Audit Committee Meeting

Date of Meeting	Monday 13 June 2016
Paper Title	Assigned College Annual Audit Reports
Agenda Item	15
Paper Number	AC3-K
Responsible Officer	Robin Ashton, Executive Director
Status	Disclosable
Action	For discussion

1. Report Purpose

1.1. Consider the Annual External Audit Reports for 2014-15 and the Annual Internal Audit Reports for 2014-15 for the assigned colleges.

2. Recommendations

2.1. The Committee is invited to **note** this report and the attached assigned college annual audit reports as evidence of assurance that appropriate governance and accountability structures operate within the assigned colleges.

3. Background

3.1. The terms of reference for the GCRB Audit Committee state that in relation to the assigned colleges, the Audit Committee will advise the Board and Accountable Officer on the annual reports received from the assigned colleges.

3.2. The annual external audit reports for 2014-15 and the annual internal audit reports for 2014-15 for the assigned colleges are attached to this report.

4. Risk Analysis, Legal Implications, Financial Implications and Regional Outcome Agreement Implications

4.1. Other than as reported with the attached reports, there are no specific aspects to be considered under these headings.

Board of Management

Audit Committee

Date of Meeting	**Wednesday 27 May 2015**
Paper No.	**AC4-F**
Agenda Item	**7**
Subject of Paper	**Internal Audit Annual Report 2014-15**
FOISA Status	**Disclosable**
Primary Contact	**Stephen Pringle, BDO**
Date of production	**May 2015**
Action	**For Discussion**

Recommendations

The Committee is asked to consider the report and in particular the Auditors Annual Statement of Assurance.

1. Purpose of report

The purpose of this report is to provide the Committee with a summary of all the internal audit work carried out on behalf of the College during 2014-15.

2. Context and Discussion

BDO have reviewed the control policies and procedures employed by City of Glasgow College to manage risks in business areas identified by management set out in the 2014-15 Annual Internal Audit Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation.

The Committee has reviewed each of the audit reports noted within the annual report. However, the Committee should give particular attention to the Auditors Annual Statement of Assurance (page 8 of the report).

Conclusion

In our view, based on the reviews undertaken during the period, and in the context of materiality:

•The risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements.

•Based on our verification reviews and sample testing, risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review.

3. Impact and implications

Refer to internal audit report.

CITY OF GLASGOW COLLEGE

INTERNAL AUDIT ANNUAL REPORT 2014-15

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Restrictions of use

EXECUTIVE SUMMARY

Background

Our role as internal auditors is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Our approach, as set out in BDO's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities

BDO LLP has been appointed as internal auditors to City of Glasgow College to provide the Board (via the Audit Committee) and Management Team with assurance on the adequacy of the following arrangements:

- Risk Management;
- Corporate Governance; and
- Internal Control.

Responsibility for these arrangements remains fully with management, who should recognise that internal audit can only provide 'reasonable assurance' and cannot provide any guarantee against material errors, loss or fraud. Our role at City of Glasgow College is also aimed at helping management to improve risk management, governance and internal control, so reducing the effects of any significant risks facing the organisation.

Our risk evaluations and tests are designed to ensure that controls are sound both in design and effective in operation. Our conclusions are based on evidence obtained during the course of our audit work, verification tests and samples selected from the year's transactions to date. However, our conclusions should not be taken to mean that all transactions have been properly authorised and processed or that all elements of systems have been tested.

EXECUTIVE SUMMARY

Audit Approach

We have reviewed the control policies and procedures employed by City of Glasgow College to manage risks in business areas identified by management set out in the 2014-15 Annual Internal Audit Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation.

Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards and the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with City of Glasgow College management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine whether the risk management activities and controls are operating as expected.

The assurance statement provided on page 10 of this report is based on historical information and the projection of any information or conclusions contained in our statement to any future periods is subject to the risk that changes may alter its validity.

Coverage

During 2014-15 BDO LLP has reviewed and evaluated City of Glasgow College's processes in the following areas:

• IT – BYOD	• Restructuring
• Staff recruitment	• Organisational development
• Payroll	• Quality assurance & improvement
• Financial reporting	• Risk management maturity assessment
• Industry academies	• New campus, new learning
• SUMS audit	• Follow up review

EXECUTIVE SUMMARY

Recommendations

To assist management in addressing our findings, we categorise our recommendations according to their level or priority. The recommendations made in the ten completed reviews, excluding the follow up review and the SUMs audit totalled 10.

Summary of Recommendations (SEE APPENDIX I)

Priority	Number
High	
Medium	3
Low	7
Total number of recommendations: 10	

Reporting mechanisms and practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

Management action on our recommendations

Management have been conscientious in review and commenting on our reports. For the reports which have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are in place.

EXECUTIVE SUMMARY

Relationship with external audit

All our final reports are available to the external auditors through the Audit Committee papers and are available on request. Our files are also available to External Audit should they wish to review working papers in order to place reliance on the work of Internal Audit.

Follow up

During the year we undertook independent exercises to assess the progress made by City of Glasgow College in implementing internal audit recommendations made in previous years.

Implementation of recommendations is a key determinant of our annual assurance statement. If recommendations are not implemented on a timely basis then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment. Within City of Glasgow College we found a detailed level of commitment and effort in clearing as many outstanding recommendations as possible from previous audit reports.

We followed up 33 recommendations from 2013-14 and prior years. We reported that 26 of these recommendations had been fully implemented, one had been superseded, one had been partially implemented, with the remaining five recommendations outstanding.

On that basis we can take reasonable assurance that management's resolve to implement previously agreed recommendations is sound.

Summary of work performed

Details of the ten internal audit reviews, the follow up review and SUMs Audit have been reported to the Audit Committee throughout the year and have been discussed at length with consideration and scrutiny of management responses and timescales proposed.

For the purpose of this annual report, we set out in the following pages our summary of recommendations and assessment of the design and effectiveness of the risk assurance for each of the audit areas reviewed.

WORK COMPLETED

Reports Issued	Overall Report Conclusions - see appendix I				
	▲	■	●	Design	Operational Effectiveness
IT – BYOD	0	2	0	Substantial	Substantial
Staff recruitment	0	0	0	Substantial	Substantial
Payroll	0	0	2	Substantial	Substantial
Financial reporting	0	0	1	Substantial	Substantial
Industry academies	0	1	1	Moderate	Moderate
SUMs audit	0	0	0	-	-
Restructuring	0	0	0	Substantial	Substantial
Organisational development	0	0	2	Substantial	Substantial
Quality assurance & improvement	0	0	0	Substantial	Substantial
Risk management maturity assessment	0	0	0	-	-
New campus, new learning	0	0	1	Substantial	Substantial

ANNUAL STATEMENT OF ASSURANCE

Report by BDO LLP to City of Glasgow College

As the internal auditors of City of Glasgow College we are required to provide the Board, via the Audit Committee, and the Senior Management Team with a view on the adequacy and effectiveness of City of Glasgow College's risk management, governance and internal control processes.

In giving our view it should be noted that assurance can never be absolute. The internal audit service provides City of Glasgow College with reasonable assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2014-15. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weakness in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2014-15;
- Any follow-up action taken in respect of audits from previous periods for these audit areas;
- Whether any significant recommendations have not been accepted by management and the consequent risks;
- The effects of any significant changes in the organisation's objectives or systems;
- The requirements of the Public Sector Internal Audit Standards; and
- Any limitations which may have been placed on the scope of internal audit (no restrictions were placed on our work).

Conclusion

In our view, based on the reviews undertaken during the period, and in the context of materiality:

- The risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements.
- Based on our verification reviews and sample testing, risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review.

PERFORMANCE AGAINST OPERATIONAL PLAN

Visit	Date of visit	Proposed Audit	Planned Days	Actual Days	Status
1	May 2014	IT – BYOD	5	5	Complete
1	June 2014	Staff recruitment	5	5	Complete
1	August 2014	Payroll	5	5	Complete
2	August 2014	Financial reporting	5	5	Complete
2	August 2014	Industry academies	5	5	Complete
2	September 2014	SUMS audit	7	7	Complete
3	December 2014	Restructuring	5	5	Complete
3	December 2014	Organisational development	5	5	Complete
3	December 2014	Quality assurance & improvement	5	5	Complete
4	February 2015	Risk Management maturity assessment	4	4	Complete
4	March 2015	New campus, new learning	5	5	Complete
4	March 2015	Follow up	4	4	Complete
		Indirect Audit Activity	8		
TOTAL			**68**		

AUDIT PERFORMANCE

AUDIT	COMPLETION OF FIELDWORK	DRAFT REPORT	MANAGEMENT RESPONSES	FINAL REPORT
IT – BYOD	30 May 2014	6 June 2014	2 July 2014	2 July 2014
Staff recruitment	12 June 2014	17 June 2014	17 June 2014	17 June 2014
Payroll	8 August 2014	15 August 2014	1 September 2014	2 September 2014
Financial reporting	28 August 2014	8 September 2014	10 November 2014	10 November 2014
Industry academies	29 August 2014	8 September 2014	7 November 2014	10 November 2014
SUMS audit	31 October 2014	3 November 2014	3 November 2014	3 November 2014
Restructuring	5 December 2014	17 December 2014	18 December 2014	18 December 2014
Organisational development	10 December 2014	18 December 2014	19 December 2014	19 December 2014
Quality assurance & improvement	3 December 2014	9 December 2014	11 December 2014	12 December 2014
Risk Management maturity assessment	26 February 2015	12 March 2015	20 March 2015	23 March 2015
New campus, new learning	25 March 2015	1 April 2015	15 May 2015	18 May 2015
Follow up	12 March 2015	13 March 2015	13 May 2015	13 May 2015

On average:

- All reports were issued in draft within 10 working days of completion of our fieldwork and a debrief meeting with management.
- Initial responses were received within 10 working days of the draft report being issued.
- Final reports were issued within 1 working day of final management responses being received.

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

Board of Management

Audit Committee

Date of Meeting	Tuesday 8 December 2015
Paper No.	AC2-J
Agenda Item	14
Subject of Paper	External Audit Report 2014-15
FOISA Status	Not Disclosable
Primary Contact	External Auditior/ Stuart Thompson ~ Executive Director Finance
Date of Production	Friday 4 December 2015
Action	For Discussion

Recommendations

- The Committee is asked to consider the content of the report and the management responses.

1. Purpose of report

1.1 The purpose of this report is to provide the Committee with an update on the 2014-15 external audit of the College, undertaken by Scott-Moncrieff for the 16 month period to 31 July 2015.

2. Context

2.1 The main elements of the external audit in 2014/15 have been:

- An audit of the annual report and accounts, including a review of the annual governance statement, the annual internal control statement and the remuneration report;
- A review of governance arrangements, internal controls and financial systems;
- High level review of overall performance arrangements; and
- Completion of a minimum dataset of information that is submitted to Audit Scotland.

3. Impact and implications

3.1 The report contains an action plan with two specific recommendations, responsible officers, and dates for implementation. One recommendation is at Grade 3, and one at Grade 2. Definitions of these grades are at p26 of the attached report. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions.

3.2 While noting that one severance payment made in 2014-15 was concluded with appropriate approval and business case, properly accounted for, and disclosed, the report found that in this case governance processes regarding the timeline for authorising the payment did not fully comply with good practice guidelines. One Grade 3 recommendation addresses this finding.

3.3 One other recommendation (Grade 2) concerns succession planning and resources.

Appendix: External Auditor’s Report 2014-15

Scott-Moncrieff
business advisers and accountants

City of Glasgow College

Annual report on the 2014/15 audit
to the Board of Management and the Auditor General for Scotland

December 2015

Contents

Executive summary

Annual report and accounts

The annual report and accounts for the period ended 31 July 2015 are to be approved by the College on 16 December 2015. Our independent auditor's report gives an unqualified opinion on the annual report and accounts, the regularity of transactions, and on other prescribed matters. We are also satisfied that there are no matters which we are required to report by exception.

The annual report and accounts and supporting schedules prepared by the College were of a good standard. Our thanks go out to all management and staff at the College for their co-operation and assistance during the audit process.

Financial management

The College has adequate arrangements in place for managing its financial position and its use of resources.

The College reported an operating deficit for the 16 month period to 31 July 2015 of £2.893million, after donations to arm's length foundations totaling £3.100million indicating a small underlying surplus for the year overall.

We have evaluated the College's key financial systems and determined whether these are adequate to prevent material misstatements in the financial statements. We have not identified any significant deficiencies in the operation or design of the key financial systems.

Arrangements for the prevention and detection of fraud and irregularity are operating effectively.

Financial sustainability

The College's financial budget for 2015/16 forecasts a surplus of £386,000.

The College sets an annual budget and has medium-term financial planning arrangements in place covering the period to 31 July 2017.

Any longer-term financial planning is currently not performed, as funding allocations from the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available.

- **The College spent £47.368million on staff costs during the 16 month period ended 31 July 2015, which approximates to 68% of total expenditure for the same period.**
- **During the 16 month period ended 31 July 2015 the College donated £3.100million to arm's length foundations, compared to £21.702million for the 8 month period ended 31 March 2014.**
- **As at 31 July 2015 the College reported bank balances totalling £7.775million.**
- **The College's share of the Strathclyde Pension Fund liability increased from £6.112million as at 31 March 2014 to £9.580million as at 31 July 2015.**
- **During 2014/15 the College invested £8.830million in property, plant and equipment.**

As at 31 July 2015, the College had reserves of £1.642million. The College's reserves have reduced by £6.262million since March 2014, due to the operating deficit recognised in the period and an increase in the pension liability. The College is reporting a balance of £16.237million in respect of deferred capital grants, resulting in net assets reported of £17.879million.

The College has continued to progress plans to relocate to new campuses at Riverside and Cathedral Street. Costs in relation to these campuses, which have been met directly by the College, have been included within the annual report and accounts as assets under construction. The Riverside Campus opened on 17 August 2015 and the City Campus is expected to be completed by 15 August 2016.

Both campus development projects remain on target, both in terms of the budget and timescales. These are a £228million capital investment projects, and completion is expected during Summer 2017.

Once both new campuses are operational, the College plans to dispose of the existing sites at Cathedral Street, North Hanover Street, Rogart Street, Dornoch

Street and Florence Street. These properties are currently marketed as part of the Property Disposal Programme. The overall project will be completed in summer 2017 following final demolitions and landscaping.

Governance and transparency

In our opinion, the College's corporate governance arrangements as they relate to standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate.

The governance arrangements in respect of a voluntary severance agreement which was concluded during the period, did not fully comply with best practice or Scottish Funding Council guidance issued to the sector. The amount involved was less than £16k and was subject to a business case and approval by a number of Board members prior to payment. We have raised an action plan point in respect of this governance issue within Appendix 2 of this report.

Conclusion

This report concludes our audit of City of Glasgow College for the 16 month period to 31 July 2015. 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.

Scott-Moncrieff
December 2015

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Introduction

Introduction

1. This report summarises the findings from our 2014/15 audit of City of Glasgow College. The scope of the audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee at the outset of the audit.

2. The main elements of our work in 2014/15 have been:

   - An audit of the annual report and accounts, including a review of the annual governance statement, the annual internal control statement and the remuneration report;
   - A review of governance arrangements, internal controls and financial systems;
   - High level review of overall performance arrangements; and
   - Completion of a minimum dataset of information that is submitted to Audit Scotland.

