Wylie + Bisset

Chartered Accountants, Business & Tax Advisers

WEST COLLEGE SCOTLAND

ANNUAL REPORT TO THE BOARD OF MANAGEMENT, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH GOVERNMENT

ON THE EXTERNAL AUDIT FOR THE YEAR ENDED 31 JULY 2016

Topic	Date
Commencement of final visit	14 September 2016
Audit clearance meeting	31 October 2016
Date of presentation to the joint Audit and Finance General Purposes Committee	22 November 2016
Proposed presentation to Board of Management	5 December 2016

TABLE OF CONTENTS

Section Page

1 EXECUTIVE SUMMARY

1.1 FINANCIAL REVIEW

The College has an accounting deficit of £1,032,000 for the 12 months ended 31 July 2016. The comparative result for the 16 months ended 31 July 2015 was a deficit of £644,000 (restated). The reason for the restatement of the 2014/15 position is explained in section 3.6. After accounting for actuarial losses in respect of the pension schemes the College is reporting total comprehensive expenditure of £3,062,000 (2015: £2,563,000 - restated). The College has however achieved an operating surplus for the year, as detailed at section 3.7, of £11,000 (2015: £12,000).

The College maintains a strong overall balance sheet position with net assets including pension liabilities of £40,856,000 (2015: £13,281,000 - restated). This is after accounting for a pension reserve deficit of £26,675,000 (2015: £23,515,000).

The principal reason for the increase in total reserves from the 2015 position was an increase in valuation of College properties of £30,637,000 following an interim 3 year valuation exercise.

1.2 FINANCIAL STATEMENTS

We have issued an unqualified opinion on the financial statements of West College Scotland for the year ended 31 July 2016.

There was one adjustment made to the draft figures presented for audit. The financial statements have been updated by the College to reflect the adjustment. The adjustment is detailed in the Letter of Representation at Appendix C.

1.3 GOVERNANCE & INTERNAL CONTROL

We have undertaken an overall review of the corporate governance arrangements and processes of internal control in place at the College. Based on the audit work undertaken and the findings made by the internal auditors the College has adequate systems in place to comply with current corporate governance requirements.

1.4 REGULARITY

We have issued an unqualified regularity opinion. There are no significant issues that we wish to draw to the Board of Management's attention in this regard.

1.5 ACCOUNTABILITY REPORT

The College is required to include an Accountability report within its annual report and accounts in accordance with the SFC Accounts Direction. Included within this is a Remuneration and Staff Report. We have undertaken appropriate audit work as part of our engagement and have issued an unqualified audit opinion in respect of the auditable areas of the Remuneration and Staff Report.

1.6 RECOMMENDATIONS TO MANAGEMENT

We have made no recommendations to management for the year ending 31 July 2016.

2 INTRODUCTION

2.1 APPOINTMENT

Wylie & Bisset were appointed by Audit Scotland as the External Auditors of West College Scotland with effect from 1 August 2013 until 31 July 2016. This Annual Report has been prepared following the conclusion of our audit of the financial statements of the college for the year ended 31 July 2016.

2.2 RESPECTIVE RESPONSIBILITIES

Our audit has been carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice (the 'Code') issued by Audit Scotland in May 2011. The 'Code' states that the auditor's objectives are to:

- Provide an opinion on the College's financial statements and, the regularity of transactions;
- Review and report on other information published in the financial statements, including the annual governance statement, statement of internal control and remuneration report;
- Review and report on the College's corporate governance arrangements as they relate to:
    - The College's review of its systems of internal control
    - The prevention and detection of fraud and irregularity
    - Standards of conduct, and the prevention and detection of corruption
    - Its financial position, and
- Review aspects of the College's arrangements to manage its performance and achieve Best Value.

The responsibilities of the Board of Management with regard to the financial statements are set out in the “Statement of Responsibilities of the Board of Management” included in Appendix A and in the “Independent Auditors’ Report” in Appendix B.

The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the “Independent Auditors’ Report” included in Appendix B.

2.3 REPORTING

Our audit work has been designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the College’s systems and financial statements.

This Annual Report has been prepared for the purposes of the College’s management and Board of Management and should not be issued to third parties without our prior written consent. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visit.

Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

3 FINANCIAL REVIEW

The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the period. The Accounts Direction requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 ("the SORP").

The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

3.1 AUDIT OPINION

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the year ended 31 July 2016 as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year ended 31 July 2016 and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and 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. We are satisfied that funds received have been applied for their intended purpose.

3.2 GOING CONCERN

In light of the College's net current liability position, we have reviewed the Board of Management's assessment of the College's ability to continue as a going concern. The College's forecasts and financial projections indicate that the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements. As auditors we are satisfied following review of the forecasts and financial projections that the Board of Management's assessment of the going concern basis of preparation is appropriate.

3.3 SUBMISSION OF WORKING PAPERS

The financial pages of the accounts submitted for audit were complete and included all the relevant financial information. Working papers provided have been of a high standard and queries arising from the audit have all been resolved. Key staff members were available for consultation throughout the audit process.

3.4 STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

	Year to 31 July 2016 £'000	Annualised 2015 restated £'000	16 months to 31 July 2015 restated £'000
Income			
Tuition fees and education contracts	6,917	7,086	9,448
Funding body grants	44,917	44,149	58,865
Other grant income	266	215	287
Other operating income	2,980	2,771	3,694
Investment income	69	75	100
Total Income	**55,149**	**54,296**	**72,394**
Expenditure			
Staff costs	37,911	35,267	47,023
Fundamental restructuring costs	-	1,108	1,477
Other operating expenses	13,794	13,748	18,330
Depreciation	3,397	3,495	4,660
Interest and other finance costs	1,079	1,161	1,548
Total Expenditure	**56,181**	**54,779**	**73,038**
Deficit for the period	**(1,032)**	**(483)**	**(644)**
Actuarial loss in respect of pension schemes	**(2,030)**	**(1,439)**	**(1,919)**
Total Comprehensive Expenditure for the period	**(3,062)**	**(1,922)**	**(2,563)**

3.4 STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE (CONTINUED)

Income

Overall income increased by £853k (1.6%) to £55,149k from the annualised 2014/15 figure. This increase is mainly attributable to:

- Scottish Funding Council:
  - An increase in the level of ESF funding received which required an increase in the level of activity delivered; however this was offset by a reduction of 1% in core SFC teaching and fee waiver grant, with the net impact being an increase of £594k.
  - The level of estate maintenance funding allocated to the College has reduced from £2,541k in 2014/15 to £1,927k in 2015/16, a 24% reduction. This reduction in income is matched by a reduction in expenditure so has no impact upon the final result.
- Other grant / operating income has seen an increase with the move to bring catering activities in house.

In summary the net overall movement in annualised income between 2014/15 and 2015/16 is largely attributable to an increase in ESF funding and the fact there was no requirement to return funds to the SFC, given achievement of the College's 2015/16 activity target.

Expenditure

During the year salary costs including pension and social security increased by £1,780k (4.9%) to £37,911k. Contributing factors to the movement in salaries include a pay increase, increased levels of employers' pension contributions and national insurance payments, and the decision to bring in-house catering and cleaning services which had previously been out sourced.

Other operating expenses increased by £46k year on year which represents a 0.3% growth in costs against increasing inflationary pressures on non-staff related expenditure items. During 2015-16 the College has continued to identify areas of activity which can be delivered more cost effectively, ensuring value for money is achieved.

Interest and other finance costs are composed of cash payments in relation to loan interest of £228k (2014/15: £373k) and non-cash interest charges in relation to the support staff pension scheme of £851k (2014/15: £1,175k).

A reconciliation of total comprehensive expenditure to operating surplus can be found at section 3.7

3.5 BALANCE SHEET

- Total net assets have increased by £27,574k. This is principally due to a gross uplift, prior to depreciation of £30,637k in tangible fixed assets over the previous year following an interim property revaluation.
- The debtors have increased by £251k principally due to:
  a. reduction in other debtors of £87k as some small debts are repaid;
  b. increase in prepayments of £127k due to subscription and salary prepayments; and
  c. increase in accrued income of £174k as a result of increased commercial activity towards the end of the academic year.
- Cash and cash equivalents has reduced by £1,374k primarily due to:
  a. repayment to the SFC of £600k re clawback relating to 2014/15 activity; and
  b. payment of accrued pay awards early in 2015/16.
- The creditors due within one year have decreased by £2,230k and the main components of the decrease are as follows:

