

Scottish Funding Council
Annual Report to the Board and the Auditor
General for Scotland
2014-15

June 2015



Executive summary

The Scottish Further and Higher Education Funding Council ("the Council") continues to manage running costs within budget and there are adequate governance arrangements in place. There are significant changes to the college sector governance structures arising from the Post 16 Education (Scotland) Act 2013. The formation of regional strategic boards is a key challenge for the Council to ensure reliance can be placed on the boards to effectively govern the colleges in their region.

Financial statements

- We provided an unqualified opinion on both the financial statements of the Council and on the regularity of transactions undertaken for the 2014-15 financial year.
- The draft financial statements and supporting working papers were of a good standard, and there were only minor audit adjustments required following our audit.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk. As part of our plan we identified one significant risk of management override of controls and reasonably possible risks of the misstatement of grants payable and understatement of employee remuneration. We have carried out a review of the control environment for each of the systems and substantively tested the balances in the accounts with no issues arising from this work.
- We applied two levels of materiality due to the large difference between grants made and running costs. Materiality was set at £25.9 million for grant related balances and £0.16 million for non grant transactions.
- We have reviewed key judgements made by management and disclosure of accounting policies and found all policies to be in line with FReM requirements.

Governance

- The Council reported through their Annual Governance Statement that there were adequate governance processes in place during 2014-15. Our audit work supports this assessment.
- We have reviewed the processes and procedures for preparing the Annual Governance Statement to ensure compliance with the Scottish Public Finance Manual and found the assurance arrangements to be well structured.
- Incorporated colleges came under the scope of Scottish Government budgeting regulations from 1 April 2014 following reclassification to central government bodies. The Council has a role in ensuring the college sector as a whole keeps within Scottish Government budgeting requirements. The Council worked closely with the Scottish Government and the colleges to ensure the position at 31 March 2015 did not exceed the level of budget cover.
- The 2014-15 balance on arm's length foundation trusts decreased by £11 million to £88 million. The Council will continue to monitor the use of funds in the arm's length foundations.
- The Council has made progress in undertaking actions required by the Post-16 Education (Scotland) Act 2013 including publishing revised financial memoranda and a Code of Good Governance for the college and university sectors.
- Regional strategic boards have been established in year, however there have been some issues ensuring adequate governance structures are in place at the Glasgow Regional Board.
- There is a risk to the Council, as responsibilities transfer to the regional strategic boards, that the governance is not compliant with the Council's Code of Good Governance. The Council will need to ensure there are robust monitoring arrangements in place

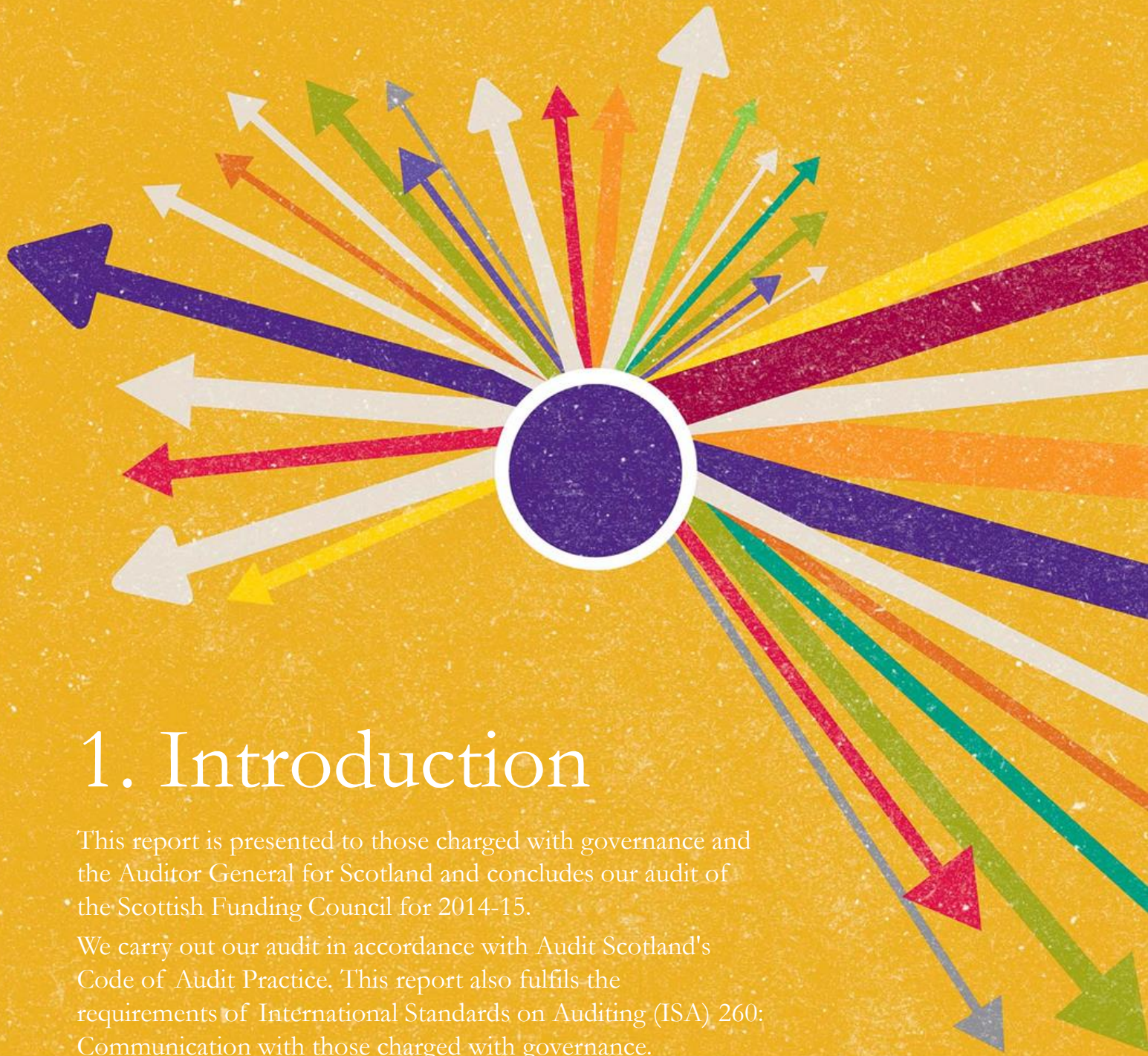
Best value, use of resources and performance

- The Council's Strategic Plan has been issued in draft for consultation and focuses on a smaller number of high level outcomes. It is expected the final strategic plan will be issued in July 2015.
- The Council is committed to achieving best value and completed a self assessment exercise in 2014-15. Only two areas in the self assessment did not achieve a well developed rating.
- The Council has reported a relatively stable financial position in the current year with a moderate decrease in resource expenditure matched with a moderate decrease in grant funding and other income.
- The Council reported a deficit of £1.9 million in the current financial year, which has resulted in a reduction in reserves to £9.3 million. The majority of the reserves balance relates to cash balances required to cover the working capital need for incorporated colleges, although this has reduced from the prior year as the need based funding is more established.
- Running costs have seen a marginal increase by 2% to £8.0 million. The most significant element of running costs is staff costs which accounts for 66% of running costs. There is a clear trend of reduction in staff costs and numbers over recent years, demonstrating the Council's commitment to creating efficiencies.
- We assessed the financial capacity of the Council in line with the Audit Scotland baseline questionnaire. We have concluded that there is adequate capacity in the finance team, however, we have identified risks associated with the retirement of the Director of Finance and long term financial planning.

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1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Funding Council for 2014-15.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

The Auditor General for Scotland appointed Grant Thornton UK LLP as auditor of the Scottish Funding Council (the Council) for the 5 year period 2011-12 to 2015-16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance at the Council, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan, which was presented to the Audit and Compliance Committee on 3 March 2015.

The Council's responsibilities

It is the responsibility of the Council and the Accountable Officer to prepare the financial statements in accordance with the HM Treasury Government Financial Reporting Manual (the FReM).

This means the Council must:

- prepare financial statements which give a true and fair view of the financial position of the Council and its income and expenditure for the year to 31 March 2015
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The Council is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

We are required to provide an opinion on the financial statements and Annual Governance Statement. Under the code we are also required to review and report on the governance arrangements, Best Value, use of resources, and performance.

