Scott-Moncrieff
business advisers and accountants

Glasgow Kelvin College

Annual report on the 2015/16 audit
to the Board of Management and the Auditor General for Scotland

December 2016

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Executive Summary

Financial Statements

The financial statements for the year ended 31 July 2016 were approved by the Board on 12 December 2016.

We reported unqualified audit opinions on the financial statements, the regularity of transactions and on other prescribed matters. There were no matters which we were required to report by exception.

Financial management

The College reported a surplus of £1.262million for the year to 31 July 2016. The College has effective arrangements in place for financial management and the use of resources. We found the College's key financial systems to be adequate and operating effectively.

Financial sustainability

The College has good budget management controls in place and it plans to further develop a long term financial strategy. Whilst the financial outlook for the College, and the further education sector more generally, continues to be challenging, the College remains financially resilient.

The College's revenue budget forecasts a break even position for 2016/17 with income and expenditure of £29.589million expected.

Governance and transparency

In our opinion, the College's corporate governance arrangements are adequate and appropriate.

The Audit Scotland national report Scotland's Colleges 2016 identified the College as the only Scottish college that complied fully with the Good Governance Code 2014 in terms of openness and transparency of board and committee activities.

We have reviewed the College's corporate governance report and consider it to be consistent with the Scottish Funding Council's guidance and our understanding of the College's governance arrangements based on the information gathered as part of our normal audit work.

- **An unqualified opinion on:**
  - **the financial statements;**
  - **the regularity of transactions; and**
  - **other prescribed matters.**
- **A surplus of £1.262million for the year.**
- **The College has effective arrangements in place for financial management and the use of resources.**
- **A break even position forecast for 2016/17**
- **The College remains financially resilient**
- **The College has appropriate governance arrangements in place.**
- **College has proper arrangements in place to promote and secure value for money.**

Value for money

The College has appropriate arrangements in place to promote and secure value for money. The strategic plan which provides a framework for the direction of the College and its operational planning processes. Progress against the strategic priorities is reported to the Board of Management.

Conclusion

This report concludes the audit of Glasgow Kelvin College for the year to 31 July 2016. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Vice Principal Finance and Corporate Services and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
December 2016

1 Introduction

Introduction

1. This report summarises the findings from our 2015/16 audit of Glasgow Kelvin College. The scope of the audit was set out in our external audit plan which was presented to the Audit Committee at the outset of the audit.

2. The external audit strategy and plan summarised five key audit issues for 2015/16:

   - FRS102 restatement.
   - Estates developments.
   - Voluntary severance scheme.
   - Revenue recognition.
   - Management override.

   This report includes our findings in relation to these key audit issues.

3. The main elements of our work in 2015/16 have been:

   - An audit of the financial statements, including a review of the College's corporate governance report and the remuneration and staff report;
   - A review of governance arrangements, internal controls and financial systems; and
   - Completion of a minimum dataset of information that is submitted to Audit Scotland.

4. As part of our audit, we have made taken cognisance of the work of the College's internal audit service and Audit Scotland.

5. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs).

6. The College is responsible for preparing its financial statements that show a true and fair view and for implementing appropriate internal control systems.

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

8. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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

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

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Financial statements

Financial statements

11. The College's financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the College and the auditor in relation to the financial statements are outlined in Appendix 3.

12. In this section we summarise the findings from our audit of the 2015/16 financial statements.

Overall conclusion

An unqualified audit opinion

13. The financial statements for the year ended 31 July 2016 were approved by the Board on 12 December 2016. We reported within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity;
- an unqualified audit opinion on other prescribed matters.

14. We were also satisfied there were no matters which we were required to report by exception.

15. Our audit opinion was based on the approval of the financial statements and the signing of a letter of representation. Within the letter, the College confirmed that there were no subsequent events that required amendment to the financial statements.

Good administrative processes were in place

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

Our assessment of risks of material misstatement

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

1. FRS102 restatement

In March 2013, the Financial Reporting Council (FRC) issued FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". FRS102 is a single set of accounting standards that replaces UK GAAP. A new FE/HE SORP has also been developed, published in March 2014, which supplements FRS102 and sets out specific requirements and guidance for the HE/FE sector.