	£000
Bank Loan – repaid in line with loan agreements	585
SFC Capital Grant – matched to expenditure as per agreement with the SFC	500
Accruals and deferred income – reduction in level of salary accruals	668
Amounts owed to SFC – repayments of claw back amounts and expenditure of estate maintenance funding	621
	2,374

- The creditors due after one year have decreased by £2,757k and the main components of the decrease are as follows:

	£000
Bank loans – repaid in line with agreements	591
Release of deferred capital grants – in line with depreciation charges.	2,166
	2,757

	Year ended 31 July 2016 £'000	Period ended 31 July 2015 restated £'000
Tangible fixed assets	105,863	78,998
Stocks	13	8
Debtors: amounts falling within one year	1,384	1,133
Cash at bank and in hand	4,708	6,082
	6,105	7,223
Less: Creditors: amounts falling due within one year	(9,328)	(11,559)
Net current liabilities	(3,223)	(4,336)
Total assets less current liabilities	**102,640**	**74,662**
Creditors: amounts falling due after one year	(35,109)	(37,866)
Pension provisions	(26,675)	(23,515)
Total net assets	**40,856**	**13,281**
Restricted reserves		
Pension reserve	(26,675)	(23,515)
Unrestricted reserves		
Income and expenditure reserve	12,725	11,662
Revaluation reserve	54,806	25,134
Total reserves	**40,856**	**13,281**

3.6 PRIOR YEAR RESTATEMENT

Following the introduction of the FE/HE SORP 2015, which was implemented for periods beginning on or after 1 January 2015, it has been necessary to change the basis on which the College accounts for deferred capital grants, and pensions.

The above changes have resulted in a prior year adjustment being made to the numbers as reported at 31 July 2015 and both the total reserves and surplus of the College have been restated as shown below. We are satisfied the restatement has been accounted for correctly and adequately disclosed. A reconciliation of the 2015 financial position and performance is provided below:

Reconciliation of Financial Position	**At 31 July 2015**
	£000
Total Reserves as previously stated	49,430
Deferred grants moved to Net Assets	(36,149)
Total Reserves as restated	**13,281**

Reconciliation of Financial Performance	**At 31 July 2015**
	£000
Surplus for year as previously stated	662
Net return on pension assets	(131)
Net cost of pension assets	(1,175)
Difference in actuarial loss on pension assets	(1,919)
Total Comprehensive Expenditure – as restated	**(2,563)**

3.7 RECONCILIATION OF TOTAL COMPREHENSIVE EXPENDITURE TO OPERATING SURPLUS

The table below reconciles the total comprehensive expenditure with the operating surplus achieved in the year. This shows the College is operating within the budgeted resources made available to it on an annual basis.

	Note	2014/15 16 months £000	2015/16 12 months £000
Deficit for the period / year as per statement of comprehensive income and expenditure		**(644)**	**(1,032)**
Impact of pension valuation on College – salary costs	(a)	136	279
Impact of pension valuation on College – interest	(a)	1,175	851
Movement in other provisions	(b)	(909)	(5)
(Deficit) / surplus for the period / year before accounting adjustments		**(242)**	**103**
Release of prior year provision	(c)	-	(500)
Deficit for the period / year after exceptional items		**(242)**	**(397)**
SFC Approved Net Depreciation Spend			
Student support funds	(d)	89	408
Voluntary severance expenditure		165	-
Operating surplus for the period / year		**12**	**11**

3.7 RECONCILIATION OF TOTAL COMPREHENSIVE EXPENDITURE TO OPERATING SURPLUS (CONTINUED)

Notes

(a) These costs are non-cash items relating to the actuarial valuations of the College pension funds. As these costs are non-cash related and the College cannot control the impact they have been adjusted for.

(b) This movement was a one off non-cash related item which was a direct result of the change in the year end date.

(c) This non-cash movement relates to a SFC provision created prior to reclassification. The treatment of the provision has been agreed with the SFC and will impact the 2015/16 financial statements and the subsequent two years.