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the Council, together with previous reports to the Audit and Compliance Committee throughout the year, discharges our ISA 260 commitments.



Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Director of Finance and Corporate Resources, the Chief Executive Group and the finance team during the course of our work.

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements 

- Provide an opinion on:
- whether the financial statements provide a true and fair view of the financial position of the Council
 - whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of expenditure and income

Corporate governance 

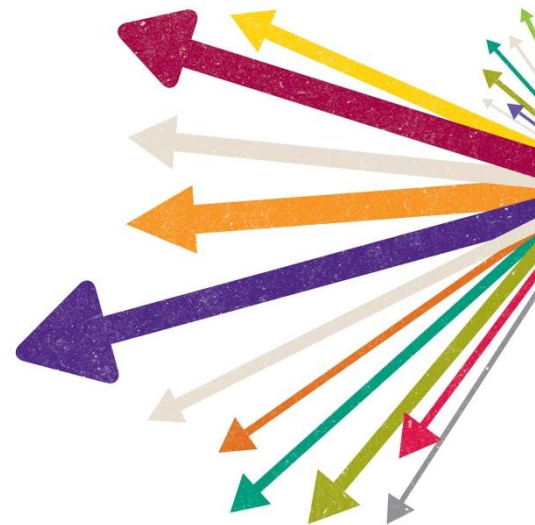
- Review and report on the Council's corporate governance arrangements as they relate to:
- the Council's corporate governance and systems of internal control, including reporting arrangements
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption

Best Value and performance 

- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which the Council and other public bodies have used their resources to discharge their functions.
- In accordance with guidance issued by Audit Scotland, the Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the Council at a local level or a review of the Council's response to national recommendations. In 2014-15 we have completed a baseline assessment of the financial capacity at the Council

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



2. Financial statements



Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2015.

Our Review of the Financial Statements

The draft financial statements were of good quality and we identified no significant errors or misstatements.

As part of our work on the financial statements we are required to review the narrative elements (including Chair's Foreword, Chief Executive and Accountable Officer's Report, Performance Report, Sustainability Report and the Management Commentary). We review the narrative elements of the financial statements for compliance with required FReM disclosures, for consistency with other areas of the financial statements and our knowledge of the Council.

We have reviewed the narrative commentary against the requirements of the Government Financial Reporting Manual (the FReM) which resulted in only minor disclosure adjustments being made.

Financial Statements Opinion

Our audit did not identify any adjustments to the primary financial statements.

We have issued an unqualified opinion on the financial statements of the Council.

Regularity

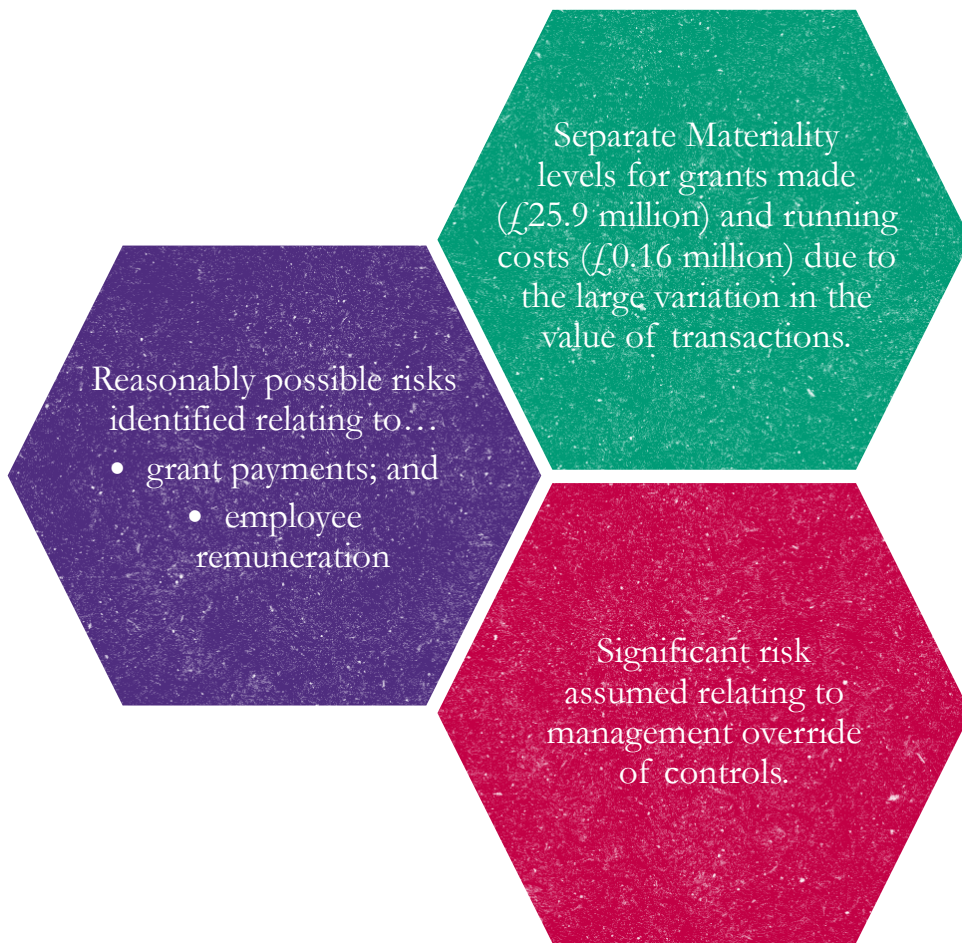
We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

Whole of Government Accounts

The current deadline for receipt of the audited Whole of Government Accounts (WGA) pack is 7 August 2015. We intend to carry out the work on this area in July 2015 and will therefore provide our certificate of assurance in advance of the deadline for audit.

We will liaise and report any issues arising from the WGA audit to the Audit and Compliance Committee.

A summary of our Audit Plan relating to financial statements



A reminder of our approach

Scope of the Audit

We operate a risk based audit approach. The starting point for our audit was to consider the inherent risks to the Council and how these may result in a material misstatement in the accounts. We identified one significant risk and two reasonably possible risks which have been outlined at **Table 1** and **Table 2**. Systems linked to those areas where we had identified a risk were subject to increased audit focus including consideration of the control environment, in particular whether the systems were operating effectively.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample testing. Throughout the audit we have tailored the level of procedures to take account of the level of assessed inherent risk.

We also consider all disclosures in the financial statements and ensure compliance with the FReM, the Scottish Public Finance Manual (SPFM) issued by the Scottish Government and whether disclosures are consistent with the information gathered from our audit work.

We did not identify any new areas of risk or change our approach over the course of the audit.

Application of Materiality

We outlined in our Audit Plan that we had set two different levels of materiality at the Council due to the significant difference in the levels of expenditure relating to grant funding to institutions and running costs.

The primary focus of the Council is to deliver funding for further and higher education. We therefore set the overall materiality using total grants paid to institutions as a benchmark. We established planning materiality at 1.5% of the 2013-14 grants payable figure, which resulted in overall materiality of £25.9 million.

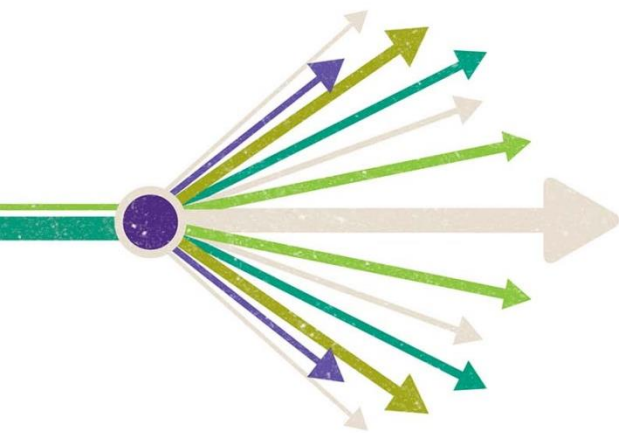
Running costs for the Council in 2013-14 totalled £8.0m and were used as the benchmark to establish a second level of materiality for all items of income and expenditure which were not related to grants. After conducting our risk assessment we established materiality as 2% of the running costs total (£0.16 million).

