Agenda

1 December 2015
FINANCE COMMITTEE

Falkirk Boardroom, Falkirk Campus at 4.00pm
(Refreshments available from 3.30pm.)

AGENDA

1. Declarations of interest

FOR APPROVAL

2. Minutes of meeting of 15 September 2015

3. Matters Arising

   a) F/15/006 Resource Return 2014/15
   b) F/15/007 Forecast Outturn 2014/15

4. Annual Report and Financial Statements 2014/15 (Joint item with Audit Committee) — Alison Stewart

5. Draft External Audit Annual Report to the Board of Management (Joint item with Finance Committee) — Henderson Loggie

FOR DISCUSSION

6. Student Funding for 2015-2016 — Louise Burnett

7. FRS 102 Gap Analysis and Action Plan — Monica Halcro

8. Budget Monitoring Report – October 2015 — Monica Halcro
   (Paper 8 is withheld from publication on the Forth Valley College website under Section 33 Commercial Interests and the Economy of the Freedom of Information (Scotland) Act 2002.)

9. Review of Risk

10. Any other competent business

FOR INFORMATION

Programme of Committee Business

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Boardroom, Falkirk Campus (commencing at 4.30pm)

Present:	Mr Liam McCabe (Chair) Ms Caryn Jack Mr Ralph Burns
Apologies:	Mr Ken Richardson Mr Andrew Carver
In Attendance:	Mrs Alison Stewart, Associate Principal and Executive Director of Finance Mr Stephen Jarvie, Corporate Governance and Planning Officer Mrs Monica Halcro, Senior Finance Manager Ms Lorraine Simpson, Student Association President (Left after item F/15/004)

The Chair welcomed Mr Burns to his first meeting of the Committee.

F/15/001 Declarations of Interest

The Chair declared an interest owing to the links between the College and Stirling University at Degree level and under the Scottish Funding Council (SFC) HEI funded activity.

F/15/002 Minutes of Meeting held on 25 June 2015.

The minutes of the meeting held on 25 June 2015 were approved.

F/15/003 Matters Arising

a) F/14/053 Donation to Forth Valley College Foundation

The Associate Principal and Executive Director of Finance reported that, while there had been no further progress, she remained confident that there would be no issues arising relating to the banking covenants and that it was still anticipated though not certain that Barclays would be likely to remove these altogether.

b) F/14/068 - Updated schedule of meeting dates to be issued

The Associate Principal and Executive Director of Finance circulated new dates to members.

F/15/004 Student Association Outturn for 2014-15 and Student Association Budget for 2015-16

The Student Association President presented a paper outlining the spend by the Student Association in the last academic year and their anticipated budget for the current year.

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She highlighted the increased staffing levels in the Student Association which is reflected in the budget.
Members noted that the Student Association had previously achieved a significant level of activity and engagement and had grown in terms of its effectiveness and asked if the proposed budget is adequate to support their plans for 2015-16.

The Student Association President confirmed that the budget had been developed to support their planned activity.

The Associate Principal and Executive Director of Finance noted that the Student Partnerships in Quality Scotland (SPARQS) funding which supported the level of staffing would end in 2015-16. There was some discussion on how the impact of this funding shortfall could be offset and it was agreed that different alternatives, including approaching the Forth Valley College Foundation, would be pursued.

Members queried whether the budget had been prepared by a member of the Student Association or if this had been supported by College Staff.

The Student Association President reported that staff from the Finance Department helpfully supported the budgeting and budget review process.

Members noted that there was a possibility for a student to become involved in this area, gaining valuable experience of working with College Finance staff which would be a positive on their CV.

The Principal noted that this could tie into the Student Association's 'Open Badges' system which allows for the recognition of extra-curricular activity by students.

The Chair noted that the 'Open Badges' concept would be a good item to bring to the attention of the Board.

a) Members approved the Student Association budget for 2015-16

F/15/005 Accounting Policies

The Senior Finance Manager presented the Accounting policies for year ended 31 July 2016. She noted that the policies had not changed in substance and that the main changes were updates in terminology to align with the new SORP.

a) Members approved the Accounting Policies

F/15/006 Resource Return 2014/15

The Associate Principal and Executive Director of Finance presented the final resource return for 2014/15 and sought permission to submit this on behalf of the Board.

She outlined the position as at the submission of the last return in April and the changes to the College position since then in relation to the agreed transfer to the Arm's Length Foundation and the impact of accruals in respect of annual leave.

Members queried whether holiday accruals would become an ongoing issue.
The Associate Principal and Executive Director of Finance confirmed that this would only impact on the first year and thereafter only the year on year movement would have an impact. This assumed that the positon year on year would be broadly consistent.

She also confirmed to the committee that the operating deficit, excluding pension valuation adjustments, was within the agreed level with the guidance from the Scottish Funding Council to the effect that reported deficits should not exceed the net depreciation figure.

a) Members approved the resource return 2014/15 and approved the Associate Principal and Executive Director of Finance to submit this.

F/15/007 Forecast Outturn 2014/15

The Senior Finance Manager presented the forecast outturn for 2014/15 and outlined the key points within the paper.