(d) This expenditure is as a direct result of the College reclassification as a central government body as from 1 April 2014. The expending of resource previously earmarked for depreciation results in expenditure out with the control of the College and hence has been adjusted for.

4 AUDIT APPROACH & KEY FINDINGS

4.1 OUR APPROACH

Our audit approach recognises the requirements of the Code of Audit Practice and is designed to adhere to the general principles outlined therein. Our approach is also designed to address the requirements of the Financial Memorandum between the Scottish Funding Council (SFC) and the Boards of Management of the Colleges of Further Education.

Our audit approach is risk based and focussed on the key risks facing the College.

During our initial planning procedures, we identified a number of areas where we considered the risk of misstatement in the accounts to be greater than normal. Our audit procedures were designed and undertaken to ensure greater focus on these risk areas in order that specific conclusions could be made with regard to the identified risks. Details of the risks identified, our audit response and our conclusions are included within Appendix D.

As part of our prior audit procedures, we documented the systems and controls in place at the College and obtained an understanding of their operation. In accordance with auditing standards during our audit procedure, we confirmed our documented understanding of the main operating cycles and associated accounting systems via interviews of staff and the performance of walk through tests. This process has allowed us to review, in the course of our audit, the key elements of the College's systems of internal financial controls in the main operating cycles.

Based on our main audit procedures, we have not identified any areas where the operation of internal financial controls could be improved.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the College's accounts as a whole. An audit does not examine every operating activity and accounting procedure in the college, nor does it provide a substitute for management's responsibility to maintain adequate controls over the college's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the colleges systems and working practices, or of all improvements that could be made.

4.2 AUDIT MATTERS ARISING

During the course of the audit a number of matters arose which were clarified and agreed in discussion with, or formally reported to the Head of Finance and Student Funding and the Director of Finance and Estates. This practice is an established part of the audit process. We have no matters of particular significance or interest to be reported.

The accounting treatment adopted by the College in relation to the pension schemes in place and the early retirement provision is also in accordance with the FE SORP and applicable guidance issued by Audit Scotland.

4.3 OTHER MATTERS

Accounting Policies: In accordance with FRS102, the Audit Committee formally reviewed and approved the accounting policies included in the Annual Accounts. There have been changes to the accounting policies in this year following the introduction of FRS102 and the revised FE/HE SORP. We have not identified any instances where we consider the accounting policies to be inappropriate.

Accountability Report: Incorporated colleges are required to include an Accountability Report which encompasses a Remuneration and Staff Report within their annual report and accounts. The Remuneration & Staff report sets out required information of senior officials of the College. We have audited the required information contained therein. We have nothing to report in respect of this statement.

Pension Fund liabilities: The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Strathclyde Pension Fund (SPF) for the non-teaching staff. The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with *Financial Reporting Standard 102 - Retirement Benefits* (Section 34) the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

The SPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in the balance sheet. The College has consistently reported significant FRS 102 liabilities over the past few periods. The Strathclyde Pension Fund's actuaries provide the College with an updated valuation on an annual basis which is reflected in the pensions liability disclosed on the balance sheet. We have reviewed the College's accounting for these pension schemes and found that it complies with the requirements of FRS 102 and that disclosure is consistent with the actuarial report.

Early retirement provision: The College has previously given early retirement to staff and makes payments to the pension fund to cover any shortfall arising from the decision to grant access to retirement benefits early. In line with the requirements of Financial Reporting Standard 102 Section 21, the College recognises a liability for the future payments in relation to these early retirements. We have reviewed the College's accounting for these early retirements and found that it complies with the requirements of FRS 102 and that disclosure is consistent with the actuarial report.

Resource outturn: The College is required to comply with Government accounting and budgeting rules on a fiscal year basis to the end of March. This requirement is as a result of the reclassification of Colleges as public bodies on 1 April 2014. The resource outturn is disclosed within the College Performance Report. As part of our audit work we have agreed the revenue resource budget and capital resource budget and associated expenditure against budget to the resource return submitted to the Scottish Funding Council. We have not audited the associated spend against budget, included within the Performance and Accountability report.

