Fife College

Annual Report to the Board and the Auditor General for Scotland

Year ended 31 July 2016

November 2016

Updated for management response to action plan

Executive Summary

Fife College ("the College") has performed well against the targets and objectives agreed with the Scottish Funding Council for 2015-16. The Board continues to implement its estates plan, and develop its workforce requirements to ensure that the College can meet the challenges of the future, including financial pressures and providing opportunities for learners from the most deprived areas in Fife.

During the year, the College has reviewed the effectiveness of the Board and its committees, and self-assessed its performance against the Code of Good Governance for Colleges. The College also responded well to further changes to financial reporting requirements, and our audit identified only minor disclosure adjustments.

Financial statements

- Subject to the satisfactory completion of the audit, we intend to give an unqualified opinion on both the financial statements of the College and on the regularity of transactions undertaken for the financial period.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk.
- The financial statements relate to the year to 31 July 2016. Comparator figures within the financial statements relate to a 16 month period from 1 April 2014 to 31 July 2015 as a result of changes to the accounting period end in 2014-15.
- Further changes to the financial statements were required in 2015-16, as a result of the implementation of Financial Reporting Standard (FRS) 102. As a result, the finance team were required to make additional disclosures, and restate the 2014-15 comparator figures within the financial statements. The conversion was managed well, with no significant issues identified during our audit of the FRS102 conversion entries.
- The draft financial statements and supporting working papers were of a good standard, and there were only minor audit adjustments required following our audit. All of our queries were responded to promptly.
- 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 have reviewed key judgements made by management and disclosure of accounting policies and found all policies to be in line with SORP requirements.

Governance

- The College review and report on their governance processes within the Corporate Governance Report. The College has conducted a self-evaluation against the Code of Good Governance for Scottish Colleges and has confirmed compliance with only minor improvements identified.
- The Board holds a Strategy and Development day with members of the Senior Management team on an annual basis, which considers significant risks and the direction, aims and objectives of the College.
- We have concluded that risk management arrangements are well developed and embedded across the College. The College made further improvements to risk management procedures during the year, including management's assessment of risk tolerance and further action required.
- Internal audit identified no high risk recommendations during the year and concluded that the controls in most areas examined were suitably designed.
- Anti-fraud and corruption measures are in place across the College. One instance of fraud was identified in December 2015. The total loss is estimated at £16k and has been referred to the Police.

Best value, use of resources and performance

- The College's Strategic Plan was revised and approved in September 2016, and identified revised priority outcomes for 2016-17.
- The College exceeded the activity target set by the Scottish Funding Council, and provided services for almost 20,000 students in the year.
- The financial position has been significantly affected by changes to the accounting treatment of pensions.
- The College continues to scenario plan for the future based on financial estimates. Detailed longer term planning is difficult without clarity on future financial settlements.

Contents

1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Fife College for 2015-16 .

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 Fife College ('the College') 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 College, 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 Risk Committee on 26 May 2016.

The College's responsibilities

It is the responsibility of the College and the Accountable Officer to prepare the financial statements in accordance with the Statement of Recommended Practice: accounting for further and higher education (the SORP) and the Accounts Direction issued by the Scottish Funding Council (the Accounts Direction).

This means the College must:

- prepare financial statements which give a true and fair view of the financial position of the College and its income and expenditure for the period to 31 July 2016
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The College 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 relevant 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 audit 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 corporate 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 College, together with previous reports to the Audit and Risk 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 Vice Principal Finance and Planning, the Head of Finance 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 College
- 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 College's corporate governance arrangements as they relate to:

- the College'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 College 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 College at a local level or a review of the College's response to national recommendations. In we have completed a baseline assessment of the financial capacity at the College

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 May 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Financial Statements Opinion

We intend to give an unqualified opinion on the financial statements of the College.

Regularity

The College identified a loss estimated at £16,000 relating to a fraud within student funding in December 2015. We identified no other instances of irregular expenditure or non-compliance with laws and regulations in 2015-16.

Our Review of the Financial Statements

We received a set of draft financial statements on 26th September 2016. The statements received were of a high quality and reflected the significant changes required in 2015-16 as a result of:

- changes to the Government's Financial Reporting Manual (FReM) in 2015-16, including the requirement to include an Accountability Report
- the adoption of a new Accounts Direction
- The updated SORP, and resulting requirement to comply with Financial Reporting Standard (FRS) 102.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements for compliance with required FReM disclosures and SORP requirements, for consistency with other areas of the financial statements and our knowledge of the College Report. We also review:

- The Performance Report
- The Accountability Report
- The Corporate Governance Report
- Elements of the Remuneration Report; and
- The Accountable Officer's Report.

Only minor disclosure amendments were required as a result of our review and we identified no significant errors or misstatements.

Key changes during 2015-16

FRS 102 conversion

The Statement of Recommended Practice for Further and Higher Education (SORP) was updated for 2015-16 onwards. The revised SORP is based on FRS 102, the financial reporting standard applicable in the UK and the Republic of Ireland. This resulted in a number of changes to the way financial performance, assets and liabilities are presented in the financial statements.

There are changes to the names of the financial statements:

- the income and expenditure account has been replaced by the statement of comprehensive income, and
- the statement of recognised gains and losses (STRGL) has been replaced by the statement of changes to reserves, and
- the statement of historical cost surpluses and deficits is no longer a requirement.

The College was also required to restate their 2014-15 comparators and provide disclosure showing the impact of the restatement. We reviewed the College's approach to restatement during our interim visit in April 2016. Key changes that the College required to process included the treatment of government grants and accounting for retirement benefits.

Government grants with unfulfilled performance conditions are held as deferred income until the conditions are met. In accounting for retirement benefits, the FRS 102 SORP requires the net interest cost to be calculated using the discount rate rather than the expected return on the assets. This resulted in a significant reduction in the net financial position of the College, with the restated figure £27 million lower than the 2014-15 period signed financial statements.

We found that the College dealt with the restatement in a structured manner and working papers documented and evidenced the process well.

Performance Report

The Scottish Funding Council's 2015-16 Accounts Direction requires the Financial Statements to contain a performance report in accordance with the FReM. The performance report provides information on the College, including its main objectives and strategies and the principal risks that it faces.

The performance report replaced the operating and financial review.

Accountability Report

The 2015-16 Accounts Direction requires the preparation of an accountability report, in accordance with the FReM. The College's Accountability Report includes the following:

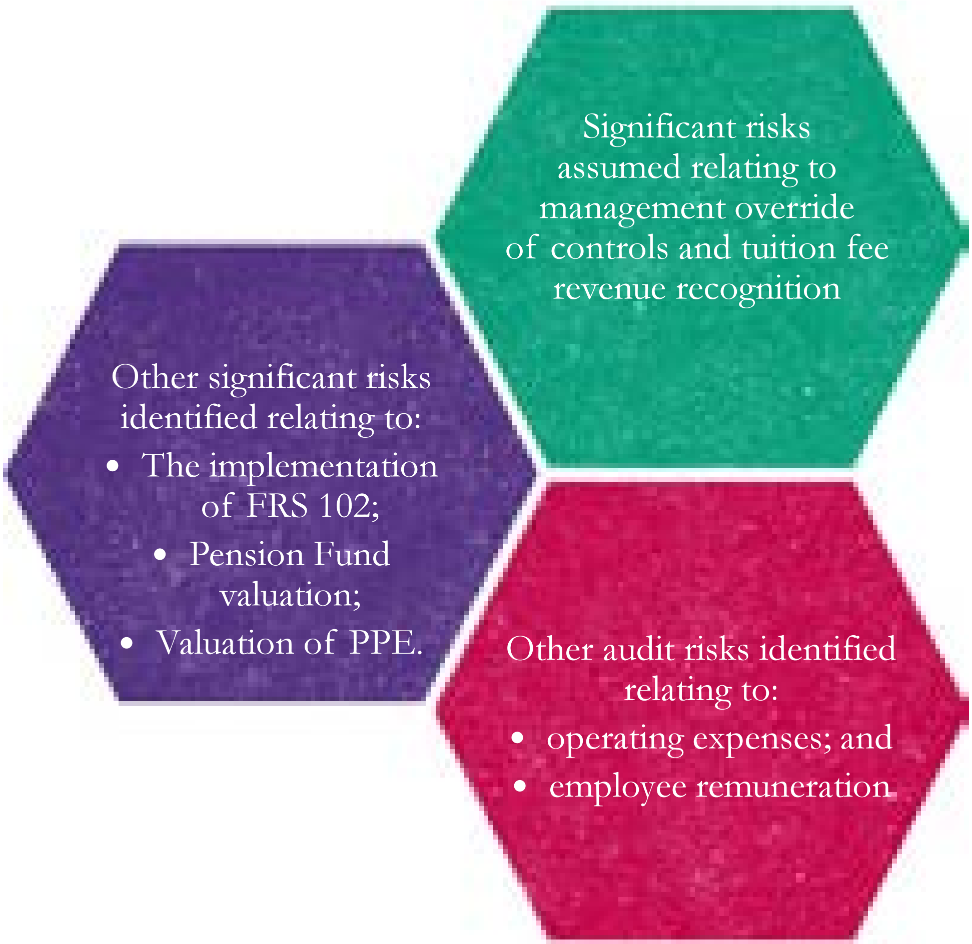
- corporate governance report, and
- remuneration and staffing report.

The Independent Auditors Report is also included within the Accountability Report.

The Corporate Governance Report replaced the statement of corporate governance and internal control. We review the key features of the College's Corporate Governance Report in Section 3.

The remuneration and staffing report includes additional disclosures in 2015-16, including sickness absence and exit packages. The bandings for the disclosure of higher paid staff has increased from £50,000 to £60,000.

A summary of our audit plan relating to financial statements



A reminder of our approach

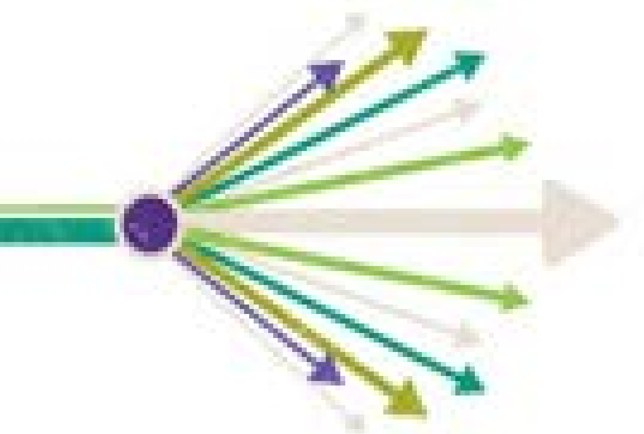
Scope of the Audit

We operate a risk based audit approach. The starting point for our audit is to consider the inherent risks to the College and how these may result in a material misstatement in the accounts. We identified five significant risks and two other audit 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 revised SORP, the Accounts Direction and the FReM, 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

Our audit plan confirms that we set materiality at the College in line with ISA 320.

The primary focus of the College is to provide educational services through the use of public funds. We therefore set the overall materiality using gross expenditure as a benchmark. We established planning materiality at 2.0% of the 2014-15 gross expenditure (adjusted to reflect the change in period length from 16 months to a 12 month comparator), which resulted in overall materiality of £1.006 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 75% of materiality which gave a measure of £0.754 million for the College.

We reviewed the levels of materiality at the fieldwork stage to establish whether this would have a significant impact on the materiality to be applied. No revisions were required as a result of this exercise.

In addition to the guidance on materiality ISA 450 requires the auditor to accumulate and report misstatements identified during the audit, other than those that are clearly trivial. For the purposes of this audit we have set trivial at £0.05 million.

Items which were considered material by nature (e.g. 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.

Table 1: Significant Risks identified at the planning stage

	Risks identified in our audit plan	Work completed	Assurances and issues arising
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.	• Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions	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. We set out later in this section of the report our work and findings on key accounting estimates and judgements.
2	The revenue cycle includes fraudulent transactions Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the College, we determined the risk of fraud arising from revenue recognition is present for Tuition Fee Revenue but can be rebutted for Grant -in-Aid allocations and Other Income. The reason behind our rebuttal of the risk is • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of further education bodies, including the College, mean that all forms of fraud are seen as unacceptable. The most significant area of revenues was grant funding totalling £36.3 million (71% of revenues). We have substantively agreed grant funding to award letters. The College received net tuition fees of £8.7 million in 2015-16. We conducted statistical sampling of tuition fee revenues, resulting in a sample size of 16 transactions for testing.	Our review confirmed that revenue had been recognised appropriately in the financial statements. No errors were identified during substantive testing.

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).

Table 1 continued: Significant Risks identified at the planning stage

	Risks identified in our audit plan	Work completed	Assurances and issues arising
3	FRS 102 implementation Required revisions to the accounting policies under FRS 102 are not reflected in the financial statements.	During our interim audit visit in April 2016, we: • reviewed management's arrangements for the implementation of FRS 102 • audited the restatement of the financial statements including the opening and closing positions for the 2014-15 financial statements • reviewed the proposed revisions to disclosure notes within the financial statements. During our final audit visit we reviewed the change to post employment benefits, as outlined below.	We found that the conversion was managed well, with no significant issues identified.
4	Valuation of pension fund net liability The College's pension fund net liability represents a significant estimate in the financial statements. An Actuary is used in the calculation of this estimate. As part of the implementation of FRS 102, the accounting for post employment benefits changed from FRS 17 to an IAS 19 basis. We therefore identified a significant risk that the Pension Fund net liability measurements were not materially correct.	During our final accounts visit we: • gained an understanding of the basis on which the valuation is carried out • undertook procedures to confirm the reasonableness of the actuarial assumptions made; and • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. • confirmed that all disclosures are in line with IAS 19 • ensured that the figures provided to the College within the report from the Actuaries were prepared under IAS 19 and were accurately reflected in the financial statements.	Our audit work did not identify any issues relating to the valuation of the pension fund net liability.
5	Valuation of property, plant and equipment (PPE) The College's valuation of fixed assets represents a significant estimate in the financial statements. An external valuer is used in the calculation of this estimate.	The last full valuation of the College's properties was undertaken at 31 July 2013, but an annual desktop valuation is prepared by an external valuer, Hardies Property and Construction Consultants. The work we have undertaken in 2015-16 is as follows: • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of management experts (the independent valuer) used; • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • Tested the treatment of the revaluations to ensure they were reflected accurately in the College's fixed asset register and financial statements.	Our audit work did not identify any issues relating to the valuation of property, plant and equipment.

Audit findings against other risks identified

Our audit plan identified other risk areas 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: Other risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Operating Expenses	Operating Expenses/ Creditors are understated The College incur expenditure to provide educational services within the Fife area. In 2015-16, the College's other operating expenses were £10.9 million.	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation over purchase ordering, general payment and recording of expenditure. • Reconciliation of the creditors subsystem to the general ledger and financial statements. • Statistical sample of 15 operating expenses to ensure validity • Statistical sample of 9 post year end transactions for unrecorded liabilities.	We gained sufficient assurance over the operating expenditure control environment. Our audit work did not identify any misstatement of operating expenses from the testing carried out.
Employee remuneration	Employee remuneration accruals understated Employee costs accounted for 64% of expenditure in 2015-16. There are a large number of transactions processed throughout the year and the College 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.	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation for payment of staff. • Substantive testing of employee remuneration accruals at the year end • Judgemental sample testing of 30 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	We gained sufficient assurance over payroll processes from our review of the control environment. Our testing did not identify any material misstatements in employee remuneration.

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 College's financial statements.