3. As part of our audit, we have also relied on the work of the College's internal audit service and Audit Scotland where possible and appropriate.

4. The College is responsible for preparing its annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. 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 annual 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.

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

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

7. 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.

2

Annual report and accounts

Annual report and accounts

8. The College's annual report and accounts 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 1.

9. In this section we summarise the issues arising from our audit of the 2014/15 annual report and accounts.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

10. The annual report and accounts for the 16 month period ending 31 July 2015 are due to be approved by the College on 16 December 2015. Our independent auditor's report gives:

- an unqualified opinion on the annual report and accounts;
- an unqualified opinion on the regularity of transactions; and
- an unqualified opinion on other prescribed matters.

11. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

12. We received draft annual accounts 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 staff at the College for their assistance with our work.

Our assessment of risks of material misstatement

13. 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 of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.1 Voluntary severance scheme

From our discussions with the Executive Director - Finance and the Head of Finance, we understand that a voluntary severance scheme in relation to a senior staff member was concluded prior to the end of July 2015. As the governance arrangements and decision making time line in relation to such schemes has been a hot topic within the college sector in recent years, we will consider if best practice guidance and good governance arrangements have been adopted in relation to the approval of this scheme.

Guidance on severance arrangements to senior staff in Scottish further education colleges produced by the Scottish Funding Council provides guidance to Colleges on managing severance schemes. As part of our audit we will review the severance settlement for the senior staff member to ensure it conforms to the guidance.

We will also review the College's disclosure of the transaction within the financial statements.

Noted in 2014/15 External Audit Strategy & Plan

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

14. During the period a voluntary severance agreement with a senior staff member was concluded. The amount involved was less than £16k and was subject to a business case and approval by the Chair of the Board and the Chair of the Policy, Resources and Nominations Committee prior to any payment being made.

15. From our audit work we can also confirm that the agreement has been appropriately accounted for, and disclosed within the financial statements.

16. The governance processes for authorising the payment did not fully comply with good practice guidelines as SFC approval was not sought in advance as required by the Financial Memorandum (although retrospective approval was received) and the payment was not authorised by the full Board.

17. The Business Case prepared by the College in advance of the payment of voluntary severance provides strong evidence that the payment in this case was appropriate and represented value for money. However, the approval processes adopted by the College in finalising the payment decision did not fully comply with good practice. We have raised an action plan point in respect of this governance issue within Appendix 2 of this report.

Action plan point 1

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.2 Fixed assets

Given the significant investment in fixed assets anticipated to arise by 31 July 2015, a detailed review of expenditure will be undertaken to ensure the correct classification between revenue and capital. Furthermore, we understand that preferred bidders for the acquisition of the buildings currently marketed for sale are anticipated to be received by Summer 2015. We will monitor the position, with the assistance from senior finance personnel, in order to ascertain whether the offers received indicate an impairment in value in respect of these assets. Given the materiality of such transactions, this situation will require to be monitored up to the date the 2015 financial statements will be signed.

Noted in 2014/15 External Audit Strategy & Plan

18. The College has progressed plans to relocate to new campuses at Riverside and Cathedral Street. The Riverside campus was officially opened on 17 August 2015, with Cathedral Street campus expected to be completed by 15 August 2016. The new Riverside campus will be recognised as an operational fixed asset in the 2015/16 financial statements, whereas currently it is recognised as an asset under construction.

19. A Property Disposal Programme is currently ongoing to dispose of the existing sites at Cathedral Street, North Hanover Street, Rogart Street, Dornoch Street and Florence Street.

20. The College incurred asset additions of £8.830million in the year. £7.223million of the total related to the new campus development, and as such is recorded as assets under construction, with the remaining £1.597million being in respect of equipment.

21. We have reviewed the College's capitalisation policy in respect of expenditure relating to assets under construction and have found them to be reasonable and appropriate. In addition, we have reviewed information received from preferred bidders in relation to the buildings currently being marketed for sale and there is no indication of an impairment in value in respect of these assets.

1.3 Completeness and occurrence of income

Under International Standard on Auditing (UK & Ireland) 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.

Whilst we do not suspect any incidences of fraud or error, we will evaluate each type of revenue transaction and document our conclusions.

Noted in 2014/15 External Audit Strategy & Plan

22. We have performed sufficient testing to provide assurance on the completeness and occurrence of income and we are satisfied that income is correctly stated in the financial statements.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.4 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 International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".

Whilst we do not suspect any incidences of management override, we will review the accounting records for significant transactions that are outside the normal course of business and obtain evidence to ensure that these are valid and accounted for correctly.

Noted in 2014/15 External Audit Strategy & Plan

23. Our audit work included a review of journal entries processed in the period and around the year end. We are satisfied that there are no indications of management override in the year.

Our application of materiality

24. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual report and accounts.

25. Our initial assessment of materiality for the annual report and accounts was £1.088million and it remained at this level throughout our audit. Our assessment of materiality is set with reference to a range of benchmarks (including total income and gross assets). We consider these to be the principal considerations for the users of the accounts when assessing the performance of the College.

26. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We then perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	50%	£544,000
Medium	60%	£652,800
Low	75%	£816,000

27. We report to the Audit Committee all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Audit differences

28. We are pleased to report that there were no material adjustments to the draft annual report and accounts. The College did however adjust for the following:

	DR £	CR £
Bad debt provision (I&E)	172,000	
Trade debtors (Balance Sheet)		172,000
Being increase in bad debt provision based on review of overdue debts		

29. The adjustment made to the annual report and accounts reflects an increase in the bad debt provision based on levels of post period end cash received identified during our audit testing.

30. We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

Management representations

31. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the annual report and accounts.

An overview of the scope of our audit

32. The scope of our audit was detailed in our External Audit Strategy & Plan, which was presented to the Audit Committee in May 2015. The external audit strategy & 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.

33. 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.

34. Our standard audit approach is based on performing a review of the key 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, which is explained earlier in this report.

Regularity

35. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. Our audit procedures included the following:

- 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.

36. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

37. During the course of our audit we noted the following:

Annual governance statement

38. The annual report and accounts must include a statement covering the responsibilities of the governing body in relation to corporate governance. The statement is required to indicate how the College has complied with good practice in this area, including the 2014 Code of Good Governance for Scotland's Colleges.

39. The College's Governance Statement explains that the College was compliant with the principles of the 2014 Code of Good Governance for Scotland's Colleges. This is consistent with the requirements outlined in the 2014/15 Accounts Direction, released by the SFC.

40. We reviewed the Governance Statement by:

- checking 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 on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

41. 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.

Governance arrangements in relation to special severance payments as defined by the SFC

42. As noted within paragraphs 14 to 17 of this report, the governance arrangements in respect of a voluntary severance agreement concluded during the period, were not conducted in the correct order as outlined within best practice guidance, issued to the sector.

43. We have raised an action plan point in respect of this issue within Appendix 2 of this report.

Action plan point 1

Remuneration report

44. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared. We have found that the Remuneration Report includes all relevant disclosures and is in agreement with the accounting records.

Succession planning

45. During the 2013/14 audit we commented within our action plan that although the College had made arrangements across its various committees to promote succession planning, for example by introducing Conveners and Vice Conveners into committees, we did not identify any evidence to illustrate that succession planning has been considered across the College, in particular at the senior management level.

46. In particular within the Finance team the resource levels have reduced significantly post-merger, and with additional reporting and analysis linked to the ONS reclassification, it would appear that additional staff resource is required.

47. An assistant accountant post was created in 2014-15 to provide additional finance resource. Limited further progress has been made in respect of other issues during 2014/15.

Action plan point 2

Follow up of prior year audit recommendations

48. As part of our audit we have followed up on the recommendations raised in our 2013/14 Annual Report. The table below indicates the number of issues that have not been completed. Those actions which are yet to be completed relate to the following areas:

- Succession planning (paragraphs 45-47)

Total number of recommendations raised in our 2013/14 Annual Report	Complete	Not yet complete
6	5	1

Qualitative aspects of accounting practices and financial reporting

49. 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 annual report and accounts. 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, which are disclosed in the annual report and accounts, 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.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate on the whole. Estimates and judgements have been adopted over fixed asset valuations, depreciation rates, pension liabilities and the valuation of provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied.
The potential effect on the annual report and accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual report and accounts.	All significant risks and uncertainties have been appropriately reflected in the annual report and accounts.
The extent to which the annual report and accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual report and accounts.	We did not identify any significant unusual transactions in the period.
Apparent misstatements in the Annual Review or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies between the annual accounts and the Annual Review.
Any significant financial statement disclosures to bring to your attention.	No significant financial statement disclosures were identified that we consider should be brought to your attention.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

Looking forward

FE College Statement of Recommended Practice (SORP) -readiness for FRS 102

50. Colleges are currently required to follow the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (‘the SORP’). The SORP reflects UK Generally Accepted Accounting Practice (UK GAAP) and aims to combine the requirements of further and higher education institutions and key stakeholders into recommended accounting practice.

51. With effect from the year ending 31 July 2016, the College will be required to present its financial statements under FRS 102 (new UK GAAP), in line with all further education entities, reporting under the new Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP 2015). FRS 102 is a single set of accounting standards developed by the Financial Reporting Council (FRC) and replaces current UK GAAP.

52. The SORP represents a significant change in financial reporting across the college sector. This includes changes in disclosure and terminology within the accounts including the names of the primary financial statements. There are also some fundamental changes to accounting treatment e.g. income recognition, treatment of capital grants, and accounting for employee benefits.

53. For City of Glasgow College the transition date is 1 April 2014 with the first FRS 102 compliant accounts being prepared for year ended 31 July 2016. The comparative figures for the period ended 31 July 2015 will also require to be restated as part of the transition process.

54. The College volunteered to have its financial statements reviewed as part of an exercise funded by the Scottish Funding Council to determine the impact of FRS 102 on the accounts of further education colleges. This exercise included the involvement of an independent accountancy firm and the production of a detailed action plan to enable FRS102 compliance in advance of the deadline. This action plan is being used as guidance in advance of the preparation of the accounts for the year ended 31 July 2016.

3

Financial management

Financial management

55. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

56. It is the College's responsibility to conduct its financial affairs in a proper manner.

Overall conclusion

57. Overall, we found that the College has adequate 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, financial position and financial forecasts. Each of these elements is discussed in more detail below.

The College's financial performance in 2014/15

58. The College has reported an operating deficit for the period to 31 July 2015 of £2.893million, after donations to arm's length foundations totalling £3.100million.

City of Glasgow College	2014/15 £million	2013/14 £million	Movement £million
Income	66.892	37.636	29.256
Expenditure	(69.785)	(59.329)	(10.456)
(Deficit)	**(2.893)**	**(21.693)**	**18.800**

59. The College has seen an increase of £29.256million (77%) in income. This is mainly due to the following:

- The change in the year-end accounting date twice in the past two years has led to a significant proportion of this increase.
- Grant funding from the SFC of £37.664million received in the 16 month period to 31 July 2015, compared to £20.531million for the 8 month period ended 31 March 2014.
- Additional income sources in the year including Young Enterprise Bridge 2 Business, Commonwealth Games security training and income generated by the projects in Malta and Angola.

60. Expenditure was £69.785million for the 16 month period to 31 July 2015, an increase of £10.456million (17.6%) against the 8 month period to 31 March 2014. The variance is primarily due to:

- The change in the year end dates from an 8 month period in 2014 to a 16 month period in 2015.
- Donations totalling £21.702million being paid to arm's length foundations in the period to 31 March 2014 as a result of the ONS reclassification, compared to £3.100million during the period ending 31 July 2015.
- A voluntary severance scheme was undertaken during 2013/14 which resulted in one-off costs of £1.6million.

61. The budgeted deficit for the 16 month period was £2.424million. The actual performance of £2.893million is therefore in line with the budget.

The College has maintained a net asset position due to substantial fixed assets

62. As at 31 July 2015, the College has reserves of £1.642million. The College's reserves have decreased by £6.262million since March 2014, due to the operating deficit recognised in the period and the increased pension liability reflected in the July 2015 actuarial valuation of the College's share of the Strathclyde Pension Fund. The College is reporting a balance of £16.237million in respect of deferred capital grants, resulting in net assets reported of £17.879million.

63. As at 31 July 2015 the College had a cash balance of £7.775million. This was £1.675million (27.5%) higher than the balance held as at 31 March 2014. This increase is principally due to a fall in debtors of £4.627million offset by a fall in creditors of £2.724million during the period.

64. The College's creditor balance has decreased by £2.724million (22.4%) to £9.432million as at 31 July 2015. This is principally due to a fall in deferred tuition income of £2.8million due to the change in the period end date from March 2014 (during term time) to July 2015 (outside term time).

Financial capacity in public bodies

65. The Auditor General for Scotland and the Accounts Commission are interested in the impact that reductions in staff numbers are having on back-office functions and specifically finance. As part of the 2014/15 audit we have collected baseline information on the finance function at the College. This information will be submitted to Audit Scotland who will be assessing the findings across a number of public sector organisations, to identify any common or emerging issues.

66. A summary of our findings are highlighted below:

Theme	Audit findings
Financial capacity	The finance function at the College is overseen by the Executive Director – Finance. Through his position within the organisation and his attendance at Executive Leadership Team (ELT) meetings, Audit committee meetings, Finance and Physical Resources committee meetings, the Executive Director - Finance has sufficient status to ensure financial performance is managed effectively at both a strategic and operational level. The Executive Director - Finance has responsibility for finance, payroll, procurement, student support, and student records and admissions. He is supported in this role by 24.7 full-time equivalent finance staff, three of which are professionally qualified posts. Within the 2013/14 External Audit Management Report Action Plan it was reported that there is no succession planning in place in particular at the senior management level. No such succession planning proposal has been presented to ELT in the period, and therefore this action plan point is once again raised within Appendix 2 to this report.
Financial strategy and sustainability	The College sets an annual budget and has medium-term financial planning arrangements in place. The medium-term financial budget covers the period to 31 July 2017. Financial strategies set out the College's commitments, strategic priorities, cost pressures as well as projected income over a period of time. Such budgets allow the College to identify the funding shortfalls that they face over time and to devise an appropriate course of action to address the funding gaps. Financial plans are updated on a regular basis. Any longer-term financial planning is currently not performed, as funding allocations from the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available. The College's Strategic Plan 2013-2017, Priority 7 is "Maintain our long-term financial stability" which further outlines seven aims. In order to show how the aims are being achieved key performance indicators and measures have been identified for each aim, including targets to be achieved in 2014/15 and 2015/16. This plan is revised each academic year, and it is the starting point for all other financial plans and projections prepared which set out the College's financial commitments.

Theme	Audit findings
Budget monitoring and control	The College has effective controls in place to ensure that spend against its revenue budget is appropriately monitored and controlled throughout the year. Budget updates contain commentary on the main revenue and expenditure streams that have had a significant impact, rather than on a line-by-line basis. The board can request additional breakdowns or commentary if required. The financial projections report, presented at each Finance and Physical Resources Committee meeting, shows the College's main funding categories for the financial year and how these have changed between the initial approved forecasts and the current position, and provides a narrative to explain each variance.