4.4 UNADJUSTED ERRORS

Appendix C includes a copy of the letter of representation which we have sought from the Board of Management in support of the matters reported to us during our audit procedures. This also includes reference to the summary of unadjusted errors and deviations. One error was uncovered which was adjusted for during the course of the audit. There were no other errors or deviations that were identified during our procedures other than clearly trifling which require to be brought to the Board's attention under the requirements of the auditing standards.

4.5 INDEPENDENCE

International Standard on Auditing (UK and Ireland) 260: Communication with those charged with governance, requires that we communicate at least annually with you regarding all relationships between our firm and West College Scotland which, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff and to detail the related safeguards in place.

We are not aware of any such relationships between our firm and West College Scotland that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff.

In our professional judgement, as of the date of this report, Wylie & Bisset is independent of West College Scotland within the meaning of United Kingdom regulatory and professional requirements and the objectivity of the audit engagement partner and the audit staff is not impaired.

5 CORPORATE GOVERNANCE & INTERNAL AUDIT

5.1 GOVERNANCE

Corporate Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation. The respective responsibilities of the College and Wylie & Bisset are summarised in Appendix A.

Although we are not required to form an opinion on the adequacy and effectiveness of the individual components of the Code of Corporate Governance, we are required under the Code to consider the corporate governance arrangements in place at the College.

5.2 INTERNAL AUDIT

Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the College Annually considers the adequacy of the internal audit function.

The College's internal auditors during the year to 31 July 2016 were Scott Moncrieff (since 1 April 2015).

The final 2015/16 Internal Audit Plan showed nine areas that were scheduled to be reviewed during the year with all the intended work being completed.

In the course of the year ended 31 July 2016 the following areas were reviewed by the Internal Auditor:

1. Follow up review
2. Financial Systems Health-check
3. Budget setting and monitoring
4. Financial regulations (ONS Reclassification)
5. Risk management
6. Student experience
7. Student recruitment
8. IT Strategy
9. Review of Operational Planning

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the reports issued by the Internal Auditor. At the time of our audit, internal audit reporting was complete and the Annual Report has been issued.

Minutes of the Audit Committee were also reviewed.

Our findings in this area proved satisfactory, allowing us to conclude that the internal audit function is operating effectively.

Where relevant, reliance has been placed on the work of internal audit with regards to the work undertaken during our audit process.

5.3 STATEMENT OF CORPORATE GOVERNANCE

We have reviewed the College's Statement of Corporate Governance included within the financial statements. Whilst we do not express an opinion on this statement, we are required to report where a statement does not comply with the requirements of SORP or other guidance, or if it is misleading or inconsistent with other information of which we are aware. The content of this statement is consistent with our understanding of West College Scotland.

As part of our audit we have performed a limited review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity. In addition, we reviewed the College's Risk Register and risk management arrangements along with the minutes of meetings of key College committees issued during the year.

The College is committed to exhibiting best practice in all aspects of Corporate Governance and, in the opinion of the Board of Management the College complies with all the provisions of the UK Corporate Governance Code in so far as they apply to the Further Education sector.

The Board of Management and all its Committees have completed a self-evaluation exercise which is based on the responsibilities of the Board and Committees and on the 'Good Governance Standard for Public Services'.

We have also considered the arrangements made by the College in order to address the requirements of the Bribery Act 2010 that came into force on 1 July 2011 in order to assess their appropriateness and adequacy.

Based on our review, we are satisfied that the College operates appropriate Corporate Governance procedures and that management has adequate arrangements in place covering standards of conduct.

We found no matters therein to impact upon our audit opinion.

6 FRAUD AND IRREGULARITIES

6.1 BEST PRACTICE

Best practice requires that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Governance procedures.

An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities during our audit planning procedures.

6.2 AUDIT FINDINGS

In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:

a) The monitoring and compliance with financial procedures;
b) The College's strategy to prevent and detect fraud and other irregularities;
c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.

No areas of significant concern were found during normal audit procedures.

We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Overall we concluded that management has an adequate approach to fraud prevention and detection and has reasonable controls in place to ensure that potential areas for fraud are detected and dealt with in an appropriate manner.

There are no specific recommendations made in this area.