The Associate Principal and Executive Director of Finance highlighted that the figures had been impacted by the pension valuation and that, overall, the College was operating efficiently which was demonstrated through the generation of cash.

Members queried the changes in the pension valuation from year to year. The Associate Principal and Executive Director of Finance outlined the process undertaken and noted that the valuations were outwith the direct control of the College but were based on actuarial assumption concerning longevity of pensioners and other factors.

The Associate Principal and Executive Director of Finance also raised with members a proposed change to the statement provided by the Scottish Funding Council to explain agreed deficits within College accounts that she had submitted for their consideration. These changes addressed the impact of the pensions valuations.

a) Members noted the content of the report

F/15/008 Review of risk

The Chair highlighted the loss of SPARQS funding for Student Association staffing from 2016/17 as a risk and the impact this would have on the considerable level of activity within the Student Association.

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Members proposed a number of additional potential sources including the Forth Valley College Foundation and the College will investigate these.

F/15/009 Any other competent business

The Principal raised the Board of Management strategic session on 24 September. He noted that this would be followed by a strategic session of the Senior Management Team to examine scenarios for potential reductions in funding.

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4. Annual Report and Financial Statements 2014/15
For Approval

1 December 2015
FINANCE COMMITTEE

1. Purpose

To present to members the Annual Report and Financial Statements for the period to 31 July 2015.

2. Recommendation

Members consider the financial position of the College for the 16 months ended 31 July 2015 and approve the Annual Report and Financial Statements for the period ended 31 July 2015.

3. Background

The Office for National Statistics (ONS) reclassification of FE Colleges came into effect from 1 April 2014. There are a number of significant implications resulting from this reclassification not least the inability to retain surplus cash without this in effect being frozen due to government resource budgeting restrictions.

In September 2014 the decision to move Colleges year end to 31 March was reversed and the year end reporting date was moved back to 31 July. The financial statements have therefore been prepared for the 16 month period from 1 April 2014 to 31 July 2015.

The Annual Report and Financial Statements have been prepared in accordance with the Accounts Direction issued by the Scottish Funding Council in August 2015 which requires the College to comply with the Statement of Recommended Practice: Accounting for Further and Higher Education issued in July 2007, the Scottish Public Finance Manual (SPFM) and the Scottish government's Financial Reporting Manual (FReM).

The SPFM and FReM both require additional disclosures. Key changes from previous year's disclosures are the content of the Governance Statement and the requirement to include a Remuneration Report.

4. Income and Expenditure

Due to change in the financial year end and the number of one off adjustments linked to the reclassification in 2013-14 it is difficult to provide a meaningful comparison of the results for the period to 31 July 2015 against either the original budget, which based on a 12 month fiscal year or the 2013-14 Accounts which covered an 8 month period.

Overall for the 16 month period to 31 July 2015 the College is reporting a deficit of £2,873k (2013-14 – operational surplus of £240k).

The reversal of 2013-14 year end adjustments for SFC grant income, tuition fees and salary costs (holiday pay accruals) distort the 16 month period figures. The net effect of these adjustments is minus £520k.

The Board of Management approved to donate up to £1.4m to the Foundation in March 2015. The calculation of the amount of the transfer was aimed to minimise the level of cash held at 31

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March 2015 and the potential for this to be frozen under the government resource budgeting rules. The actual donation made was £1.1m

There are significant non cash adjustments in relation to net depreciation £829k, pension valuations £1.973m as well as an exceptional loss on valuation of land at Branshill, Alloa £615k.

The key message to take is that excluding non cash adjustments and the donation to Forth Valley College Foundation, the College generated a cash surplus of £1.2m from its day to day operations.

5. Balance Sheet

Again it is difficult to provide a meaningful comparison of the Balance Sheet. The March 2014 year end was part way through the academic year and required a number of adjustments to reflect this which would not be required at a July year end.

The increased bank balance at 31 July reflects the operational cash surplus generated of £158k, cash being held to cover HMRC payment of £420k, and unspent Student Support funding of £245k.

The College has moved to a position of reporting net current assets due, in the main, to the increased cash levels.

6. Financial implications

SFC guidance states that for the financial period ended 31 July 2015 Colleges are permitted to report operating deficits equivalent to the net depreciation figure and FRS 17 pension charges. The net depreciation at 31 March 2015 is £622k and the charge arising from FRS 17 Pension valuations of £1.973m means that FVC falls within the guidelines.

Reporting a deficit does have implications however, and to counter any queries or concerns by the users of the Financial Statements, SFC have issued a statement of assurance for Colleges to incorporate into their Financial Statements for the financial period ended 31 July 2015. To mitigate the risks of this deficit being detrimental to future business partnerships, the SFC also issued Colleges with a statement of assurance for inclusion in the Financial Statements for the 16 months ended 31 July 2015. This statement stated the deficit should be viewed as a “technical” deficit and should not be interpreted, on its own, as a challenge to the College’s on-going financial sustainability. The full Statement is in the Accounts.