FE establishments are required to adopt the new SORP for accounting periods starting on or after 1 January 2015, with the comparative balance sheet and opening comparatives requiring restatement.

The transition to FRS102 brings with it potentially significant implications to the financial statements of bodies adopting the standard, although not all will be directly relevant to the College.

Summarised from 2015/16 External Audit Plan

18. We have reviewed the College's restatement exercise to ensure that transactions and balances have been appropriately restated and we consider the exercise undertaken has materially addressed all requirements of FRS102 and the new SORP. All material transitional adjustments have been subject to audit testing and no issues were identified with the College's workings. We will have also ensured that disclosures, including stated accounting policies, as included within the 2015/16 financial statements are transparent and are in accordance with FRS102 and new SORP requirements.

2. Estates developments

During the 16 month period to 31 July 2015 the Board of Management of the College approved a plan to dispose of the City Campus during the 2015/16 financial year. To reflect that decisions the College commissioned a valuation on a market value basis as at March 2015. Discussions at the planning stage this year indicate that the disposal is expected to take around year-end date of 31 July 2016. Under the terms of the Financial Memorandum with the Scottish Funding Council (SFC) the College may be required to surrender the proceeds of the disposal to the SFC.

There has been a longstanding issue with the games hall at the Springburn campus whereby water damage has resulted in its closure for much of the time that the campus has been open. This is an issue which the College inherited on merger from legacy North Glasgow College. During 2014/15 the College identified that the damage was correctable and that no impairment of the campus value was required. The College expects that the corrections required to the games hall will be in place for the beginning of the 2016/17 academic year.

Summarised from 2015/16 External Audit Plan

19. The sale of the City Campus to Glasgow School of Art reached formal completion before the year-end date of 31 July 2016. As a result of the arrangements in place at the year end the College considers that it transferred the significant risks and rewards of ownership of the property during 2015/16 and a disposal has been recognised in year. The College did not receive receipt of the £6million sale proceeds until 1 August 2016 and so a £6million debtor is also recognised in the 2015/16 financial statements. We reviewed the College's accounting treatment against the requirements of FRS102 and the new SORP and found that the College accounted for this disposal appropriately.

20. Under the terms of the Financial Memorandum with the SFC prior approval is required for any sale, and subsequent reinvestment of proceeds, where the proceeds are expected to exceed £3million. At the time of audit, the College had been informed by the SFC that it should plan on the basis of retaining up to £3m of the sale proceeds for reinvestment. Based on that correspondence, the College has accounted for sale proceeds of £3million on the transaction with a further £3million accounted for as a liability due to be repaid to the SFC as at 31 July 2016.

21. We have also considered the treatment adopted for all other estates developments and ensured that all aspects are consistent with the requirements of the new SORP and the underlying FRS102. We carried out substantive testing of asset additions, the College's depreciation charges and review of potential impairments. We consider the College's accounting treatment of these items to be reasonable.

3. Voluntary severance scheme

During 2015/16, as part of the continuing restructure process, the College has offered a voluntary severance scheme (VSS) to staff. Discussions at the planning stage indicate the scheme is consistent with that offered during 2014/15 which was subject to scrutiny and approval both internally and externally (from the Glasgow College's Regional Board and the Scottish Funding Council).

There is a risk that the costs associated with voluntary severance agreements have not been correctly reflected in the financial statements and the appropriate disclosures are not included.

Summarised from 2015/16 External Audit Plan

22. The College offered a voluntary severance scheme during the year as part of a continuing restructure process with the aim of reducing staff costs. The scheme was funded through specific allocations from the SFC and was subject to review by the College's internal audit service.

23. Internal audit found that the system in place over the voluntary severance scheme met its control objectives and considered that 'good' assurance (being the highest grade available) could be taken over the College's arrangements. No recommendations for management were raised through the internal audit review.

24. In total, the College made voluntary severance payments of £0.609million to 19 members of staff who departed from the College during 2015/16 under the scheme. In addition to the work of internal audit, we conducted sample testing of the payments made and confirmed that the appropriate disclosures had been made in annual report and accounts. We are satisfied that expenditure associated with the voluntary severance scheme has been correctly reflected in the annual report and accounts.

