Anniesland College

Annual Audit Report to the Board of Management and Auditor General for Scotland

Audit for the year ended 31 July 2011

CONTENTS

The contact at BDO in connection with this report is:

Robert Ralston

Partner

Tel: 0141 249 5214

Fax: 0141 248 1653

robert.ralston@bdo.co.uk

EXECUTIVE SUMMARY

Financial Highlights

The College achieved a surplus of £149k (2010 £504k) on its income and expenditure account for the year. The financial statements disclose total reserves of £15,012k (2010: £19,012k). The 2011/12 financial forecast return anticipates a deficit of £10k – this excludes FRS17 adjustments.

Corporate Governance

From our review of Corporate Governance arrangements within Anniesland College ("the College"), we believe the Corporate Governance statement to be neither misleading nor inconsistent with other information made available to us during the course of the audit process. The Corporate Governance statement does not disclose any significant weaknesses in the systems of internal control. The internal auditors (Baker Tilly) concluded as follows;

"We undertook very limited internal audit work in the current year. A large proportion of the programme was postponed following the announcement by the Minister that the College sector was to be regionalised. The internal audit work completed on strategic delivery allowed us to draw reasonable conclusion as to the adequacy and effectiveness of the College's risk management and control processes. The review of the voluntary severance scheme confirmed that the policy appeared to have been adhered to throughout the exercise. No high priority recommendations were identified during the course of our reviews. It is imperative that the College continues to consider its control environment. It is likely that the College will merge with other Colleges in the Glasgow area and is important that Anniesland can demonstrate a strong control environment as part of the due diligence process. There will also be a heightened risk as those who exercise oversight over the control environment direct their attention to merger activity."

The Operating and Financial Review provides a comprehensive account of the College's activities and, in general, meets the requirements of the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ("SORP 2007").

Management letter points have been raised regarding Corporate Governance arrangements – see the relevant section for details.

Financial Statement Audit

We have completed our audit work in respect of the financial statements of the College and are satisfied that they present a true and fair view of its financial position for the year ended 31 July 2011. Following approval of the financial statements by the Board of Management on 15 December 2011 our audit report will express unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2011 and (ii) regularity.

In preparing the Financial Statements on a going concern basis, the Board of Management is satisfied that the SFC will provide sufficient funding to enable the College to operate for at least 12 months from the date of signing the Financial Statements.

The 2010/11 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

OVERVIEW, SCOPE AND INDEPENDENCE

Annieslaand College
Supporting You

Overview

The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of Anniesland College ('the College') for the year ended 31st July 2011.

This report covers those matters we believe to be material in the context of our work. It was prepared from general information obtained during the audit process, including management accounting information and discussion with management and staff of the College. It has been prepared solely for the use of the College and the Auditor General for Scotland and should not be shown to any other person without our express permission in writing. We do not accept responsibility for this report to any other person and we hereby disclaim any and all such liability. We do not, in preparing this report, accept or assume responsibility for any other purpose or to any other person to whom it is shown or into whose hands it may come save as expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so at entirely their own risk.

The corporate governance statement within the College's financial statements states that the College has been fully compliant with guidance on corporate governance for the year ended 31 July 2011. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Significant Accounting and Audit Issues

Detailed on pages 16 to 20 are the key accounting and audit issues identified during our work:

- Component accounting
- SUMs achievement
- Financial outturn
- FRS 17 retirement benefits
- Future grant
- Income recognition- ESF
- Income recognition- Fee waiver
- Bribery Act
- Severance Scheme
- Balshagray – impairment
- Student support funds

Unadjusted Audit Differences

We are required by International Standard on Auditing (UK & Ireland) 260 to bring to your attention audit adjustments that we have identified and which the Board of Management is required to consider. A schedule of such adjustments is included in Appendix 1. We have not included items under £1,600 which we consider to be clearly trivial. Total unadjusted audit differences identified by our audit work would have the effect of increasing both the surplus and the net assets by £61k. The Board will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole.

BDO

OVERVIEW, SCOPE AND INDEPENDENCE
Continued…

Key areas	Summary
Scope	The accounting rules and regulations applying to Further Education Colleges are specifically laid out in various documents as discussed on page 6 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents. We can confirm that in preparing the financial statements the College has complied with the Accounts Direction for Scotland's Colleges and Universities issued under Circular SFC/35/2008. The audit of Anniesland College was performed in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. This report has been issued to College management and will be considered by the Audit Committee.
Independence	Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to "those charged with governance". In our view this term refers to the Board of Management and we confirmed our independence to them in a letter on 6 May 2011. Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our Conduct of Professional Services Manual. In addition, we have issued supplementary written guidance and embedded the requirements of the Standards in our internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We confirm that the firm complies with the APB Ethical Standards and, in our professional judgment, is independent and objective within the meaning of those Standards. In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

AUDIT FRAMEWORK

Annieslnd College Supporting You

Audit Framework

Audit Framework

BDO LLP was appointed by Audit Scotland as external auditor to the College for 5 years covering the financial years 2006/07 to 2010/11. This year was the final of the five-year appointment. This report to the College Board of Management and Auditor General for Scotland provides our opinion and highlights issues arising from our work in relation to our audit work for 2010/11 and details how the requirements of the "Statement of Responsibilities and the Code of Audit Practice" have been met by the College and by BDO LLP .

