Register which is reviewed by the Audit Committee. Risk is a standing item on the agenda for the Senior Management Team, Board committees and the Board. There are also risk registers which are compiled and reviewed by each operating area of the College. We have concluded these arrangements are good and our observation is that they work well in practice.

Coatbridge College 2013/14

58. Coatbridge College's 2013/14 accounts were signed in March 2015. The delay in finalising the accounts was primarily due to time required to consider and report governance issues identified in the arrangements for voluntary severance payments to the Principal, members of the senior management team and one other member of staff. Following issue of our annual report on the audit, in June 2015 the Auditor General issued a report to the Scottish Parliament's Public Audit Committee (PAC) under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. The report can be found here: http://www.audit-scotland.gov.uk/uploads/docs/report/2015/s22_150626_coatridge_college.pdf Following receipt of the report the PAC has conducted an enquiry. At the date of this report the enquiry is complete and the PAC report is awaited. We are satisfied that the governance issues arising at Coatbridge College were confined to the period prior to merger with New College Lanarkshire in April 2014 and that there are no related concerns with governance in New College Lanarkshire.
59. During 2014 and 2015 a number of legacy issues relating to Coatbridge College have arisen, taking up significant senior management time to investigate and resolve. Some of these issues have had financial implications which are reflected within the 2014/15 accounts where appropriate. Ongoing review of some legacy issues is still underway and we will consider the position on these during the 2015/16 audit.

Systems of Internal Control

Control Environment

60. No material weaknesses in the accounting and internal control systems were identified during the 2014/15 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

61.

Internal Audit

62. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Wylie & Bisset provided internal audit services to the College in 2014/15.

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

64. The annual internal audit report for the year ended 31 July 2015 found that, based on the work undertaken, there were no significant issues noted with governance, the system of internal control, or the risk management framework.

Fraud and irregularity, standards and conduct, and prevention and detection of corruption

65. During 2014/15 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

66. The College has appropriate arrangements in place regarding the prevention and detection of fraud, including Standing Orders and Operating Guidelines and Code of Conduct, Financial Regulations and an Anti-Fraud Policy and Anti-Bribery and Corruption Policy.

67. No frauds were identified during the period from 1 April 2014 up to the date of signing the financial statements.

68. The College has in place the following procedures / policies in relation to standards of conduct and prevention and detection of corruption:

- Standing Orders and Operating Guidelines and Code of Conduct;
- Register of Board Members' Interests;
- Anti-Fraud Policy;
- Anti-Bribery and Corruption Policy; and
- Whistleblowing Policy.

69. The arrangements for maintaining standards of conduct and the prevention and detection of corruption are considered to be appropriate.

Performance

Introduction

70. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.
71. No mandatory performance audit studies were identified by Audit Scotland for the College during 2014/15 although Audit Scotland has requested auditors to provide information in a data set for use in a sector report. In particular it has requested information about voluntary severance schemes and payments. During the 2014/15 period the College made severance payments to staff totalling £0.868 million.

Education Scotland Review

72. We are required by Audit Scotland's Code of Audit Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.
73. Education Scotland undertook their annual engagement review in March 2015 and feedback from this was positive. The College received the highest possible grading of Effective.

College Performance Arrangements

74. Arrangements for financial and non-financial management are established in the College, through the operation of the Senior Management Team and the Board and its various committees. This includes budget setting and monitoring structures.
75. The College's Standing Orders and Operating Guidelines and Code of Conduct, including its Scheme of Delegation records the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner
76. Key performance indicators are set out in the Operating and Financial Review in the College's annual report.
77. The College has a Regional Outcome Agreement which is aimed at responding to the national objectives and priorities for post-16 education, and works with Local Authorities, Community Planning Partnerships, Skills Development Scotland and employers to ensure its education provision meets the needs of learners and the community. The College continues to work in partnership with organisations to achieve economies of scale and better efficiency.
78. During the period the College undertook a self-evaluation against the targets set out in the 2014/15 Regional Outcome Agreement. This found that all significant targets had been met.
79. The College's arrangements for performance management as outlined above are considered to be appropriate.

Outlook

2015/16 and beyond

80. The funding position will remain challenging going forward. Education contracts and commercial work has been an important income source to generate extra income for the College. Robust budget setting and monitoring arrangements will be essential in helping to retain sustainability of these revenue streams.
81. The College's funding allocations for the 2015/16 academic year from the SFC, excluding student funding, are:

Table 7: SFC funding and activity

	2015/16 target (12 months)		2014/15 actual (16 months)	
	£'000	Activity	£'000	Activity
Teaching and Fee Waiver	29,565,	129,898 credits	38,887	172,660
ESF activity	1,814	8,860 credits	1,323	1,894
Capital/maintenance	1,522	n/a	2,195	n/a

From 2015/16 academic output is now measured in credits rather than WSUMs. The target core academic output for 2015/16 of 129,989 credits is a slight increase on the annualised equivalent credit value of the delivered 2014/15 WSUMs of 172,660. The ESF target in 204/15 was 7,286 WSUMS. As noted above the SFC did not reclaim the funding related to the underactivity in ESF.