In addition to overall materiality we also establish a level for performance materiality, which as defined by ISA 320 is the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

We set our performance materiality at 70% of materiality which gave a measure of £18.05 million for grants related balances and £0.11 million for running costs.

We reviewed the levels of materiality at the fieldwork stage, but the movement in year was not significant and therefore the materiality levels at planning were found to be appropriate.

At all times throughout the audit we have assessed the impact on the financial statements. Items which were considered material by nature (eg cash and remuneration report disclosures) were subject to a higher degree of audit scrutiny.



Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. However, as shown in the table below, we have rebutted the risk around revenue recognition leaving one significant risk applicable to the Council.

Table 1: Significant risks identified at the planning stage

Risks identified in our Audit Plan	Work completed	Assurances and issues arising
<p>1 Management override of controls Under ISA (UK&I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
<p>2 The revenue cycle includes fraudulent transactions Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA (UK&I) 240 and the nature of the revenue streams at the Council, we determined the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of central government, including the Council, mean that all forms of fraud are seen as unacceptable. <p>The most significant area of revenues was grant funding totalling £1,680 million (99.5% of revenues). We have substantively agreed grant funding to award letters.</p>	<p>Our work confirmed that revenue had been recognised appropriately in the financial statements.</p>



Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Audit findings against reasonably possibly risks

Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement is lower than that for a significant risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day to day activities of the business.

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Table 2: Reasonably possible risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Grants paid to HE/FE bodies	<p>Misstatement of grant payments to institutions</p> <p>The main activity of the Council is the award and payment of grants to colleges and universities. There is an inherent risk that grants paid to institutions are incorrectly recorded in the financial statements.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> Review and walkthrough of the processes and controls in operation for payment of grants. Review and walkthrough of calculation basis for main teaching grant award to individual institutions Sample testing of 25 grant payments to HE/FE bodies Sample testing of 16 grant commitments at the year end 	<p>Our audit work has not identified any misstatement of grant payments to institutions.</p> <p>The control environment was considered to be operating effectively with numerous controls in place over the payment of grant funding.</p> <p>Our sample selection covered both payments in year and commitments for funds due , relating to the remainder of the academic year 2014-15.</p>
Employee remuneration	<p>Employee remuneration accruals understated</p> <p>Employee costs accounted for 66% of non-grant expenditure in 2014-15. There are a large number of transactions processed throughout the year and the Council relies on numerous controls including monthly reconciliations and segregated duties when compiling payroll batches to ensure that the employee costs are recorded correctly in the financial statements.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> Review and walkthrough of the processes and controls in operation for payment of staff. Substantive testing of payroll accruals at the year end Judgemental sample testing of 15 staff members to HR system, recalculation of employer costs Analytically review payroll expenses in comparison to expectations and investigate any significant variances Review of the relevant disclosures relating to staff costs within the financial statements 	<p>We gained sufficient assurance over payroll processes from our review of the control environment. At the year end we concluded that there are no material misstatements.</p>

Accounting estimates and significant judgements

Assessment

- Marginal accounting policy which could potentially attract attention from stakeholders
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Table 3: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	<ul style="list-style-type: none"> • Grants receivable: Grant in Aid received for revenue, capital and running costs purposes and other Government grants are regarded as financing and are credited to the income and expenditure reserve. • Other grants: European Structural Funds and European Regional Development Fund income are treated on an accruals basis. • Recoverable grants: Recognised at the dates agreed with the organisations concerned. • Claw back and penalties: Recognised when the amount of the funding adjustment has been established and approved by Council. 	<ul style="list-style-type: none"> • The revenue recognition policies are appropriate under the Government Financial Reporting Manual. • The disclosure in the draft accounts was found to be reasonable and in line with prior years 	●
Higher Education Funding Council for England (HEFCE) grant disclosures	<ul style="list-style-type: none"> • In year HEFCE gave grants to the Council in relation to the UK Research Partnership Investment Fund (UK RPIF) totalling £20.3 million. The Council has treated this as grant income in the financial statements. 	<ul style="list-style-type: none"> • The Council have input into decision of the bid process, due diligence, monitor progress and can take action if progress is unsatisfactory. We therefore find it reasonable that this is not treated as an agency arrangement. • The grant income relates to specific projects as a result of project bids and the Council must apply the funding to the approved projects. The treatment in the accounts is deemed to be reasonable. 	●
De minimis level for accruals and prepayments	<ul style="list-style-type: none"> • The Council do not account for any accruals or prepayments which are under £10,000. 	<ul style="list-style-type: none"> • The Council has a number of transactions at the year end which are low value and need to be accrued. In 2012-13 the Council decided to move to a de minimus level of accruals in order to create efficiencies. At this point we conducted testing to assess impact. We concluded that a level of up to £10,000 would not result in a material misstatement. • We have conducted testing in year to confirm that this is still a valid assessment. We found there is a low risk of material misstatement arising from this de minimus level. • Based on our testing we can conclude this judgement is being applied consistently. 	●
Other estimates and judgements	<p>Other key estimates and judgements are:</p> <ul style="list-style-type: none"> • Useful life of assets and capital equipment • Additions to assets over £5,000 are capitalised. 	<ul style="list-style-type: none"> • Estimates and judgements applied in the financial statements were considered to be reasonable. 	●

Other areas of audit focus

Internal controls

We update our understanding of the Council's operations and key financial control systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During our interim audit, we conducted testing on the following areas:

- payroll
- grants payable
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems above. Overall, the results of our interim testing confirmed that there is a sound system of internal control covering key financial systems operated by the Council.

Going Concern

We have considered management's assessment of going concern. Our work has identified no significant issues in relation to going concern.

Related Parties

We are not aware of any related party transactions which have not been disclosed

Sustainability reporting

The FReM requires central government bodies to include a section in their annual report which outlines the economic, social and environmental factors impacting the organisation. This is to be presented in a Sustainability Report.

Public Sector Sustainability Reporting- Guidance on the Preparation of Annual Sustainability Reports was published by the Scottish Government and outlines the minimum reporting requirements covering areas such as:

- greenhouse gas emissions
- waste minimisation and management
- finite resources
- action on biodiversity
- sustainable procurement.

We have reviewed the disclosures in the financial statements around economic, social and environmental factors. The Council has reduced the narrative disclosures on social, community and human rights issues in year. The level of disclosure in the Sustainability Report has been maintained, however, it is noted that there are on-going issues with the collection of data, due to leased premises shared with other bodies. This means the minimum reporting requirement has not been met. The Council has disclosed in the accounts the areas where it has been unable to get data, which is in line with previous years.

3. Governance



Governance

Introduction

Under the Code of Audit Practice, we have a responsibility to review the Council's corporate governance arrangements.

In May 2015, the Scottish Government published the updated [On Board](#) guidance for Board members, which provides support on key areas including corporate governance, ethics and standards of behaviour and effective financial management

Governance statement

Under the Treasury's Financial Reporting Manual (FRM), the Council must prepare a Governance Statement within the Statement of Accounts. Guidance is set out in the Scottish Public Finance Manual (SPFM) for the content of the Governance Statement as it forms a key summary of governance ethos of the Council, and provides assurances around the achievement of the vision and strategic objectives of the Council.

The statement should be informed by work undertaken throughout the period to gain assurance about performance and risk management, providing an insight into the organisation's risk profile and its responses to identified and emerging risks.

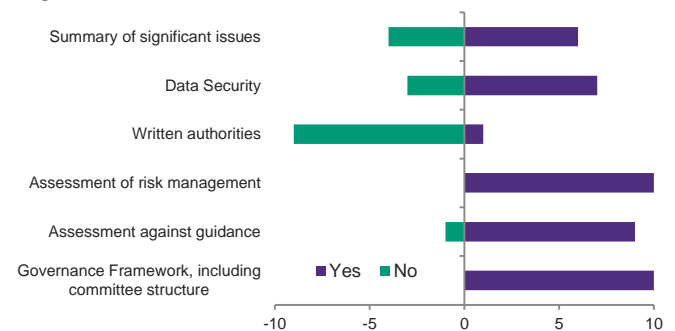
The SPFM does not prescribe a format for the Governance Statement, but sets out minimum requirements for central government bodies. As part of our work we conducted benchmarking against a sample of 10 Scottish Non-Departmental Public Bodies (NDPBs) to allow us to consider the level and content of disclosures within the Governance Statement.