Audit Bodies

The Auditor General, a royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish public spending bodies to account for the proper, efficient and effective use of public money.

Audit Scotland is an independent statutory body which was set up in April 2000 to provide assistance and support to the Accounts Commission and to the Auditor General in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.

College Responsibilities

The College is publicly accountable for the conduct of business and the stewardship of funds under its control. The College's Board of Management is therefore responsible for:

- establishing adequate corporate governance procedures;
- ensuring funds from the SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which the SFC may from time to time prescribe;
- ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguarding the assets of the College and taking reasonable steps to prevent and detect fraud and other irregularities;
- securing the economic, efficient and effective management of the College's resources and expenditure;
- maintaining proper accounting records and preparing financial statements which give a true and fair view of the financial position of the College at the year-end and its income and expenditure for the year.

BDO

AUDIT FRAMEWORK (Continued…)

Audit Framework

Auditor's Responsibilities and Approach

We are required to report to the Board of Management of the College and to the Auditor General for Scotland on the financial statements of the College. Our responsibilities are to:

- provide an opinion, to the extent required by the relevant authorities, on the financial statements of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board.
- review and report on the requirements of Audit Scotland's Code of Audit Practice (March 2007), regarding the College's corporate governance arrangements relating to:
  - the College's review of its systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct, and prevention and detection of corruption
  - its financial position.
- obtain an understanding of the accounting and internal control systems in place in the College sufficient to allow the audit to be planned and an effective audit approach developed.

Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.

AUDIT FRAMEWORK
(Continued…)

Audit Framework

College Guidance

We took reasonable steps to plan and carry out the audit to ensure that the above responsibilities were met and that we complied with the requirements of Audit Scotland's Code of Audit Practice.

In essence the scope of our work is similar to that applied to a limited company audit, however, the accounting rules and regulations applying to Further Education Colleges are specifically laid down in various documents as detailed below.

Financial Memorandum

This memorandum sets out the terms and conditions under which the Scottish Funding Council will make payments to the Board of Management of Colleges of Further Education out of funds made available by the First Minister of Scotland. Our audit procedures identified no factors that would lead us to believe that the college does not comply with the terms and conditions of the Financial Memorandum.

Accounts Direction

In preparing its annual Financial Statements the College is required to comply with the directions of the Scottish Funding Council (SFC). The Accounts Direction is designed to ensure that disclosures in the financial statements of all colleges follow best practice. We can confirm the College's financial statements comply with the Accounts Direction.

Guidance on Audit

In carrying out our audit work we are also required to comply with International Standards on Auditing (UK and Ireland) and to take cognisance of any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board. We also comply with relevant ethical standards and guidance issued or adopted by the relevant professional accountancy bodies and any supplementary guidance issued by Audit Scotland.

Statement of Recommended Practice (SORP)

We can confirm that the financial statements of the College are, in general, in compliance with the requirements of the 2007 SORP.

FINANCIAL HIGHLIGHTS

Annieslan College
Supporting You

Key areas	Summary
Financial Highlights	• **Income and Expenditure Account:** The College achieved an operating surplus of £149k, 0.91% of total income in respect of the year-ended 31 July 2011 (2009/10: £504k, as adjusted for the prior year adjustment which is explained on page 15 of the Financial Statements, and 3.27%, Forecast: £10k and 0.07%). This surplus represented a £355k decrease on the prior year and this relates to the fact that costs have increased by more than the increase in income. In particular there has been a £645k increase in depreciation and £690k increase in staff costs (resulting from the £458k reduction in FRS17 credit entries, the £848k increase in severance costs less the reduction in core costs due to lower staff numbers). Partly offsetting this was the £658k increase in other income (due to increased ESF activity) and the £274k increase in tuition fees. • **Balance Sheet:** The financial statements report net assets at 31 July 2011 of £59.4m, reflecting a decrease of £4.8m compared to 2010. The decrease is the result of the following factors; the decrease in fixed assets of £4m, decrease in debtors of £482k, decrease in cash of £242k, increase in short term creditors of £750k, decrease in long term creditors of £283k and a reduction in the pension liability of £427k.
Cash Flow	During 2010/11, the College experienced a net outflow of cash of £242k (2009/10 inflow of £1,008k).
Financial Forecast	The initial 2010/11 financial plan forecasted a surplus of £10k compared to the actual surplus of £149k. This difference relates to the fact that total income is higher than forecast by £1,365k and total expenditure higher than forecast by £1,226k (i.e. net income increase of £139k). The increase in fee waiver grant income, unbudgeted deferred capital grant release and unbudgeted tuition fee income explains the majority of the overall income increase and the unbudgeted voluntary severance costs, unbudgeted depreciation and unbudgeted impairment charge all explain the majority of the overall cost increase. The forecast of income, expenditure and cash balances for the College for 2011/12 shows that both income and expenditure are expected to fall in 2011/12, resulting in a deficit of £10k.

