



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 (FRM) 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 an 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
	<hr/>	<hr/>
	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
	<hr/>	<hr/>
	59,826	46,859
Surplus/(Deficit)	<hr/>	<hr/>
	6	(13,538)
Gain on sale		
	-	1,683
Surplus/(Deficit) retained in reserves	<hr/>	<hr/>
	6	(11,855)
	<hr/>	<hr/>

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 (FRoM) 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	<p>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:</p> <p>Leadership and Strategy</p> <ul style="list-style-type: none"> • 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. <p>Openness and Transparency</p> <ul style="list-style-type: none"> • 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. <p>Accountability</p> <ul style="list-style-type: none"> • 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	<p>Effectiveness</p> <ul style="list-style-type: none"> • 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	<p>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.</p> <p>We recommend:</p> <ul style="list-style-type: none"> • 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	<p>Recommendation accepted. The College will ensure this review is included in the 2016-17 Internal Audit Plan.</p>

Compliance with the Code of Good Governance for Scotland's Colleges (CoGG) (continued)	
Recommendation	<ul style="list-style-type: none"> An action plan and timeline as to how the Board will ensure full compliance with the CoGG should be put in place;
Management response	<p>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.</p> <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<p>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.</p>
Management response	<ul style="list-style-type: none"> The College require to make the minutes of meetings available on the website, which have been absent since September 2014; <p>Recommendation accepted. The Board of Management is fully committed to publishing minutes of meetings and, as such, this recommendation is currently being progressed.</p>
Management response	<ul style="list-style-type: none"> 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; <p>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.</p>
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 (FRm) 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
<p><u>Financial performance</u></p> <p>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.</p>	<p>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.</p>	<p>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.</p> <p>All significant deviations from budget have been adequately explained and supported.</p> <p>We are satisfied that non standard transactions have been processed correctly.</p>
<p><u>Override of Internal Controls</u></p> <p>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.</p>	<p>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.</p>	<p>Satisfactory. Our testing has highlighted no issues in this area. There are no indicators of inappropriate management override of controls.</p>

Risk	Audit response	Conclusion
<p><u>Revenue Recognition</u></p> <p>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.</p>	<p>Our standard testing procedures in this area will adequately address the associated risk such that a specific additional audit response is not required.</p>	<p>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.</p>
<p><u>Revised FE/HE SORP</u></p> <p>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.</p>	<p>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.</p>	<p>This area has been reviewed throughout the audit process and we are satisfied with the procedures in place.</p>

E CONTACT DETAILS

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