Systems of internal control

67. 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. Please refer to the action plan (appendix 2) for details of control improvements identified during audit fieldwork.

Internal audit

68. The internal audit service is a key component of the College's internal control framework. We have reviewed the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice. Our review was performed in accordance with the Code of Audit Practice and ISA 610: Considering the work of internal audit.

69. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. BDO LLP provided the internal audit service during the period to July 2015 and we have considered their findings within our audit process. BDO LLP has concluded in their annual report that the College operated adequate and effective internal control systems in the period.

Fraud and irregularity

70. 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.

71. 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.

4

Financial sustainability

Financial sustainability

72. 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.

Financial forecasts

Budgets have been prepared for 2015/16 and a small surplus has been forecast

73. The College's revenue budget, as reported to the Finance & Physical Resources Committee in September 2015, forecasts a small surplus of £386,000 for 2015/16. The SFC has confirmed funding for 2015/16 that will be allocated on a regional basis through outcome agreements. City of Glasgow College is part of the Glasgow region, along with Glasgow Kelvin College and Glasgow Clyde College.

74. The budget for 2015/16 was based on the most reliable information available at the time. As a result it reflects, amongst other things, indicative funding allocations of capital/estates maintenance grant. The Glasgow region allocation is £1.3million less than the 2014/15 allocation and therefore the College in preparing the budgets have assumed that a fair proportion of this reduction will be reflected in the funding they are allocated.

75. The College are projecting WSUMs of 194,658 for 2015/16, an increase on the 177,500 WSUMs target for 2014/15.

76. The College will receive an additional £2.4million SFC teaching grant for the additional WSUMs delivery and an additional £1m SFC ESF grant income to deliver additional ESF eligible WSUMs. This funding will cover the teaching and support staff costs and resources required to deliver the additional WSUMs.

Capital projects

New Campus Project

77. Construction commenced on the £228million new campus project during Summer 2013; on 17 August 2015 the Riverside Campus was opened, and the City Centre Campus is anticipated to open in Summer 2016.

78. This project has been procured under the Scottish Government's Non-Profit Distributing (NPD) framework. The NPD procurement model uses a special purpose company, to design, build, finance and maintain the estate development. The College will repay the capital costs over a 25 year period, via a Unitary Charge, once the buildings are in use.

79. The overall project remains on target, both in terms of budget and timescales, with completion expected during Summer 2017, following final demolitions and landscaping.

5

Governance and transparency

Governance and transparency

Introduction

80. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the Designated Office Holder, 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. Audit bodies usually involve those charged with governance in monitoring these arrangements.

Governance arrangements

81. During our audit we have reviewed the College's overall governance arrangements. This has included consideration of the College's arrangements as they relate to standards of conduct including the prevention and detection of bribery and corruption and risk management. Based on our review, overall governance arrangements are adequate and appropriate, with the exception of arrangements in respect of special voluntary severance payments.

82. The Glasgow Colleges Regional Board (GCRB) became operational on 1 August 2014 and takes on more formal powers in the strategic management and coordination of the provision of further education across the three Glasgow Colleges, including the City of Glasgow College. GCRB has not, however, yet been awarded 'operational fundable body' status by the SFC and is not yet able to fully exercise its powers under the Post-16 Education (Scotland) Act. As a result the College's governance arrangements have not altered significantly during the year and it continues to be funded directly by the SFC. Current expectations are that GCRB will receive operational fundable body status during the 2016-17 financial year.

83. As noted within paragraphs 14 to 17 of this report, the governance arrangements in respect of a voluntary severance agreement concluded during the period, were not fully compliant with best practice guidance issued to the sector in this area. The amount involved was below £16k and the payment was subject to a business case and Board member approval process. We have raised an action plan point in respect of this governance issue within Appendix 2 of this report.

New members were appointed to the Board of Management during the year

84. In June 2015, following a recruitment exercise, the Board approved the appointment of four new board members, as well as two co-opted board committee members.

85. Training was provided to the Board of Management on the new Code of Good Governance. The Code of Good Governance for Scotland's Colleges was formally presented to the Board of Management, and endorsed and adopted by the Board in April 2015. A briefing note was circulated to the Board on the Code, and it also featured as a topic for training at the Board's Development Day on 30 June 2015.

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

86. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are 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.

Risk management

The College has risk management systems in place

87. Risk management is important to the establishment and regular review of systems of internal control. The College's financial statements outline the principal risks and uncertainties of the College and the College's response. We have found that the College has robust risk management arrangements in place to monitor and help mitigate key strategic risks to the College.

The risk management system complies with good practice

88. In March 2015, internal audit conducted a review of Risk Management and concluded that the College's risk management maturity was "managed", with elements of "enabled", which demonstrated high performance in comparison with comparative organisations. Some possible enhancements were also identified as part of the review and were considered beneficial by the Board, however it was agreed that implementation of a "5 x 5 risk model" should be deferred for further consideration following the move to the New Campus.

Conclusion

89. Overall, we found that the College had operated with generally good governance arrangements during the year. The College has acknowledged that it needs to revise its governance processes in relation to the approval of severance payments to staff and this is being addressed in the current financial year.

6

Appendices

Appendix 1: Respective responsibilities of the College's Board of Management and the Auditor

Responsibility for the preparation of the annual report and accounts

Within the terms and conditions of the financial memorandum between the Scottish Funding Council (SFC) and the Board of Management of the College, the Board, through the Principal, is required to prepare the annual report and accounts 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 annual report and accounts, the Board is responsible for:
• selecting suitable accounting policies and applying them consistently; • making judgements and estimates that are reasonable and prudent; and • stating whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and • preparing financial statements on the going concern basis unless it is inappropriate to assume that the College with continue in operation.

The Board is also 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 annual report and accounts comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC. • taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:
• 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 2015 and of its deficit 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 Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended). • 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. • 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 that the information in the Operating and Financial Review is consistent with the financial statements.

We are also required to report, if in our opinion:
• proper accounting records have not been kept; or • the financial statements 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 Statement of Corporate Governance and Internal Control does not comply with SFC requirements.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

In particular, there 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. In addition to the audit of the financial statements, Scott-Moncrieff has performed audit work in respect of student funds. The scope of this work is such that our independence and objectivity has not been compromised.

Appendix 2: Action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. We identified one new recommendation in 2014/15. One recommendation raised in 2013/14 remains outstanding and is included in the action plan below.

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. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the 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 rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1 **Rating** **Grade 3** **Paragraph ref** **14 - 17**	**Timeline for approval of special voluntary severance agreements** During the period a voluntary severance agreement with a senior staff member was concluded. From our audit work we identified that best practice governance guidance, issued to the sector in this area, has not been applied in the correct order. There is a risk that the College has not complied fully with the "*Severance Arrangements to Senior Staff in Scottish Further Education Colleges*", guidance issued by the Scottish Funding Council, nor the Financial Memorandum with the SFC, by not obtaining SFC prior approval for the transaction or formally documenting approval of the transaction. We recommend that the Board of Management are reminded of the governance arrangements required in such a situation, the order in which such steps should be completed and the need to thoroughly document the decision making process.	Agreed. With immediate effect the Executive Leadership team (ELT) will ensure that all future severance payments will be fully compliant with best practice governance guidance. **Responsible officer :** ELT

Action plan point	Issue & Recommendation	Management Comments
2 **Rating** **Grade 2** **Paragraph ref** **45 - 47**	**Succession planning and resources** In 2013/14 we noted that the College had made arrangements across its various committees to promote succession planning, for example by introducing Conveners and Vice Conveners into committees. We did not however identify any evidence to illustrate that succession planning had been considered across the College, in particular at the senior management level. Particularly within the Finance team, we noted that the resource levels had reduced significantly post-merger, and with additional reporting and analysis linked to the ONS reclassification, it would appear that additional staff resource was required.	Agreed. A plan will be considered by ELT by 31 March 2016. **Responsible Officer:** ELT.

Action plan point	Issue & Recommendation	Management Comments
	There is a risk that insufficient plans are in place, were a key member of staff or member of senior management absent for a pro-longed period of time. We recommended that the College implement a formal succession plan, which details how the College will ensure that it meets its responsibilities in the absence of key members of staff. Additionally we recommended that consideration is given to the staff resource levels within the Finance team, as recent staff illness has resulted in significant pressures upon the team to ensure key reporting milestones are achieved. **2013/14 management comments** Agreed, a proposal will be presented to ELT. **Responsible officer** : ELT **2014/15 audit observation** No formal proposal presented to date to ELT. *Scott-Moncrieff Conclusion: Point retained for the period ended 31 July 2015.*	

Scott-Moncrieff
business advisers and accountants

GLASGOW CLYDE COLLEGE

INTERNAL AUDIT ANNUAL REPORT 2014-15

CONTENTS

EXECUTIVE SUMMARY

Background

Our role as internal auditors is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Our approach, as set out in BDO's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities

BDO LLP has been appointed as internal auditors to Glasgow Clyde College to provide the Board (via the Audit Committee) and Management Team with assurance on the adequacy of the following arrangements:

- Risk Management;
- Corporate Governance; and
- Internal Control.

Responsibility for these arrangements remains fully with management, who should recognise that internal audit can only provide 'reasonable assurance' and cannot provide any guarantee against material errors, loss or fraud. Our role at Glasgow Clyde College is also aimed at helping management to improve risk management, governance and internal control, so reducing the effects of any significant risks facing the organisation.

Our risk evaluations and tests are designed to ensure that controls are sound both in design and effective in operation. Our conclusions are based on evidence obtained during the course of our audit work, verification tests and samples selected from the year's transactions to date. However, our conclusions should not be taken to mean that all transactions have been properly authorised and processed or that all elements of systems have been tested.

EXECUTIVE SUMMARY

Audit Approach

We have reviewed the control policies and procedures employed by Glasgow Clyde College to manage risks in business areas identified by management set out in the 2014-15 Annual Internal Audit Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation.

Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards and the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with Glasgow Clyde College management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine whether the risk management activities and controls are operating as expected.

The assurance statement provided on page 8 of this report is based on historical information and the projection of any information or conclusions contained in our statement to any future periods is subject to the risk that changes may alter its validity.

Coverage

During 2014-15 BDO LLP has reviewed and evaluated Glasgow Clyde College's processes in the following areas:

• Risk management • Student association • Purchase ledger • IT General controls review • Procurement and contract management	• Commercial activity • Follow up • Health and Safety Governance • Business continuity

EXECUTIVE SUMMARY

Recommendations

To assist management in addressing our findings, we categorise our recommendations according to their level or priority. The recommendations made in the eight completed reviews, excluding the follow up review totalled 28.

Summary of Recommendations (SEE APPENDIX I)

High	
Medium	13
Low	15

Total number of recommendations: 28

Reporting mechanisms and practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

Management action on our recommendations

Management have been conscientious in review and commenting on our reports. For the reports which have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are in place.

EXECUTIVE SUMMARY

Relationship with external audit

All our final reports are available to the external auditors through the Audit Committee papers and are available on request. Our files are also available to External Audit should they wish to review working papers in order to place reliance on the work of Internal Audit.

Follow up

During the year we undertook independent exercises to assess the progress made by Glasgow Clyde College in implementing internal audit recommendations made in previous years.

Implementation of recommendations is a key determinant of our annual assurance statement. If recommendations are not implemented on a timely basis then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment. Within Glasgow Clyde College we found a good level of commitment and effort in clearing as many outstanding recommendations as possible from previous audit reports.

We followed up 25 recommendations from 2014-15 and pre-merger. We reported that 17 out of the 20 recommendations due to be implemented had been fully implemented, three had been partially implemented, with the remaining five recommendations outstanding and not yet due.

On that basis we can take reasonable assurance that management's resolve to implement previously agreed recommendations is sound.

Summary of work performed

Details of the eight internal audit reviews and the follow up review have been reported to the Audit Committee throughout the year and have been discussed at length with consideration and scrutiny of management responses and timescales proposed.

For the purpose of this annual report, we set out in the following pages our summary of recommendations and assessment of the design and effectiveness of the risk assurance for each of the audit areas reviewed.

WORK COMPLETED

Reports Issued	Overall Report Conclusions - see appendix I				
	▲	■	●	Design	Operational Effectiveness
Risk management	-	-	-	n/a	n/a
Student association	0	3	0	Moderate	Moderate
Purchase ledger	0	0	3	Substantial	Substantial
IT General controls review	0	4	2	Limited	Moderate
Procurement and Contract Management	0	1	2	Substantial	Substantial
Commercial Activity	0	3	2	Moderate	Moderate
Health and Safety Governance	0	1	6	Substantial	Moderate
Business Continuity Planning	0	1	0	Substantial	Substantial

ANNUAL STATEMENT OF ASSURANCE

Report by BDO LLP to Glasgow Clyde College

As the internal auditors of Glasgow Clyde College we are required to provide the Board, via the Audit Committee, and the Senior Management Team with a view on the adequacy and effectiveness of Glasgow Clyde College's risk management, governance and internal control processes.

In giving our view it should be noted that assurance can never be absolute. The internal audit service provides Glasgow Clyde College with reasonable assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2014-15. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weakness in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2014-15;
- Any follow-up action taken in respect of audits from previous periods for these audit areas;
- Whether any significant recommendations have not been accepted by management and the consequent risks;
- The effects of any significant changes in the organisation's objectives or systems;
- The requirements of the Public Sector Internal Audit Standards; and
- Any limitations which may have been placed on the scope of internal audit (no restrictions were placed on our work).

Conclusion

In our view, based on the reviews undertaken during the period, and in the context of materiality:

- The risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements.
- Based on our verification reviews and sample testing, risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review.

PERFORMANCE AGAINST OPERATIONAL PLAN

Visit	Date of visit	Proposed Audit	Planned Days	Actual Days	Status
1	March 2014	Risk management	5	5	Complete
1	June 2014	Student association	5	5	Complete
2	August 2014	Purchase ledger	5	5	Complete
2	August 2014	IT General controls review	5	5	Complete
3	January 2014	Procurement and contract management	5	5	Complete
4	April 2014	Commercial activity	5	5	Complete
5	June 2015	Health and Safety Governance	5	5	Complete
5	June 2015	Business Continuity Planning	5	6	Complete
5	July 2015	Follow up	4	4	Complete

AUDIT PERFORMANCE

AUDIT	COMPLETION OF FIELDWORK	DRAFT REPORT	MANAGEMENT RESPONSES	FINAL REPORT
Risk management	7 March 2014	13 March 2014	3 June 2014	4 June 2014
Student association	28 May 2014	6 June 2014	27 June 2014	27 June 2014
Purchase ledger	6 August 2014	12 August 2014	9 September 2014	9 September 2014
IT General controls review	30 September 2014	14 October 2014	25 February 2015	26 February 2015
Procurement and contract management	23 January 2015	26 January 2015	20 February 2015	23 February 2015
Commercial activity	1 April 2015	20 April 2015	15 June 2015	15 June 2015
Health and Safety Governance	24 July 2015	5 August 2015	19 August 2015	20 August 2015
Business Continuity Planning	26 June 2015	7 August 2015	22 August 2015	18 November 2015
Follow up	4 August 2015	5 August 2015	18 August 2015	18 August 2015

On average:

- All reports were issued in draft within 10 working days of completion of our fieldwork and a debrief meeting with management.
- Initial responses were received within 10 working days of the draft report being issued.
- Final reports were issued within 1 working day of final management responses being received.