FINANCIAL HIGHLIGHTS
Income and Expenditure Account

Income

- The table below summarises the main sources of income for 2010/11 and 2009/10.
- The College's WSUMs target for 2010/11 was 48,579 and the College delivered 52,548. As a result, the College will not be liable to repay any recurrent grant to the Scottish Funding Council in 2011/12.
- A significant proportion of income is received from the Scottish Funding Council, the proportion of income from this source was 74.5% for 2010/11 and 78.7% for 2009/10 .
- An increase in SFC grant income of £126k. This is a result of several factors. There has been an increase in fee waiver income by £255k and an increase in the release of deferred capital grant income by £695k (which itself is the result of additional capitalisation of assets in the year and also due to a full years release being applied to some items capitalised at the end of the prior year). These are partly netted off by the reduction in the core grant by £89k and a reduction of £742k in other SFC grants (made up of EMA and various other SFC grants e.g. property infrastructure, NEET funding etc). The remaining movements were immaterial.
- An increase in tuition fee income of £274k which is the result of an increase in overseas tuition fees of £296k, an increase of higher education fees of £90k, partly netted off by a decrease of £107k in further education fees and other immaterial decreases. The increase in overseas income is the result of an increase in students coming to the College, the increase in higher education fees is merely due to an increase in the number of students and the reduction in further education fees is largely due to fewer industry funded apprentices.
- An increase in other income of £658k which is the result of increased ESF income due to the increase in the number of ESF projects undertaken in the year and the scale of some of these projects (e.g. the strategic bid project).

Income and Expenditure Account	31 July 2011 £'000	RESTATED 31 July 2010 £'000	Variance £'000
Scottish Funding Council Grants	12,243	12,117	126
Tuition Fees and Education Contracts	1,800	1,526	274
Other Income	2,352	1,694	658
Investment Income	39	53	(14)
Total Income	**16,434**	**15,390**	**1,044**
Expenditure (analysis on next page)	**(16,285)**	(14,886)	**(1,399)**
Surplus	**149**	**504**	**(355)**

FINANCIAL HIGHLIGHTS

Income and Expenditure Account (continued…)

Expenditure

Total expenditure increased by £1,399k (9.4%), in comparison to 2009/10, to £16.3m. The table below summarises the main categories of expenditure for 2010/11 and 2009/10 . The most significant movements are as follows:

- an increase in staff costs of £690k. The increase reflects the substantial costs of the voluntary severance scheme this year (£848k compared to £nil in the prior year), a substantial increase in costs resulting from the reduction in the FRS17 credit charge by £458k (down to a credit of £22k this year) and a 0.5% pay rise for staff partly netted off by the reduction in the average number of employees by 25; and

- a decrease in overheads of £44k which is primarily the result of £165k reduction in teaching department costs partly netted off by immaterial increases in administration, premises and childcare costs. The reduction is mainly the result of the fact that the prior year figure was unusually high due to a one-off substantial cost associated with the write down of a bursary debtor.

- a £645k increase in depreciation which is due to there being a full year's worth charged for some of the items capitalised near the end of the prior year along with the completion of the 3rd phase of the new build during the current year; and

- a decrease in interest payable due to the fact that the adjustments associated with the defined benefit pension scheme have lead to a credit of £8k being recorded this year (compared to the £67k debit of the prior year); and

- an increase in the impairment charge of £175k (£nil in the prior year) which is the result of the one-off impairment of the Balshagray land and buildings at the year end. A valuation was obtained for its current state without planning permission, which indicated a substantial impairment from the previous valuation on the depreciated replacement cost basis. The total impairment of £4,721k has been split between the STRGL (£4,546k) and the I&E (£175k).