Our review of the Council's Governance Statement highlighted that two areas of guidance were not included, relating to data security and written confirmations. As Figure 1 highlights, only one of the other NDPBs disclosed written authorities as in many cases these are not relevant. In both cases, we were satisfied that there were no matters arising at the Council, but we have recommended that data security should be reported as a positive confirmation in future years.

[Refer to action point 1](#)

Figure 1 confirms that most NDPBs complied with the SPFM's guidance for minimum requirements in their 2013-14 governance statements. While the SPFM does not mandate a structure for the Governance Statement, most NDPBs follow a similar structure, although additional disclosures are made by other bodies include Information Governance and relating the organisational values to the governance framework.

Figure 1: NDPBs generally comply well with the SPFM requirements

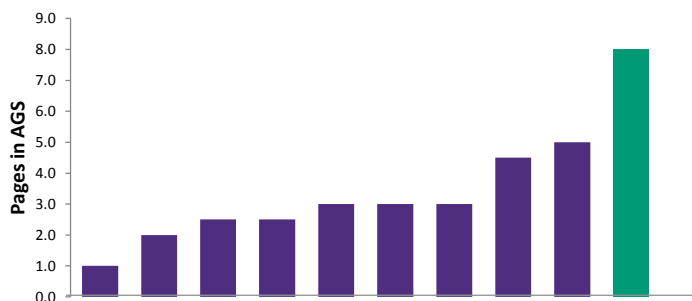


Source: Benchmarking of NDPB Governance Statements

We found that the Council's assurance arrangements continue to be structured and effective. Each Director has contributed to a self-assessment against the Scottish Government's Internal Control Checklist.

Figure 2 highlights that the Council's Governance Statement provides more detail than other NDPBs. Within the Statement, the Council has included additional commentary on the structure of governance arrangements and attendance rates for non-executive members.

Figure 2: The Council provides additional governance disclosures in comparison to our sample of other NDPBs



Source: Sample of Central Government Governance Statements 2013-14

Risk management

The Council's Annual Governance Statement discloses its approach to risk management. The Council has risk registers in place at corporate, directorate and service level. Risks are reviewed regularly both by the Council and the Audit and Compliance Committee.

Key areas of risk that remain on the Council's corporate level risk register including:

- implementation of the Government's regionalisation reforms across Further Education colleges
- implementation of the changes resulting from the ONS reclassification of incorporated FE colleges
- the ongoing development of outcome agreements; and
- changes to the funding model for the further and higher education sectors.

In September 2014, the Council's internal auditors reviewed the adequacy and effectiveness of the risk management arrangements. They considered the Council's risk management strategy, policies and processes and the approach taken at strategic and operational levels. The internal auditors made a number of recommendations designed to further improve the arrangements.

During the year, the Council changed the format of the risk register to improve the identification, monitoring and management of risks.

Internal audit

The Council's internal audit function is provided by Scott Moncrieff an external firm of accountants. Internal audit provide an annual opinion to the Audit Committee on the assurance framework. In 2014-15, they issued the following opinion:

"In our opinion, Scottish Funding Council has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives and the management of key risks.

Proper arrangements are in place, in the areas we have reviewed, to promote value for money, deliver best value and secure regularity and propriety in the administration and operation of the organisation."

The internal audit reports throughout the year highlight an adequate level of compliance, with no major weaknesses in any of the reviewed systems.

In 2015-16, the internal auditors will focus on areas of risk, including:

- Financial controls self assessment
- Grant funding administration and compliance
- Outcome agreements and monitoring institutional performance
- Business continuity planning.

Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

The Council's fraud prevention/whistleblowing policy was reviewed during 2014-15 as part of a new annual process on the reporting of fraud and whistleblowing. No significant changes were made to the policy and it was noted that there had been no instances of fraud or whistleblowing in the current financial year.

The Council also participates in Audit Scotland's National Fraud Initiative. During 2014-15 the data matching exercise found 138 matches of which 32 were recommended matches. All of the recommended matches have been satisfactorily resolved. The remaining 106 matches had been reviewed by the Council and confirmed the matches were not indicative of fraud.

Our enquiries of management and the Council's internal auditors found that there were no internal frauds during 2014-15.

Office for National Statistics reclassification

Incorporated colleges came under the boundary of central government for the first time on 1 April 2014. This means that from April incorporated colleges have been subject to the Scottish Government budgeting regulations. As part of these regulations there are strict guidelines for drawing down in advance of need and meeting financial targets. This has placed more responsibility on the Council to manage the budget for incorporated colleges across the sector to ensure they keep within Government budgeting requirements.

From 1 April 2014 the methodology for payment of grant funds has moved to a needs based model. Each month incorporated colleges submit a claim based on the cash need for the following month. The colleges also complete quarterly resource projections to show they are managing within budget and have a balanced position at the year end. This was moved to a monthly projection from January to give the Council more scope to take action where required.

An issue identified at planning was that there are issues with the new processes and that a college could experience financial difficulties due to lack of budget cover for expenditure. The Council has monitored the position throughout the financial year and there were no issues with incorporated colleges having insufficient budget cover.

In January 2015, the Council issued a communication to colleges on financial adjustments. This communication set out that the Scottish Government, the Council and Colleges Scotland had agreed that funding previously earmarked for depreciation could be released to support specific regional pressures, repayment of loan debt capital or student support funds. The Council worked closely with the Scottish Government, colleges and other stakeholders to ensure the sector was within the budget limits.

Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Council has established a Code of Conduct for Board Members, which was approved by Scottish Ministers. A register of interests is available for each Board member on the Council's website, and declarations of interest are made at each Council meeting.

Arm's length foundations for colleges (ALFs)

The Scottish Government budget regulations also limit the incorporated colleges ability to carry cash reserves and retain future surpluses. In order to mitigate the impact of the reclassification the Scottish Government approved the following actions prior to 1 April 2014:

- establishment of a college sector umbrella foundation
- establishment of separate foundations for each college, as required
- transfer of colleges cash-backed reserves and on-going surpluses to the above foundations.

The Council provided support in setting up the umbrella trust and to incorporated colleges who elected to set up their own foundation. A critical element in establishing the umbrella and college foundations was ensuring they could be shown to be independent of the colleges so transfers of reserves would be outside the Scottish Government budgeting boundary.

At 31 March 2015 there was £88 million held across the various ALFs. The information available at this point is only the amounts transferred to and from colleges and does not include any funds the ALF's have raised from other sources. This represents a decrease of £11 million against the prior year balance of £99 million.

As the ALFs are independent of the colleges and the Council there is a limited role for the Council. The Council employed Turcan Connell to review the constitution of each of the foundations. This review provided assurance that the constitutions had been set up in such a way that public funds would be safeguarded. Going forward the Council plan on reviewing the annual statements of the ALFs to monitor the movement in funds.



Post-16 Education (Scotland) Act 2003

The Post-16 Education (Scotland) Act (the Act) was established to provide support for the governance of further and higher education institutions, including the regionalisation of colleges and reviews of how further and higher education is provided.

In response to the new requirements of the Act, the Council published a number of compulsory guidance documents covering both further and higher education institutions.

The Council developed a number new financial memoranda for each regional strategic board, the regional college boards and the universities. The financial memoranda became effective from 1 December 2014 and were developed in consultation with key stakeholders. The guidance is designed to clarify the relationship between the Council and the various institutions.

The Council also published a Code of Good Governance for both the college and university sectors. It is a requirement of the Act that the Council when making payments to institutions, requires that the institution complies with principles of good governance as identified by the Council.

The most significant change arising from the legislation is the restructuring of the college sector along regional lines. There are thirteen regions across the Scottish landscape, of which ten are supported by a single college and the remaining three regions have more than one college. The Act provides for the establishment of regional strategic boards in the three multi-college regions:

- Glasgow Colleges' Regional Board
- University of Highlands and Islands Further Education Regional Board
- New College Lanarkshire Regional Board.