Table 3: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	• **Main annual recurrent grant income:** recognised in the period they are receivable to match performance. • **Other Income:** recognised in proportion to the extent of the completion of the contract or service concerned. • **Deferred grants:** Income for the acquisition or construction of fixed assets are deferred and recognised in line with the depreciation over the life of the asset.	• The revenue recognition policies are appropriate under the Government Financial Reporting Manual (FReM). • The disclosure in the draft accounts was found to be reasonable and in line with applicable policies.	Green
Property, Plant and Equipment	• The fair value of all land and buildings is assessed by performing a full valuation at least every five years, with an annual indexation review. • Buildings are depreciated on a straight line basis over their expected useful lives between 10 – 50 years. Other assets have a range of useful lives from 4- 10 years. • Additions to assets over £10,000 are capitalised.	• The revaluation programme is deemed to be reasonable. The current year indexation was carried out by Hardies Property and Construction Consultants. • Depreciation and capitalisation policies are considered to be reasonable and in line with the SORP.	Green
Pension fund valuations and liabilities	• In accordance with Financial Reporting Standards the College is required to account for retirement benefits when it is committed to giving them. This involves recognition in the Balance Sheet of the College's share of the net pension asset or liability together with a pension reserve. • Estimation of the net liability to pay pensions depends on a number of complex judgements. Actuaries are engaged to provide the College with expert advice about the assumptions to be applied.	• We have reviewed the accounting policies and confirmed they are in line with the guidance in the SORP and IAS 19. • We have reviewed the competence, capability and objectivity of Hymans Robertson, who have been used as management's expert in year. • We have reviewed the reasonableness of assumptions and judgements provided by Hymans Robertson. • We have no concerns which we wish to highlight.	Green
Provisions	• Recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.	• The College provisions relate to future pension liabilities arising from early retirements and has been agreed to the actuarial report provided by Hymans Robertson.	Green
Other Accounting Policies	• We have reviewed the College's policies against the requirements of the SORP, accounting standards and the Accounts Direction.	• Disclosures were in line considered reasonable.	Green

Group audit summary

As group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. (set out in ISA 600)

Component	Risk identified	Response under ISA 600 and work completed	Assurance
Non- significant components			
• Carnegie Enterprises Limited • Adam Smith Enterprise and Education Foundation	• Not applicable	• We have reviewed the College consolidation workings and confirmed the appropriateness of the figures in the group accounts. • We have undertaken a desktop review of the group financial statements using analytical procedures to identify any risk areas	• Our audit work has not identified issues in respect of the non-significant components

Other areas of audit focus

Internal controls

We update our understanding of the College's operations and key financial controls 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:

- FRS 102 conversion
- tuition fee revenues
- operating expenses
- employee remuneration
- IT control environment.

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

Going Concern

The College has prepared their accounts on a going concern basis. We have considered this and obtained assurance over going concern through:

- review of financial factors including levels of borrowing, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures.

Related Parties

The College is required to disclose material transactions with bodies that have the potential to control or influence the College or to be controlled or influenced by the College.

In 2015-16, the College disclosed 12 related parties. We reviewed the rationale for the bodies identified as related parties and concluded that a number of the bodies do not meet the definition of a related party as outlined by accounting standards. A number of the disclosures are therefore unnecessary. The College should review the level of disclosure and consider which related parties should be included under FRS 102.

Refer to action plan point 1

We have used computer aided audit techniques to search for material undisclosed related party transactions. From this testing we did not find any related party balances which had not been disclosed in the figure above.

Remuneration and Staff Report

Each year the Cabinet Office releases guidance outlining the disclosures which are required in remuneration reports such as:

- salary information for the senior management team
- pension information for the senior management team
- the median remuneration of all staff and the ratio between this and the mid-point of the highest paid director.

We have reviewed the parts of the remuneration report subject to audit and we are satisfied that the reporting requirements of the FReM and the Cabinet Office guidance have been met.

3. Governance

Governance

Corporate Governance Report

The College has included a Corporate Governance Report as part of the Accountability Report within the financial statements. The Corporate Governance Report meets the requirements of the FReM and includes:

- details of the Board of Governors and Senior Management Team, including a statement of responsibilities
- the governance framework of the College including committee structure information
- details of the College's system of internal financial control
- an assessment of the College's risk management arrangements
- a summary of the College's Estates Strategy.

The report also summarises the College's self assessment against the Code of Good Governance for Scotland's Colleges. The College has complied with all aspects of the Code, with the exception of involving students and staff both in:

- Monitoring the performance of the Principal; and
- Setting the remuneration of the Principal.

Refer to action plan point 2

The Board of Governors hold an annual Strategy and Development Day with the Senior Management Team. During 2015-16, the Board considered:

- The direction, aims and objectives of the College
- The identification of significant risks
- An evaluation of Board, Committee and Chair performance.

During the year, each Committee also conducted a review of its own effectiveness.

Risk management

The Corporate Governance Report summarises the College's approach to risk management, including the Risk Management Policy and key responsibilities.

The Strategic Risk Register identifies 12 key risks, based on:

- The College's funding situation
- Financial control and the ability to achieve targets
- The Estates Strategy and associated rationalisation
- Leadership
- Curriculum and
- Efficiency and innovation.

In September 2016, the Audit and Risk Committee considered further improvements to risk management, including management's assessment of risk tolerance and further action required.

We have concluded that risk management arrangements are well developed and embedded across the College.

Internal Audit

The College's internal audit function is provided by BDO LLP, an external firm of accountants. Internal Audit provide an annual opinion to the Audit and Risk Committee on the assurance framework.

The internal audit reports throughout the year highlight an acceptable level of compliance. No high risk recommendations were made during 2015-16 and Internal Audit provided substantial assurance within reports on:

- Corporate Governance
- Student Fees
- Payroll and expenses; and
- Estates Management.

However, Internal Audit were able to provide only limited assurance on two reviews; Business Performance Management; and Quality.

As a result, in 2015-16 they issued the following opinion:

"With the exception of our reviews on business performance management and quality… the risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance objectives."

Internal Audit provided regular progress reports to the Audit and Risk Committee, including follow up of prior recommendations. As set out in our audit plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2015-16.

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 College's has a Fraud Prevention Policy and Whistleblowing Policy, which is designed to promote an anti-fraud and anti corruption culture. The College maintain a register of any allegations made under the Public Interest Disclosure Act, which is reviewed on an annual basis by the Audit and Risk Committee. One fraud was identified in December 2015, relating to an employee working in student funding. The loss was estimated at £16,000. The employee has been referred to the Police.

Arrangements for maintaining Standards of Conduct and detection of corruption

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

Arm's length foundations for colleges (ALFs)

The Scottish Government budget regulations limit the Colleges ability to carry cash reserves and retain future surpluses. In order to mitigate the impact of the reclassification the Scottish Government approved the transfer of colleges cash-backed reserves and on-going surpluses to Arms' Length Foundations (ALF).

Fife College ALF has an independent Board of Trustees in place, including four Trustees who are independent of the College, and the Vice Principal Finance and Planning as a fifth trustee.

During 2015-16, there were no transfers to or from the ALF.

4. Best Value, Use of Resources and Performance

Performance

Development of the Strategic Plan

The College's updated Strategic Plan 2016-17 was approved in September 2016. The Plan is based on the priority outcomes within the revised Outcome Agreement:

- Maintain a sustainable College for Fife which, through effective and efficient management, partnership and good governance, contributes to meeting the Scottish Government guarantee under Opportunities for All.
- Deliver a high quality, relevant, curriculum that meets the needs of the region, and provides progression opportunities to more advanced study and appropriate exit points to employment.
- Provide learning opportunities which contribute towards the creation of high retention, attainment and achievement.
- Provide engaging learning opportunities for those within our most deprived communities to improve their life chances.
- Ensure there are appropriate opportunities for young people to make the transition from School to College learning.
- Grow our intellectual property, commercial profit and student opportunity through collaborative partnership with the business sector and other organisations.