Expenditure Analysis	31 July 2011 £'000	RESTATED 31 July 2010 £'000	Variance £'000
Staff Costs	10,891	10,201	690
Other Operating Expenditure	3,629	3,673	(44)
Depreciation	1,590	945	645
Interest Payable	0	67	(67)
Impairment	175	0	175
Total Expenditure	**16,285**	14,886	1,399

FINANCIAL HIGHLIGHTS
Balance Sheet

Anniesland College
Supporting You

The balance sheets shows a decrease of £4.8m in net assets as at 31 July 2011 compared to the previous year end. Significant movements include:

- A decrease in tangible fixed assets of £4m as a result of various factors: there were fixed asset additions of £2.3m, less the depreciation charge for the year of £1.6m, less the impairment of the Balshagray property of £4.7m.
- A decrease in debtors of £482k. This is a result of a decrease of £264k in trade debtors, a decrease in of £182k in the VAT debtor and an immaterial decrease of £36k in prepayments and accrued income. The reduction in trade debtors is due to the absence of the a substantial BAE systems debtor and also due to the absence of a Glasgow Vocational Program debtor which existed in the prior year. The decrease in the VAT debtor (down to £nil from £182k in the prior year) reflects the fact that the New Build project was completed prior to the final VAT quarter meaning that no input VAT was being reclaimed in relation to it. The prepayments and accrued income figure has remained in line with the prior year but this masks the £175k increase in ESF accrued income debtor - up to £1.3m- (which results from increased activity in the year) and the £227k reduction in bursary/ hardship funds debtor (which has decreased due to decreased expenditure by the College on behalf of the bursary funds). The other prepayments movements are immaterial.
- An decrease in cash of £242k primarily as a result of the net £1,301k inflow from operating activities offset by net £1,574k outflow from capital expenditure (this was expenditure on the new build which was largely unfunded). Note that the cash balance is artificially inflated by £1,515k which reflects the amount received from the SFC in error (it should have been paid to the NQGA) for which there is a matching creditor recorded at the yearend.
- An increase in creditors due within one year of £750k. This is the result of a £1,135k increase in accruals and deferred income, partly netted off by a £398k decrease in trade creditors, along with other immaterial increases and decreases. The increase in accruals and deferred income is explained mainly by the £717k increase in accruals (£444k of which relates to a New Build creditor) along with the £1,047k increase in creditor associated with NQGA partly offset by the £333k decrease in deferred income (much of which relates to amounts reallocated to deferred capital grants), the £216k decrease in retention creditor (reflecting the fact that the New Build project is now complete) and the £129k decrease in other creditors (much of which reflects a reduction in the SAAS creditor reflecting a repayment of amounts due). The reduction in trade creditors by £398k relates to a reduction in (or absence of) several large creditors – including the £97k decrease in the BAM construction creditor (due to the new build project coming to an end) and the absence of an SQA creditor (this was £147k in the prior year) which is now being recorded as a creditor by the NQGA this year.
- A decrease in the pension liability of £427k which has been brought about by the FRS17 actuarial valuation.

FINANCIAL HIGHLIGHTS
Balance Sheet (continued…)

Balance Sheet Category	31 July 2011 £'000	RESTATED 31 July 2010 £'000	Variance £'000
Fixed Assets	59,772	63,812	(4,040)
Debtors	1,659	2,141	(482)
Cash	6,855	7,097	(242)
Creditors: Amounts falling due within 1 year	(4,859)	(4,109)	(750)
Creditors: Amounts falling due after more than 1 year	(3,190)	(3,473)	283
Pension Liability	(850)	(1,277)	427
Net Assets	**59,387**	**64,191**	**(4,804)**

FINANCIAL HIGHLIGHTS Financial Forecasts

Financial Forecasting

- The initial 2010/11 financial plan forecasted a surplus of £10k. The table below shows the reconciliation between the forecast outturn and the actual amount generated during the course of the year. The main reasons for the movement from the forecast to the actual outturn were as follows:
  - increase in SFC grant income mainly related to additional prior year fee waiver income received in the year (this hadn't been included in prior year income) and also related to unbudgeted deferred capital grant release.
  - increase in other grant income largely due to the higher number of students than originally budgeted which in turn generated higher levels of fees.
  - higher payroll costs due to the voluntary severance scheme which wasn't budgeted for.
  - substantially higher depreciation than expected due to the difficulty in forecasting the exact amount of New Build costs and the consequent depreciation charge.
  - An unbudgeted impairment charge in relation to the Balshagray land and buildings