The regional strategic boards have a statutory duty to:

- plan the college provision across the region
- fund assigned colleges
- hold assigned colleges to account
- appoint chairs and ordinary members
- approve appointment of principals of assigned colleges.

The Council is taking differing approaches with regard to passing over funding responsibility to each of the regional strategic boards.

- University of Highlands and Islands Further Education Regional Board has been responsible for funding the colleges within their region since April 2015.
- New College Lanarkshire Regional Board will commence funding responsibility from August 2015.
- there are significant issues with Glasgow Colleges' Regional Board and at present it is unclear when funding responsibility will be allocated to this regional board.

Following the transfer of responsibility for funding to the regional strategic boards, the Council will have changed responsibilities under the legislation:

- securing coherent provision of high quality further and higher education
- making provision for quality assessment and assurance
- assessing and enhancing the performance of regional strategic boards
- reviewing governance, quality and educational needs arrangements in line with the Further and Higher Education (Scotland) Act 2005.

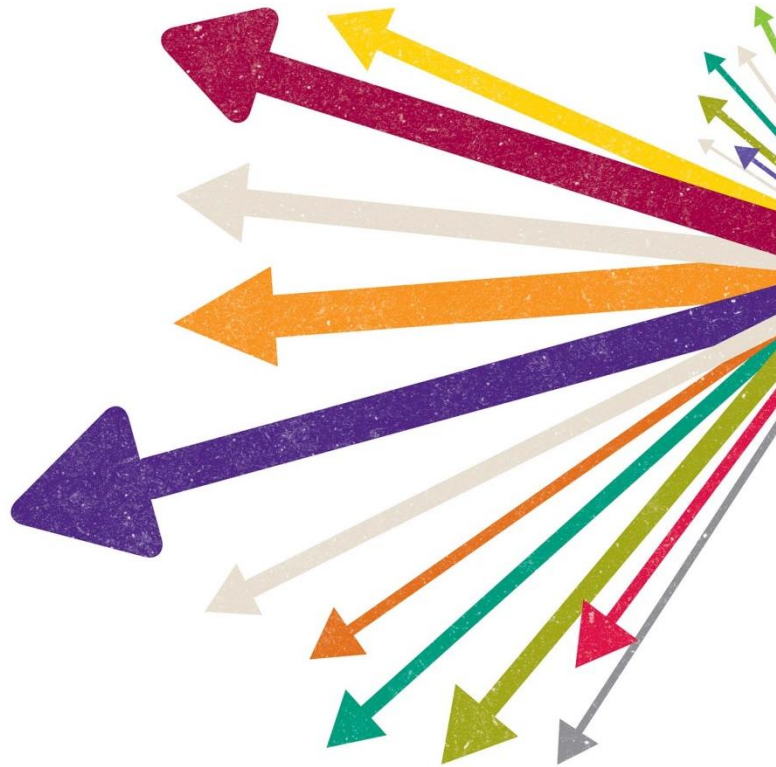
Looking forward there is risk that the Council's powers over assigned colleges will be limited. The negotiations for a regional outcome agreement will be between the regional strategic boards and the Council. This represents a risk to the Council as a significant level of responsibility for the strategic direction and funding of the regions will be under the control of the strategic boards. Under legislation the Chief Executive of the Council has a duty as Accountable Officer to ensure funding used by the college and university sectors is used efficiently and effectively. It is therefore important that the Council has robust processes to provide assurance over the governance arrangements at all institutions and particularly regional strategic boards as they go through the formation period.

[Refer to action point 2](#)

There has been significant issues in the formation of the governance arrangements at the Glasgow Colleges' Regional Board. In May 2015 the chair of the Glasgow Colleges' Regional Board resigned. The Scottish Government has appointed Ali Jarvis, a board member of the Council, as interim chair until a permanent replacement can be found.

The Council has taken action to support the Glasgow Colleges' Regional Board including the secondment of the Director of Finance in late 2014 to assist in a project defining the financial reporting requirements. In addition to this the Senior Director of Institutions and Corporate Services has recently commenced a secondment at the Glasgow Colleges' Regional Board as interim Chief Officer, to provide support at a senior level. There is a risk this movement within the Council's senior team could have an impact on Council operations.

[Refer to action point 3](#)



4. Best Value, Use of Resources and Performance



Best value

Development of the Strategic Plan

The Council's draft Strategic Plan is expected to be published in July 2015, following a period of consultation. The draft Plan focuses on a smaller number of outcomes (see Figure 4) but also emphasises key themes:

- the success of the further and higher education sectors in Scotland and the contribution to that success made by students, teachers, researchers, leaders and many others
- the huge potential of the college and university sectors and their contribution, in many different ways, to the educational, social, cultural and economic life of Scotland
- the value of partnership working and collaboration in the sectors
- the importance of having a system of colleges and universities in Scotland that is connected and coherent, accessible and diverse, adaptive and responsive, excellent, successful and sustainable.

Figure 4: The Draft Strategic Plan 2015-18 outlines fewer outcomes to help clarify the role of the Council

Strategic Plan 2012-15	Draft 2015-18
<ol style="list-style-type: none"> 1. Efficient and effective regional college structures 2. Access for people from the widest possible range of backgrounds 3. The right learning in the right place 4. High quality, efficient and effective learning 5. A developed workforce 6. Sustainable colleges and universities 7. Internationally competitive research base 8. University/industry collaboration 	<ol style="list-style-type: none"> 1. High-quality learning and teaching 2. World-leading research 3. Greater innovation in the economy

Source: Consultation Draft Strategic Plan 2015-18

Delivering Best Value

All public sector Accountable Officers in Scotland have a duty to secure best value in public services. The Council's Audit and Compliance Committee has a responsibility to oversee the achievement of Best Value and value for money.

The Council assesses its compliance with the principles of Best Value by undertaking periodic self-assessment exercises against the seven themes and 75 characteristics identified by the Scottish Government.

In September 2014, the Committee received a progress report on actions achieved against the Best Value Improvement Plan. Only two areas within the improvement plan were not assessed as 'well developed,' and therefore require further improvement:

- the approach to benchmarking with other organisations; and
- the achievement of equality outcomes.

Key areas of improvement since the last assessment, in August 2013, include the development of the Strategic Performance Management Framework and the continued development of the Outcome Agreement approach.

A further report on the achievement of value for money was considered in December 2014. This considered the Council's approach to delivering value for money, firstly operationally through its approach to:

- Procurement
- Human resources
- IT strategy
- Shared services.

The Council also has a number of processes in place to monitor the value for money of its programme spend, including the use of financial memoranda with institutions, the use of outcome agreements and monitoring and evaluation of strategic investments.

Use of resources

Purpose

The main purpose of the Council is to award grants to universities and colleges for the provision of teaching, learning and research across Scotland. During 2014-15, the Council awarded grants totalling £1.6 billion (99% of total expenditure) to institutions.

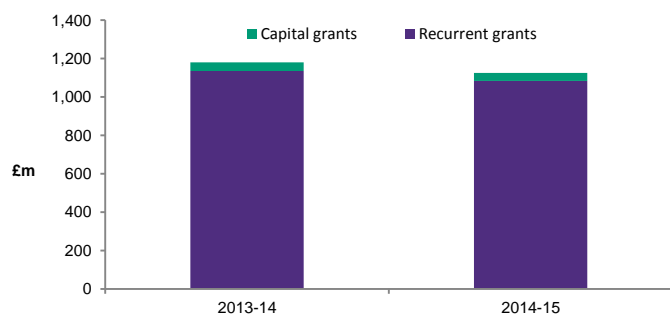
The Council agree Outcome Agreements to set out what colleges and universities plan to deliver in return for their funding. Their focus is on the contribution that the colleges and universities make towards improving life chances, supporting world-class research and creating sustainable economic growth for Scotland.

The Council also uses funding to support national priorities in widening access, skills, knowledge exchange and innovation, research and developing young workforce.

Grant funding to institutions

During 2014-15, the Council awarded £1.125 billion to universities, and £0.578 billion to Scotland's colleges. The majority of the grants paid to both universities and colleges are in the form of recurrent grants.