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

Wylie+Bisset LLP

Chartered Accountants, Business & Tax Advisers

GLASGOW CLYDE COLLEGE

GLASGOW CLYDE COLLEGE

ANNUAL REPORT TO THE BOARD OF MANAGEMENT & THE AUDITOR GENERAL

ON THE EXTERNAL AUDIT FOR THE PERIOD ENDED 31 JULY 2015

Topic	Date
Commencement of final visit	w/c 5 October 2015
Audit clearance meeting **(interim clearance, numbers only)**	28 October 2015
Presentation to Audit Committee	25 November 2015
Presentation to Board of Management	9 December 2015
Audit clearance **(Other prescribed matters and matters on which we are required to report by exception)**	17 February 2016
Final presentation to Board of Management	17 February 2016

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This report has been prepared for the purposes of the College Management, Board and the Auditor General for Scotland 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.

1 EXECUTIVE SUMMARY

1.1 FINANCIAL REVIEW

The College returned an operating surplus of £6k (2014: £11,855k deficit), after accounting for a transfer to an arms length foundation (ALF) of £600,000 (2014: £14,400,000).

The College maintains a strong overall balance sheet position with net assets of £135,603k (2014: £140,098k).

1.2 FINANCIAL STATEMENTS

We have issued an unqualified audit opinion on the accounts of Glasgow Clyde College for the sixteen month period ended 31 July 2015. There have been no significant adjustments to the draft figures arising from our audit.

The governance matters discussed below in section 1.3 are adequately disclosed in the financial statements by the Board of Management and reference is made in the Corporate Governance statement to there not being full compliance with the Code of Good Governance (CoGG) and Scottish Funding Council requirements throughout the full 16 month period. Accordingly, with our remit being to report by exception if the Corporate Governance statement does not comply with Scottish Funding Council requirements, we have nothing to report. We merely draw the Board’s attention to the matters in section 1.3 of this report.

1.3 GOVERNANCE & INTERNAL CONTROL

We have undertaken an overall review of the Corporate Governance arrangements in place at the College. Our findings in this regard are detailed in section 5.3 with a management recommendation made in section 8. Based on our findings it appears that the College has not fully complied with Corporate Governance requirements throughout the period. Our findings are based on completion of a bespoke governance checklist, examination of third party documentation and conducting interviews with senior management. The Governance issues disclosed in the Operating and Financial Review (OFR) in relation to the Principal’s suspension, in February 2015, and removal of the Board of Management on 8 October 2015 by Scottish Government are consistent with our knowledge as auditors. The decisions taken in relation to removal of the Board of Management by Scottish Government are now subject to a judicial review. Due to this we did not speak to former Board members during the completion of our audit . The evidence for our review of Board governance is based on a wide range of College documents, Board papers and minutes and third party reports.

The current Board of Management are in place until September 2016 and the Chair of the Board has been appointed as Chair at another college from June 2016. This situation poses a risk to the College and good succession planning will be essential along with a suitably qualified Board secretary to support the Board members. We understand that the College has commenced the recruitment process to ensure a Board Chair, Board Secretary and Board members are all in place from September 2016 onwards.

1.4 REGULARITY

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

1.5 REMUNERATION REPORT

The College is now required to include a Remuneration report within its annual report and accounts for the first time in accordance with the Government Financial Reporting Manual 2014-15 (FReM) section 5. 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 Report.

1.6 RECOMMENDATIONS TO MANAGEMENT

We have made recommendations relating to:

- Compliance with the Code of Good Governance for Scottish Colleges (CoGG)
- Registers of Interest
- Self-Evaluation of Board Members and Chair
- Fixed Assets – Physical verification of Assets

The recommendation with regards to compliance with the CoGG has been assigned a high priority recommendation level.

2 INTRODUCTION

2.1 APPOINTMENT

Wylie & Bisset LLP were appointed by Audit Scotland as the External Auditors of Glasgow Clyde College 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 period ended 31 July 2015.

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 whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
- 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
- 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 LLP 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 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

3.1 FINANCIAL STATEMENTS

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 year. The Accounts Direction requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ("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.

3.2 AUDIT OPINION

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the period ended 31 July 2015, as, 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 body's affairs as at 31 July 2015 and of its surplus for the period then ended; 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 (as amended).

We are satisfied, with regards to regularity, that 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 and that the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements. We are also satisfied 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.

There are no matters on which we are required to report to you by exception if:

- proper accounting records have not been kept; or
- the financial statements 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 statement of corporate governance does not comply with Scottish Funding Council requirements.

Our audit opinion is unqualified but the reader's attention is drawn to the corporate governance issues highlighted in section 5.3 of this report.

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 INCOME AND EXPENDITURE ACCOUNT

- Income and expenditure varies due to the increase in the length of the accounting period to 16 months (2014: 8 months). Variations in annualised income and expenditure between the two reporting periods are largely due to the timing of activity across an academic year.
- The total income for 2015 was £59,832k (2014: £33,321k). The figures, if annualised, would be £49,982k for 2015, and £44,874k for 2014, resulting in a increase of £5,108k.
- Most of the components of income appear to be consistent except for a decrease of £2,500k for the FE Recurrent Grant, a decrease of £971k in the release of deferred capital grants, and a decrease of £748k in income from other contracts.
- If staff costs were annualised, there is a decrease of £1,253k and this reflects the effect of the restructuring policy which has been adopted by the College in the previous year.
- In relation to depreciation, the annualised decrease is £392k. Operating expenses for administration and central services also resulted in an annualised decrease of £436k.
- Donations to an Arm's length foundation decreased in actual amounts from £14,400k in 2014 to £600k in 2015.

	P/E 31/7/15 £'000	P/E 31/3/14 £'000
Income		
Scottish Funding Council Grants	44,862	24,857
SFC Exceptional income	201	643
Tuition fees and education contracts	9,082	4,814
Other grant income	2,634	1,340
Other operating income	2,418	1,414
Investment income	635	253
	59,832	33,321
Expenditure		
Staff costs	37,221	19,446
Staff costs – restructuring	201	804
Other operating expenses	16,081	9,086
Depreciation	5,723	3,123
Transfer to Arms Length foundation	600	14,400
	59,826	46,859
Surplus/(Deficit)	**6**	**(13,538)**
Gain on sale	**-**	**1,683**
Surplus/(Deficit) retained in reserves	**6**	**(11,855)**

3.5 BALANCE SHEET

- At 31 July 2015 the College had net assets of £135,603k, (2014: £140,098k). This decrease can be principally attributed to a £3,705k reduction in carrying value of fixed assets.
- Due to the change in accounting date, the total debtors have decreased by £5,233k.
- Trade and student debtors have decreased by £448k, European funding by £161k, and there has been a substantial decrease of £4,666k in accrued income. The movement in the accrued income in the main can be attributed to the funds allocation of the Scottish Funding Council at March 2014.
- Due to the change in accounting date, the total creditors balance has decreased by £6,002k. The main components of the decreases are:
    - £3,111k of accrued expenditure/deferred income
    - £1,374k of payments in advance
    - £890k of student residences
    - £626k of bursaries and discretionary funds
- The movement in creditors due after more than one year is due to repayments for VAT under the Lennartz Principle.
- The provision for liabilities comprises the unfunded pension scheme liability in relation to early retired staff £3,422,000.

	P/E 31/7/15 £'000	Y/E 31/3/14 £'000
Fixed Assets		
Tangible fixed assets	145,799	149,504
Current Assets		
Stock	18	18
Debtors	1,599	6,832
Cash in hand and at bank	5,008	5,597
Creditors : amounts falling due in less than one year	(4,441)	(10,443)
Creditors: amounts falling due after more than one year	(1,991)	(2,920)
Provision for liabilities	(3,422)	(3,339)
Pension liability	(6,967)	(5,151)
Net assets	**135,603**	**140,098**
Deferred capital grants	94,452	97,155
Income & Expenditure reserve excluding pension reserve	3,638	2,794
Pension reserve	(6,967)	(5,151)
Revaluation reserve	44,480	45,300
Total Funds	**135,603**	**140,098**

4 AUDIT APPROACH & KEY FINDINGS

4.1 OUR APPROACH

Our audit approach recognises the requirements of the CoGG 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 focused 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 prior years' 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 current year audit visit 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 procedures, we have identified areas where the operation of internal financial controls could be improved. These areas are highlighted within subsequent sections of this report.

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 ISSUES 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 Director of Finance. This practice is an established part of the audit process. This report draws to the attention of the Board of Management any matters of particular significance or interest, which arose from the audit, noted as follows:

- **Accounting Policies**: In accordance with FRS18, we understand the Audit Committee will formally review the accounting policies included in the Annual Accounts. There have been no significant changes to the accounting policies in the period. We have not identified any instances where we consider the accounting policies to be inappropriate.

- **Remuneration Report**: In accordance with section 5 of the FReM, Incorporated colleges are now required to include a Remuneration Report within their annual report and accounts. The Remuneration report sets out required information of senior officials of the College. 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 Report.

- **Corporate Governance Compliance & Judicial Review process:** Our Corporate Governance statement in section 5.3 of this report details the position with regards to the College's compliance with The Code of Good Governance for Scotland's Colleges (CoGG) which concludes that there is not full compliance at all times throughout the sixteen month period. Our recommendation at section 8.2 of this report states areas for improvement. The decisions taken in relation to removal of the Board of Management by Scottish Government are now subject to a judicial review.

- **Information disclosed to auditors:** The College Board of Management is responsible for ensuring the auditors are aware of all relevant audit information and there is no relevant audit information of which the College's auditors are unaware. The Board are also obliged to ensure that it has taken all the steps that it ought to have taken as a Board of Management to make itself aware of any relevant audit information and to establish that the College's auditors are aware of that information. Throughout the period under audit there have been instances where information disclosure, with regards to Board of Management Corporate Governance issues, to auditors has not been undertaken as timeously as best practice would require.

4.3 OTHER MATTERS

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 17 - Retirement Benefits (FRS 17), 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 17 liabilities over the past few years. 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 17 and that disclosure is consistent with the actuarial report.

Going Concern: Wylie & Bisset LLP, in accordance with International Standard on Auditing (UK & Ireland) ISA 570 : Going concern, are required to consider the Board of Management's use of the going concern assumption in relation to the financial statements of the College for the period ended 31 July 2015. Following the merger, the operations and services of the College continue to be provided using the same assets which were transferred to Glasgow Clyde College. Consequently, the use of the going concern concept in the financial statements is considered to be appropriate and in accordance with accounting standards as interpreted for the public sector.

- **Use of Public Funds:** Between the suspension of the College Principal in February 2015 and subsequent removal of the Board of Management by the Scottish Government in October 2015, at the time of finalising this report, £248k has been spent on legal fees and other costs such as HR Consultancy and Public Relations. As part of this process legal advice was sought by the Board of Management in February 2015, without a competitive procurement process and the Colleges' procurement procedures were not followed. Retrospective approval was sought from the SFC for legal advice provided to the Board between February and April 2015, as the delegated limit of £25,000 for non competitive action was exceeded. This matter is brought to the Board of Management's attention and the Auditor General for note.

4.4 UNADJUSTED ERRORS

Appendix C includes a copy of the letter of representation which we have sought from the Governors in support of the matters reported to us during our audit procedures. There were no errors or deviations that were identified during our procedures other than clearly trifling which have not been amended within the accounts.

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 Glasgow Clyde College 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 Glasgow Clyde College 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 LLP is independent of Glasgow Clyde College 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 GOVERNANCE & INTERNAL CONTROLS

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 LLP 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 College's code of corporate governance, we are required to consider the corporate governance arrangements in place at the College and ensure they comply with Scottish Funding Council requirements.

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 adequacy of internal audit is assessed each year.

The College's internal auditors during the period ended 31 July 2015 were BDO LLP.

In the course of the period ended 31 July 2015 the following areas were scheduled to be reviewed by the Internal Auditor:

- Risk Management and Governance
- Key Financial Controls – Purchase Ledger
- Procurement & Contract Management
- IT General Controls
- Commercial Activity
- Student Association
- Health & Safety Governance

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the report issued by the Internal Auditor. At the time of our audit, reporting was incomplete and the Annual Report has still to be 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 Colleges Statement of Corporate Governance included within the financial statements. We are required to report where a statement does not comply with the requirements of SORP, Government Financial Reporting Manual 2014-15 (FReM) and Scottish Funding Council, 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 the corporate governance arrangements in place at Glasgow Clyde College.

As part of our audit we have performed a 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 and extraordinary meetings of the Board and key College committees issued during the year. We have also examined third party documentation and conducted interviews with senior management in relation to the Governance issues disclosed in the Operating and Financial Review (OFR) in relation to the Principal's suspension, in February 2015, and removal of the Board of Management on 8 October 2015 by Scottish Government. The decisions taken in relation to removal of the Board of Management by Scottish Government are now subject to a judicial review and we have therefore not had the opportunity to discuss Governance with the former Board members of the College.

The College is committed to exhibiting best practice in all aspects of Corporate Governance however the College Board of Management has not fully complied with all the provisions of The Code of Good Governance for Scotland's Colleges (CoGG).

The College's full Board of Management meets at least four times a year and has six committees through which it conducts its business. Each committee has formally constituted terms of reference and standing orders. These committees include: an Audit Committee, a Remuneration Committee, a Nominations Committee, a Learning and Teaching Committee, a Finance and Resources Committee and an Organisational Development Committee. They all comprise mainly lay members of the Board, one of whom is the Chair. The Board is supported by a Board Secretary. However at present there is no Board Secretary and the post has been vacant since June 2015 despite the best efforts of the College to find a replacement on an interim or permanent basis.

Board members also include members from College staff and students.

The Board remit requires an annual self-evaluation exercise. Each committee of the Board also completes an annual self-evaluation based on the remit of the committee. There is no written evidence of the annual self-evaluation process having been undertaken by the Board during 2014-15.

Based on our review, and in light of the events which occurred during the year highlighted in the OFR, we are not satisfied that the College operated appropriate Corporate Governance procedures at all times or that the former Board adhered to arrangements in place covering standards of conduct.

Whilst the matters we found do not impact upon our audit opinion there is evidence of a lack of compliance with the CoGG and the key recommendations in relation to improvement are included in section 8 of this report.

New members have been appointed to the Board of Management and committees until September 2016 and the recommendations made in section 8 should be read accordingly. The Board of Management believe that the recommendation made is being actioned and the principles of the CoGG, are being followed.

6 FRAUD AND IRREGULARITIES

6.1 BEST PRACTICE

Best practice requires that the charity 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 charity'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 however, it is highlighted that all the recommendations made have an implicit impact on the prevention and detection of fraud and other irregularities within the College.

7 AUDIT RECOMMENDATIONS – 31 MARCH 2014

7.1 PRIOR YEAR RECOMMENDATIONS

Those additional matters which were highlighted as a result of our current period audit procedures are noted below, detailing the observation and implications thereof along with our recommendation for improvement.

The points 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 college matches current best practice.