Forecast vs. Actual	31 July 2011 £'000	RESTATED 31 July 2010 £'000
Forecast outturn per budget	**10**	**106**
Increase/(decrease) in SFC grant income	679	663
Increase /(decrease) in other income	686	177
Decrease / (increase) in payroll costs	(847)	(309)
Decrease /(Increase) in other operating expenditure	(401)	(613)
Actual outturn at year end (excluding FRS 17 adjustments)	**127**	**24**
FRS 17 adjustments	22	**480**
Actual outturn at year end (including FRS 17 adjustments)	**149**	**504**

FINANCIAL HIGHLIGHTS
Financial Forecasts (continued…)

Annieslands College
Supporting You

Financial Forecasting

- The table below summarises the forecast income, expenditure and cash balances for the College for 2011/12.
- Looking forward to 2011/2012 both income and expenditure are expected to fall (before FRS 17 adjustments), resulting in a forecasted deficit. The reduction in income will be due to the sector-wide cut in SFC grant funding in addition to a fall in tuition fee income. College expenditure will have to be closely monitored, in particular staff costs, in order to minimise the forecasted deficit.

Forecast Income, Expenditure and Cash Balances for 2011/12	£'000
Income	13,593
Expenditure	(13,603)
Forecast deficit for the year ending 31 July 2012	**(10)**
Cash balance at 31 July 2011	6,855
Forecast movement in cash during 2011/12	(2,664)
Resulting cash balance at 31 July 2012	**4,191**

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters

Component Accounting

The College commenced an estates redevelopment programme during 2006/07 which is now complete (all 3 phase are now complete). As part of this FRS15 requires that where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. The requirements of FRS15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the assets are charged to the income and expenditure account over the periods in which they are consumed. In order to comply with the requirements of FRS15 College management obtained a detailed breakdown of the Phase 1 and 2 costs from the new build consultants. The College have requested a similar breakdown for phase 3 and are still awaiting this, however they themselves have allocated these costs to appropriate categories and applied depreciation rates to them.

BDO Conclusion

- The phase 1 and 2 listings were found to be accurate through work performed during the prior year audit. The phase 3 costs were found to be allocated between land and buildings and equipment on a reasonable basis and were found to have been depreciated correctly. A sample of the figures making up the total capitalised cost have been agreed to backup documentation with satisfactory results.
- The costs for phase 3 are principally the car park and the useful life is deemed reasonable.
- Included as part of College expenditure in the year is £269k comprising the costs of new furniture, fittings and computer equipment for the new building. This expenditure was grant funded. Individually, the items making up this expenditure are deemed by College management to meet the accounting policy which states that "Equipment costing less than £5,000 per individual item……are written off to the income and expenditure account". This treatment has been adopted.

Student support funds

In previous years support fund inter-company balances recorded as due to the College have not been adequately reconciled and in 2010 were found to be partially irrecoverable. The College should ensure that the inter-company accounts are fully and regularly reconciled and represent valid amounts recoverable by the College.

BDO Conclusion

We have audited the support fund figures and found the intercompany debtor balances in the College accounts to be recoverable and determined that the disclosure notes in the accounts in relation to these funds are accurate.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

Annieslant College
Supporting You

Income Recognition- ESF

The College recognises a significant amount of European Social Fund (ESF) income in the financial statements. There are a number of rules and regulations surrounding ESF claims which require to be met in order for this income to be recognised.

BDO Conclusion

The amount of income recognised is reasonable based on the projected cost levels for the projects tested, based on the amounts received to date and also based on 3rd party confirmations and claims submitted to ESEP.

Income Recognition- Fee Waiver

With respect to fee waiver the College is not in a claw-back position with regards to 2010/11, and due to the high level of demand amongst students the College is in a position to receive an additional fee waiver grant. However, due to the economic downturn and the resultant increase in the number of students with fee waiver needs across the college sector, the SFC may not be able to meet the demand from all colleges for additional fee waiver grant due to funding constraints. Therefore the College has taken the view that it is prudent to not recognise additional fee waiver income in the financial statements.

BDO Conclusion

We agree with management's prudent treatment of non-recognition of the additional fee waiver grant due to the doubt over whether the grant is recoverable as the SFC have indicated that they cannot guarantee payment.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

AnnIesland College
Supporting You

FRS 17 – retirement benefits

The College participates in The Strathclyde Pension Fund which is a pension scheme providing benefits based on final pensionable pay. The College has quantified its share of the assets and liabilities of the scheme by instructing Hymans Robertson LLP to prepare an FRS 17 report for accounts purposes as at 31 July 2011. The impact on the College's balance sheet of a change in one of the many variables involved in the actuarial valuation can be substantial and the College needs to be satisfied that the assumptions used in the actuarial valuation are correct for the College. Additionally, it was noted in the prior year report that the College had to determine how to disclose the past service credit arising from the move from RPI to CPI as the inflation measure used to determine minimum pension increases. The College ultimately chose to record this through the STRGL (rather than the I&E). However, the College has now determined, based on guidance issued by Audit Scotland, that it is appropriate to restate the prior year I&E and STRGL figures to disclose the prior year past service credit within the I&E – this is also consistent with the current year treatment of the past service credit.