4. Revenue recognition

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

Summarised from 2015/16 External Audit Plan

25. We did not identify any evidence of fraud in relation to revenue recognition from the testing performed throughout our audit work. We have evaluated each material revenue stream, considered the College's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied. We performed detailed testing of each material income stream. .

5. Management Override

In any organisation, there is a risk that management have the ability to process transactions or make adjustments to the financial records outside of the normal financial control processes. Such transactions could lead to a material misstatement in the financial statements. We treat this as a presumed risk area in accordance with ISA 240.

Summarised from 2015/16 External Audit Plan

26. We did not identify any evidence of management override through our audit testing. We reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. We performed a detailed review of the journals raised and posted throughout the year and at the year-end to identify any unusual transactions or activity. We also reviewed the controls in place over the journal process for any potential weaknesses that could give rise to management override.

Audit differences

27. We identified a number of immaterial disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements. In addition, adjustments were made in respect of two items which we consider to be material:

- The liability due to be repaid to the SFC in respect of the City Campus sale was amended from £2million in the draft accounts to £3million in the final accounts.
- Additional disclosure was made in respect of the voluntary severance scheme within the remuneration report.

Board representations

28. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified four unadjusted differences during our audit work. These unadjusted items are included in our representation letter and show in appendix four of this report.

Regularity

29. We did not identify any instance of concern regarding the legality of transactions or events. We planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the financial statements. Our procedures included:

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

Going concern and subsequent events

30. Auditing standards require us to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about the College's ability to continue as a going concern which need to be disclosed in the financial statements.

31. The term "subsequent events" is used to refer to events occurring between the year-end date of the financial statements and the date of the auditor's report. International Standard on Auditing (UK & Ireland) 560: "Subsequent events" requires us to assess all such matters before signing our audit report.

32. In order to gain assurance on these matters our work has included:

- reviewing bank facilities;
- reviewing budget and cash flow projections;
- reviewing minutes of post balance sheet board meetings;
- enquiries of senior management and the College's solicitors;
- consideration of future SFC funding; and
- performing sample testing of post balance sheet transactions.

33. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate. We did not identify any subsequent events which require amendments or disclosures to be made in the financial statements.

Corporate Governance

34. The financial statements must include a statement covering the responsibilities of the governing body in relation to corporate governance. The statement must indicate how the College has complied with good practice in this area, including the 2014 Code of Good Governance for Scotland's Colleges ('Good Governance Code 2014').

35. The College's statement of corporate governance report states the College was fully compliant with the principles of the Good Governance Code 2014.

36. We reviewed the governance statement by:

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

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

Qualitative aspects of accounting practices and financial reporting

38. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies and we consider these to be appropriate to the College.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions and the extent that these transactions are separately disclosed in the financial statements.	From the testing performed, we identified no unusual transactions in the period which were not adequately disclosed in the financial statement.
Apparent misstatements in the performance report and accounts or material inconsistencies with the financial statements.	The performance report contains no material misstatements or inconsistencies with the financial statements.
Any significant financial statement disclosures to bring to your attention.	There is no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

3

Financial management

Financial management

39. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the College's responsibility to conduct its financial affairs in a proper manner.

Overall conclusion

40. We found that the College has effective arrangements in place for financial management and the use of resources. Our conclusion has been based on a review of the College's financial performance and financial position. Each of these elements is discussed in more detail below.

Financial performance

41. The College reported a surplus of £1.262million for the year to 31 July 2016:

Composition of the College's reported surplus	
'Operating' surplus	£0.178million
Non-cash pension fund adjustments	(£1.64million)
Surplus on disposal of City Campus	£2.724million
Reported surplus	**£1.262million**

Performance against budget

42. The College set a balanced budget for 2015/16 to achieve an overall breakeven position. The College reports that an outturn surplus of £0.106million was achieved against the 2015/16 budget.

43. The College's income for the financial year 2015/16 was £0.514million lower than originally anticipated. This is primarily due to:

- £0.517million additional strategic funding from SFC for the voluntary severance scheme;
- £0.227million reduction in anticipated project grant funding; and
- £0.717million reduction in the release of deferred capital grants.

44. Expenditure for 2015/16 financial year was £0.620million lower than budget, predominately due a £0.527 reduction in depreciation charges.