7. Banking Covenants

A final point to note is that due to the transfer of £1.1m to the Foundation, the College has breached the banking covenants in relation to the £4.5m loan with Barclays Bank. The implications of this are being worked through with Barclays who are aware that this would happen and the reasons for this.

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8. Equalities

Assessment in Place? – Yes ☐ No ☐ Non-Applicable ☒

9. Risk

	Likelihood	Impact
Very High		
High		
Medium	x	x
Low		
Very Low		

Please describe any risks associated with this paper and associated mitigating actions

The College has breached the financial covenants in relation to the £4.5m Term Loan with Barclay's bank. The reporting of significant deficits could be misinterpreted and impact negatively on the College's financial reputation.

Disucssions are ongoing with Barclays bank regarding the covenants with a view to having these removed, as they are no longer appropriate following the reclassification of Colleges.

Risk Owner – Alison Stewart **Action Owner –** Monica Halcro

10. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes ☐ **No** ☒ **Health and Safety – Yes** ☐ **No** ☒

Paper Author – Alison Stewart **SMT Owner –** Alison Stewart

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FORTH VALLEY COLLEGE OF FURTHER AND HIGHER EDUCATION

REPORT AND FINANCIAL STATEMENTS

FOR THE SIXTEEN MONTHS ENDED

31 July 2015

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Scottish Charity No. SCO21191

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The financial statements were approved and authorised for issue on 10 December 2015.

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Professional Advisers

Financial Statement Auditors:

Henderson Loggie
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Edinburgh
EH3 7HA

Internal Auditors:

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Scott Moncrieff (from 1st August 2015)
Exchange Place
3 Semple Street
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EH3 8BL

Bankers:

Barclays Bank
120 Bothwell Street
Glasgow
G2 7JT

Solicitors:

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Capella
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OPERATING AND FINANCIAL REVIEW

1 NATURE, OBJECTIVES AND STRATEGIES

The Board of Management present their report and the audited financial statements for the 16 month period ended 31 July 2015.

Legal Status

Forth Valley College came into being on 1 August 2005 as a result of the merger of Clackmannan and Falkirk Colleges. The Office for National Statistics (ONS) reclassified all incorporated FE Colleges as central government entities, to be referred to as Arm's Length Public Bodies from 1 April 2014. The College is a registered charity (Scottish Charity number SCO21191) for the purposes of the Law Reform (Miscellaneous Provisions) (Scotland) Act 2005.

The Financial Statements cover all activities of the College.

Mission Statement

The College Mission Statement is: **Making Learning Work**

College Vision

The College Vision is:
Shaping the Future
Delivering a World Class Service
Driving Our Momentum

Strategic Themes

Forth Valley College of Further and Higher Education has 6 key strategic themes for the 2014-2018 period. These are;

- Creating a superb environment for learning
- Cultivating a vibrant learning organisation where learners develop skills, achieve qualifications valued by industry and progress seamlessly
- Instilling an energy and passion for our people, celebrating success and innovation
- Leading as a business that is a champion for governance, financial control and balanced risk taking
- Enhancing our position as the business and community partner of choice
- Delivering a whole system approach. Simply effective, efficient and consistent.

Implementation of our Strategic Plan

2014-15 was a strong period for the College as we embarked upon our vision of 'Making Learning Work'.

Creating a superb environment for learning – We have continued to invest in our estates ensuring we offer the best possible learning environment for our students. This year saw the demolition of our Middlefield building which was stage one of our wider ambitions for a new Falkirk campus. The College is now progressing with a strategy to build a new Falkirk headquarters campus. Support to deliver this project through the Not for Profit Distribution (NPD) procurement model was included in the Scottish Government budget announcement in October 2014.

Our new campuses in Alloa and Stirling continue to perform well, with high demand for the accommodation and positive feedback from students, staff, the local community and visitors on the quality of the facilities we offer.

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OPERATING AND FINANCIAL REVIEW (continued)

1 NATURE, OBJECTIVES AND STRATEGIES (continued)

Cultivating a vibrant learning organisation where learners develop skills, achieve qualifications valued by industry and progress seamlessly – This theme is fundamental to ensuring we live up to our mission statement of "Making Learning Work".

In 2014-15 we further developed our new Curriculum Review process to ensure that our future curriculum developments continue to meet the needs of the employers of Forth Valley and beyond and to take full account of national priorities, such as the Scottish Government's Youth Employment Strategy (December 2014).

We were able to report a further increase in the percentage of our students succeeding in their college courses, at all levels and across both full-time and part-time. We achieved a 91% response rate in our follow up survey of 2013-2014 completing students and were delighted that 94% of those responding were in a positive destination (employment or further study).

In 2014-15 the College also launched its highly engaging Creative Learning initiative, with over 30 members of staff participating in a Creative Learning Action Community, through which they were supported to work collaboratively with colleagues, across departmental boundaries, to design and facilitate innovative and value-added learning experiences for their students.

We continued to operate our successful "Listening to Learners" focus group process, through which over 2,500 students contributed their views and helped to shape learning within their programmes of study. Satisfaction levels remain very high across all of the factors included on the focus group agendas.