Figure 5: Grants paid to universities fell £54 million (4%) between 2013-14 and 2014-15

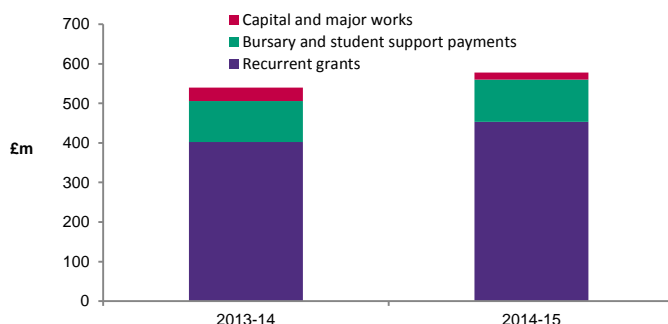


Source: Annual Report and Accounts 2014-15

Recurrent funding in the universities sector consists of the main teaching grants, research and knowledge exchange grants and strategic projects as well as ring-fenced grants related to specific course types. The funding in year has moved in line with Scottish Government funding allocations.

Recurring funding to the college sector predominantly relates to the teaching grant and fee waiver. During 2013-14, colleges delivered more activity than the prior year, and exceeded the Council's target for Weighted Student Unit of Measurements (WSUMs) in 2014-15 by 1.2%. As a result, as Figure 6 demonstrates, funding in 2014-15 was £38 million higher than 2013-14, and the proportion of recurrent grants to colleges has increased in 2014-15, from 74.5% to 78.5%.

Figure 6: Grant funding for colleges increased by £38 million in 2014-15, following significant efficiency savings in 2013-14



Source: Annual Report and Accounts 2014-15

Under the Strategic Plan 2012-15, the Council expects the college sector to demonstrate efficiencies of around £50 million in real terms by 2015-16. The merger programme in colleges has generated approximately £30 million of those efficiencies so far. Further savings are anticipated by colleges targeting resources more effectively and re-directing resources to front-line services.

Capital grants

Capital grants in the university sector have remained constant at approximately 3.7% of the total grant funding awarded. All universities are awarded a small amount of funding for capital maintenance purposes.

Capital funding at the colleges principally relates to estates maintenance and has decreased as a proportion of total grant funding in 2014-15.

Financial Health of Institutions

The Council's Strategic Plan 2012-15 includes a commitment to ensure that colleges and universities can survive financially in the long-term.

The Council monitors the financial position of both colleges and universities through financial returns received within the Strategic plan forecast (SPF), submitted at the end of June and the annual accounts, submitted at the end of December.

The Council's Audit and Compliance Committee review the findings from the reports as a standing item on the agenda. The results from the academic year 2013-14 were presented to the March 2015 meeting. Four universities reported an operating deficit in 2013-14, compared to the prior year when only one university reported an operating deficit. However, the Council has no concerns about the financial sustainability of the institutions because:

- The sector recorded an overall operating surplus of £97 million (3% of income) which is an improvement on the forecast surplus of £76 million (2.4% of income) and the previous year's surplus of £94 million.
- The 2013-14 sector operating result includes exceptional costs. Without the exceptional costs, the underlying operating position, shows a surplus of £103 million, an improvement on the forecast underlying surplus of £81 million.
- Total sector reserves are similar to last years, moving from £2,300 million in 2012-13 to £2,274 million in 2013-14.

As a result of the ONS decision there were two reporting dates for the further education sector:

- 31 March 2014 for incorporated colleges (excluding the five incorporated colleges assigned to University of Highlands and Islands (UHI) which received dispensation to maintain a 31 July year end)
- 31 July 2014 for non-incorporated colleges and those assigned to UHI.

In total sixteen colleges reported their financial position at 31 March and ten colleges reported their financial position. at 31 July.

Incorporated colleges

Overall incorporated colleges reported an operating deficit of £91.7 million. Following the ONS reclassification, all incorporated colleges are now subject to Government budgeting requirements. From 1 April 2014, colleges require budget cover before being permitted to spend cash. For this reason, colleges have donated any surplus cash to an ALF prior to 1 April. The transfers to the ALFs underpin a large amount of the deficit, along with the impact of merger activity. There was an underlying position after extraordinary costs of £10.1 million surplus. Only four incorporated colleges reported an operating deficit after adjusting for transfers to ALF's and merger costs.

The transfer to ALF's has also impacted on the strength of colleges' balance sheets. For 2013-14, the accumulated I & E reserve for the sixteen colleges had fallen from £197 million in 2012-13 to £120 million in 2013-14.

Non-incorporated colleges and UHI

Of the ten colleges included in this category seven reported an operating deficit. The overall deficit was £9.5 million, however as the UHI colleges also fell under the scope of the ONS reclassification much of this related to transfers to the ALF. The 2013-14 operating result includes a transfer of £12.2 million to the ALFs resulting in an underlying surplus position of £2.8 million. Four colleges reported an operating deficit after adjustments were made for transfer to ALF's.

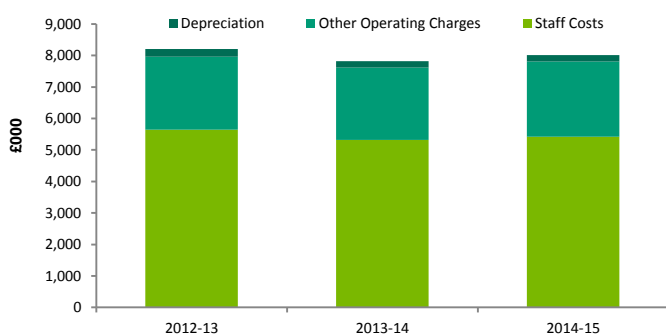
The impact of transferring funds to ALFs in year meant that reserves of the colleges fell from £10.6 million to £3.2 million.

Running Cost Expenditure

The running cost expenditure of the Council is a very small proportion of the overall expenditure (at around 0.5%), however, it is this element that the Council has most control and ability to generate efficiencies.

During 2014-15, the Council spent just over £8 million on running costs. As Figure 7 highlights, the majority (68%) of costs relate to employees.

Figure 7: Running costs at the Council

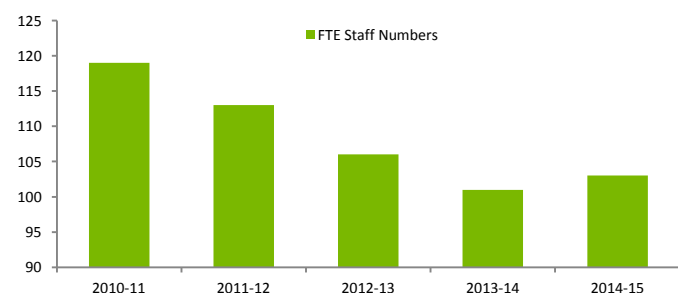


Source: Scottish Funding Council Annual Report and Accounts 2014-15

Like most public sector bodies the Council has been working to reduce the levels of expenditure, and plans to reduce running costs to £7.6 million in 2015-16.

During 2012-13, the Council offered a voluntary redundancy scheme. The Council has also reviewed its structures to ensure that they are as effective as possible, and reflect key changes such as the adoption of Outcome Agreements. As a result, as Figure 8 highlights, the staffing resources of the Council has fluctuated, but are generally reducing. We also noted that the sickness absence figure for the Council was 3.45% as at 31 March 2015 (2013-14: 3.53%), reflecting a reduction in the instance of long term sickness absence.

Figure 8: Staff numbers are generally falling, which is part of the Council's plans to improve efficiency



Source: Analysis of Scottish Funding Council Annual Report and Accounts

Financial Position

The Council's statement of financial position reflects a £1.9 million reduction in reserves during 2014-15 from £11.3 million to £9.3 million.

Table 4: Statement of Financial Position

	Year ended 31 March 2015 (£m)	Year ended 31 March 2014 (£m)
Non-current assets	3.384	3.800
Current assets	11.416	10.192
Current liabilities	2.119	2.375
Total net assets	9.297	11.257

Source: Scottish Funding Council Annual Report and Accounts 2014-15

The movement in non-current assets relates to the movement in long term debtors relating to recoverable grants.

As in prior years, the Council received repayments relating to recoverable grants made to three colleges. Arrangements are in place to recover the grants, and funds are budgeted for use in-year because the Council cannot hold these balances as reserves.