82. It is expected that the use of depreciation allocations as if they were a cash allocation will be allowed again in 2015/16, potentially resulting in a deficit in the financial statements if the money is spent.

ONS Reclassification

83. Arrangements between colleges and the SFC to manage the revised funding mechanisms are likely to develop further as lessons are learned from the initial period of change.

FRS 102 'The Financial Reporting Standard' and new Education SORP

84. The FRC has been implementing a convergence programme aligning UK Generally Accepted Accounting Practice (GAAP) to International Financial Reporting Standards (IFRS) and published three new FRSs (FRS 100, 101 and 102) with the substantive FRS 102 'The Financial Reporting Standard' representing the final step towards IFRS convergence. These three new FRS' become the new UK GAAP, which is fully IFRS-based. The new accounting standards come into force for accounting periods commencing on or after 1 January 2015 which means that 2015/16 will be the first reporting year. However, comparative figures for 2014/15 will require to be restated.
85. In addition, a new Education SORP has been developed following the publication of the new FRSs and this received final approval from the FRC on 26 March 2014 following an extensive consultation process, and will also be effective from 2015/16. The new SORP was formally published in May 2014 and is available on www.fehesorp.ac.uk.

Regional consolidated accounts

86. The Scottish Funding Council has confirmed in an addition to the Accounts Direction issued in November 2015 that consolidated accounts are likely to be required for the Lanarkshire Region. This would mean that the accounts of South Lanarkshire College would be consolidated with New College Lanarkshire. For 2014/15, as the Lanarkshire Regional Board was not fully in place for the whole 16 month period, and as fully fundable status has not yet been awarded to the College, it has been determined that the regional board did not exercise sufficient decision making and control over the Board of South Lanarkshire College to require consolidate accounts to be prepared. However, this position is to be kept under review for 2015/16. If consolidated accounts are required the audit timetable will need to be reviewed to allow time for the consolidation process to take place.
87. New College Lanarkshire has continued to develop its role as the Regional College for Lanarkshire and to work with South Lanarkshire College to develop regional arrangements. There are still a number of arrangements to be completed to allow the College to achieve fully fundable status and function effectively as the Regional Board is required to do. The College is taking appropriate action to achieve this through an agreed action plan and is being supported in this by the Scottish Funding Council. We have accepted that the period to date has been a transitional period in developing regional arrangements and will consider progress further as part of our 2015/16 audit. Audit Scotland is also undertaking work looking at the development of the Regional Boards with assigned colleges and we will work with them to minimise audit input.

Appendix I - Audited Bodies' Responsibilities

Extracts from the Audit Scotland Code of Audit Practice

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

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (e.g., the Financial Reporting Manual or an Accounting Code of Practice)
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

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

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

Corporate governance arrangements

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

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

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

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls.

They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

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

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity.

This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland.

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

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers
- promoting appropriate values and standards
- developing, promoting and monitoring compliance with standing orders and financial instructions

Financial position of audited bodies

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

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

Best Value

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

Best Value (continued)

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

Appendix II – Follow Up of 2013/14 Annual Audit Report Recommendations

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer/Time For Action	Progress 2014/15
	Financial Position					
	Arms-Length Foundation					
37	R1 The College should maintain an ongoing review of its involvement with the Foundation to ensure that this remains independent and that the Foundation does not need to be consolidated in the College financial statements in future.	Medium	The college will consider the advice of the SFC and other advisors as appropriate	Y	Vice Principal (Resources)	This has been considered and consolidation is not required in 2014/15. This will be kept under review.
	Capital Income and Expenditure					
35	R2 Cumbernauld campus assets should have component accounting applied in 2014/15.	Low	Valuation made at 31 March 2014 to enable this for 2014/15	Y	Assistant Principal Finance	Now applied

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer/Time For Action	Progress 2014/15
	Corporate Governance					
	Fraud and Irregularity, Standards and Conduct, and Prevention and Detection of Corruption					
58	R3 The College should ensure that a timetable is established for the harmonisation of procedures/policies in relation to standards of conduct and prevention and detection of corruption, which incorporates the former Coatbridge, Cumbernauld and Motherwell Colleges.	Medium	Discussed and agreed.	Y	Clerk to the Board	Updated August 2015. To be presented to February 2016 Audit Committee

Grade

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