BDO Conclusion

The actuarial assumptions used in the valuation report have been deemed to be reasonable and the College has correctly incorporated the figures in the report into their financial statements.
The College has correctly restated all figures relating to the past service credit in the prior year and have disclosed this change in a note within their accounting policies.

Severance

The College has implemented a severance scheme to encourage voluntary redundancy and reduce payroll costs. The College should ensure that the accounting treatment of the severance scheme is correct and that the College severance policy and procedures are appropriate, legal and have been applied consistently.

BDO Conclusion

From the audit work performed we have determined that the tax treatment applied to voluntary severance payments is materially correct and that the payments made are in line with the severance scheme policy. We can conclude that the policy and procedures are appropriate, legal and have been applied consistently.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

Impairment

The College has continued to market the Balshagray land and buildings for sale in the period. The College obtained a valuation for the property (land and buildings) which indicated that it was worth £200k, in its current state without planning permission. The property had been carried at £4,921k, on the depreciated replacement cost basis, in the accounts and so the valuation has been taken to be indicative of an impairment of £4,721k.

BDO Conclusion

The College has accounted for the impairment correctly, having allocated £4,546k of this to the STRGL and £175k to the I&E account. Additionally, there has been a release of £143k from deferred capital grants representing the element that related to the Balshagray land and buildings. This has been deemed to be treated correctly.

SUMs Achievement

SFC require the College to achieve total SUMs within 2% of its target for the year to avoid being in a clawback position.

BDO Conclusion

The College agreed with the SFC that their final WSUMs total for the year to 31 July 2011 was 52,548 whereas the College's WSUMs target for 2010/11 was 48,579. The figure delivered is in excess of its target for the year and accordingly there should be no clawback of SFC grant for non achievement of SUMs target.

Bribery act

The Bribery Act 2010 came into force on 1 July 2011 and places some obligations on College management.

BDO conclusion

We have identified the key features of the Bribery Act within the Audit Planning Memorandum provided to the College.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

Future grant funding
The College, in line with the wider public sector, is facing significant uncertainty over future funding levels and the impact and scope of public sector funding cuts.
BDO Conclusion
Despite the fact that funding cuts are likely to affect the College in the upcoming financial year and beyond, the College believes that it will only make a small deficit in the coming year despite these cuts. Additionally, the College has reasonable cash reserves on its balance sheet which should allow it to continue in operation for the foreseeable future.

CORPORATE GOVERNANCE

Corporate Governance

We reviewed the College's corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.

The corporate governance arrangements of an organisation are the means by which strategy is set and monitored, managers are held to account, risks are managed, stewardship responsibilities are discharged and institutional sustainability is ensured. The Code of Audit Practice requires that auditors review and report on the College's corporate governance arrangements as they relate to:

- the College's reviews of its systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

The Board of Management is required to report on its compliance with the "***The UK Corporate Governance Code (June 2010)***".

Board of Management: has six formally constituted committees which have specific terms of reference and act with delegated authority from the Board (including the Audit Committee, Nominations Committee, Finance & Property Committee, Human Resources Committee, Remuneration Committee, Learning & Teaching Committee).

- ***Composition:*** the Board is comprised of 14 members as at 31 July 2011; hence, the Board has no more than the recommended maximum of 16 members. The skills of the members of the Board include relevant expertise in education, management consultancy, human resources, finance and accountancy. The College representatives include the Principal, a member of the teaching staff, a member of the support staff and a member of the students' body. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor student of the College). The College Clerk to the Board of Management is D. Gilmour who is also Finance Director and therefore not independent **of** College management which is not in line with best practice. The recommended maximum period of office for board members of 12 years has been adhered to for all independent board members, although one of the members has now reached that limit.
- ***Timing:*** met the recommendation for meeting not less than 4 times during the year, with 4 meetings throughout 2010/11. Therefore, the Board met at sufficiently regular intervals during the course of the year in order discharge its duties effectively.

CORPORATE GOVERNANCE
(Continued…)

Corporate Governance (continued…)

Board of Management (continued…)

- ***Responsibilities:*** It was noted that no one individual has unfettered powers of decision-making. Arrangements are in place to enable the Chairman to hold meetings with the other non-executive governing body members without executives present when deemed appropriate. Protocols are in place to ensure that the impact of senior staff undertaking positions on external governing bodies is fully considered.