Instilling an energy and passion for our people, celebrating success and innovation – This year the College was successful in achieving the highly prestigious Beacon Award for Innovation in Learning – the only Scottish College to be recognised within this UK wide initiative. This accolade put the College in an excellent position to develop further its ambition of recognising and celebrating success.

Staff development processes have also been revamped and have proved to be successful in their innovative approach in engaging staff and creating a platform of ownership and pride in the delivery of learning and teaching as well as in increasing the knowledge base, skills and industrial experience of employees. The recent development of an Ambassador role within the College will also give more opportunities for staff to represent the College at a wide range of national and international events.

The plans to relaunch the Cultural Survey will give the College an opportunity to assess the impact of the first survey and identify improvements for the future.

Leading as a business that is a champion for governance, financial control and balanced risk taking – Further to the reclassification of Colleges in Scotland as arm's length public bodies by the Office of National Statistics (ONS), the sixteen months to 31 July 2015 is the first reporting period under the new status.

Part of the reclassification process included Colleges changing to a year end date that is in alignment with other government departments. Subsequently, this decision was reversed and the financial reporting period end reverted to 31 July. This has resulted in producing financial statements for 8 months to 31 March 2014 and then 16 months to 31 July 2015.

The impact of being an arm's length public body is that the College is no longer able to generate and hold surpluses. We have revised our internal practices to ensure we are in compliance with the Scottish Public Finance Manual and other relevant guidance.

In line with the transition arrangements for the implementation of Post 16 Education (Scotland) Act 2013 and the College Sector Board Appointments: 2014 Ministerial Guidance, a new regional Board of Management was

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OPERATING AND FINANCIAL REVIEW (continued)

1 NATURE, OBJECTIVES AND STRATEGIES (continued)

recruited and appointed in March 2015. The appointments of the non-executive members was approved by Scottish Ministers. A formal induction process was completed for all new members.

Enhancing our position as the business and community partner of choice – Strong employer and stakeholder relationships continue to develop across the College across a wide range of sectors reflecting the curriculum we deliver. Our aim is to create a positive impact on both the local and national economy by meeting the skills requirements of our employers and thus impacting on their productivity and competitiveness. The developments with Scottish Power and its contractors, to rebuild the existing power lines across Central Scotland, continue and we have created a bespoke external training facility for both Scottish Power apprentices and the contractors' reskilling programme. This relationship and the commitment of Scottish Power to their MA delivery resulted in them being awarded MA Employer of the Year in the Large Employer category. We have also maintained our position as a leading Modern Apprenticeship provider in the sector building on the engineering provision and now delivering a first in Scotland for a MA in Digital Journalism with support from the National Union of Journalists.

Partnerships are key to the College and our relationship with Skills Development Scotland in relation to the development of the Skills Investment Plans in both Life Sciences and Chemical Sciences has created new opportunities for the College in terms of increased numbers of MAs in life sciences and conversion courses in the chemicals sector to address key skills needs within this sector.

An international strategy has been developed this year and the College has recruited an International Manager to deliver on our ambitions and plans in the international arena. We are developing collaborations with key HE/FE and local authority partners particularly the University of Stirling and both Falkirk and Stirling Councils. We have travelled to both China and Turkey to start to develop links in the oil and gas sectors both with our partners and independently. Our strong position with OGAS (The Oil and Gas Academy of Scotland) is also supporting our international plans as well as generating the delivery of training requirements for Shell UK.

All the relationships and activities with our key employers and stakeholders have generated a tangible benefit to the College supporting and making a contribution towards its financial sustainability.

Delivering a whole system approach. Simply effective, efficient and consistent – We have continued to maximise the benefit from the significant investment in the College's ICT infrastructure over recent years. The amount of material available via our Moodle VLE has increased, providing increased flexibility and allowing learners to take control of their own learning. This has been supported by increased use of the Eduroam service which enables students to bring in their own laptops and smartphones which can access College resources via the College wireless network.

We have continually improved our online application process, supported by the functionality for applicants to create a bespoke prospectus on our website, to provide a clear and supportive system to new and returning students. We have embedded our online student funding application which significantly improved the application process and helped to ensure faster decision making and communication to students. We also developed a schools portal in partnership with Falkirk Council, which allows local schools to see real-time information on school pupil applications to the College, which we hope will enable enhanced dialogue between all partners to enable students to successfully transition on to their correct course.

Through the development of a College Data dashboard we are making real-time information available to appropriate staff throughout our organisation, and we have continued to develop our HR systems to allow staff access to a self-service "My Staff Record" area. For students we have developed "My Info" to provide real-time access to initially timetable and attendance information, with the ability to access this portal from any mobile device.

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OPERATING AND FINANCIAL REVIEW (continued)

Performance Indicators

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OPERATING AND FINANCIAL REVIEW (continued)

2 ESTATES STRATEGY

The Forth Valley College agreed Estates strategy has always comprised a vision for three new campuses. The first in Alloa, the second in Stirling and a third in Falkirk. £55m has already been invested in phases 1 and 2 of this strategy with Alloa and Stirling successfully completing on programme and within budget in 2011 and 2012 respectively.