Financial position

The College has maintained a net asset position

45. The College has an overall surplus balance on reserves of £2.461million. This surplus balance is principally due to the revaluation reserve of £8.325million. The revaluation reserve has decreased from £10.393million as at 31 July 2015 following the release of revaluation gains on disposal of the City Campus.

46. The income and expenditure reserve is in£5.864million deficit. This is principally due to the accounting entries required for the College's defined benefit pension scheme liability of £8.452million. The deficit position reported on the income and expenditure reserve has reduced by £1.726million from 2014/15 principally due to the 'surplus' on the sale of City Campus (£2.724million) being partially offset by the movement in the pension liability (£1.64million).

47. There has been a large increase in the debtors balance at year end, from £1.680million in 2014/15 to £7.234million in 2015/16. The increase is due to sale of the City Campus formally reaching completion before 31 July 2016 while actual receipt of the sale proceeds occurred on 1 August 2016. This resulted in a £6million debtor as at 31 July 2016.

48. The College's creditor balances have increased from the previous year by £3.201million. This increase is principally due to the £3million liability due to be repaid to the SFC in respect of the City Campus sale.

Systems of internal control

49. During our audit work we have considered the College's accounting systems and internal controls. We have found the College's systems of internal financial control to be adequate and operating effectively.

4

Financial sustainability

Financial sustainability

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

Overall conclusion

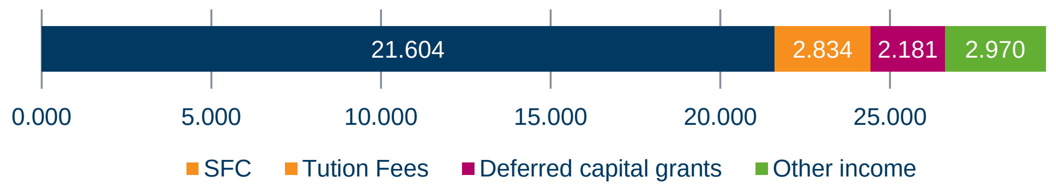
51. The College has good budget management controls in place. Whilst the financial outlook for the College, and the further education sector more generally, continues to be challenging, the College remains financially resilient.

Financial forecasts

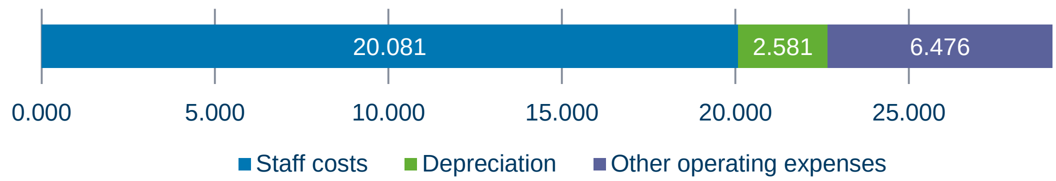
Funding has been confirmed for 2016/17 and a break even position has been forecast

52. The College's revenue budget, as reported to the Financial Control Committee in June 2016, forecasts a break even position for 2016/17. The College's forecast position reflects income and expenditure of £29.589million for 2016/17, the major elements of which are shown below.

Income of £29.589million is forecast for 2016/17



£29.589million expenditure is forecast for 2016/17



Reduction in FE activity target for 2016/17

53. The College reports that the end of the 2015/16 session marked the final stage of the Glasgow region's curriculum review: the agreed transfer of curriculum between Glasgow's colleges. Overall, the College considers that it has reduced in scale by around 12% from merger in 2013 to the start of session 2016/17.

54. From 2016/17 the College expects student activity to remain stable. The College's FE funding allocation for 2016/17 is based on achieving 78,302 credits under the SFC's new simplified approach to funding. That is a reduction from 2015/16 when the College delivered 90,346 credits against a target of 89,527.

Financial planning

55. The College has an approved medium term financial strategy covering the three year period 2015-2018. This plan is updated annually and establishes the College's key financial priorities.

56. In November 2013, the Accounts Commission and Auditor General for Scotland published *Scotland's public sector workforce*. The report highlighted a number of key messages on workforce changes across Scotland and made a number of recommendations.