- ***Development and Evaluation:*** Management is aware of the importance of ensuring that new Board members are provided with a timely induction and appropriate development programme. The Board reviews its effectiveness and undertakes a formal and rigorous evaluation of its own effectiveness and of its committees at regular intervals (please refer to the management letter points).

Audit Committee: is comprised of 4 members as at 31 July 2011. The committee, with all members being non-executives, meets the recommendation that there be at least 2 independent non-executive members. In addition, with one member being a qualified accountant, the Board has satisfied itself that it has met the recommendation that at least one member of the committee has recent and relevant financial expertise. It was noted that two members of the Audit Committee were also members of the Finance & Property Committee. This is not in line with best practice.

Remuneration Committee: is comprised of 5 members as at 31 July 2011. It is recommended that if the Chair of the Board of Management is a member of the Remuneration Committee he or she should not chair the committee – the College does not follow this recommendation.

From our review of Corporate Governance arrangements within the College we do not believe the Corporate Governance statement to be misleading or inconsistent with other information made available to us during the audit process.

System of Internal Control

A review and assessment of the College's corporate governance arrangements was carried out. This assessment included a review of the College's committee minutes and completion of a number of standard checklists. The checklists cover issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct, issues of legality and the College's financial position.

The College, in accordance with the Accounts Direction, has included in its financial statements, a statement covering the responsibilities of the Board of Management in relation to corporate governance.

Our review of the statement concluded that it complies with guidance and is not inconsistent with other information we are aware of from our audit.

CORPORATE GOVERNANCE (Continued…)

Review of 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 systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality. Internal audit services are provided by Baker Tilly. We have not been able to take cognisance of internal audit work performed in the year as we were not provided with any internal audit reports at the time of our final planning and field work. However we were able to take cognizance of the SUMS audit which is discussed elsewhere in this document.

In addition we will also take cognisance of the internal audit carried out in 2009/10 which has also been reviewed by us in the following areas;

- Payroll procedures
- Management accounts and budgeting
- Corporate Governance; and
- Student database, enrolment and attendance.

Risk Management

The Board has responsibility for the identification and management of risks facing the College. A risk assessment matrix of the exposure to risk, and the extent to which these risks are controlled, including implementation of actions to mitigate risk, is updated and presented to the Board of Management annually to review the College’s response to identified risks. This identifies, prioritises and assesses risks to the College according to the likelihood and the impact of each risk.

CORPORATE GOVERNANCE (Continued…)

Prevention and Detection of Fraud and Corruption

The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment showed the arrangements to be operating satisfactorily. The College has in place a comprehensive fraud prevention policy, in addition to a more specific whistle-blowing policy. The College ensures the policies are readily available to staff on the College's intranet and are also published on the College's website. The fraud prevention policy also includes a plan on the response to any frauds identified. No frauds were identified by the College in 2010/11. In addition to the aforementioned policies, the College has also implemented tendering and procurement procedures to mitigate the risk of financial irregularity.

Operating and Financial Review (OFR)

Additional guidance on the content of the operating and financial review (OFR), the inclusion of which is recommended within the 2007 SORP, was issued by the Scottish Funding Council on 2 October 2009. The guidance states that it would be helpful if a core set of performance indicators could be incorporated within the OFR to meet best practice and facilitate comparisons between the performances of different colleges. Anniesland College has included detail of key performance indicators in its OFR.

MANAGEMENT LETTER POINTS

Key Areas	Issue and impact	Recommendations	Management Reponses
Draft accounts	The first set of draft accounts was provided to the audit team on the 27th of October. However, it was incomplete, including in the accounting for FRS17 and the impairment. Delay in the provision of completed accounts restricts the time that the audit team have to work on them and give relevant feedback to the College.	The College should ensure that they provide as complete a set of accounts as possible for the first day of the audit visit, in line with the request in our Planning Memorandum.	Noted. The college had previously advised that we would be seeking advices from auditors concerning the handling of FRS17, were awaiting consultants response re component analysis of new build and valuation report regarding Balshagray
Committee membership	It was noted that two members of the Audit Committee are also members of the Finance & Property Committee and that the Chair of the Board also chairs the Remuneration Committee. In addition the post of Clerk to the Board is held by the College's Finance Director. These appointments are not in line with best practice.	The College should take cognisance of best practice guidance in its appointments to committees and the post of Clerk to the Board.	Noted. At its December 2011 meeting the Board plans to appoint another Board member to Chair the Remuneration Committee.