The College developed an Outline Business Case for a new campus in Falkirk in December 2014 which was communicated to the Scottish Funding Council and Scottish Futures Trust, and received acknowledgement to proceed to the next phase, to develop a full business case (FBC).

The new campus plans include servicing the current Falkirk Campus curriculum provision and in addition, partnering with the Falkirk Community Trust on their business case to provide a new 500 seat Arts Venue facility as part of the new campus.

The New Falkirk Campus will be located on the 10.87 acre Middlefield Campus site (building now demolished) and an additional section of land (4.8 acres) to the East of this, which the College has secured from Callendar Estates. The new facility will be approximately 21,680 sqm including the Arts Centre facility and will incorporate low carbon initiatives, such as Photovoltaic's and Combined Heat and Power, along with other sustainable functions required to meet the Building Research Establishment Environmental Assessment Method (BREEAM) standard.

The FBC is due to be completed in December 2015, thereafter this will be submitted to the Scottish Funding Council and the Scottish Futures Trust for approval.

Once approved, the College will issue an invitation to tender and enter a period of competitive dialogue. The College will select a preferred bidder with the construction planned to commence summer 2017 and complete in the summer 2019.

3 FINANCIAL POSITION

Financial Results

The finances of Forth Valley College are regulated by the Financial Memorandum between the Board of Management and the Scottish Funding Council (SFC) under which the Principal is designated as Accounting Officer, responsible to the Chief Executive of the Council for the stewardship of the College's finances and assets. The financial statements have been prepared to comply with the Accounts Direction issued by SFC and with the associated revised Statement of Recommended Practice: Accounting for Further and Higher Education which was issued in July 2007.

The sixteen months to 31 July 2015 is the first financial reporting period in which the College has operated as an arm's length public body. This reclassification, effective from 1 April 2014, means the College is regulated by the Financial Reporting Memorandum (FReM) and also by the Scottish Public Finance Manual (SPFM) as well as the FE/HE Statement of Recommended Practice 2007.

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OPERATING AND FINANCIAL REVIEW (continued)

3 FINANCIAL POSITION (continued)

Financial Results (continued)

The College's financial objectives are:

- maintain a position of financial security in the context of significant internal and external demand upon resource;
- optimise land and other assets in the interest of the College;
- manage the impact of estates upon financial security;
- continue to seek increased allocations from SFC to meet demographic demand;
- grow commercial activity rates and overall contribution to the College;
- implement efficiencies and improvements identified through our business transformation activity
- embedded sustainability throughout College practices.

A consequence of the reclassification is the treatment of non-cash costs. Adherence to central government rules leaves the College unable to access accumulated cash reserves without the appropriate budget cover having been authorised from the Scottish Government. Any under-utilisation of allocated budget cover results in cash effectively being frozen. In order to minimise frozen cash in the College sector during the financial period being reported, the SFC granted Colleges additional budget cover up to the level of net depreciation at 31 March 2015 (Scottish Government's financial year end). The net depreciation for the College was £622m and we had SFC authorisation to donate this value to the Arms Length Foundation. This figure, as well as further cash surpluses accumulated at 31 March 2015 resulted in the College donating £1.1m into the Forth Valley College Foundation. This prevented that cash becoming inaccessible to the College.

Further non cash costs were incurred due to the FRS 17 adjustments relating to the Local Government Pension Scheme (LGPS) which provides benefits on retirement to non-teaching staff. The revaluation of this liability and the early retirement provision included a £1.973m charge to the Income and Expenditure Account in the period.

As per FReM guidelines a revaluation exercise of land and buildings was undertaken at 31 July 2015. This resulted in an upward adjustment to the revaluation reserve in the Balance Sheet of £899m and a write off in the Income and Expenditure Account of £615k due to the downwards revaluation of land held at Branshill, Alloa. There was no existing revaluation to offset this loss against.

SFC issued a letter to Colleges to provide assurance that the resulting deficit of £2.9m which arise from these non-cash transactions should not be interpreted as a challenge to the College's financial sustainability and to treat this as a "technical" deficit. This is detailed in Note 35 to the Financial Statements.

The SFC continue to be the main source of College income, with 73% (2014 - 72%) of funds attributable to them. Grant In Aid funding remained stable compared to prior year and this year the College received European Social Fund Priority 5 Funding of £527k (2014 - £0k).

Treasury Management

The College has a treasury management policy in place to ensure that treasury management is effective in the successful identification, monitoring and control of financial risk. In balancing risk against return, the College will adopt a risk-averse approach rather than maximising returns.

The College has a borrowing facility in place with Barclays Bank for which all relevant consents required under the Financial Memorandum with the SFC have been obtained. The College has also arranged to hedge its exposure to interest rate movements in its loan facility. The hedge covers 100% of the College's borrowings.

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OPERATING AND FINANCIAL REVIEW (continued)

3 FINANCIAL POSITION (continued)

Financial Results (continued)

Cash Flows

Cash flow plans were presented to the SFC as part of the final approval process for both the Alloa and Stirling developments. These detail the impact over the next twenty five years of the estates development programme on the operating cash position of the College. Cash levels are kept to a minimum per central government regulations. The College requests a cash drawdown from SFC monthly to maintain a working capital balance with excess cash being donated to an Arms' Length Foundation at the end of each fiscal year (31 March), if central government budgeting rules have been met.