7 AUDIT RECOMMENDATIONS – 31 JULY 2015

7.1 PRIOR YEAR RECOMMENDATIONS

A management letter was prepared by Wylie & Bisset LLP in relation to the accounts of West College Scotland for the period ended 31 July 2015.

The point noted within the prior management letter, along with the observation and follow up conclusion from the current year are detailed on the next page.

The point within the report have been assigned a priority level based on the urgency required in addressing the matters highlighted. An explanation of the priority is as follows:

High Priority - Recommendations addressing significant control weaknesses which should be implemented immediately.

Medium Priority - Recommendations addressing significant control weaknesses which should be addressed in the medium term.

Low Priority - Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the company matches current best practice.

7.2	**Unspent SFC Capital Formula Funding**
Observation	Deferred Income includes an amount of £3,244,552 of unspent SFC Capital Formula Funding which has been brought forward from previous years.
Implication	Given the changing accounting framework within which the College is now required to operate it should be noted that there is a potential that the College will not be able to expend the grant without material implications on the day to day operations of the College.
Recommendation	It is recommended that the College continues to discuss this matter with the Scottish Funding Council in order to arrive at a suitable solution which benefits the users of the College without impacting the operational needs of the College.
Priority	**High**
2015 Management Response	The College notes the recommendation made by the auditors and continues to engage with the SFC to find a solution to the matter raised.
2016 Follow Up	The College has resolved this matter with the SFC. £500k has been released to comprehensive income to cover appropriate expenditure in the year to 31 July 2016. The balance of this creditor will be released over the next two years to cover further appropriate expenditure. **No further action required other than to ensure creditor is matched against appropriate spend and released accordingly over the next two years.**

8 AUDIT RECOMMENDATIONS – 31 JULY 2016

8.1 31 JULY 2016 RECOMMENDATIONS

There are no recommendations to be brought to the attention of the Board of Management in the current year.

APPENDICES

A STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2015 Statement of Recommended Practice - Accounting for Further and Higher Education and other relevant accounting standards.

In addition, within the terms and conditions of the Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

These financial statements are 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.

In preparing the financial statements, the Board of Governors 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;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Governors is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Governors has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;

- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the College and prevent and detect fraud;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and support departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Governors;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance and General Purposes Committee;
- Professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Governors and whose head provides the Board of Governors with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

B INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of West College Scotland 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 Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Statement of Cash Flow 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 Management and auditor

As explained more fully in the Statement of Board of Management's Responsibilities, the Board of Management 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 college's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements.

It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2016 and of its 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 statement does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Ross McLauchlan BAcc CA, for and on behalf of Wylie & Bisset LLP

168 Bath Street

Glasgow

G2 4TP

Wylie & Bisset LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

C LETTER OF REPRESENTATION

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the year ended 31st July 2016.

1. We acknowledge as members of the Board of Management our responsibility for ensuring:
    a) the financial statements are free of material misstatements including omissions
    b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2016.
    c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
    d) all other records and related information, including minutes of all management meetings, have been made available to you.
    e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and
    f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.
2. We have appointed Scott Moncrieff as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you.
3. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
4. The College has no liabilities or contingent liabilities other than those disclosed in the accounts.

5. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.
6. There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.
7. The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.
8. We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.
9. The College has not contracted for any capital expenditure other than as disclosed in the accounts.
10. The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.
11. We are not aware of any irregularities, including fraud, involving management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.
12. We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.
13. We confirm that the revenue resource budget for 2015/16 was £60,408k and the resource outturn expenditure was £60,386k.
14. We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

15. We confirm that we have considered the unadjusted errors discussed at our meeting. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts. The combined effect of the errors is not material and we do not consider that their absence from the financial statements affects the true and fair view given.