MANAGEMENT LETTER POINTS

Key Areas	Issue and impact	Recommendations	Management Reponses
Strategy documents/ committee terms of reference	There are various terms of reference (for committees) and other documents (fraud policy, whistle blowing policy etc) that have not been updated for several years.	These documents should be updated on a regular basis, in line with best practice.	Noted.
Older assets	The College has large amounts of fully-depreciated fixed assets that have been built up since 1993 (e.g. computers, equipment etc). These assets may have been disposed of but not extracted from the accounts due to there being no proceeds. The move to the new College building offers Management an opportunity to review the College's fixed assets fully. We recommend that the College Management review their fixed asset listing and remove those assets that they are unable to ascertain as to whether they are still owned/used by the College. This is a repeat recommendation.	We would recommend that such a review is completed to ensure that assets which are no longer being used or that have been scrapped are removed from the fixed asset listing.	Recommendation will be followed up in 2012.

MANAGEMENT LETTER POINTS

Key Areas	Issue and impact	Recommendations	Management Reponses
ESF project tracker spreadsheets	During our main audit visit it was noted that several ESF project tracker spreadsheets had not been regularly updated to reflect qualifying costs incurred. As a result it may be difficult to keep a track of whether the College is on track to meet projected expenditure and can also result in delayed submission of ESF claims. The latter can be detrimental to cashflow.	ESF project tracker spreadsheets should be updated for costs incurred on a regular basis. Claims should then be submitted promptly.	Spreadsheets are updated on a regular basis. Claims can only be submitted after approvals of previous claims are received, which is mostly much slower than we would like.
Board self evaluation	The board have not carried out a self-evaluation process in the year. The Board is currently considering proposals for a more formal self evaluation process. However a formal process should take place at least annually.	A formal process should be put in place as soon as possible, in line with best practice.	The Board have already submitted views as to process options. Recent sector announcements and events have sidelined the self-evaluation process but this would be completed by the time of our “residential” during the first half of the new year at the latest.
Register of Interests	Board members did not complete a formal declaration of interests in the year. Although the declaration of interests is a standing issue on the Board and Committee agendas, the College should still ensure that the Register of Interests is completed and signed on an annual basis to ensure that related parties are being adequately disclosed.	The College should ensure that board members sign the Register of Interests on a timely basis.	Noted.

PREPARATION OF THE FINANCIAL STATEMENTS

Preparation of the Financial Statements

Our Audit Planning Memorandum, issued to the College, outlined the various stages of the audit process. In relation to the key factors of the production of the financial statements, our assessment was as follows:

Completeness of Draft Financial Statements: We received a set of draft financial statements on 27th October 2011. however this was incomplete, including in the accounting for FRS 17 and the impairment. The draft financial statements were of reasonable quality. There were several issues left unresolved until late November/ early December and a revised draft was received then. Any outstanding matters were satisfactorily resolved prior to receipt of the final Financial Statements and audit sign off.

Quality of Supporting Documentation: The supporting documentation that was received was of a reasonable standard - occasionally additional information had to be obtained from College staff.

Response to Audit Queries: In contrast to prior years there were some delays in receiving responses from management with regard to some audit queries that were raised with them, however, we realise that there were extenuating circumstances in some cases.

APPENDIX 1
Unadjusted Audit Differences

Unadjusted Audit Differences

We are required by International Standards on Auditing 260 "Communication of matters to those charged with governance" to communicate all uncorrected audit differences, other than those we clearly believe to be trivial.

Total unadjusted audit differences identified by our audit work would increase both the reported surplus of £149k and the reported net assets of £59.4m by £61k. The Board of Management will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole. These are set in the table below:

		Income & Expenditure Account		Balance Sheet	
Unadjusted Audit Differences	**£'000**	**DR £'000**	**CR £'000**	**DR £'000**	**CR £'000**
Surplus for the Year before Audit Adjustments	149				
Correction of BAE tuition fee accrued income	16		16	16	
Correction of tax on severance pay	(3)	3			3
Correction for over depreciation of the car park	29		29	29	
Correction of deferred capital grant release associated with the car park	(22)	22			22
Correction of the depreciation per component accounting report for phase II costs	(41)	41			41
Correction of the depreciation associated with the phase II costs not on the component accounting report	(23)	23			23
Alteration of the deferred capital grant release to reflect the changes to deprecation noted above	57		57	57	
Correction of the under accrual of project income associated with ESF103	2		2	2	
Correction of the over accrual of project partner costs associated with ESF114	19		19	19	
Correction of the over accrual of project partner costs associated with ESF115	27		27	27	
Correction of allocation of severance cost within staff costs breakdown		2	2		
Total Adjustments	61	91	152	150	89
Surplus for the Year after Audit Adjustments	210				