Liquidity

The College has an unsecured £4.5m loan facility with Barclays Bank, with an outstanding balance of £4.4m. The loan facility was to assist in the overall funding of the estates development programme. The level of funding provided is within borrowing limits approved by SFC and deemed serviceable under their project funding model.

Creditor Payment Policy

The College has a policy of paying suppliers within agreed terms unless the invoice is contested. Disputes and complaints are handled as quickly as possible. Every effort is made to take advantage of additional discount where this is offered for prompt payment. The College did not make any late interest payments during the year.

Standard creditor terms are set on our finance system to be 30 days and can be amended to adhere to supplier terms if authorised by Finance Team Management. Invoices are paid on a weekly basis by the due date and only if they are authorised for payment on the finance system. The average number of days taken to pay suppliers in the financial period being reported was 29 days (2014 - 29 days).

Taxation Status

The College has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue & Customs as a charity for the purposes of section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax.

4 CURRENT AND FUTURE DEVELOPMENTS

Student numbers

In the academic year 2014-15 the College met its weighted SUMs target enabling full draw down from the SFC of Activity Based Funding. In the academic year the College expects to have enrolled 3,348 full time students and 11,520 part time students.

Student Achievements

At College level, 2014-15 retention and successful completion statistics for both FE and HE, FT and PT are either sustained or have increased on the previous year, except for the HE part time provision retention that fell by 1%.

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OPERATING AND FINANCIAL REVIEW (continued)

4 CURRENT AND FUTURE DEVELOPMENTS (continued)

Student Achievements (continued)

In terms of early withdrawal, these rates have remained the same, with the exception of FT FE, which has improved by a further 1% to 5%. Early withdrawal for PT HE, on the other hand, has worsened by 1% to 2%, a return to its 2012-2013 level. Early withdrawal rates for other modes and levels remained the same as for 2013-14 and all compare favourably with the sector further withdrawal rates for that year. It is also worth noting that 16% of FT FE students and 10% of HE FT students who withdrew before the end of their programme did so to enter employment.

As regards successful completion, the FT FE figure rose a further 1% to 71%; the PT FE rate rose 2% to 91% and the PT HE rate remained the same as the previous year, at 89%. There was, however, a significant increase in the successful completion rate for FT HE students, from 72% in 2013-14 to 79% in 2014-15. This is 2.3% above the highest performing college in 2013/14.

The above statistics demonstrate that the College has achieved its 2014-15 Outcome Agreement targets for these PIs and we continue to strive for and achieve year on year improvements in student achievement.

Curriculum Developments

We continue to rigorously review our overall curriculum portfolio, in the light of local and national skills priorities and sustain an excellent reputation with our employers, delivering industry-relevant courses within our campuses and bespoke training on employers' premises. We value these close links and utilise employer input to maintain the vocational relevance of the training we offer, and to secure the future employability of our learners.

A particular focus for curriculum development during 2014-2015 was the emerging Developing the Young Workforce agenda. The Commission for Developing Scotland's Young Workforce, led by Sir Ian Wood, published its report, "Education Working for All!" in June 2014. The report contains 39 recommendations for local authorities, schools, colleges and other agencies aimed at reducing youth unemployment. In December 2014 the recommendations were included in the Scottish Government's refreshed Youth Employment Strategy, which set out seven year plans for schools, colleges, apprenticeships, employers and equality.

One target within the Strategy is to increase the percentage of school leavers achieving vocational qualifications at SCQF level 5 or above. In pursuit of this aim, the College introduced five HNC courses for S5 pupils starting in August 2014.

In 2014-2015 the College also further developed its integrated degree partnership with the University of Stirling, bringing on stream two further degree programmes, in Computing Science and Digital Media.

Future Developments

We made successful bids in 2014-15 to Skills Development Scotland for development grants for three Foundation Apprenticeship Pathfinder programmes and one Advanced Apprenticeship pilot. Two of the Foundation Apprenticeships, in Social Services and Healthcare; and Early Education and Childcare, have been developed and will run for the first time in 2015-16. The third Foundation Apprenticeship and the Advanced Apprenticeship are both in Engineering and will continue to be developed for first offer in 2016-2017.

As we continue to develop and strengthen our employer relationships we have initiated the development of key systems to ensure data is recorded and maintained, and can provide KPIs for our key areas of delivery. For example our employer engagement system will support how we are engaging with employers and maintain key information and data about the employers and stakeholders we are working with. This will also be supported by

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OPERATING AND FINANCIAL REVIEW (continued)

4 CURRENT AND FUTURE DEVELOPMENTS (continued)

Future Developments (continued)

an employer portal to provide employers with essential data on their employees in relation to attendance, progress and behaviours when attending College.

We have published an ambitious four year Strategic Plan for 2014-18, aligned to our Outcome Agreement with SFC. These documents outline the key strategies and goals for the coming years and will ensure greater transparency through the effective monitoring of progress.