7.2	**Bank Accounts**
Observation	From review of the college's bank accounts, a number are still held in the names of the legacy colleges.
Implication	A high number of bank accounts increases control risk.
Recommendation	We recommend that the college ensure all accounts are updated to reflect the name of Glasgow Clyde College.
Priority	**Medium**
2015 Update	On review of the Colleges bank accounts, all were found to be in the name of Glasgow Clyde College. **No Further action required.**

8 AUDIT RECOMMENDATIONS – 31 JULY 2015

8.1 31 JULY 2015 RECOMMENDATIONS

Those additional matters which were highlighted as a result of our current period audit procedures are noted below, detailing the observation and implications thereof along with our recommendation for improvement.

The points within the report have been assigned a priority level based on the urgency required in addressing the matters highlighted as highlighted in section 7 of the report.

8.2	**Compliance with the Code of Good Governance for Scotland's Colleges (CoGG)**
Observation	Based on our work undertaken in relation to Corporate Governance and the disclosures made in the OFR in relation to events which occurred during 2014-15 there is evidence that the Board did not comply with the principles contained within the CoGG throughout the full period under audit.
Implication	There is the risk that the college is not exhibiting best practice with regards to Corporate Governance and that the Board members may not be discharging their duties effectively resulting in detrimental impact on the college, its reputation and the student experience.
Evidence to support recommendation	From our review of all the documentation discussed in section 5.3 of this report we include the following evidence to give context to the recommendations which follow: **Leadership and Strategy** • The suspension of the Principal and the SFC governance review dominated discussion at Board meetings from February 2015 onwards meaning other strategic items of business were not adequately considered. **Openness and Transparency** • The Board did not operate in an open and transparent manner – minutes were consistently not being ratified at the subsequent Board meeting. • The Board minutes have not been publicly available on the College's website since September 2014. **Accountability** • There was a reliance on verbal updates from Committees to the Board. This is in contrast to the way Committee business should be reported, as set out in the Articles of Governance of the Board of Management.

	Compliance with the Code of Good Governance for Scotland's Colleges (CoGG) (continued)
Evidence to support recommendation	**Effectiveness** • Board meetings were sometimes conducted in the absence of the Board Secretary from October 2014 until they left their post in June 2015. In the absence of the Secretary to the Board minutes were taken by others. • There was a significant external legal presence and input at Board meetings from February 2015 onwards. • There was an absence of inclusion of Executive Management Team (EMT) involvement in Board business during 2015 resulting in a lack of joint working.
Recommendation	Whilst we appreciate that a new Board of Management is now in place at the college there are a number of recommendations in relation to governance which we believe require to be addressed by the new Board and its committees. The recommendations which follow are made at a high level and designed to be considered in conjunction with findings of various third party reports produced during 2015 investigating the governance issues which led to the dismissal of the Board of Management members. The recommendations made are done so in light of the disclosures made in the Operating and Financial Review within the financial statements and the statements made on Corporate Governance in section 5.3 of this report. We recommend: • A follow up review on the effectiveness of the Board and its ability to discharge its responsibilities is undertaken by internal audit during 2016-17. As part of this the effectiveness of the Board should be measured with respect to the principles as laid out in the CoGG;
Management response	Recommendation accepted. The College will ensure this review is included in the 2016-17 Internal Audit Plan.

	Compliance with the Code of Good Governance for Scotland's Colleges (CoGG) (continued)
Recommendation Management response	• An action plan and timeline as to how the Board will ensure full compliance with the CoGG should be put in place; Recommendation accepted. Following the appointment of the new Board of Management a Glasgow Clyde College Governance Action Plan was implemented to address the stated governance issues as outlined in the Policy Note issued by the Cabinet Secretary when removing the Board Members on 8 October 2015. • The Board return to a position where they provide effective and regular scrutiny and challenge of key strategic and performance issues within the College. There is clear evidence from minutes of meetings that this was not happening during 2014-15 in contrast to earlier years; • The Board must work constructively with the EMT at all times to ensure they are fully included in important college decisions. EMT members require to be present at all Board meetings to provide valuable insight into college activities; • The Board must be able to demonstrate that it provides collective strategic leadership for the College by maintaining a sufficient focus on its strategic, corporate and operational objectives. During 2014-15, there is limited evidence of strategic and corporate issues being considered in adequate detail at Board meetings.

	Compliance with the Code of Good Governance for Scotland’s Colleges (CoGG) (continued)
Recommendation	• The Board must ensure effective lines of communication are in place at all times with the SFC and the Glasgow Colleges Regional Board; • Inclusiveness needs to be demonstrated by the Board and student Board membership needs to be in evidence at all meetings to ensure students have a voice; and • The Board work closely and in an open manner with the EMT to ensure procurement procedures are adhered to at all times and that expenditure incurred is in the best interests of the public.
Management response	Recommendations accepted. All relevant steps have been taken by the Board of Management from 8th October 2015 to ensure these recommendations have been fully implemented.
	• The College require to make the minutes of meetings available on the website, which have been absent since September 2014;
Management response	Recommendation accepted. The Board of Management is fully committed to publishing minutes of meetings and, as such, this recommendation is currently being progressed.
	• The role of Board Secretary requires to be filled as quickly as possible and the appointee to this position requires to have the experience and skill set to execute their responsibilities effectively and provide advice to the Board of Management where required;
Management response	Recommendation accepted. The College has taken a range of steps to fill the post of Board Secretary but has, as yet, been unable to make an appointment. However the College is aiming to appoint a Board Secretary during February 2016.
Priority	High

8.3	**Register of Interest**
Observation	On review of Board Member Registers of Interest, it was noted that all were dated 2013 and 2014.
Implication	There is the risk that by not keeping Board members Register of Interests up to date, the College is not aware of potential related party transactions.
Recommendation	We recommend that the Register of Interests is updated regularly.
Priority	**Medium**
Management Response	Recommendation accepted. The exercise to update the Register of Interests for new Board members is currently in progress.

8.4	**Self-Evaluation of Board Members and Chair**
Observation	There was no written evidence to support that a self-evaluation process of Board members and the Chair of the Board had been performed during the year 2014/15.
Implication	There is the risk that Board members and the Chair may not be discharging their duties effectively.
Recommendation	Whilst we appreciate that the circumstances which lead to the dismissal of the Board and Chair of the Board by the Scottish Government may have contributed to self-evaluation not being undertaken, we recommend that the Board and Chair undertake a self-evaluation process every year.
Priority	**Medium**
Management Response	Recommendation accepted. The Board and Chair self-evaluation process will be undertaken on an annual basis in future.

8.5	**Fixed Assets**
Observation	We understand that the College finance team do not perform physical checks to verify the existence of items held on its Fixed Asset Register.
Implication	There is the risk that the College's Fixed Asset Register does not agree to the assets currently being held by the College.
Recommendation	We recommend that the College finance team consider undertaking quarterly spot checks on a sample selection of fixed assets to confirm existence.
Priority	**Low**
Management Response	Recommendation accepted. The College finance team will carry out quarterly physical checks on a sample basis to verify the existence of items held on its Fixed Asset Register from 2015/16 onwards.

9 EMERGING ISSUES

The following is included for reference of the Board of Management of Glasgow Clyde College.

CHANGES IN ACCOUNTING FRAMEWORK

The Financial Reporting Council (FRC) issued FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland in March 2013. This is the third new standard to be issued by the FRC since November 2012 and represents the most significant element of the new UK GAAP reporting regime. FRS 102 is applicable for accounting periods beginning on or after 1 January 2015, i.e. 31 July 2016 period ends.

The Further and Higher Education SORP Board has recently developed a new SORP, which was finalised earlier this year and has been issued. Whilst this will only apply to college financial statements from 31 July 2016 management should be aware of the need to draw up a transitional balance sheet at 1 April 2014 in order to facilitate the composition of restated comparative figures at 31 July 2015.

Some of the main areas of change are:

GOVERNMENT GRANTS

The new SORP allows the College to choose between two accounting policies to apply when accounting for Government grants.

Accruals Model

The accruals model is the continuation of existing practice where income matches expenditure.

Performance Model

Under the performance model the College must recognise income from Government grants within the Statement of Comprehensive Income when performance-related conditions are met.

EMPLOYEE BENEFITS

Short-term employee benefits

The College must recognise a liability for the cost of all benefits to which employees are entitled at the reporting date that have not yet been paid. This includes any liability for paid annual leave or contractual leave entitlements such as sabbatical leave, if material.

If the holiday year runs concurrently with the financial year and allows no carryover of holiday then this would be zero. However, where the carryover of holiday is allowed or the holiday year and financial year are not the same then a figure would need to be calculated for the year end unused entitlement.

Post-employment benefits

Actuarial gains and losses must be recorded in the Statement of Comprehensive Income (previously Statement of Total Gains and Recognised Losses)

Multi-employer pension scheme exemption continues to be available when a share of liability cannot be allocated to the employer. A liability is required to be recognised in relation to agreed funding schedules.

Key management personnel

The total cost of remuneration paid to key management personnel, must now be disclosed. The SORP proposes that this covers the cost of remuneration of the Senior Management Team.

FINANCIAL INSTRUMENTS

Financial instruments are required to be recognised at fair value, with changes reflected through income and expenditure.

OPERATING LEASES

Lease incentives are now to be spread over the whole lease term, whereas before incentives were spread over the period to the first break.

There is a first-time adoption choice available in this area which will mean that leases entered into before the date of transition will not require to be restated.

PROPERTY, PLANT & EQUIPMENT

In accordance with the new SORP there are no significant changes in accounting for property, plant and equipment but there are some first time transition options available which allows an entity to carry out a valuation of an asset class at the transition date and thereafter this fair value to be treated as cost and depreciated over its useful economic life. However, the financial reporting manual (FReM) requires property to be carried at valuation, which is permissible under FRS 102 and the new SORP. On the basis this treatment does not represent a divergence in treatment this therefore requires colleges to undertake a valuation at least every 5 years rendering fair value being treated as cost redundant.

APPENDICES

A STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

In accordance with the College's Constitution, the Board of Management of Glasgow Clyde College is responsible for the administration and management of the affairs of the College, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial period.

The Board of Management is responsible for ensuring that proper accounting records are maintained 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 Constitution, the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions, the 2013/14 Government Financial Reporting Model (FReM) issued by the Scottish Government (FReM 2.2.14), and other relevant accounting standards. It is the duty of the Board of Management, through its designated office holder, to prepare financial statements for each financial period 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 period.

In causing the financial statements to be prepared, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the College will continue in operation.

The Board of Management has a responsibility 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 Further and Higher Education (Scotland) Act 1992, the College’s 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 hence to take reasonable steps to prevent and detect fraud;

- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure; and

- ensure sound corporate governance and the proper conduct of the College's operations.

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 faculties and schools and heads of support and administrative 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 College and the Board of Management;

- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Board of Management; and

- a professional Internal Audit team whose annual programme is agreed by the Audit Committee and endorsed by the Board of

Management and whose head provides the Board of Management 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 systems 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 GLASGOW CLYDE COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

We have audited the financial statements of Glasgow Clyde College for the period ended 31 July 2015 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 Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (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 Responsibilities of the Board of Management, 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.

Generic 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 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 body's affairs as at 31 July 2015 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 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 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 Operating and Financial Review 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 required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements 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 Statement of Corporate Governance and Internal Control 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

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

C LETTER OF REPRESENTATION

Glasgow Clyde College
690 Mosspark Drive
Glasgow
G52 3AY

17 February 2016

Messrs Wylie & Bisset LLP
Chartered Accountants
168 Bath Street
Glasgow
G2 4TP

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief, apart from the governance issues referred to in the 2014/15 Financial Statements and Annual Audit Report, the following representations given to you in connection with your audit of the College's accounts for the period ended 31 July 2015.

1. We acknowledge as members of the Board of Governors 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 31 July 2015.
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 Governors by the SFC.

2. We have appointed BDO LLP 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 Governors 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. Where these assets are included at market value in order to comply with accounting standards, we confirm that the market value has been determined based on our "best estimate" using relevant information currently available to us.

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, in our opinion, the treatment of the College as a going concern within these financial statements is considered appropriate on the grounds that the operations and services of the College will continue to be provided using the same assets which have been transferred to Glasgow Clyde College. We are satisfied 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.

14. We confirm that you have not identified to us any unadjusted errors other than those which are clearly trifling. 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.

15. So far as the Board of Management is aware, there is no relevant audit information of which the College's auditors are unaware and it has taken all the steps that it ought to have taken as a Board of Management to make itself aware of any relevant audit information and to establish that the College's auditors are aware of that information.

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

D IDENTIFIED AUDIT RISKS, APPROACH & CONCLUSION

Risk	Audit response	Conclusion
Financial performance The level of funding available to the College is tight resulting in the College's ability to generate surpluses difficult. There is an increased risk associated with the demand this places on current resources.	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 and ensuring adherence with the requirements of auditing standards.	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.
Override of Internal Controls There is a risk of 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 management 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.

Risk	Audit response	Conclusion
Revenue Recognition There is a risk of 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 associated 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 2014. 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 2014 to allow for comparative information to be available at 31 July 2015.	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.

E CONTACT DETAILS

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Chartered Accountants, Business & Tax Advisers

Glasgow Kelvin College

Internal Audit 2014/15

Annual Report

August 2015

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1 INTRODUCTION

The provision of Internal Audit Services is covered by the Financial Memorandum issued by the Scottish Funding Council ("SFC").

The Financial Memorandum sets out that the internal auditors are required to produce an Annual Report on the internal audit activities addressed to the Board of Management and the Principal.

The Financial Memorandum also sets out that the Annual Report should be considered by the Audit Committee prior to the Audit Committee producing its annual report to the Board of Management.

This Annual Report has been drawn up in accordance with the Financial Memorandum.

A copy of this report requires to be submitted to the Scottish Funding Council.

2 EXECUTIVE SUMMARY

Opinion

Overall Opinion
We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College’s risk management, control and governance processes. In our opinion Glasgow Kelvin College did have adequate and effective risk management, control and governance processes to manage its achievement of the College’s objectives at the time of our audit work. In our opinion, the College has proper arrangements to promote and secure value for money. Our fieldwork was carried out between September 2014 and July 2015 and we have not undertaken any further internal audit assignments at the time of this report.

The overall findings and conclusion of each report are highlighted in Section 3. As can be seen from the summary in Section 3 all areas included in the Operational Plan for 2014/15 are complete. The SUMs, SSF and EMA audits will be carried out between August and September 2015 as planned.

In forming our opinion above, we have carried out the following work:

- a review and appraisal of financial and other controls operated by the College;
- a review of the established policies and procedures adopted by the College;
- an assessment of whether or not the internal controls are reliable as a basis for producing the financial accounts;
- a review of accounting and other information provided to management for decision making;
- compliance and substantive audit testing where appropriate;
- a review of the College's procedures in place to promote and secure value for money.

The analysis of performance indicators for the internal audit work carried out in the year is included at section 5.