Progress has been made during 2015-16 to support the College's ambitions, including the ongoing Estates and Campus Development Plan. The College has continued to rationalise and prioritise its estate. The Cupar and Nairn campuses were closed during 2015-16, and a new campus opened at Levenmouth in August 2016.

The Levenmouth campus allows the College to offer a wider curriculum than the Cupar campus, and it is hoped that the campus will support the College to further increase the proportion of learners coming from the most deprived communities in Fife.

Performance reporting

The College uses a range of targets and key performance indicators (KPIs) to monitor performance throughout the year. The College's Principal reports to each Board of Governors on progress towards planned objectives and targets.

The College's Annual Report summarises performance against the College's main KPIs for the year. Key highlights for 2015-16 include:

- The College delivered courses to almost 20,000 learners, including 6,483 full time students.
- The College exceeded its activity target for the year, as set by the Scottish Funding Council. The College achieved 133,245 credits against a target of 132,765.
- non Scottish Funding Council Income as a percentage of total income has increased from 27.9% to 30.1%. Other income included £9 million of commercial trading.

There was, however, an increase in the percentage of students withdrawing from courses. Early withdrawal increased slightly from 4.6% to 4.7%, but further withdrawal increased from 4.5% to 8.6%.

Scotland's Colleges 2016

The Auditor General published a report on the college sector in August 2016. Key messages from the report include:

- The college sector has continued to exceed activity targets but colleges are still adjusting to substantial changes in how they operate;
- the overall financial health sector is relatively stable but colleges do not have long-term financial plans which would help them address further financial pressures; and
- overall student numbers have decreased by 41 per cent over the last eight years, but under 25 year olds in full time education at college increased by 14 per cent over that time.

Recommendations to Colleges in the report were:

- To develop long-term financial strategies underpinned by medium-term financial plans that link to workforce plans;
- to implement a more systematic approach to workforce planning to ensure the appropriate resources and skills to deliver strategic goals; and
- make agendas, supporting papers and minutes for board and committee meetings publicly available with appropriate timeframes.

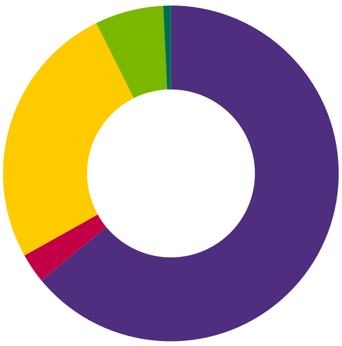
Refer to action plan point 3

Use of resources

Expenditure

The College reported expenditure of £50.8 million in 2015-16 (2014-15 restated: £67.2m). Significant movement in the balances between years was expected due to the change in year end resulting in a period of 12 months being compared to 16 months in 2014-15.

Staff costs continues to be the highest area of expenditure



Staff costs continue to be a key area of expenditure for the College. During 2015-16, the College exhausted the funding provided by the SFC to allow it to make its staff structures as efficient as possible. The College continues to shape its workforce, but future voluntary severances will be met from College resources.

Financial Position

The changes made to reflect FRS 102 had the effect of reducing the restated net assets by £27 million.

Group Balance Sheet

	31 July 2016 (£m)	31 July 2015 (£m)
Tangible Assets	70.09	73.76
Current assets	5.60	5.9
Current liabilities	(6.21)	(6.24)
Long term liabilities (including pensions)	(58.87)	(50.31)
Total net assets	**10.60**	**23.13**

A significant increase in the pension liability, partly as a result of the adoption of IAS 19, means that net assets continued to decrease in 2015-16. The medium to long term financial position of the College is therefore dependent on increasing assets.

Medium term financial planning is difficult in light of short term funding settlements. The College has, however, begun to scenario plan based on a range of financial assumptions.

Appendices

Appendix A- Unadjusted misstatements

We are required to report to those charged with Governance any identified adjustments, over and above £0.25 million which we have reported to Officers but have not subsequently been changed in the final version of the Financial Statements. None were identified in 2015-16.

Appendix B- Misclassifications and disclosure changes

We are required to report on misclassifications and disclosure changes identified during the audit. There were none in 2015-16.

Appendix C- Action Plan

	Issue and Risk	Priority	Recommendation
1.	The College disclosed 12 related parties within the financial statements. Having considered the disclosures we feel that not all of the bodies meet the definition of a related party. **Risk** **There is a risk that there is incorrect disclosure of related party transactions.**	Medium	The College should review their related parties and establish whether they meet the definition of a related party as outlined in accounting standards **Management response** Agreed. The College will review the related parties in the Annual Accounts for 2016-17 and will clarify the information in the light of the definition of a related party.
2.	The College has reviewed its compliance with the Good Governance Code for Colleges and identified two minor areas for improvement. **Risk** **There is a risk that the College may not meet the Scottish Funding Council's governance requirements.**	Medium	The College should ensure that students and staff are involved in monitoring the performance and setting the remuneration of the new Principal. **Management response** Agreed. The College will consider the two areas going forward.
3.	Audit Scotland made a number of recommendations in their Scotland's Colleges 2016 report on a number of key areas including longer term financial planning and workforce planning. **Risk** **There is a risk the recommendations from Audit Scotland are not implemented.**	Medium	The College should ensure it considers the Audit Scotland recommendations and develops an action plan to address all the identified risks. **Management response** Agreed. The College will consider the Audit Scotland recommendations and will develop an action plan going forward.

Appendix D-Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1	Written representations	• A letter of representation has been requested from the College • In particular, representations will be requested from management in respect of: – Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable – Responsibility for the design and implementation of internal control to prevent and detect error and fraud – Related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the Government Financial Reporting Manual and the Scottish Public Finance Manual – All events subsequent to the date of the financial statements and for which the Government Financial Reporting Manual and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed
2	Disclosures	• Our audit work identified no material omissions in the financial statements
3	Matters in relation to fraud	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
4	Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations
5	Matters in relation to related parties	• We are not aware of any related party transactions which have not been disclosed
6	Going Concern	• We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern

Appendix E- 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 £
College Audit	34,000	34,000
Carnegie Enterprise Limited Audit	3,675	3,675
Total audit fees	**37,675**	**37,675**

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 F: Independent Auditors Report

Independent auditor's report to the members of the Board of Governors of Fife College, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Fife College and its group for the year ended 31 July 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated and College Balance Sheet, the Consolidated Statement of Cash Flow and the Consolidated and College Statement of Changes in Reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Board of Governors and auditor

As explained more fully in the Statement of Board of Governor's Responsibilities, the Board of Governors 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 circumstances of the college and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; 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 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 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college and its group as at 31 July 2016 and of their deficit for the year then ended;

•

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

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 and Staff Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report 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:

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff 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 Corporate Governance Report does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Jackie Bellard

For and on behalf of Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

xx December 2016

Jackie Bellard is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Appendix G- Letter of Representation

Grant Thornton UK LLP

7 Exchange Crescent

Edinburgh

EH3 8AN

21 December 2016

Dear Sirs

Fife College
Financial Statements for the Year Ended 31 July 2016

This representation letter is provided in connection with the audit of the financial statements of Fife College for the period ended 31 July 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP') ') including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 terms of the Audit Scotland audit engagement letter dated 23 May 2011 and the Financial Memorandum agreed between the Scottish Funding Council and the College, for the preparation of the financial statements in accordance with UK GAAP; in particular the financial statements give a true and fair view in accordance therewith and comply with the Statement of Recommended Practice - Accounting for Further and Higher Education ('SORP') as issued in March 2014 and any subsequent amendments; and applicable law, and for making accurate representations to you.

ii. We are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions of the College conform to the authorities that govern them. In addition, we are responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions that the Scottish Funding Council may prescribe from time to time.

iii. The College has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value and underpinning pension figures of senior employees are reasonable. On the basis of the process established by the Board of Management and having made appropriate enquiries, the Board of Management is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with FRS 102 Section 28 Employee Benefits.

vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK GAAP, the SORP and the Accounts Direction for Financial statements issued by the Scottish Funding Council.

viii. All events subsequent to the date of the financial statements and for which UK GAAP and the SORP and any subsequent amendments or variations to this statement require adjustment or disclosure have been adjusted or disclosed.

ix. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK GAAP.

x. The financial statements are free of material misstatements, including omissions.

xi. We confirm that the Arm's Length Foundation is independent of the College and is therefore not required to be consolidated into the College's financial statements.