16. We confirm that we approve the following journal adjustments which have been processed in drafting the statutory accounts:

Nature of adjustment & reason for it	**Adjusted I & E effect** £000	**Adjusted B/S effect** £000
Dr Fixed Assets	-	1,338
Cr Revaluation Reserve		(1,338)
Being revaluation of fixed assets		

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

………………………………………….. Chairman ………………………………………….. Principal & Chief Executive

D IDENTIFIED AUDIT RISKS

IDENTIFIED AUDIT RISK, APPROACH & CONCLUSION

Risk	Audit response	
Financial performance: The level of Scottish Government funding available to the College is tight resulting in the College's ability to break even being challenging. There is an increased risk associated with the demand this places on current resources. The risks associated with reporting a break even position will become even greater in future years with the re-classification of the college as a non-departmental public body (NDPB).	As part of our audit process we will review the College's final outturn and ensure we can adequately explain any deviations from budget. Any non-standard transactions will be specifically reviewed as part of our audit testing ensuring adherence with the requirements of the relevant accounting standard. In particular, any severance provision will be assessed to ensure they meet the criteria to be booked as a provision at the balance sheet date.	We are satisfied that the procedures and processes operated by the College in this area are adequate to meet the needs of the College in a time of tight resources. All significant deviations from budget have been adequately explained and supported. We are satisfied that non-standard transactions have been processed correctly.

Risk	Audit response	
£3.2m SFC Estates Maintenance Funding : The College is currently carrying £3.2m of Estates Maintenance Funding in creditors which has been brought forward from previous years. The College has had significant dialogue with SFC with regards to whether this money can now be retained or whether it must be expended in the year 2015/16. SFC have indicated current year estates maintenance funding must be allocated against this money or indeed a prior year adjustment be made to allocate previous year spend against this balance. The monies cannot be retained. There is a risk the college are requested to adjust the financial statements by way of prior year adjustment without the requirement adhering to audit and financial reporting standard guidance which could result in a qualification to the audit opinion.	We will review correspondence with SFC, the conditions attached to grant and the award letter again and determine if there is any requirement for prior year adjustment to the financial statements. If the college are incorrectly being requested to account for these funds by way of prior year adjustment or in year spend which results in the accounting treatment adopted not being in accordance with the conditions attached to grant, SORP, FReM or currently agreed accounting standards we will report accordingly.	Satisfactory. It has been agreed with the SFC that amounts will be released to the statement of comprehensive income and expenditure across the next two years to match relevant costs.

Risk	Audit response	
Override of Internal Controls: Fraud or error arising due to management override of controls. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs.	Our audit procedures will include testing the appropriateness of journal entries recorded within the general ledger and other adjustments made in the preparation of the financial statements, along with a review of accounting estimates for any evidence of bias. We will also consider specifically any significant transactions outside the normal operations of the College.	Satisfactory. Our testing has highlighted no issues in this area. There are no indicators of inappropriate management override of controls.
Revenue Recognition: Material misstatement due to errors in revenue recognition. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs unless it can be specifically rebutted.	Our standard testing procedures in this area will adequately address the associate risk such that a specific additional audit response is not required.	Satisfactory. Our testing of the income balances has highlighted no issues with regard to revenue recognition providing adequate assurance over the figures included within the financial statements.

Risk	Audit response	
Revenue Recognition: Material misstatement due to errors in revenue recognition. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs unless it can be specifically rebutted.	Our standard testing procedures in this area will adequately address the associate risk such that a specific additional audit response is not required.	Satisfactory. Our testing of the income balances has highlighted no issues with regard to revenue recognition providing adequate assurance over the figures included within the financial statements.
Revised FE/HE SORP: The revised FE/HE SORP will be compulsory for accounting periods beginning on or after 1 January 2015, ie 31 July 2016 year ends. Consideration to its implementation must be given now with regards to comparative figures and the transitional balance sheet position at 1 August 2015. Specifically the College needs to consider if it has the mechanism in place to calculate holiday pay accruals for all staff. This information will need to be collated from 1 August 2015 to allow for comparative information to be available at 31 July 2016.	We will discuss the implications of the upcoming changes with College management throughout the audit process and ensure where possible relevant guidance is given to aid the run up to implementation of the new SORP.	This area has been reviewed throughout the audit process and we are satisfied with the procedures in place.

CONTACT DETAILS

Name	Position	Email
Ross McLauchlan	Audit Partner	ross.mclauchlan@wyliebisset.com
Scott Gillon	Audit Partner	scott.gillon@wyliebisset.com
Anil Chumbhit	Audit Manager	anil.chumbhit@wyliebisset.com

Wylie & Bisset

168 Bath Street

Glasgow

G2 4TP

Tel: 0141 566 7000

Fax: 0141 566 7001