2 EXECUTIVE SUMMARY

Basis of Opinion

As the Head of Internal Audit at Glasgow Kelvin College we are required to provide the Board of Management and the Principal with an opinion on the adequacy and effectiveness of the College's risk management, control and governance processes. In giving our opinion it should be noted that assurance can never be absolute. The most that we can provide to the Board of Management is reasonable assurance that there are no major weaknesses in the College's risk management, control and governance processes. In assessing the level of assurance given, we have taken into account:

- All audits undertaken during the period ended 31 July 2015;
- Any follow-up action taken in respect of audits from previous periods;
- Any significant recommendations not accepted by management and the consequent risks;
- The effects of any significant changes in the College's objectives or systems;
- Matters arising from previous reports to the Board of Management;
- Any limitations which may have been placed on the scope of internal audit;
- The extent to which resource constraints may impinge on the head of Internal Audit's ability to meet the full audit needs of the College;
- What proportion of the College's audit need has been covered to date;
- The outcomes of our quality assurance processes.

3 AUDIT FINDINGS

Summary of Work Undertaken

The following table summarises the audit work undertaken in 2014/15. The grading structure used in our reports can be found in Appendix A.

Area	Planned Days	Actual Days	Status	Overall Conclusion	High Priority Recommendations	Medium Priority Recommendations	Low Priority Recommendations
Budgetary & Financial Controls	6	6	Complete	Strong	-	1	-
Income Collection & Credit Control	4	4	Complete	Substantial	-	2	2
Purchasing, Payments & Procurement	5	5	Complete	Substantial	1	3	3
Fixed Assets Management	5	5	Complete	Substantial	-	2	1
Student Records	4	4	Complete	Strong	-	1	-
Estates Management	7	7	Complete	Substantial	-	2	-
Human Resources	4	4	Complete	Substantial	-	4	4
IT Systems	4	4	Complete	Substantial	1	4	8
Corporate Governance	2	2	Complete	Strong	-	-	-
Review of Whistleblowing Allegations at the former North Glasgow College	3	14	Complete	N/A	N/A	N/A	N/A
SUMs Audit	8	8	Complete	N/A	-	6	3
SSF Audit	5	5	Complete	N/A	-	-	-
EMA Audit	3	3	Complete	N/A	-	-	-
Follow Up Review (Partially implemented or outstanding recommendations)	4	4	Complete	Substantial	-	2	6
Audit Management	6	6	Complete	N/A	N/A	N/A	N/A
Total	**70**	**81**			**2**	**27**	**27**

3 AUDIT FINDINGS

High Priority Recommendations

The following high priority recommendations were raised in the year:

Area	Finding	Recommendation	Management Response
IT Systems	Web protection is a feature provided by the College firewalls that are in place. However we were able to bypass the filter to access explicit/offensive images via search engines such as Google images. It was also noted the firewall has the ability to block dangerous file types (exe, js, bat etc) being downloaded by users however this feature is not being utilised. The College's reputation is at risk if students and staff are able to access explicit/offensive images.	We recommend the College resolve the filtering issue on the web protection as soon as possible. The College should also block dangerous file types from being downloaded to add extra security to the network.	After investigation the College understands that blocking offensive images that have been cached by Google is a simple and effective way of protecting staff and students. This wasn't implemented by any of the legacy colleges but shall be taken forward. Blocking the file types listed is not a recommendation the College should take forward, this is due to a responsive Anti-Virus reporting system in deployment and the firewall utilising a sophisticated IPS that looks at malicious data patterns. Furthermore, the majority of modern malware and malicious code will be delivered encrypted which will bypass firewall file filters. Several classes required to download similar types of files as part of the curriculum.

3 AUDIT FINDINGS

Area	Finding	Recommendation	Management Response
Purchasing, Payments & Procurement	The College do not have any formally documented procedures for changing supplier details. We were informed by the Finance Department that checks such as contacting the supplier will be carried out however there was no audit trail to test if these checks occurred. We also note that there are no formal procedures in place for setting up new suppliers. The Procurement manager explained they will authorise all new suppliers, however there was no audit trail of this process and no report could be produced to show recent suppliers added. We could not test if any new suppliers were approved.	We recommend that the College introduce robust procedures to ensure supplier details are being thoroughly checked before change and an audit trail is provided for this process. Suppliers where annual spend is of a significant amount should be checked by the senior management team. We further recommend the College formalise procedures which will provide an audit trail for adding new suppliers to the system. We also recommend that a monthly report is produced to allow review of new suppliers added to the system.	Purchasing staff follow legacy procedures which include contact suppliers and verifying changes before updating SUN. This is done via telephone or e-mail. Glasgow Kelvin College Procedures are being developed. A new supplier / change to supplier details form has been created and is now in use. The form is approved by the Procurement Officer prior to the setup of a new supplier. A monthly report is now produced to highlight new suppliers.

4 BENCHMARKING

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the year ended 31 July 2014.

Area	High	Medium	Low	Total
Income Collection & Credit Control				
Average number of recommendations in similar audits	-	1	2	3
Recommendations at Glasgow Kelvin College	-	2	2	4
Corporate Governance				
Average number of recommendations in similar audits	-	1	2	3
Recommendations at Glasgow Kelvin College	-	-	-	-
IT Systems				
Average number of recommendations in similar audits	1	3	3	7
Recommendations at Glasgow Kelvin College	1	4	8	13
Human Resources				
Average number of recommendations in similar audits	1	2	1	4
Recommendations at Glasgow Kelvin College	-	4	4	8
Budgetary & Financial Controls				
Average number of recommendations in similar audits	-	-	1	1
Recommendations at Glasgow Kelvin College	-	1	-	1

4 BENCHMARKING

Area	High	Medium	Low	Total
Purchasing, Payments & Procurement				
Average number of recommendations in similar audits	-	2	1	3
Recommendations at Glasgow Kelvin College	1	3	3	7
Student Records				
Average number of recommendations in similar audits	-	-	1	1
Recommendations at Glasgow Kelvin College	-	1	-	1
Fixed Assets Management				
Average number of recommendations in similar audits	-	2	1	3
Recommendations at Glasgow Kelvin College	-	2	1	3
Estates Management				
Average number of recommendations in similar audits	-	-	-	-
Recommendations at Glasgow Kelvin College	-	2	-	2
Summary				
Average number of recommendations in similar audits	**2**	**11**	**12**	**25**
Recommendations at Glasgow Kelvin College	**2**	**19**	**18**	**39**

As highlighted above, Glasgow Kelvin College has an overall higher number of recommendations in comparison with the colleges it has been benchmarked against.

5 KEY PERFORMANCE INDICATORS

Analysis of Performance Indicators

Performance Indicator	Target	Actual
Internal audit days completed in line with agreed timetable and days allocation	100%	100%
Draft scopes provided no later than 10 working days before the internal audit start date and final scopes no later than 5 days before each start date	100%	100%
Draft reports issued within 10 working days of exit meeting	100%	100%
Management provide responses to draft reports within 15 days of receipt of draft reports	100%	100%
Final reports issued within 5 days of receipt of management responses	100%	100%
Recommendations accepted by management	100%	100%
Draft annual internal audit report to be provided by 31 August each year	100%	100%
Attendance at audit committee meetings by a senior member of staff	100%	100%
Suitably experienced staff used on all assignments	100%	100%

APPENDIX A GRADING STRUCTURE

For each area of review we assign a grading in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, some minor recommendations identified
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately

For each recommendation we make we assign a grading either as High, Medium or Low priority depending upon the degree of risk assessed as outlined below:

Grading	Risk	Classification
High	High Risk	Major weakness that we consider needs to be brought to the attention of the Audit Committee and addressed by senior management of the College as a matter of urgency
Medium	Medium Risk	Significant issue or weakness which should be addressed by the College as soon as possible
Low	Low Risk	Minor issue or weakness reported where management may wish to consider our recommendation

Scott-Moncrieff
business advisers and accountants

Glasgow Kelvin College

Annual report on the 2014/15 audit
to the Board of Management and the Auditor General for Scotland

December 2015

Contents

Executive summary

Annual report and accounts

The annual report and accounts for the period ended 31 July 2015 are to be approved by the College on 14 December 2015. Our independent auditor's report gives an unqualified opinion on the annual report and accounts, the regularity of transactions, and on other prescribed matters. We are also satisfied that there are no matters which we are required to report by exception.

The annual report and accounts and supporting schedules prepared by the College were of a good standard. Our thanks go out to all management and staff at the College for their co-operation and assistance.

Financial management

The College has adequate arrangements in place for managing its financial position and its use of resources.

The College reported an operating deficit for the 16 month period to 31 July 2015 of £2.948million, after an impairment to plant and equipment in respect of Stow Campus totaling £0.387million, undertaking a voluntary severance scheme at a cost of £0.428million and adjustments in respect of pensions arising from FRS 17 with an impact on the results of a cost of £0.203million.

As at 31 July 2015, the College had reserves of £2.662million. The College's reserves have reduced by £8.766million since March 2014, due to the operating deficit recognised in the period, an increase in the pension liability, and a £3.935million impairment of the City Campus land and buildings, following the strategic decision by the College to close this campus in Summer 2016, and dispose of the asset in due course. The College is reporting a balance of £42.132million in respect of deferred capital grants, resulting in net assets reported of £44.794million.

We have evaluated the College's key financial systems and determined whether these are adequate to prevent material misstatements in the financial statements. We have not identified any significant deficiencies in the operation or design of the key financial systems.

Arrangements for the prevention and detection of fraud and irregularity are operating effectively.

Financial sustainability

The College's financial budget for 2015/16 forecasts a break-even position.

The College sets an annual budget and has medium-term financial planning arrangements in place covering the period to 31 July 2017.

Any longer-term financial planning is currently not performed, as funding allocations from the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available.

- **The College spent £30.172million on staff costs during the 16 month period ended 31 July 2015, which approximates to 67% of total expenditure for the same period.**
- **A further voluntary severance scheme was undertaken during the period at a cost of £0.428million (2014: £1.792 million).**
- **During the 16 month period ended 31 July 2015 the College made no donations to arm's length foundations (2014: £3.2million).**
- **As at 31 July 2015 the College reported bank balances totaling £0.494million.**
- **The College's share of the Strathclyde Pension Fund liability increased from £4.726million as at 31 March 2014 to £6.812million as at 31 July 2015.**
- **During 2014/15 the College invested £0.648million in property, plant and equipment.**

On 1 November 2013, the newly merged Glasgow Kelvin College, inherited a much weaker financial position than had been forecast within the Merger Business Case due to the financial performance in the 8 month period to 31 March 2014 being worse than forecast for all 3 individual colleges who came together as part of the merger process. As a result the overall inherited net asset position brought into the newly merged College was £5.2million instead of the predicted £6.3million. This combined with a difficult merger and transition period over the last two years has contributed to a weakened financial position.

Looking beyond 31 July 2016, a key approach to continuing to deliver cost reduction in subsequent years will be the fact that the College is vacating and selling its City Campus.

The Glasgow Regional Estates and Curriculum Review outlines a medium term plan for college provision in Glasgow which reallocates activity across the three Glasgow Colleges to take account of the new college estate and it outlines changes in the curriculum mix across the city to reflect the most current Labour Market Information. The main impact of the recommendations contained in the Review on Glasgow Kelvin College is a 6% reduction in funded activity in session 2015/16, with a further reduction of a similar magnitude in the following academic year. This has the impact of reducing core grant income by £1.2m in session 2015/16.

It also means that the College will be delivering less activity and will therefore employ fewer teaching staff. The College faces a similar reduction in income and activity in session 2016/17. This is the key driver for the need to reduce overhead costs; this will be done in three ways:

1. Restructuring of staffing to commence at the end of 2014/15;
2. Reductions in non-staff spend; and
3. Closure of City Campus in August 2016.

These activities are key priorities for the College for the coming months, in order to ensure financial sustainability going forward.

Governance and transparency

As part of the continuing restructure process being carried out by the College, the need for another round of voluntary severance was identified by the strategic management team during the period. As part of our audit work in relation to governance, we considered in detail the College's arrangements in this area.

A combined business case was prepared by the College's Vice Principal - Finance & Corporate Services on behalf of the entire Glasgow Region. This was submitted to the Glasgow College's Regional Board and the Scottish Funding Council for consideration and approval. Subsequent to this approval being given the College applied for funding to finance the voluntary severance scheme and this was also granted in the period. We have reviewed the aforementioned documentation, as well as minutes and papers submitted to the Remuneration Committee and confirm that all severance arrangements were approved by the Committee in advance of agreements being reached with individual staff members and that the whole process was carried out in line with best practice and guidance issued by the Scottish Funding Council in this area.

In our opinion, the College's corporate governance arrangements as they relate to standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate.

Conclusion

This report concludes our audit of Glasgow Kelvin College for the 16 month period to 31 July 2015. 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.

Scott-Moncrieff
December 2015

1

Introduction

Introduction

1. This report summarises the findings from our 2014/15 audit of Glasgow Kelvin College. The scope of the audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee at the outset of the audit.

2. The main elements of our work in 2014/15 have been:

   - An audit of the annual report and accounts, including a review of the annual governance statement, the annual internal control statement and the remuneration report;
   - A review of governance arrangements, internal controls and financial systems;
   - High level review of overall performance arrangements; and
   - Completion of a minimum dataset of information that is submitted to Audit Scotland.

3. As part of our audit, we have also relied on the work of the College's internal audit service and Audit Scotland where possible and appropriate.

4. The College is responsible for preparing its annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. 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 annual 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.

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

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

7. 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.

2

Annual report and accounts

Annual report and accounts

8. The College's annual report and accounts 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 1.

9. In this section we summarise the issues arising from our audit of the 2014/15 annual report and accounts.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

10. The annual report and accounts for the 16 month period ending 31 July 2015 are due to be approved by the College on 14 December 2015. Our independent auditor's report gives:

- an unqualified opinion on the annual report and accounts;
- an unqualified opinion on the regularity of transactions; and
- an unqualified opinion on other prescribed matters.

11. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

12. We received draft annual accounts 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 staff at the College for their assistance with our work.

Our assessment of risks of material misstatement

13. 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 of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.1 New finance system

Throughout the 2013/14 accounting year 3 separate finance systems, controls and procedures were in operation. On 1 April 2014 the finance system, controls and procedures were rationalised. As a result of this key control environment change, we must document and gain an understanding of the key finance systems and controls in operation at the College. We will subsequently perform walkthrough testing of the key finance systems to ensure that the systems and controls are operating in line with our understanding and as documented within the College's procedures manual.

Noted in 2014/15 External Audit Strategy & Plan

14. As part of the merger in November 2013 the College found itself having to operate three separate accounting packages which were used by the legacy colleges. During the current period the College undertook to merge the nominal ledgers into a new accounting package, Sun6.

15. The new package was operated from the beginning of the current period, with the closing

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

balances from the three "legacy" systems being migrated over the period October to December 2014 to form the opening balances within the new system.

16. We reviewed the "migration journals" to ensure that there were no irregularities and incorporated testing of these journals into our work on opening balances.

17. Our testing found no issues surrounding the migration and we are satisfied that this process was carried out accurately.

18. We documented the key finance systems and controls in operation at the College, and performed walkthrough testing to ensure that the systems and controls are operating in line with our understanding and as documented within the College's procedures manual. We did not identify any issues from our work performed in this area.

1.2 Fixed assets – valuation of City Campus land & buildings

We understand that the Board are considering the disposal of the City Campus land and buildings, with a view to disposal by Summer 2016. If the decision is taken to dispose of the land and buildings prior to 31 July 2015, the basis upon which these assets are valued within the financial statements should be amended from depreciated replacement cost to market value. We understand that the College has appointed DTZ to produce a valuation report in respect of these assets. We will monitor the position, with the assistance from senior finance personnel, in order to ascertain whether the valuation report indicates an impairment in value.