57. As part of our 2015/16 audit, we undertook a follow up review to help understand the extent to which the College is implementing the recommendations within the national report. A summary of our findings is shown below:

Theme	Audit findings
Planning	• Glasgow Kelvin College does not have a formal documented workforce plan. However, it does consider departmental / team structures and staffing budgets. • Team plans consider staffing requirements in detail for the coming year and are consistent with college wide operational and strategic plans. • Succession planning and training are priorities throughout the college with management development programmes in place.
Service Delivery	• The College has a strategic plan, financial strategy, value for money strategy and team operational plans. These identify workforce changes and outline how required changes will be actioned. • The College prepared a detailed business case which has been approved by the SFC to manage its reduction in scale which included a voluntary severance scheme in 2016. • The College considered the Audit Scotland good practice principles in the development and operation of its voluntary severance scheme.
Partnership working	• The Glasgow Colleges Regional Board and the Glasgow colleges have a detailed plan to develop a central student support services.
Challenge and Scrutiny	• The College's Human Resources committee and Board of Management monitor the impact of changes on staffing and staff development. Human Resources committee monitors the workforce profile, absence rates, staff utilisation and equalities data.
Reporting	• The costs and net savings from workforce programmes are reported within the College's budgets. • The College monitors staff wellbeing through surveys and engages with staff representatives on an on-going basis.

Long term financial strategies

58. In August 2016 Audit Scotland published the national report Scotland's Colleges 2016. The report recommends that colleges should prepare long term financial strategies (a minimum five years). The report suggests plans should be supported by medium term financial plans and workforce plans.

59. In response to the national report Glasgow Kelvin College plans to develop a long term financial strategy supported by medium term financial and workforce plans. We endorse the College's planned approach in this area.

Management action plan point 1

5

Governance and transparency

Governance and transparency

60. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. The College is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Overall conclusion

61. The College has appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:

- risk management;
- internal audit;
- the prevention and detection of fraud and other irregularities; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Corporate governance arrangements remain appropriate

62. The Audit Scotland national report *Scotland's* Colleges *2016* identified Glasgow Kelvin College as the only Scottish college that complied fully with the Good Governance Code 2014 in terms of openness and transparency of board and committee activities. The College publishes up-to-date agendas, minutes and relevant reports online in a timely manner.

63. The Board conducts a self- evaluation exercise annually, facilitated by the Depute Principal. Evaluations were also conducted by each standing committee and on each of the Board and Committee chairs during 2015/16. The outputs from these assessments inform an action plan for improvements.

Risk management

64. Risk management is important to the establishment and regular review of systems of internal control. The College's annual report outlines the principal risks and uncertainties of the College and the College's response to those risks. We have found that the College has adequate risk management arrangements in place to monitor and help mitigate key strategic risks.

Internal audit

65. The internal audit service is a key component of the College's internal control framework. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource.

66. Henderson Loggie provided the internal audit service in 2015/16 and the internal audit annual report confirms that the service is independent of the College and complies with the Public Sector Internal Audit Standards.

67. Henderson Loggie concluded in the internal audit annual report that the College has adequate and effective arrangements for risk management, control and governance. We have considered Henderson Loggie's findings within our audit process.

Prevention and detection of fraud and irregularity

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

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

Standards of conduct

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

71. The corporate governance report confirms that the College has applied the principles of the Good Governance Code 2014. This includes compliance with the SFC financial memorandum and the relevant aspects of the Scottish Public Finance Manual.

6

Value for money

Value for money

72. Value for money is achieved though the optimal use of resources to achieve the intended outcomes. The College had a duty to apply its resources economically, efficiently and effectively.

Overall conclusion

73. The College has confirmed that proper arrangements are in place to promote and secure value for money.

Performance

Strategic plan performance

74. The College has a strategic plan providing a framework for the direction of the College and its operational planning processes. This plan sets overarching objectives and links to:

- the Glasgow Regional Curriculum;
- Estates Plan; and
- Regional Outcome Agreement.

The plan is also informed by Glasgow's Single Outcome Agreement.

75. The strategic plan identifies strategic priorities which are grouped into eight strategic themes. Key Performance Indicators (KPIs) are used to measure achievement of these objectives.