In addition, the Council's funds held within the Government Banking Service have fallen from £5.2million to £4.6 million during the year. This reflects unusually high balances held as at 31 March 2014, to manage risks associated with the reclassification by the Office for National Statistics.

Financial Capacity

During 2014-15, Audit Scotland asked auditors to collect baseline data on finance departments and the control environment within individual bodies. As part of the audit we therefore gathered data on the:

- organisational structure and influence of the most senior finance professional
- financial strategy and sustainability
- budget monitoring and reporting
- the quality and finance capability of the operational finance function.

Organisational structure

The Council's most senior finance officer is the Director of Finance and Corporate Resources. She is a core member of the Chief Executive Group (CEG), the Council's corporate management team, and regularly attends Board meetings. The Finance function within the Council therefore has sufficient status at a strategic level to deliver expected financial management.

The Director of Finance and Corporate Resources attends each Audit and Compliance Committee meeting. In conjunction with the Assistant Director of Finance, she is responsible for presenting the Council's annual accounts and other relevant papers including updates to financial procedures, fraud and whistleblowing policies.

The Head of the Learning, Governance and Sustainability Group is responsible for presenting reports to the Audit Committee on finance related issues impacting the University and College Sector, including financial monitoring of these institutions.

During 2015, the current Director of Finance and Corporate Resources has announced that she will retire. A recruitment exercise is on-going, and we understand that there will be no change in status for the new role. A change at such a senior level does, however, present a risk to the organisation relating to loss of key knowledge.

[Refer to Action Plan Point 4](#)

Financial strategy and sustainability

The Council is currently consulting on a Strategic Plan for 2015-18. This will drive future finance strategies and prioritisation. Short and medium term financial plans are already in place. The Council produce an annual financial plan, and each service within the Council prepares an individual operational plan. These are collated by the Assistant Director of Learning, Governance and Sustainability are reported to the Chief Executive.

The Council's existing 3 year strategic plan, 2012-15 sets out the financial budgeting framework for delivering its corporate objectives. The Council are currently updating this to cover the next 3 year period 2015-18. The Plan sets out indicative funding options (including their affordability) for the university and college sectors. This is informed by college and university 3 year financial projections, and bi-annual revisions to forecasts.

[Refer to Action Plan Point 5](#)

Budget Monitoring and Reporting

Budget updates are provided to each Board meeting as part of a set agenda item on performance management updates.

Progress against budgets are monitored and reported monthly to internal management.

University and college budgets are agreed through individual Outcome Agreements, with priorities linked to the Council's Strategic Plan. The Council's Learning, Governance and Sustainability Group is responsible for evaluating performance against the Outcome Agreements. Budget monitoring reports are prepared using monthly cash flows received from colleges and financial forecast returns prepared by universities.

The Assistant Director of Finance presents the monthly budget reports to the Chief Executive Group. Their role is to provide challenge on the detail in the report. Additional external challenge is provided from the Scottish Government on programme funds.

Quality and finance capability of the operational finance function

The Council has restructured their finance team in recent years, but we are comfortable that there has been no overall reduction in staff numbers employed in a finance role, or any impact on the financial capability of the organisation.

- Arrangements are in place to secure continuing profession development through:
- Individual staff training and development plans as part of their annual appraisal process.
- An annual finance and accounting technical update for staff.
- Supporting staff development by funding attendance at relevant training courses and events.

During the period of our appointment, we have observed improvements in financial professionalism, including the quality of working papers supporting the financial statements. We have not identified an increase in either the number and/or value of financial errors within unaudited accounts since 2011-12.

Performance

Performance reporting

During 2014-15, the Council developed its revised approach to performance management, the Strategic Performance Reporting Framework. The Framework is based on four questions which are considered to be critical to the success of the Council:

- What has been achieved?
- What has been provided?
- How well have we done?
- How good are we?

In November 2014, the Council's internal auditors reviewed the progress made to implement the new performance management framework. The internal auditors concluded that, subject to some areas for improvement, the framework provides the Council with a robust tool with which to monitor the achievement of strategic objectives and priorities and take appropriate action accordingly.

Recommendations reflect the continuing approach to embed the framework within operational planning, and developing approaches to workforce planning.

Outcome agreements

This is the third year of the use of Outcome Agreements across all colleges and universities. The academic year commencing on 1 August 2014 was the first year of the new three year reporting cycle. In this new cycle Outcome Agreements are now developed in alignment with the strategic plans of institutions enabling them to be more relevant. The aim is that strategic plans will be directly linked to the achievement of goals as set out by the Outcome Agreements.

Monitoring the Outcome Agreements is conducted through two main channels:

- self evaluation by institutions
- on-going monitoring by outcome managers

The self evaluation data is used by the Council to assess the institutions level of compliance against the targets set out in the Outcome Agreements. The Council uses this information to publish a report for each of the college and university sector summarising progress against key outcomes. It was noted from the 2013-14 results that there was generally good progress with challenges still evident in widening access in the college sector. The focus for colleges is to assess under-representation and need and develop methods for further improving access.

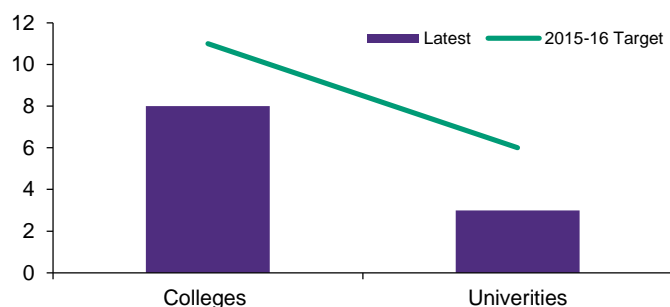
The Outcome Agreements align to the eight outcomes set by the Council in the Strategic Plan Performance against outcomes is monitored using the performance management framework which was implemented in 2014-15. Key measures relating to outcome agreements are the WSUMS target for Colleges and total funded places delivered for Universities.

The College sector exceeded its funded WSUMs activity target in 2013-14 by 1.2%, but after European Structural Funds and strategic funded places were included the result was only 0.4% above the target. The current estimate is that colleges will exceed the core and strategic growth target but may fall short of the overall WSUMs target by around 9,000 WSUMs.

The University sector exceeded its funded places in 2013-14 by 8.3%. The latest information available to the Council indicates that the sector is likely to exceed funded places by 8.1%.

The Council also consider the percentage of outcome agreements that will make an above satisfactory contribution to delivering the remit.

Figure 9: Number of Outcome Agreements the Council considers to be making a significantly better contribution to delivering the remit



Source: Performance management report presented to March 2015 Board meeting

The Council has recognised that the standard of Outcome Agreements is not yet at the level it wants, and that there is a need to encourage improvement, in particular in the university sector. The Council has set internal targets on this in its Strategic Performance Reporting Framework. A review of the 2015-16 Outcome agreements will come to the June Board meeting.

Scotland's Colleges 2015

The Auditor General published a report on the college sector in April 2015. This report focused on the reform in the College sector following the regionalisation process and the financial standing of the college sector.

Key messages from the report are:

- Scotland's colleges have faced significant changes over the past few years, which have had implications for funding, delivery and how colleges are run, managed and scrutinised. It is too early to fully assess how these will affect how colleges perform and the quality of learning, as many of the changes are still taking place.
- The Scottish Government's reform programme has led to college mergers, and the number of incorporated colleges reduced from 37 in 2011-12 to 20 in 2014-15. Planning for mergers was generally good and all the merged colleges were established on time. The Council provided guidance, support and challenge.
- The Scottish Government and the Council expect the reform programme to deliver a number of high level benefits, including reduced duplication, improved engagement with employers, better outcomes for students and financial savings of around £50 million each year from 2015-16. A large proportion of the savings has come from reductions in staff, with the biggest reduction being teaching staff costs. However, it is unclear what savings have been achieved in addition to reduced staff costs.
- Colleges continued to meet targets for learning, providing around 76 million hours of learning in 2013-14. Regular student surveys and merger evaluation feedback from the Council indicate that changes to date have not adversely affected students.
- Recent changes have made it more challenging for colleges to plan and forecast their longer-term financial position. However colleges need to develop longer term financial planning to ensure they consider and plan for the future needs of their region.