Noted in 2014/15 External Audit Strategy & Plan

19. 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. Previously the campus was valued on a depreciated replacement cost basis, however following the decision to close this campus, this valuation basis no longer remained appropriate. In order to assess if the value of the City campus had become impaired the College commissioned a valuation on a market value basis in March 2015.

20. This valuation exercise was carried out by DTZ Chartered Surveyors who returned a market value of £1.8million for the campus. The College have therefore impaired the asset within the financial statements for the 16 month period ended 31 July 2015 to this value, resulting in an impairment to asset cost of £3.935million, which is reported through the Statement of Total Recognised Gains and Losses, as a result of a change to the valuation basis used.

21. We have reviewed the impairment workings alongside the report produced by the chartered surveyor and found them to be accurate and reasonable. We also reviewed correspondence in relation to the progress of the sale and confirmed that, based upon the interest generated to date and representations from the estate agents, the assumption made by the College that the impaired value of the asset was achievable via a sale on the open market was reasonable and that no further impairment in asset value was required.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.3 Fixed assets – potential impairment of the Springburn campus following closure of the games hall

Following our planning discussions with the Principal and the Vice Principal – Finance & Corporate Services, we understand that the games hall situated within the Springburn Campus has been closed for use following water ingress, and the identification of what is believed to be a latent defect in its construction. We will monitor the progress of discussions between the College, the Quantity Surveyor and the main contractor in relation to this issue to ascertain whether there has been an impairment in value of the building as a result.

Noted in 2014/15 External Audit Strategy & Plan

22. 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.

23. Investigations carried out by the College, utilising professionals as appropriate, have led to the conclusion that the damage is the result of a defect in the building's original construction.

24. During the period the College appointed a new project manager, and have since conducted additional investigation and engagement with the original builders. The result of this work has identified that the damage is correctable, which means that no impairment of the campus value is required.

25. The College is now confident that the corrections will be in place for the beginning of the 2016/17 academic year.

1.4 Voluntary severance scheme

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. We understand that this scheme will be closed and decisions approved and communicated prior to the end of July, which would allow the related expenditure to be reflected in the 2014/15 financial statements, even though staff may not leave the College until sometime in 2015/16.

Identified post preparation of the 2014/15 External Audit Strategy & Plan

26. As part of the continuing restructure process being carried out by the College the need for another round of voluntary severance was identified by the strategic management team during the period.

27. A combined business case was prepared by the College's Vice Principal - Finance & Corporate Services on behalf of the entire Glasgow Region. This was submitted to the Glasgow College's Regional Board and the Scottish Funding Council for consideration and approval.

28. Subsequent to this approval being given the College applied for funding to finance the voluntary severance scheme and this was also granted in the period.

29. We have reviewed the aforementioned pieces of documentation, as well as minutes and

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

papers submitted to the Remuneration Committee and confirm that all severance arrangements were approved by the Committee in advance of agreements being reached with individual staff members and that the whole process was carried out in line with best practice and guidance issued by the Scottish Funding Council in this area.

1.5 Going concern

As at 31 July 2015, the College is reporting a deficit on general reserves of £0.919million. We must consider, with reference to budgets and projections for future periods, whether the College is a going concern for a period of at least 12 months from approval of the financial statements in December 2015.

Identified post preparation of the 2014/15 External Audit Strategy & Plan

30. The College inherited a much weaker Balance Sheet upon merger than it anticipated, and this combined with the financial pressures of merger and the ONS reclassification, has resulted in the College incurring large deficits in 2013/14 and in 2014/15, leaving the College with a general reserve deficit of £0.919million at 31 July 2015.

31. We have reviewed College budgets for the subsequent two years and discussed their contents with management, as well as obtaining and reviewing all documentation which supports the assumptions underpinning the College's assertion that it remains a going concern. Our review has concluded that the College is a going concern for a period of at least 12 months from approval of the financial statements in December 2015.

1.6 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 International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".

Whilst we do not suspect any incidences of management override, we will review the accounting records for significant transactions that are outside the normal course of business and obtain evidence to ensure that these are valid and accounted for correctly.

Noted in 2014/15 External Audit Strategy & Plan

32. Our audit work included a review of journal entries processed in the period and around the period end. We are satisfied that there are no indications of management override in the period.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.7 Completeness and occurrence of income

Under International Standard on Auditing (UK & Ireland) 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.

Whilst we do not suspect any incidences of fraud or error, we will evaluate each type of revenue transaction and document our conclusions.

Noted in 2014/15 External Audit Strategy & Plan

33. We have performed sufficient testing to provide assurance on the completeness and occurrence of income and we are satisfied that income is correctly stated in the financial statements.

Our application of materiality

34. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual report and accounts.

35. Our initial assessment of materiality for the annual report and accounts was £641,000 and it remained at this level throughout our audit. Our assessment of materiality is set with reference to a range of benchmarks (including total income and gross assets). We consider these to be the principal considerations for the users of the accounts when assessing the performance of the College.

36. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We then perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£289,000
Medium	55%	£353,000
Low	67.5%	£433,000

37. We report to the Audit Committee all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Audit differences

Actual adjustments

38. We are pleased to report that there were no material adjustments to the draft annual report and accounts. We identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

Unadjusted differences

39. We identified one unadjusted difference during our audit work. This difference is not considered to be material to the accounts. Through discussion with the Acting Head of Finance the decision was taken not to adjust the annual accounts. This unadjusted item is included in our representation letter and shown in the table below:

	DR £	CR £
Accrued holiday pay (Balance Sheet)	92,379	
Wages and salaries (I&E)		92,379
Being correction of the holiday pay accrual		

Management representations

40. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the annual report and accounts.

An overview of the scope of our audit

41. The scope of our audit was detailed in our External Audit Strategy & Plan, which was presented to the Audit Committee in May 2015. The External Audit Strategy & 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.

42. 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.

43. Our standard audit approach is based on performing a review of the key 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, which is explained earlier in this report.

Regularity

44. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. Our audit procedures included the following:

- 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.

45. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

46. During the course of our audit we noted the following:

Annual governance statement

47. The annual report and accounts must include a statement covering the responsibilities of the governing body in relation to corporate governance. The statement is required to indicate how the College has complied with good practice in this area, including the 2014 Code of Good Governance for Scotland's Colleges.

48. The College's Governance Statement explains that the College was compliant with the principles of the 2014 Code of Good Governance for Scotland's Colleges. This is consistent with the requirements outlined in the

2014/15 Accounts Direction, released by the SFC.

49. We reviewed the Governance Statement by:

- checking 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 on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

50. 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.

Remuneration report

51. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared. We have found that the Remuneration Report includes all relevant disclosures and is in agreement with the accounting records.

Budgeting arrangements

52. As part of the revised budgeting process introduced in respect of the 2015/16 budget, individual budget holders will be provided with monthly budget information in relation to their cost centre. This will include variances between actual and budgeted expenditure for the period. These variances will be discussed with staff at regular budget meetings; however, no written explanations are required to be provided by individual budget holders.

53. Where individual budget holders are not required to provide explanations for variances identified there is a risk they will not take full ownership of their budget. Individual budget holders may rely on the finance team to provide information, rather than taking action themselves to fully investigate underlying reasons for variances and implementing actions to address identified issues.

54. The College should set a tolerance level above which variances are considered significant; where such variances arise, individual budget holders should be required to provide written explanations for these variances and the action taken to address them. These actions should be followed up at monthly budget meetings.

55. We have raised an action plan point in respect of this issue within Appendix 2 of this report.

Action plan point 1

Journal back up and segregation of duties

56. Within our 2013/14 Annual Report action plan we highlighted that our audit testing in respect of journal entries identified instances where an individual had created, approved and posted the same journal, i.e. there was a lack of segregation of duties in operation, and that supporting documentation was not always attached to all journals raised.

57. Our testing in 2014/15 identified that the issue in relation to segregation of duties has been addressed, although we identified further instances where supporting documentation was not retained to support journals raised.

Action plan point 2

Grant funded assets

58. During the 2013/14 audit, the finance team was unable to provide us with any information in respect of which assets belonging to legacy Stow College were funded by capital grants. Therefore we were unable to conclude as to whether deferred capital grants are being released in line with depreciation for legacy Stow College assets. However, given that the value of legacy Stow College's depreciation charge for the period was immaterial, we were satisfied that the potential error could not be materiality misstated. This issue remains to be addressed.

Action plan point 3

Credit control

59. In 2013/14, during testing over the accounts receivable processes, including ensuring that where invoices had been outstanding for a significant length of time, that the debt was being actively pursued or was being considered for write-off, if recoverability was deemed unlikely, we identified two invoices which had been outstanding since October/November

2013. Follow-up testing in 2014/15 identified 38 invoices dating back to 2012/13 totalling £44,105 which may not be recoverable.

Action plan point 4

Follow up of prior year audit recommendations

60. As part of our audit we have followed up on the recommendations raised in our previous Annual Report. The table below indicates the number of issues that have not been completed. Those actions which are yet to be completed relate to the following areas:

- Journal back up and segregation of duties (paragraphs 56-57)
- Grant funded assets (paragraph 58)
- Credit control (paragraph 59)

Total number of recommendations raised in our previous Annual Report	Complete	Not yet complete
9	6	3

Qualitative aspects of accounting practices and financial reporting

61. 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 annual report and accounts. 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, which are disclosed in the annual report and accounts, 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.	The accounting estimates and judgements used by management in preparing the accounts are considered appropriate on the whole. Estimates and judgements have been adopted over fixed asset valuations, depreciation rates, pension liabilities and the valuation of provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied.
The potential effect on the annual report and accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual report and accounts.	All significant risks and uncertainties have been appropriately reflected in the annual report and accounts.
The extent to which the annual report and accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual report and accounts.	The College has recognised an impairment charge in the period in respect of some assets at its City Campus. From the testing performed, we have concluded that these transactions have been appropriately accounted for in the annual report and

Qualitative aspect considered	Audit conclusion
	accounts. We did not identify any other significant unusual transactions in the period.
Apparent misstatements in the Operating & Financial Review or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies between the annual accounts and the Operating & Financial Review.
Any significant annual accounts disclosures to bring to your attention.	No significant annual accounts disclosures were identified that we consider should be brought to your attention.
Disagreement over any accounting treatment or annual accounts disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure. We identified no adjustments, material or immaterial, which were required to be made to the annual report and accounts.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

Looking forward

FE College Statement of Recommended Practice (SORP) - readiness for FRS 102

62. Colleges are currently required to follow the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (‘the SORP’). The SORP reflects UK Generally Accepted Accounting Practice (UK GAAP) and aims to combine the requirements of further and higher education institutions and key stakeholders into recommended accounting practice.

63. With effect from the year ending 31 July 2016, the College will be required to present its financial statements under FRS 102 (new UK GAAP), in line with all further education entities, reporting under the new Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP 2015). FRS 102 is a single set of accounting standards developed by the Financial Reporting Council (FRC) and replaces current UK GAAP.

64. The SORP represents a significant change in financial reporting across the college sector. This includes changes in disclosure and terminology within the accounts including the names of the primary financial statements. There are also some fundamental changes to accounting treatment e.g. income recognition, treatment of capital grants, and accounting for employee benefits.

65. For Glasgow Kelvin College the transition date is 1 April 2014 with the first FRS 102 compliant accounts being prepared for year ended 31 July 2016. The comparative figures for the period ended 31 July 2015 will also require to be restated as part of the transition process.

3

Financial management

Financial management

66. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

67. It is the College's responsibility to conduct its financial affairs in a proper manner.

Overall conclusion

68. Overall, we found that the College has adequate 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, financial position and financial forecasts. Each of these elements is discussed in more detail below.

The College's financial performance in 2014/15

69. The College has reported an operating deficit for the 16 month period to 31 July 2015 of £2.948million.

Glasgow Kelvin College	2014/15 £million	2013/14 £million	Movement £million
Income	42.203	25.204	16.999
Expenditure	(45.151)	(29.630)	(15.521)
(Deficit)	**(2.948)**	**(4.426)**	**(1.478)**

70. The College has seen an increase of £16.999million (67.4%) in income. This is due to the following reasons:

- The change in the year-end accounting date twice in the past two years has led to a significant proportion of this increase.
- Grant funding from the SFC has increased by £13.216million and tuition fees by £2.272million as the change in accounting period from the prior year has meant that there were 12 academic months in the current period to 31 July 2015 compared to seven in the prior period to 31 March 2014.
- Despite this, there has been a year on year decrease in SFC funding between academic year 2013/14 and 2014/15 of £4.248million. This is due to a combination of government mandated budget cuts and a strategic decision taken at the regional level to allocate less of the region's funding budget to the College. This decision was made as part of the Regional Board's plan to ensure that the region meets the requirements of the Regional Outcome Agreement 2014/15 – 2017/18.

71. Expenditure was £45.151million in 2014/15, an increase of £15.521million (52.4%) on the prior period. This variance is again principally due to the change in accounting year end dates from an 8 month period in 2014 to a 16 month period in 2015.

72. Furthermore, there have been one off costs incurred in both periods which should be considered: in 2014 a £3.2million donation to the Glasgow Kelvin Learning Foundation was made and in 2015 an impairment charge of £0.387million has been incurred in respect of the impairment of City Campus equipment assets.

73. Additionally it must be noted that in 2014 staff costs in respect of voluntary severance totalling £1.792million were incurred, reducing to £0.428million in 2015. The cost savings of the voluntary severance schemes run in prior years resulted in a reduction in both teaching and support staff numbers which flow through to a reduction in associated monthly payroll charges.

The College has maintained a net asset position due to substantial deferred capital grants

74. The College has an overall surplus balance on reserves of £2.662million. However this surplus is driven by a revaluation reserve of £10.393million, down from £14.725 million as at 31 March 2014 following an impairment of £3.935million in respect of City campus buildings charged against the reserve in the

period ended 31 July 2015. The general reserve is in deficit by £0.919million. This has reduced from a prior period surplus balance of £1.429million. The pension reserve shows a deficit of £6.812million, an increase of £2.086million on the deficit at 31 March 2014. The overall surplus on reserves is bolstered by a balance of £42.132million in respect of deferred capital grants, resulting in net assets being reported of £44.794million.

75. As at 31 July 2015 the College had a cash balance of £0.494million. This was £1.644million (76.9%) lower than the balance held as at 31 March 2014. The reduced balance reflects the impact of the ONS reclassification in so far as that as the College is now part of central government it is not permitted to hold significant cash reserves at the period end.

76. The College's current liabilities balance has fallen by £2.826million (40.4%) to £4.161million as at 31 July 2015. This is principally due to the different period end dates between the two reporting periods which has impacted on the level of accruals and deferred income reported. The prior period end of 31 March 2014 was in the middle of the academic year while the current period end of 31 July 2015 was during the summer recess. As a result there is less activity within the College as at 31 July 2015 which drives less spending and fewer accruals.

Financial capacity in public bodies

77. The Auditor General for Scotland and the Accounts Commission are interested in the impact that reductions in staff numbers are having on back-office functions and specifically finance. As part of the 2014/15 audit we have collected baseline information on the finance function at the College. This information will be submitted to Audit Scotland who will be assessing the findings across a number of public sector organisations, to identify any common or emerging issues.