Forth Valley College is continuing to progress with the development of the new headquarters campus in Falkirk. An Outline Business Case for the development was approved by the Board of Management on 11 December 2014 and submitted to the Scottish Funding Council who recommended that the College proceed towards Full Business Case (FBC).

Throughout 2015, the College has been progressing with the development of the FBC. Key technical advisors along with architects have been appointed following relevant procurement exercises to assist the College in the preparation of the FBC. Extensive internal consultation has occurred along with public events and meetings with key external stakeholders. In particular, the College has been working closely with Falkirk Council and Falkirk Community Trust to identify areas of potential complementary provision in the new campus. The College has also agreed to purchase land, conditional on final FBC approval, next to the existing intended site for the new campus to incorporate the size of the proposed building and surroundings.

Throughout the process, governance arrangements have been in place with a specialist Falkirk Campus Project Board established to oversee progress. The Falkirk Campus Project Board is comprised of Board of Management Members and College staff along with representation from Scottish Futures Trust and the College's Project Managers.

Next steps for the project relate to the completion of the FBC which will be presented to the Board for consideration and approval in early 2016.

In order to increase consistency with International Financial Reporting Standards, the UK Generally Accepted Accounting Practice is being replaced with FRS 100, 101 and 102. This applies to accounting periods beginning on or after 1 January 2015. The College will be required to comply with FRS 102 as well as the revised FE HE SORP 2015. As a result of these changes these financial statements will be restated in order to comply with FRS 102 as well as the opening Balance Sheet at 1 April 2014.

5 RESOURCES

The College has net assets of £34.8m (2014 - £41.4m). The College employed 519 people, on average, in 2014-15 excluding modern apprentices, (expressed as full time equivalents).

6 PRINCIPAL RISKS AND UNCERTAINTIES

The College recognises the need to take informed and calculated risks to allow for the growth of the College. The College has comprehensive risk management systems in place to ensure that risks are fully analysed and receive the appropriate level of approval before activity commences. All risks identified within the College are monitored on an on-going basis and specialist registers are created for large individual projects such as estates developments.

The College has updated the strategic risk register to reflect the recent changes across the sector. The register provides details of individual risks, their potential consequences and the mitigating actions put in place to manage these risks.

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OPERATING AND FINANCIAL REVIEW (continued)

6 PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The College has robust risk management processes in place to ensure relevant risks are captured, assessed and (where possible) mitigated against. The College maintains a register of strategic risks which is reported on at each meeting of the Audit Committee as well as being reported to the Board of Management.

At this time, the top risks on the Strategic Risk Register are –

- Government accounting rules restrict College's ability to use available resource at the Board's discretion; this is linked to the next highest risk which is a consequence of the change in College status
- That the College is in breach of the covenants relating to the £4.5m loan facility with Barclays Bank
- There will be inadequate facilities for learners due to lack of capital investment
- National Bargaining will impact on the salary structure and terms and conditions of both support and teaching staff

7 STAKEHOLDER RELATIONSHIPS

In line with other Colleges, Forth Valley College has many stakeholders including: the Scottish Government; the Scottish Funding Council; Local Authorities; Community Planning Partnerships; Learners; Skills Development Scotland; Sector Skills Councils; employers; businesses and staff. The senior roles in the organisation are designed to enhance and promote these key strategic relationships.

Equalities Policy

Forth Valley College is committed to the provision of equal opportunities in all aspects of College life.

Our Equalities policies ensure that staff, learners and visitors are treated equally regardless of the protected characteristics of gender, gender reassignment, race, disability, sexual orientation, religion or belief, age, pregnancy and maternity, marriage and civil partnership. We value diversity and aim to advance equality of opportunity, foster good relations and eliminate discrimination, harassment and victimisation in order to meet both the General Equality Duty and Public Sector Equality Duty.

Our Equality Outcome Plan outlines how we will develop and implement policies and procedures to ensure that equalities issues are integrated in all strategic, departmental and service area plans. Our Equalities Policy outlines how we ensure that the provisions of the Equality Act 2010 and the Public Sector Equality Duty (Specific Duties for Scotland: Implications for Colleges and HEIs guidance) are implemented throughout College for all groups sharing the protected characteristics listed above.

Health & Safety

The health, safety and welfare of all staff, students and visitors is of paramount importance at Forth Valley College. Health and Safety performance is monitored and reviewed by the College Health and Safety Operational Team and full time Health and Safety Co-ordinator. With guidance from this team, Head of Facilities Management and Health and Safety, Department Heads, health and safety representatives and employees across the College ensure that legislative requirements are met and sustained. There is an active Health and Safety Committee which monitors strategic health and safety matters, and reports health and safety related issues regularly to the Senior Management Team. At Board level, the HR Committee closely monitors and reviews the College Health and Safety Strategy on a regular basis.

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REMUNERATION REPORT

for the 16 months ended 31 July 2015

This report outlines the remuneration policy of Forth Valley College for the Board of Management and the Senior Management Team (SMT), and provides details of members remuneration for the sixteen months ended 31 July 2015.