Information Provided

xi. We have provided you with:

   a. access to all information of which we are 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 determined it necessary to obtain audit evidence.

xii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xiii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud or error.

xiv. We confirm that we have provided to you all information relating to our contractual arrangements with the Scottish Funding Council and that we currently know of nothing which could have an impact upon these arrangements and as far as we are aware, at the current time, there is no adjustment to the Scottish Funding Council funds to be provided for in the financial statements.

xv. We have disclosed to you our knowledge of fraud or suspected fraud that we are aware of and that affects the entity and involves:

   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.

xvi. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xvii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xviii. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

xix. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing financial statements.

Yours faithfully

Signed on behalf of the Board of Fife College

Fife College

Annual Report to the Board and the Auditor General for Scotland
Year ended 31 July 2016

November 2016

Updated for management response to action plan

Executive Summary

Fife College ("the College") has performed well against the targets and objectives agreed with the Scottish Funding Council for 2015-16. The Board continues to implement its estates plan, and develop its workforce requirements to ensure that the College can meet the challenges of the future, including financial pressures and providing opportunities for learners from the most deprived areas in Fife.

During the year, the College has reviewed the effectiveness of the Board and its committees, and self-assessed its performance against the Code of Good Governance for Colleges. The College also responded well to further changes to financial reporting requirements, and our audit identified only minor disclosure adjustments.

Financial statements

- Subject to the satisfactory completion of the audit, we intend to give an unqualified opinion on both the financial statements of the College and on the regularity of transactions undertaken for the financial period.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk.
- The financial statements relate to the year to 31 July 2016. Comparator figures within the financial statements relate to a 16 month period from 1 April 2014 to 31 July 2015 as a result of changes to the accounting period end in 2014-15.
- Further changes to the financial statements were required in 2015-16, as a result of the implementation of Financial Reporting Standard (FRS) 102. As a result, the finance team were required to make additional disclosures, and restate the 2014-15 comparator figures within the financial statements. The conversion was managed well, with no significant issues identified during our audit of the FRS102 conversion entries.
- The draft financial statements and supporting working papers were of a good standard, and there were only minor audit adjustments required following our audit. All of our queries were responded to promptly.
- 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 have reviewed key judgements made by management and disclosure of accounting policies and found all policies to be in line with SORP requirements.

Governance

- The College review and report on their governance processes within the Corporate Governance Report. The College has conducted a self-evaluation against the Code of Good Governance for Scottish Colleges and has confirmed compliance with only minor improvements identified.
- The Board holds a Strategy and Development day with members of the Senior Management team on an annual basis, which considers significant risks and the direction, aims and objectives of the College.
- We have concluded that risk management arrangements are well developed and embedded across the College. The College made further improvements to risk management procedures during the year, including management's assessment of risk tolerance and further action required.
- Internal audit identified no high risk recommendations during the year and concluded that the controls in most areas examined were suitably designed.
- Anti-fraud and corruption measures are in place across the College. One instance of fraud was identified in December 2015. The total loss is estimated at £16k and has been referred to the Police.

Best value, use of resources and performance

- The College's Strategic Plan was revised and approved in September 2016, and identified revised priority outcomes for 2016-17.
- The College exceeded the activity target set by the Scottish Funding Council, and provided services for almost 20,000 students in the year.
- The financial position has been significantly affected by changes to the accounting treatment of pensions.
- The College continues to scenario plan for the future based on financial estimates. Detailed longer term planning is difficult without clarity on future financial settlements.

Contents

1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Fife College for 2015-16 .

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 Fife College ('the College') 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 College, 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 Risk Committee on 26 May 2016.

The College's responsibilities

It is the responsibility of the College and the Accountable Officer to prepare the financial statements in accordance with the Statement of Recommended Practice: accounting for further and higher education (the SORP) and the Accounts Direction issued by the Scottish Funding Council (the Accounts Direction).

This means the College must:

- prepare financial statements which give a true and fair view of the financial position of the College and its income and expenditure for the period to 31 July 2016
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The College 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 relevant 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 audit 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 corporate 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 College, together with previous reports to the Audit and Risk 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 Vice Principal Finance and Planning, the Head of Finance 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 College
- 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 College's corporate governance arrangements as they relate to:

- the College'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 College 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 College at a local level or a review of the College's response to national recommendations. In we have completed a baseline assessment of the financial capacity at the College

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 May 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Financial Statements Opinion

We intend to give an unqualified opinion on the financial statements of the College.

Regularity

The College identified a loss estimated at £16,000 relating to a fraud within student funding in December 2015. We identified no other instances of irregular expenditure or non-compliance with laws and regulations in 2015-16.

Our Review of the Financial Statements

We received a set of draft financial statements on 26th September 2016. The statements received were of a high quality and reflected the significant changes required in 2015-16 as a result of:

- changes to the Government's Financial Reporting Manual (FReM) in 2015-16, including the requirement to include an Accountability Report
- the adoption of a new Accounts Direction
- The updated SORP, and resulting requirement to comply with Financial Reporting Standard (FRS) 102.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements for compliance with required FReM disclosures and SORP requirements, for consistency with other areas of the financial statements and our knowledge of the College Report. We also review:

- The Performance Report
- The Accountability Report
- The Corporate Governance Report
- Elements of the Remuneration Report; and
- The Accountable Officer's Report.

Only minor disclosure amendments were required as a result of our review and we identified no significant errors or misstatements.

Key changes during 2015-16

FRS 102 conversion

The Statement of Recommended Practice for Further and Higher Education (SORP) was updated for 2015-16 onwards. The revised SORP is based on FRS 102, the financial reporting standard applicable in the UK and the Republic of Ireland. This resulted in a number of changes to the way financial performance, assets and liabilities are presented in the financial statements.

There are changes to the names of the financial statements:

- the income and expenditure account has been replaced by the statement of comprehensive income, and
- the statement of recognised gains and losses (STRGL) has been replaced by the statement of changes to reserves, and
- the statement of historical cost surpluses and deficits is no longer a requirement.

The College was also required to restate their 2014-15 comparators and provide disclosure showing the impact of the restatement. We reviewed the College's approach to restatement during our interim visit in April 2016. Key changes that the College required to process included the treatment of government grants and accounting for retirement benefits.

Government grants with unfulfilled performance conditions are held as deferred income until the conditions are met. In accounting for retirement benefits, the FRS 102 SORP requires the net interest cost to be calculated using the discount rate rather than the expected return on the assets. This resulted in a significant reduction in the net financial position of the College, with the restated figure £27 million lower than the 2014-15 period signed financial statements.

We found that the College dealt with the restatement in a structured manner and working papers documented and evidenced the process well.

Performance Report

The Scottish Funding Council's 2015-16 Accounts Direction requires the Financial Statements to contain a performance report in accordance with the FReM. The performance report provides information on the College, including its main objectives and strategies and the principal risks that it faces.

The performance report replaced the operating and financial review.

Accountability Report

The 2015-16 Accounts Direction requires the preparation of an accountability report, in accordance with the FReM. The College's Accountability Report includes the following:

- corporate governance report, and
- remuneration and staffing report.

The Independent Auditors Report is also included within the Accountability Report.