76. Progress against the College's strategic priorities is reported to the Board of Management through a mid-year report. The Board of Management also receives a report at the conclusion of the academic year.

Student retention and attainment

77. The College reports student retention and attainment as part of its performance monitoring arrangements. A summary of the College's indicative 2015/16 performance, as disclosed in the College's annual report, is shown below. Overall the College delivered 90,346 credits in 2015/16 against a target of 89,527.

Student retention and attainment	Completed successful	Completed partial success	Early withdrawal	Further withdrawal
Glasgow Kelvin College 15/16	75.5%	8.2%	5.8%	10.3%
Glasgow Kelvin College 14/15	74.6%	9.2%	5.7%	10.3%
Glasgow Kelvin College 13/14	72.3%	13.2%	6.1%	8.4%
Glasgow Region 14/15	72.0%	10.5%	5.7%	11.9%
Scotland 14/15	72.4%	13.8%	4.3%	9.6%

Arrangements to promote and secure value for money

78. The Financial Memorandum between the College and the Scottish Funding Council (SFC), states the College must:

- have a strategy for reviewing systematically management's arrangements for securing value for money; and
- obtain a comprehensive appraisal of management's arrangements for achieving value for money as part of its internal audit arrangements.

79. The Board of Management approved a two year value for money strategy in June 2015 with a refreshed strategy approved in August 2016. Progress against the strategy is monitored by the Financial Control committee.

80. The value for money strategy outlines priorities and an action plan. 'SMART' targets provide an operational framework for monitoring progress.

81. Under its terms of reference, the College's Audit Committee is formally responsible for establishing and overseeing a review process for evaluating the effectiveness of the College's arrangements for securing its economical, efficient and effective. While progress against the value for money strategy has been reported to the Financial Control Committee, we note that no value for money agenda items have been reported to the Audit Committee during 2015/16.

Management action plan point 2

Internal audit opinion on value for money

82. Henderson Loggie concluded in the internal audit annual report that the College has proper arrangements in place to promote and secure value for money.

7 Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during the course of our audit. The action plan details the officer responsible for implementing each recommendation and an implementation date. The College should assess each recommendation for wider implications before approving the action plan.

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

Action plan grading structure

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

The grading structure for our recommendations is as follows:

Grade	Definition	Recommendations
5	Very high risk exposure - Major concerns requiring immediate attention	
4	High risk exposure - Absence / failure of significant key controls	
3	Moderate risk exposure - Not all key control procedures are working effectively	2
2	Limited risk exposure - Minor control procedures are not in place / not working effectively	
1	Efficiency / housekeeping point	

Action plan

1	Long term financial planning
Observation	In August 2016 Audit Scotland published the national report Scotland's Colleges 2016. The report recommends that colleges should prepare long term financial strategies (a minimum five years). The report suggests plans should be supported by medium term financial plans and workforce plans. The College does not currently prepare a long term financial strategy or a formal workforce plan.
Risk and recommendation	The College may not be able to demonstrate that it is taking a strategic approach to financial planning, in line with best practice. The College may not be able to adequately prepare for and address further financial pressures, such as national collective bargaining, estate maintenance and student support funding **Grade 3**
Management response	Recommendation Accepted - The College has a 3 year financial plan in place which was designed to outline its financial and workforce plan through the post-merger changes brought about by the Regional Curriculum and Estates Review. The College is now in the process of developing and consulting on a refreshed longer term finance and workforce plan which will take full account of the recommendations made by Audit Scotland **Responsible officers:** Vice Principal - Finance & Corporate Services (Financial Strategy), Vice Principal – Organisational Development and Human Resources (Workforce Plan) **Completion Date:** 31 March 2017

2	Evaluation of value for money arrangements
Observation	Under its terms of reference, the College's Audit Committee is formally responsible for establishing and overseeing a review process for evaluating the effectiveness of the College's arrangements for securing its economical, efficient and effective. While progress against the value for money strategy has been reported to the Financial Control Committee, we note that no value for money agenda items have been reported to the Audit Committee during 2015/16.
Risk and recommendation	The Audit committee may not fulfil the responsibilities within its terms of reference. The Board of Management may not receive the required level of assurance over management's arrangements for securing value for money. **Grade 3**
Management response	The Audit Committee considers the opinion on Value for Money provided by the Internal and External Auditors. Its members were fully aware, through reports to the Board of Management, that this was being monitored by the Financial Control Committee during the year and that progress made in session 2015/16 and a refreshed Value for Money Strategy were presented to the full Board of Management. The Recommendation is accepted and current practise will be reviewed by the Audit Committee. **Responsible officer:** Vice Principal – Finance & Corporate Services and Chair of the Audit Committee **Completion Date:** 31 March 2017

Appendix 2: Scope of the audit

An overview of the scope of our audit

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and ISAs.