As part of this report Audit Scotland identified a number of recommendations for the Council

- The Council should specify how they will measure and publically report progress in delivering all of the benefits that were expected from mergers
- The Council should publish financial information on the costs and savings achieved through the merger process
- The Council should publish a clear and concise annual summary of colleges' progress against Outcome Agreements
- The Council should encourage board members to attend and monitor take-up of the training on severance that is being developed by the Council and the College Development Network
- The Council should monitor college's compliance with requirements, guidance and good practice relating to severance payments

It is important the Council considers the Audit Scotland reports and takes action to meet the recommendations above.

[Refer action point 6](#)

Appendices

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Appendix A



Action Plan

The table below provides details of issues changes identified during the audit which have been made in the final set of financial statements.

	Issue and Risk	Priority	Recommendation
1.	Our review of the Council's Annual Governance Statement identified two areas where the guidance in the SPFM was not included relating to data security and written confirmations. In both cases we were satisfied there were no issues arising.	Low	Going forward data security should be included as a positive future confirmation. Management Response This will be considered for future accounts
2.	In future, following the transfer of responsibility for funding to the regional strategic boards, there will be a risk that the Council's powers over the assigned colleges will be limited. The Chief Executive of the Council will continue to be accountable for all the funds which flow through the Council to the regional college boards and the regional strategic boards. Risk There is a risk that due to limited powers over the assigned colleges the strategic direction of the colleges will become out of line with the Council.	High	The Council should ensure it has robust processes to provide assurance over the governance arrangements at all institutions. Management Response The Council will continue to have robust processes to provide assurance over the governance arrangements at all institutions.
3.	The Senior Director of Institutions and Corporate Services recently commenced a secondment at the Glasgow Colleges' Regional Board as interim Chief Officer to provide support at a senior level. Risk This movement within the Council's senior team could impact on the Council's operations.	Medium	The Council should take action to ensure there is adequate capacity within the senior team. Management Response Arrangements have been put in place to cover the Senior Director's duties using a combination of additional resource and internal reallocation.
4.	During 2015, the current Director of Finance and Corporate Resources has announced that she will retire. Risk A change at such a senior level represents a risk to the organisation relating to a loss of key knowledge.	Medium	The Council should ensure there is a robust handover process and training for the incoming Director of Finance and Corporate Resources. Management response Recruitment for a new Director of Finance and Corporate Resources is already under way and a full handover plan will be put in place.
5.	The Council are currently operating under the 3 year strategic plan covering the period 2012-2015. Work is underway for the development of a plan covering the period 2015-2018. Currently there is no formalised medium to long term financial plan. Risk There is a risk that monies are not used to create long term benefits and are used to manage immediate pressures.	Medium	That the Council should create a robust financial plan covering a 3-5 year period in line with the revised strategy. Management response Long term financial planning has been under informal consideration for some time. A formal plan will be developed and finalised in parallel with the Scottish Government's 2015 Spending Review
6.	Audit Scotland made a number of recommendations in their Scotland's Colleges 2015 report on a number of key areas including delivering benefits from mergers, outcome agreements and governance over severance arrangements. Risk There is a risk the recommendations from Audit Scotland are not implemented.	Medium	The Council should ensure it considers the Audit Scotland recommendations and develops an action plan to address all the identified risks. Management response The Council will act on the recommendations in the Audit Scotland Report

Appendix B



Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council Audit (including EMA certification)	68,175	68,175
Total audit fees	68,175	68,175

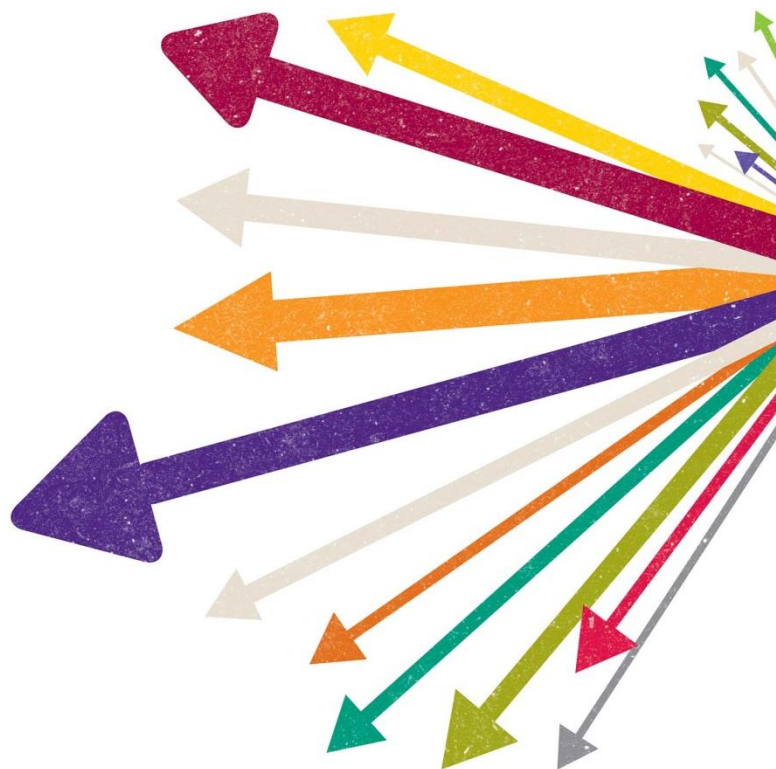
Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



Appendix C



Draft Independent Auditors Report

Independent auditor's report to the members of the Scottish Further and Higher Education Council, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of the Scottish Further and Higher Education Council (the Council) for the year ended 31 March 2015 under the Further and Higher Education (Scotland) Act 2005. The financial statements comprise Statement of Financial Position, the Statement of Comprehensive Net Expenditure, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (the 2014/15 FReM).

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

Respective responsibilities of Accountable Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge.

acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2015 and of its net operating cost for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 FReM; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Independent Auditors Report

Opinion on regularity

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

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited 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 Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Robin Baker, (for and on behalf of Grant Thornton UK LLP)

7 Exchange Crescent

Edinburgh

EH3 8AN

June 2015

Appendix D



Letter of Representation

Grant Thornton UK LLP
7 Exchange Crescent
Edinburgh
EH3 8AN

Date- Same date as accounts

Dear Sirs

The Scottish Further and Higher Education Funding Council Financial Statements for the Year Ended 31 March 2015

This representation letter is provided in connection with the audit of the financial statements of the Scottish Further and Higher Education Funding Council (the Council) for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000, the Further and Higher Education (Scotland) Act 2005, the Government Financial Reporting Manual (the FReM) and the Scottish Public Finance Manual (SPFM).

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities, as set out in the Further and Higher Education (Scotland) Act 2005 for the preparation of the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000, the FReM and International Financial Reporting Standards. In particular the financial statements give a true and fair view of the Council's state of affairs in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv. We are satisfied that the material judgments used in the preparation of financial statements are soundly based, in accordance with International Financial Reporting Standards and the FReM, and adequately disclosed in the financial statements. There are no other material judgments that need to be disclosed.
- v. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council have been assigned, pledged or mortgaged
 - c. there are no material prior year changes or credits, nor exceptional or non-recurring items requiring separate disclosure.

- vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the FReM and International Financial Reporting Standards.
- vii. All events subsequent to the date of the financial statements and for which the FReM and International Financial Reporting Standards requires adjustment or disclosure have been adjusted or disclosed.
- viii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the FReM.
- ix. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

- x. We have provided you with:
 - a. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- xi. We have confirmed there were no deficiencies in internal control of which management is aware
- xii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xiii. We have considered the risk that the financial statements may be materially misstated as a result of fraud and am not aware of any such fraud or misstatement.
- xiv. We are not aware of any fraud or suspected fraud affecting the entity involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xv. We have confirmed we have no knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xvi. We have confirmed to you there are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

- xv. We have disclosed to you the identity of all of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

Annual Report

- xix. The disclosures within the Annual Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Annual Governance Statement

- xx. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Council's Board at its meeting on **19 June 2015**.

Yours faithfully

<Name and title>

Date:

Signed on behalf of the Board



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