The Corporate Governance Report replaced the statement of corporate governance and internal control. We review the key features of the College's Corporate Governance Report in Section 3.

The remuneration and staffing report includes additional disclosures in 2015-16, including sickness absence and exit packages. The bandings for the disclosure of higher paid staff has increased from £50,000 to £60,000.

A summary of our audit plan relating to financial statements

Significant risks assumed relating to management override of controls and tuition fee revenue recognition

Other significant risks identified relating to:

- The implementation of FRS 102;
- Pension Fund valuation;
- Valuation of PPE.

Other audit risks identified relating to:

- operating expenses; and
- employee remuneration

A reminder of our approach

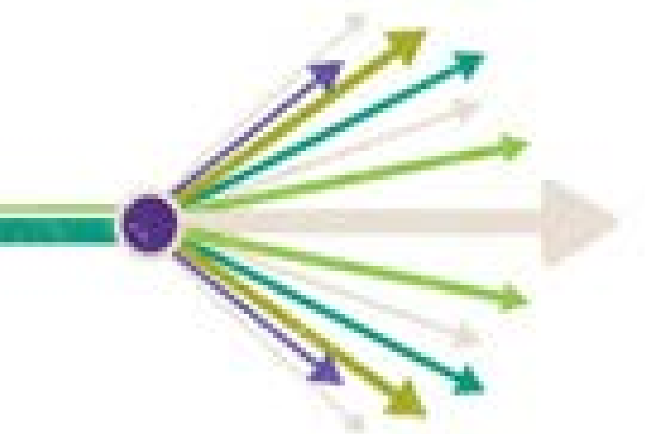
Scope of the Audit

We operate a risk based audit approach. The starting point for our audit is to consider the inherent risks to the College and how these may result in a material misstatement in the accounts. We identified five significant risks and two other audit 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 revised SORP, the Accounts Direction and the FReM, 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

Our audit plan confirms that we set materiality at the College in line with ISA 320.

The primary focus of the College is to provide educational services through the use of public funds. We therefore set the overall materiality using gross expenditure as a benchmark. We established planning materiality at 2.0% of the 2014-15 gross expenditure (adjusted to reflect the change in period length from 16 months to a 12 month comparator), which resulted in overall materiality of £1.006 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 75% of materiality which gave a measure of £0.754 million for the College.

We reviewed the levels of materiality at the fieldwork stage to establish whether this would have a significant impact on the materiality to be applied. No revisions were required as a result of this exercise.

In addition to the guidance on materiality ISA 450 requires the auditor to accumulate and report misstatements identified during the audit, other than those that are clearly trivial. For the purposes of this audit we have set trivial at £0.05 million.

Items which were considered material by nature (e.g. 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.

Table 1: Significant Risks identified at the planning stage

	Risks identified in our audit plan	Work completed	Assurances and issues arising
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.	• Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions	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. We set out later in this section of the report our work and findings on key accounting estimates and judgements.
2	The revenue cycle includes fraudulent transactions Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the College, we determined the risk of fraud arising from revenue recognition is present for Tuition Fee Revenue but can be rebutted for Grant -in-Aid allocations and Other Income. The reason behind our rebuttal of the risk is • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of further education bodies, including the College, mean that all forms of fraud are seen as unacceptable. The most significant area of revenues was grant funding totalling £36.3 million (71% of revenues). We have substantively agreed grant funding to award letters. The College received net tuition fees of £8.7 million in 2015-16. We conducted statistical sampling of tuition fee revenues, resulting in a sample size of 16 transactions for testing.	Our review confirmed that revenue had been recognised appropriately in the financial statements. No errors were identified during substantive testing.

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).

Table 1 continued: Significant Risks identified at the planning stage

	Risks identified in our audit plan	Work completed	Assurances and issues arising
3	FRS 102 implementation Required revisions to the accounting policies under FRS 102 are not reflected in the financial statements.	During our interim audit visit in April 2016, we: • reviewed management's arrangements for the implementation of FRS 102 • audited the restatement of the financial statements including the opening and closing positions for the 2014-15 financial statements • reviewed the proposed revisions to disclosure notes within the financial statements. During our final audit visit we reviewed the change to post employment benefits, as outlined below.	We found that the conversion was managed well, with no significant issues identified.
4	Valuation of pension fund net liability The College's pension fund net liability represents a significant estimate in the financial statements. An Actuary is used in the calculation of this estimate. As part of the implementation of FRS 102, the accounting for post employment benefits changed from FRS 17 to an IAS 19 basis. We therefore identified a significant risk that the Pension Fund net liability measurements were not materially correct.	During our final accounts visit we: • gained an understanding of the basis on which the valuation is carried out • undertook procedures to confirm the reasonableness of the actuarial assumptions made; and • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. • confirmed that all disclosures are in line with IAS 19 • ensured that the figures provided to the College within the report from the Actuaries were prepared under IAS 19 and were accurately reflected in the financial statements.	Our audit work did not identify any issues relating to the valuation of the pension fund net liability.
5	Valuation of property, plant and equipment (PPE) The College's valuation of fixed assets represents a significant estimate in the financial statements. An external valuer is used in the calculation of this estimate.	The last full valuation of the College's properties was undertaken at 31 July 2013, but an annual desktop valuation is prepared by an external valuer, Hardies Property and Construction Consultants. The work we have undertaken in 2015-16 is as follows: • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of management experts (the independent valuer) used; • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • Tested the treatment of the revaluations to ensure they were reflected accurately in the College's fixed asset register and financial statements.	Our audit work did not identify any issues relating to the valuation of property, plant and equipment.

Audit findings against other risks identified

Our audit plan identified other risk areas 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: Other risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Operating Expenses	Operating Expenses/ Creditors are understated The College incur expenditure to provide educational services within the Fife area. In 2015-16, the College's other operating expenses were £10.9 million.	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation over purchase ordering, general payment and recording of expenditure. • Reconciliation of the creditors subsystem to the general ledger and financial statements. • Statistical sample of 15 operating expenses to ensure validity • Statistical sample of 9 post year end transactions for unrecorded liabilities.	We gained sufficient assurance over the operating expenditure control environment. Our audit work did not identify any misstatement of operating expenses from the testing carried out.
Employee remuneration	Employee remuneration accruals understated Employee costs accounted for 64% of expenditure in 2015-16. There are a large number of transactions processed throughout the year and the College 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.	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation for payment of staff. • Substantive testing of employee remuneration accruals at the year end • Judgemental sample testing of 30 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	We gained sufficient assurance over payroll processes from our review of the control environment. Our testing did not identify any material misstatements in employee remuneration.

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 College's financial statements.

Table 3: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	• **Main annual recurrent grant income:** recognised in the period they are receivable to match performance. • **Other Income:** recognised in proportion to the extent of the completion of the contract or service concerned. • **Deferred grants:** Income for the acquisition or construction of fixed assets are deferred and recognised in line with the depreciation over the life of the asset.	• The revenue recognition policies are appropriate under the Government Financial Reporting Manual (FReM). • The disclosure in the draft accounts was found to be reasonable and in line with applicable policies.	● ●
Property, Plant and Equipment	• The fair value of all land and buildings is assessed by performing a full valuation at least every five years, with an annual indexation review. • Buildings are depreciated on a straight line basis over their expected useful lives between 10 – 50 years. Other assets have a range of useful lives from 4- 10 years. • Additions to assets over £10,000 are capitalised.	• The revaluation programme is deemed to be reasonable. The current year indexation was carried out by Hardies Property and Construction Consultants. • Depreciation and capitalisation policies are considered to be reasonable and in line with the SORP.	●
Pension fund valuations and liabilities	• In accordance with Financial Reporting Standards the College is required to account for retirement benefits when it is committed to giving them. This involves recognition in the Balance Sheet of the College's share of the net pension asset or liability together with a pension reserve. • Estimation of the net liability to pay pensions depends on a number of complex judgements. Actuaries are engaged to provide the College with expert advice about the assumptions to be applied.	• We have reviewed the accounting policies and confirmed they are in line with the guidance in the SORP and IAS 19. • We have reviewed the competence, capability and objectivity of Hymans Robertson, who have been used as management's expert in year. • We have reviewed the reasonableness of assumptions and judgements provided by Hymans Robertson. • We have no concerns which we wish to highlight.	●
Provisions	• Recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.	• The College provisions relate to future pension liabilities arising from early retirements and has been agreed to the actuarial report provided by Hymans Robertson.	●
Other Accounting Policies	• We have reviewed the College's policies against the requirements of the SORP, accounting standards and the Accounts Direction.	• Disclosures were in line considered reasonable.	●