Our external audit plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks. No additional significant risks were identified after the planning stage during our audit work this year.

The significant risks that had the greatest effect on our audit, our response to those risks and our findings from the work performed are set out within *our assessment of risks of material misstatement* within section two of this report. The audit response to each significant risk was designed in the context of the financial statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

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

Our application of materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report.

The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement.

Our initial assessment of materiality for the financial statements, as presented in the external audit plan, was £0.650million. We revised materiality for the financial statements at the final accounts audit to £0.600million.

Our assessment of materiality was set with reference to a range of benchmarks. We consider the application of income to be the principal considerations for the users of the accounts when assessing the performance of the College.

Performance materiality

We set a performance materiality for each area of work which was based on a risk assessment for the area and percentage application of overall materiality. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Our final assessment of performance materiality was lower than that reported in our external audit plan:

Area risk assessment	Weighting at planning	Weighting at final audit
High	40% £0.260million	40% £0.240million
Medium	55% £0.358million	55% £0.330million
Low	70% £0.455million	70% £0.420million

Reporting

We have reported all misstatements identified through our audit that fell into one of the following categories:

- All material corrected misstatements.
- Uncorrected misstatements above £0.02million.
- Other misstatements below £0.02million that we believe warrant reporting on qualitative grounds.

Appendix 3: Respective responsibilities

Management responsibilities

Within the terms and conditions of the financial memorandum between the SFC and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year. In preparing the financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 2005, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

Auditor responsibilities

Public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the financial statements and associated documents such as the governance statement, but also providing a view, where appropriate, on matters such as propriety, performance and the use of resources.

Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with ISAs and to give: an opinion on the financial statements, an opinion on regularity and an opinion on other prescribed matters. We are also required to report certain matters by exception. Each of these responsibilities is described below

Opinion on financial statement

We audit the financial statements and give an opinion on whether they:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the college's affairs as at 31 July 2016 and of its surplus for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on regularity

We confirm whether, 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

We express an opinion on whether:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are also required to report 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 SFC requirements.

Confirmation of auditor independence

Ethical Standard 1: Integrity, objectivity and independence, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Board of Management or senior management that may reasonably be thought to bear on our objectivity and independence.
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Board of Management.

Audit fee

The fee for the external audit agreed at the outset, and reported in our external audit plan, was £45,000. No change has been made to that audit fee during the audit process.

Appendix 4: Unadjusted differences

Board representations

We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified four unadjusted differences during our audit work. These four differences are not considered to be material to the financial statements, either individually or in aggregate. Through discussion with the Vice Principal Finance and Corporate Services the decision was taken not to adjust the financial statements. These unadjusted items are included in our representation letter and shown in the table below.

Unadjusted differences		SoCI		Balance sheet	
No	**Narrative**	**DR £**	**CR £**	**DR £**	**CR £**
1	SoCI impact	34,488			
	Lennartz VAT Creditor				34,488
	Being the potential increase in the Lennartz VAT Creditor per the College's VAT advisor.				
2	Creditors			77,952	
	Prepayments				77,952
	Being the potential adjustment of 2016/17 expenditure accounted for in 2015/16				
3	Accruals			28,098	
	Wages and salaries		6,484		
	Fees & Subscriptions		2,322		
	Equipment & Materials		19,292		
	Being the potential adjustment of accruals				
4	Fixed assets: ICT equipment - cost			25,001	
	ICT Hardware		25,001		
	Being the potential reclassification of revenue expenditure as capital expenditure.				
	Aggregate impact on the SoCI		**18,611**		

Scott-Moncrieff
business advisers and accountants