78. A summary of our findings are highlighted below:

Theme	Audit findings
Financial capacity	The finance function at the College is overseen by the Vice Principal – Finance & Corporate Services. Through his position within the organisation and his attendance at Strategic Management Team (SMT) meetings, Board meetings, Audit committee meetings, and Financial Control committee meetings, the Vice Principal – Finance & Corporate Services has sufficient status to ensure financial performance is managed effectively at both a strategic and operational level. The Vice Principal – Finance & Corporate Services has responsibility for finance, estates, business development, administration & governance, and ICT. He is supported in this role by 15 finance staff, three of which are professionally qualified posts. Prior to merger the three legacy colleges had an equivalent 19 finance staff members in post.
Financial strategy and sustainability	The College sets an annual budget and has medium-term financial planning arrangements in place. The medium-term financial budget covers the period to 31 July 2017. Financial strategies set out the College's commitments, strategic priorities, cost pressures as well as projected income over a period of time. Such budgets allow the College to identify the funding shortfalls that they face over time and to devise an appropriate course of action to address the funding gaps. Financial plans are updated on a regular basis. Any longer-term financial planning is currently not performed, as funding allocations from

Theme	Audit findings
	the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available.
Budget monitoring and control	The College has adequate controls in place to ensure that spend against its revenue budget is appropriately monitored and controlled throughout the year. Budget updates contain commentary on the variances in the main revenue and expenditure items in a period, rather than on a line-by-line basis. In-year adjustments to the original forecast are highlighted in Board papers, illustrating the value of the amendment along with the reasons.

Systems of internal control

79. 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. Please refer to the action plan (appendix 2) for details of control improvements identified during audit fieldwork.

Internal audit

80. The internal audit service is a key component of the College's internal control framework. We have reviewed the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice. Our review was performed in accordance with the Code of Audit Practice and ISA 610: Considering the work of internal audit.

81. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. Wylie & Bisset LLP provided the internal audit service during the period to July 2015 and we have considered their findings within our audit process. Wylie & Bisset LLP has concluded in their annual report that the College operated adequate and effective internal control systems in the period.

Fraud and irregularity

82. 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.

83. 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 this area.

4

Financial sustainability

Financial sustainability

84. 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.

Financial forecasts

Funding has been confirmed for 2015/16 and a break even position has been forecast

85. The College's revenue budget, as reported to the Financial Control Committee in June 2015, forecasts a break even position for 2015/16. The SFC has confirmed funding for 2015/16 that will be allocated on a regional basis through outcome agreements. Glasgow Kelvin College is part of the Glasgow region, along with City of Glasgow College and Glasgow Clyde College.

86. The budget for 2015/16 was based on the most reliable information available at the time. As a result it reflects, amongst other things, indicative funding allocations for the 2015/16 capital/estates maintenance grant. The Glasgow region allocation is £1.3million less than the 2014/15 allocation and therefore the College, in preparing the budget, have assumed that a fair proportion of this reduction will be reflected in the funding they are allocated.

87. The College are projecting WSUMs of 112,765 for 2015/16, a reduction of 6% on the 120,141 WSUMs which was the targeted level for 2014/15. The College faces a reduction in its core teaching grant of £1.17million in line with the reduction in WSUMs due to activity being reallocated to the City of Glasgow College.

88. The 2015/16 budget was presented along with a risk assessment showing the estimated impact of the key financial risks facing the College. The net risk associated with these factors equates to additional costs of £3.200million, as shown below:

Risk	Probability	Estimated potential impact (£)
The College does not achieve planned levels of non-SFC income.	Medium	300,000
There is excess demand for student support funding.	High	250,000
The voluntary service scheme is not effective in delivering the required level of savings from the staffing structure or funding is insufficient.	Medium	300,000
The SFC does not provide sufficient transitional funding to facilitate required Estates works to enable vacation of City Campus.	Medium	600,000
The Glasgow Kelvin Learning Foundation is unwilling to provide financial assistance in the event of adverse variances or additional investment needs.	Medium	650,000
The Glasgow Regional Board, once established, changes the allocation of resources within the region.	Low	500,000
The College is unable to deliver its core activity target and secure ESF funding.	Low	600,000

Source: Glasgow Kelvin College, Financial Plan and Budget – Academic Year 2015/16, Presented to Finance Control Committee, June 2015

89. The College sets an annual budget and has medium-term financial planning arrangements in place covering the period to 31 July 2017.

90. Any longer-term financial planning is currently not performed, as funding allocations from the Scottish Government typically cover one to three-year spending review periods, and certainty in relation to such funding levels for the sector are currently not available.

91. On 1 November 2013, the newly merged Glasgow Kelvin College, inherited a much weaker financial position than had been forecast within the Merger Business Case due to the financial performance in the 8 month period to 31 March 2014 being worse than forecast for all 3 individual colleges who came together as part of the merger process. As a result the overall inherited net asset position brought into the newly merged College was £5.2million instead of the predicted £6.3million. This combined with a difficult merger and transition period over the last two years has contributed to a weakened financial position.

92. Looking beyond 31 July 2016, a key approach to continuing to deliver cost reduction in subsequent years will be the fact that the College is vacating and selling its City Campus.

93. The Glasgow Regional Estates and Curriculum Review outlines a medium term plan for college provision in Glasgow which reallocates activity across the three Glasgow Colleges to take account of the new college estate and it outlines changes in the curriculum mix across the city to reflect the most current Labour Market Information. The main impact of the recommendations contained in the Review on Glasgow Kelvin College is a 6% reduction in funded activity in session 2015/16, with a further reduction of a similar magnitude in the following academic year. This has the impact of reducing core grant income by £1.2m in session 2015/16.

94. It also means that the College will be delivering less activity and will therefore employ fewer teaching staff.

95. The College faces a similar reduction in income and activity in session 2016/17. This is the key driver for the need to reduce overhead costs; this will be done in three ways:

- Restructuring of staffing to commence at the end of 2014/15;
- Reductions in non-staff spend; and
- Closure of City Campus in August 2016.

96. These activities are key priorities for the College for the coming months, in order to ensure financial sustainability going forward.

5

Governance and transparency

Governance and transparency

97. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the Designated Office Holder, 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. Audit bodies usually involve those charged with governance in monitoring these arrangements.

Governance arrangements

98. During our audit we have reviewed the College's overall governance arrangements. This has included consideration of the College's arrangements as they relate to standards of conduct including the prevention and detection of bribery and corruption and risk management. Based on our review, overall governance arrangements are adequate and appropriate.

99. The Glasgow Colleges Regional Board (GCRB) became operational on 1 August 2014 and takes on more formal powers in the strategic management and coordination of the provision of further education across the three Glasgow Colleges, including Glasgow Kelvin College. GCRB has not, however, yet been awarded ‘operational fundable body’ status by the SFC and is not yet able to fully exercise its powers under the Post-16 Education (Scotland) Act. As a result the College’s governance arrangements have not altered significantly during the period and it continues to be funded directly by the SFC. Current expectations are that GCRB will receive operational fundable body status during the 2016-17 financial year.

Changes to the Board of Management composition during the period

100. During the course of the 16 month period there have been four additions to the Board of Management, and six resignations. Since 31 July 2015 a further five appointments to the Board of Management have been made.

Corporate governance arrangements are appropriate

101. In December 2014, internal audit carried out a review of corporate governance procedures and arrangements and concluded that the systems now in place within the College were robust and compliant with best practice. No issues were identified by the internal auditor and no recommendations for improvement were made.

102. As part of the continuing restructure process being carried out by the College, the need for another round of voluntary severance was identified by the strategic management team during the period. As part of our audit work in relation to governance, we considered in detail the College’s arrangements in this area.

103. A combined business case was prepared by the College’s Vice Principal - Finance & Corporate Services on behalf of the entire Glasgow Region. This was submitted to the Glasgow College’s Regional Board and the Scottish Funding Council for consideration and approval. Subsequent to this approval being given the College applied for funding to finance the voluntary severance scheme and this was also granted in the period. We have reviewed the aforementioned documentation, as well as minutes and papers submitted to the Remuneration Committee and confirm that all severance arrangements were approved by the Committee in advance of agreements being reached with individual staff members and that the whole process was carried out in line with best practice and guidance issued by the Scottish Funding Council in this area.

Code of Good Governance for Scotland’s Colleges

104. The Board of Management initially considered the final version of the Code in December 2014, and instructed that an assessment of the operation of the Board against the requirements of the Code be undertaken. In March 2015, the findings of this assessment

were presented, which highlighted that the College's corporate governance and operational arrangements and Board composition held up well against the requirements of the Code.

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

105. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are 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.

106. In February 2014 the Scottish Government published an updated model code of conduct for members of devolved public bodies. In June 2014 the Board agreed to adopt and implement the revised code of conduct.

Risk management

107. Risk management is important to the establishment and regular review of systems of internal control. The College's financial statements outline the principal risks and uncertainties of the College and the College's response. We have found that the College has robust risk management arrangements in place to monitor and help mitigate key strategic risks to the College.

Conclusion

108. Overall, we found that the College had operated with generally good governance arrangements during the period.

6

Appendices

Appendix 1: Respective responsibilities of the College's Board of Management and the Auditor

Responsibility for the preparation of the annual report and accounts

Within the terms and conditions of the financial memorandum between the Scottish Funding Council (SFC) and the Board of Management of the College, the Board, through the Principal, is required to prepare the annual report and accounts 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 annual report and accounts, the Board is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent; and
- stating whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing financial statements on the going concern basis unless it is inappropriate to assume that the College with continue in operation.

The Board is also 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 annual report and accounts comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- 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 2015 and of its deficit 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 Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).
- 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.
- 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 that the information in the Operating and Financial Review is consistent with the financial statements.

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

- proper accounting records have not been kept; or
- the financial statements 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 Statement of Corporate Governance and Internal Control does not comply with SFC requirements.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

In particular, there 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.

Appendix 2: Action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. We identified one new recommendation in 2014/15. Three recommendations raised in 2013/14 remain outstanding and are included in the action plan below.

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. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the 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 rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1 **Rating** **Grade 3** **Paragraph ref** **52-55**	**Budget variances - investigation** As part of the revised budgeting process introduced in respect of the 2015/16 budget, individual budget holders will be provided with monthly budget information in relation to their cost centre. This will include variances between actual and budgeted expenditure for the period. These variances will be discussed with staff at regular budget meetings; however, no written explanations are required to be provided by individual budget holders. Where individual budget holders are not required to provide explanations for variances identified there is a risk they will not take full ownership of their budget. Individual budget holders may rely on the finance team to provide information, rather than taking action themselves to fully investigate underlying reasons for variances and implementing actions to address identified issues. The College should set a tolerance level above which variances are considered significant; where such variances arise, individual budget holders should be required to provide written explanations for these variances and the action taken to address them. These actions should be followed up at monthly budget meetings.	The College is currently developing its approach to management accounting. This recommendation is accepted. **Responsible officer**: Head of Finance **Implementation date**: February 2016

Action plan point	Issue & Recommendation	Management Comments
2 **Rating** **Grade 3** **Paragraph ref** **56-57**	**Journal back-up and segregation of duties** In 2013/14, audit testing in respect of journal entries identified instances where an individual had created, approved and posted the same journal, i.e. there was a lack of segregation of duties in operation. Testing also identified that supporting documentation was not always attached to all journals. There is a risk that inaccurate or inappropriate journals are posted to the accounting system. We recommended that arrangements in this area were reviewed in full to ensure that there is adequate segregation of duties	Recommendation accepted. **Responsible officer**: Head of Finance **Implementation date**: January 2016

Action plan point	Issue & Recommendation	Management Comments
	between those creating, approving and posting journals. Additionally we recommended that finance staff retain documentation to support the raising of journal entries. Implementation of segregation of duties in this area will assist with the authorisation process. **2013/14 management comments:** Recommendation accepted **Responsible officer**: Vice Principal - Finance & Corporate Services **Implementation date**: November 2014 **2014/15 audit observation:** Our review of controls during the audit identified a good level of segregation of duties, hence we are satisfied that this point has now been addressed. However, we identified further instances of journals being filed without adequate supporting documentation. We also noted that although journals are being signed as authorised, no date is noted meaning that we could not verify if authorisation was given before or after the journal was posted.	

Action plan point	Issue & Recommendation	Management Comments
3 **Rating** **Grade 3** **Paragraph ref** **58**	**Grant funded assets** During the 2013/14 audit, the finance team was unable to provide us with any information in respect of which assets belonging to legacy Stow College were funded by capital grants. Therefore we were unable to conclude as to whether deferred capital grants are being released in line with depreciation for legacy Stow College assets. However, given that the value of legacy Stow College's depreciation charge for the period was immaterial, we were satisfied that the potential error could not be materiality misstated. There is a risk that the amount of deferred capital grant funding released during 2013/14 did not match the corresponding depreciation charge of the relevant fixed assets.	The College will seek to address this issue during 2015/16. **Responsible officer**: Head of Finance **Implementation date**: August 2016

Action plan point	Issue & Recommendation	Management Comments
	We recommended that management should identify during 2014/15 which assets of the legacy Stow College were grant funded, where the asset has not been fully depreciated, to enable audit testing to be performed in full next year. **2013/14 management comments:** College will review available records and address this issue **Responsible officer:** Vice Principal - Finance & Corporate Services **Implementation date:** November 2014 **2014/15 audit observation:** Issue not addressed during 2014/15, and thus once again we were unable to obtain information in respect of the legacy Stow College assets funded by capital grant. Furthermore, from our testing this year we identified that in relation to certain historical capital grants provided to legacy John Wheatley College we were unable to trace these amounts to the corresponding assets in the fixed asset register, resulting in us being unable to test some of our sample population.	

Action plan point	Issue & Recommendation	Management Comments
4 **Rating** **Grade 2** **Paragraph ref** **59**	**Credit control** In 2013/14 we performed testing over the accounts receivable processes, including ensuring that where invoices had been outstanding for a significant length of time, that the debt was being actively pursued or was being considered for write-off, if recoverability was deemed unlikely. Testing identified two invoices which had been outstanding since October/November 2013. One of the invoices related to a Stow College debtor and the other related to a John Wheatley College debtor. There is a risk that the College is not following appropriate credit control procedures. Given the income and cost pressures facing the College it is imperative that all income due to the College is received in a timely manner. We recommended that the College agreed and implemented formal credit control	The College has appointed debt collectors and has improved its credit control procedures. The College will seek to address this issue during 2015/16. **Responsible officer**: Head of Finance **Implementation date**: February 2016

Action plan point	Issue & Recommendation	Management Comments
	procedures. This included a system log to note telephone calls made, reminder letters issued, and, if required, the debt being passed to a specialist debt recovery agency. **2013/14 management comments:** Recommendation accepted **Responsible officer:** Vice Principal - Finance & Corporate Services **Implementation date:** November 2014 **2014/15 audit observation:** Our review of accounts receivable found that despite the College having amalgamated its financial systems into a single finance package there were still a number of very old balances on the sales ledger which we do not believe to be recoverable (38 invoices dating back to 2012/13 totalling £44,105).	

Scott-Moncrieff
business advisers and accountants