Group audit summary

As group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. (set out in ISA 600)

Component	Risk identified	Response under ISA 600 and work completed	Assurance
Non- significant components			
• Carnegie Enterprises Limited • Adam Smith Enterprise and Education Foundation	• Not applicable	• We have reviewed the College consolidation workings and confirmed the appropriateness of the figures in the group accounts. • We have undertaken a desktop review of the group financial statements using analytical procedures to identify any risk areas	• Our audit work has not identified issues in respect of the non-significant components

Other areas of audit focus

Internal controls

We update our understanding of the College's operations and key financial controls 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:

- FRS 102 conversion
- tuition fee revenues
- operating expenses
- employee remuneration
- IT control environment.

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

Going Concern

The College has prepared their accounts on a going concern basis. We have considered this and obtained assurance over going concern through:

- review of financial factors including levels of borrowing, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures.

Related Parties

The College is required to disclose material transactions with bodies that have the potential to control or influence the College or to be controlled or influenced by the College.

In 2015-16, the College disclosed 12 related parties. We reviewed the rationale for the bodies identified as related parties and concluded that a number of the bodies do not meet the definition of a related party as outlined by accounting standards. A number of the disclosures are therefore unnecessary. The College should review the level of disclosure and consider which related parties should be included under FRS 102.

Refer to action plan point 1

We have used computer aided audit techniques to search for material undisclosed related party transactions. From this testing we did not find any related party balances which had not been disclosed in the figure above.

Remuneration and Staff Report

Each year the Cabinet Office releases guidance outlining the disclosures which are required in remuneration reports such as:

- salary information for the senior management team
- pension information for the senior management team
- the median remuneration of all staff and the ratio between this and the mid-point of the highest paid director.

We have reviewed the parts of the remuneration report subject to audit and we are satisfied that the reporting requirements of the FReM and the Cabinet Office guidance have been met.

3. Governance

Governance

Corporate Governance Report

The College has included a Corporate Governance Report as part of the Accountability Report within the financial statements. The Corporate Governance Report meets the requirements of the FReM and includes:

- details of the Board of Governors and Senior Management Team, including a statement of responsibilities
- the governance framework of the College including committee structure information
- details of the College's system of internal financial control
- an assessment of the College's risk management arrangements
- a summary of the College's Estates Strategy.

The report also summarises the College's self assessment against the Code of Good Governance for Scotland's Colleges. The College has complied with all aspects of the Code, with the exception of involving students and staff both in:

- Monitoring the performance of the Principal; and
- Setting the remuneration of the Principal.

Refer to action plan point 2

The Board of Governors hold an annual Strategy and Development Day with the Senior Management Team. During 2015-16, the Board considered:

- The direction, aims and objectives of the College
- The identification of significant risks
- An evaluation of Board, Committee and Chair performance.

During the year, each Committee also conducted a review of its own effectiveness.

Risk management

The Corporate Governance Report summarises the College's approach to risk management, including the Risk Management Policy and key responsibilities.

The Strategic Risk Register identifies 12 key risks, based on:

- The College's funding situation
- Financial control and the ability to achieve targets
- The Estates Strategy and associated rationalisation
- Leadership
- Curriculum and
- Efficiency and innovation.

In September 2016, the Audit and Risk Committee considered further improvements to risk management, including management's assessment of risk tolerance and further action required.

We have concluded that risk management arrangements are well developed and embedded across the College.

Internal Audit

The College's internal audit function is provided by BDO LLP, an external firm of accountants. Internal Audit provide an annual opinion to the Audit and Risk Committee on the assurance framework.

The internal audit reports throughout the year highlight an acceptable level of compliance. No high risk recommendations were made during 2015-16 and Internal Audit provided substantial assurance within reports on:

- Corporate Governance
- Student Fees
- Payroll and expenses; and
- Estates Management.

However, Internal Audit were able to provide only limited assurance on two reviews; Business Performance Management; and Quality.

As a result, in 2015-16 they issued the following opinion:

"With the exception of our reviews on business performance management and quality… the risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance objectives."

Internal Audit provided regular progress reports to the Audit and Risk Committee, including follow up of prior recommendations. As set out in our audit plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2015-16.

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 College's has a Fraud Prevention Policy and Whistleblowing Policy, which is designed to promote an anti-fraud and anti corruption culture. The College maintain a register of any allegations made under the Public Interest Disclosure Act, which is reviewed on an annual basis by the Audit and Risk Committee. One fraud was identified in December 2015, relating to an employee working in student funding. The loss was estimated at £16,000. The employee has been referred to the Police.

Arrangements for maintaining Standards of Conduct and detection of corruption

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

Arm's length foundations for colleges (ALFs)

The Scottish Government budget regulations limit the Colleges ability to carry cash reserves and retain future surpluses. In order to mitigate the impact of the reclassification the Scottish Government approved the transfer of colleges cash-backed reserves and on-going surpluses to Arms' Length Foundations (ALF).

Fife College ALF has an independent Board of Trustees in place, including four Trustees who are independent of the College, and the Vice Principal Finance and Planning as a fifth trustee.

During 2015-16, there were no transfers to or from the ALF.

4. Best Value, Use of Resources and Performance

Performance

Development of the Strategic Plan

The College's updated Strategic Plan 2016-17 was approved in September 2016. The Plan is based on the priority outcomes within the revised Outcome Agreement:

- Maintain a sustainable College for Fife which, through effective and efficient management, partnership and good governance, contributes to meeting the Scottish Government guarantee under Opportunities for All.
- Deliver a high quality, relevant, curriculum that meets the needs of the region, and provides progression opportunities to more advanced study and appropriate exit points to employment.
- Provide learning opportunities which contribute towards the creation of high retention, attainment and achievement.
- Provide engaging learning opportunities for those within our most deprived communities to improve their life chances.
- Ensure there are appropriate opportunities for young people to make the transition from School to College learning.
- Grow our intellectual property, commercial profit and student opportunity through collaborative partnership with the business sector and other organisations.

Progress has been made during 2015-16 to support the College's ambitions, including the ongoing Estates and Campus Development Plan. The College has continued to rationalise and prioritise its estate. The Cupar and Nairn campuses were closed during 2015-16, and a new campus opened at Levenmouth in August 2016.

The Levenmouth campus allows the College to offer a wider curriculum than the Cupar campus, and it is hoped that the campus will support the College to further increase the proportion of learners coming from the most deprived communities in Fife.

Performance reporting

The College uses a range of targets and key performance indicators (KPIs) to monitor performance throughout the year. The College's Principal reports to each Board of Governors on progress towards planned objectives and targets.

The College's Annual Report summarises performance against the College's main KPIs for the year. Key highlights for 2015-16 include:

- The College delivered courses to almost 20,000 learners, including 6,483 full time students.
- The College exceeded its activity target for the year, as set by the Scottish Funding Council. The College achieved 133,245 credits against a target of 132,765.
- non Scottish Funding Council Income as a percentage of total income has increased from 27.9% to 30.1%. Other income included £9 million of commercial trading.

There was, however, an increase in the percentage of students withdrawing from courses. Early withdrawal increased slightly from 4.6% to 4.7%, but further withdrawal increased from 4.5% to 8.6%.

Scotland's Colleges 2016

The Auditor General published a report on the college sector in August 2016. Key messages from the report include:

- The college sector has continued to exceed activity targets but colleges are still adjusting to substantial changes in how they operate;
- the overall financial health sector is relatively stable but colleges do not have long-term financial plans which would help them address further financial pressures; and
- overall student numbers have decreased by 41 per cent over the last eight years, but under 25 year olds in full time education at college increased by 14 per cent over that time.

Recommendations to Colleges in the report were:

- To develop long-term financial strategies underpinned by medium-term financial plans that link to workforce plans;
- to implement a more systematic approach to workforce planning to ensure the appropriate resources and skills to deliver strategic goals; and
- make agendas, supporting papers and minutes for board and committee meetings publicly available with appropriate timeframes.

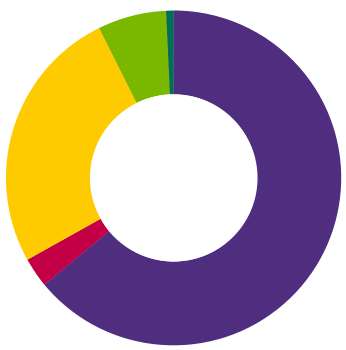
Refer to action plan point 3

Use of resources

Expenditure

The College reported expenditure of £50.8 million in 2015-16 (2014-15 restated: £67.2m). Significant movement in the balances between years was expected due to the change in year end resulting in a period of 12 months being compared to 16 months in 2014-15.

Staff costs continues to be the highest area of expenditure



Staff costs continue to be a key area of expenditure for the College. During 2015-16, the College exhausted the funding provided by the SFC to allow it to make its staff structures as efficient as possible. The College continues to shape its workforce, but future voluntary severances will be met from College resources.

Financial Position

The changes made to reflect FRS 102 had the effect of reducing the restated net assets by £27 million.

Group Balance Sheet

	31 July 2016 (£m)	31 July 2015 (£m)
Tangible Assets	70.09	73.76
Current assets	5.60	5.9
Current liabilities	(6.21)	(6.24)
Long term liabilities (including pensions)	(58.87)	(50.31)
Total net assets	**10.60**	**23.13**

A significant increase in the pension liability, partly as a result of the adoption of IAS 19, means that net assets continued to decrease in 2015-16. The medium to long term financial position of the College is therefore dependent on increasing assets.

Medium term financial planning is difficult in light of short term funding settlements. The College has, however, begun to scenario plan based on a range of financial assumptions.

Appendices

Appendix A- Unadjusted misstatements

We are required to report to those charged with Governance any identified adjustments, over and above £0.25 million which we have reported to Officers but have not subsequently been changed in the final version of the Financial Statements. None were identified in 2015-16.

Appendix B- Misclassifications and disclosure changes

We are required to report on misclassifications and disclosure changes identified during the audit. There were none in 2015-16.

Appendix C- Action Plan

	Issue and Risk	Priority	Recommendation
1.	The College disclosed 12 related parties within the financial statements. Having considered the disclosures we feel that not all of the bodies meet the definition of a related party. **Risk** **There is a risk that there is incorrect disclosure of related party transactions.**	Medium	The College should review their related parties and establish whether they meet the definition of a related party as outlined in accounting standards **Management response** Agreed. The College will review the related parties in the Annual Accounts for 2016-17 and will clarify the information in the light of the definition of a related party.
2.	The College has reviewed its compliance with the Good Governance Code for Colleges and identified two minor areas for improvement. **Risk** **There is a risk that the College may not meet the Scottish Funding Council's governance requirements.**	Medium	The College should ensure that students and staff are involved in monitoring the performance and setting the remuneration of the new Principal. **Management response** Agreed. The College will consider the two areas going forward.
3.	Audit Scotland made a number of recommendations in their Scotland's Colleges 2016 report on a number of key areas including longer term financial planning and workforce planning. **Risk** **There is a risk the recommendations from Audit Scotland are not implemented.**	Medium	The College should ensure it considers the Audit Scotland recommendations and develops an action plan to address all the identified risks. **Management response** Agreed. The College will consider the Audit Scotland recommendations and will develop an action plan going forward.

Appendix D-Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1	Written representations	• A letter of representation has been requested from the College • In particular, representations will be requested from management in respect of: – Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable – Responsibility for the design and implementation of internal control to prevent and detect error and fraud – Related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the Government Financial Reporting Manual and the Scottish Public Finance Manual – All events subsequent to the date of the financial statements and for which the Government Financial Reporting Manual and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed
2	Disclosures	• Our audit work identified no material omissions in the financial statements
3	Matters in relation to fraud	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
4	Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations
5	Matters in relation to related parties	• We are not aware of any related party transactions which have not been disclosed
6	Going Concern	• We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern

Appendix E- 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 £
College Audit	34,000	34,000
Carnegie Enterprise Limited Audit	3,675	3,675
Total audit fees	**37,675**	**37,675**

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 F: Independent Auditors Report

Independent auditor's report to the members of the Board of Governors of Fife College, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Fife College and its group for the year ended 31 July 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated and College Balance Sheet, the Consolidated Statement of Cash Flow and the Consolidated and College Statement of Changes in Reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Board of Governors and auditor

As explained more fully in the Statement of Board of Governor's Responsibilities, the Board of Governors 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 circumstances of the college and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; 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 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 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college and its group as at 31 July 2016 and of their deficit for the year then ended;

•

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

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 and Staff Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report 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:

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff 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 Corporate Governance Report does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Jackie Bellard

For and on behalf of Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

xx December 2016

Jackie Bellard is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Appendix G- Letter of Representation

Grant Thornton UK LLP

7 Exchange Crescent

Edinburgh

EH3 8AN

21 December 2016

Dear Sirs

Fife College
Financial Statements for the Year Ended 31 July 2016

This representation letter is provided in connection with the audit of the financial statements of Fife College for the period ended 31 July 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP') ') including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 terms of the Audit Scotland audit engagement letter dated 23 May 2011 and the Financial Memorandum agreed between the Scottish Funding Council and the College, for the preparation of the financial statements in accordance with UK GAAP; in particular the financial statements give a true and fair view in accordance therewith and comply with the Statement of Recommended Practice - Accounting for Further and Higher Education ('SORP') as issued in March 2014 and any subsequent amendments; and applicable law, and for making accurate representations to you.

ii. We are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions of the College conform to the authorities that govern them. In addition, we are responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions that the Scottish Funding Council may prescribe from time to time.

iii. The College has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value and underpinning pension figures of senior employees are reasonable. On the basis of the process established by the Board of Management and having made appropriate enquiries, the Board of Management is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with FRS 102 Section 28 Employee Benefits.

vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK GAAP, the SORP and the Accounts Direction for Financial statements issued by the Scottish Funding Council.

viii. All events subsequent to the date of the financial statements and for which UK GAAP and the SORP and any subsequent amendments or variations to this statement require adjustment or disclosure have been adjusted or disclosed.

ix. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK GAAP.

x. The financial statements are free of material misstatements, including omissions.

xi. We confirm that the Arm's Length Foundation is independent of the College and is therefore not required to be consolidated into the College's financial statements.

Information Provided

xi. We have provided you with:

   a. access to all information of which we are 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 determined it necessary to obtain audit evidence.

xii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xiii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud or error.

xiv. We confirm that we have provided to you all information relating to our contractual arrangements with the Scottish Funding Council and that we currently know of nothing which could have an impact upon these arrangements and as far as we are aware, at the current time, there is no adjustment to the Scottish Funding Council funds to be provided for in the financial statements.

xv. We have disclosed to you our knowledge of fraud or suspected fraud that we are aware of and that affects the entity and involves:

   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.

xvi. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xvii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xviii. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

xix. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing financial statements.

Yours faithfully

Signed on behalf of the Board of Fife College