Board of Management

Forth Valley College Board Members, with the exception of the Chief Executive/Principal are appointed for a fixed period, normally, four years. With the exception of the Chief Executive/Principal and elected staff representatives, these members do not have contracts of service with Forth Valley College.

The Chairman was appointed in March 2014 by Scottish Ministers. The level of remuneration for the Chairman is set by Scottish Government who informs Forth Valley College on an annual basis of any increase to be awarded.

Senior Management Team

The SMT is responsible for the day to day management of Forth Valley College's activities and operations. The Chief Executive/Principal, Ken Thomson, is a member of both the Board and the SMT.

The Chief Executive/Principal and other SMT members are on standard Forth Valley College contracts of employment. Their contracts provide for a notice period of 3 months. For 2014/15 there was no bonus scheme in operation in Forth Valley College.

If an SMT member's employment with Forth Valley College is terminated on the grounds of redundancy or in the interests of the efficiency of the organisation, severance payments will apply based on age and on length of service and are subject to approval by the Scottish Funding Council. This basis is identical to that applied for all other employees.

Remuneration Committee

The Remuneration Committee determines, and recommends to the Board of Management, the framework or broad policy for the remuneration of the members of the SMT, including the Chief Executive/Principal, and other such members of the management team as it is designated by Forth Valley College to consider. This policy is set within the context of the applicable Government guidelines. With input from the Chairman and Chief Executive/Principal it determines the total individual remuneration package of members of the SMT.

Senior Management Team Remuneration

As part of the Forth Valley College's performance management system, each SMT member agrees with the Chief Executive/Principal their personal performance objectives.

Forth Valley College aims to ensure that the remuneration packages offered to SMT:

- enable Forth Valley College to attract, retain and motivate high calibre leaders;
- remunerate individuals fairly for individual responsibility and contribution and;
- take account of salary policy within the rest of Forth Valley College and the relationship that should exist between the remuneration of the Senior Management Team and that of other employees.

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REMUNERATION REPORT (continued)

for the 16 months ended 31 July 2015 (continued)

Senior Management Teat Remuneration (continued)

Basic salaries are reviewed annually from 1 August. Salary levels are established after taking into account external market levels and internal comparisons as well as individual responsibilities and performance. All senior posts are evaluated as part of our job evaluation process to ensure they reflect the responsibility and accountability of the role and are graded appropriately. The Colleges Job Evaluation system and processes are externally audited on an annual basis. Salary payments are made monthly.

SMT members are all members of either the Scottish Teachers' Superannuation Scheme (STSS) or the Local Government Pension Scheme (LGPS). As ordinary members, they contribute a rate of pensionable salary dependant on salary. In the financial period being reported the rates were between 9.0% and 12.4% and Forth Valley College contributed 14.9% of the employees' pensionable salary to the SPPA and 19.4% to the LGPS. These schemes are defined benefit schemes that provide benefits at a normal retirement age of 65 for LGPS and state pension age for STSS. The pension benefits consist of an annual pension, based on a final pensionable salary calculation up to 31 March 2015 and a career average pensionable salary with effect from 1 April 2015. For members who joined before 1 April 2007 for STSS and 1 April 2009 for LGPS a tax free lump sum will be paid automatically.

Remuneration of the Principal/Chief Executive and other Senior Management Team who served during the sixteen months to 31 July 2015, including salary, pension benefits and other allowances was:

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REMUNERATION REPORT (continued)

for the 16 months ended 31 July 2015 (continued)

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The cash equivalent transfer value is the actuarially assessed value of the retirement scheme benefits accrued by a member at a point in time. The value of the accrued pension benefits has been calculated on the basis of the age at which the person will first become entitled to receive pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlements into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service and not just their current appointment.

In considering the accrued pension benefits figure the following contextual information should be taken into account:

(i) the figures for pension lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement.

(ii) The accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

REMUNERATION REPORT (continued)

for the 16 months ended 31 July 2015 (continued)

Real Increases in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

For the period April 2014 to March 2015 the Chairman was entitled to claim remuneration of £200 for every 7.5 hours up to a maximum total fee of £20,800. For the period April 2015 to March 2016 the maximum total fee is £15,600. The Chair will receive no fee for any time devoted to performing their functions which exceeds 104 days in the period April 2014 to March 2015 and 78 days in the following period. The Chair is not entitled to a pension in respect of their office.

In the period April 2014 to March 2015 the Chairman has waived his fee and for the period April 2015 to July 2015 the Financial Statements include an accrual of £5,200.

Median Pay Multiples

The relationship between the remuneration of the highest paid member of the Senior Management Team and the median remuneration of the employees of Forth Valley College is as follows:

The median remuneration of Forth Valley College's employees is based upon the annualised full-time equivalent salary of the employees at 31 July 2015. (2014: at 31 March 2014)

Including severance payments, no employee (2014: no employees) received remuneration in excess of the highest paid member of the Senior Management Team.

Compensation for loss of office

Three employees left under voluntary exit terms during the year. They received a total payment of £49k.

Ken Thomson
Accountable Officer
10 December 2015

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Statement of Corporate Governance and Internal Control

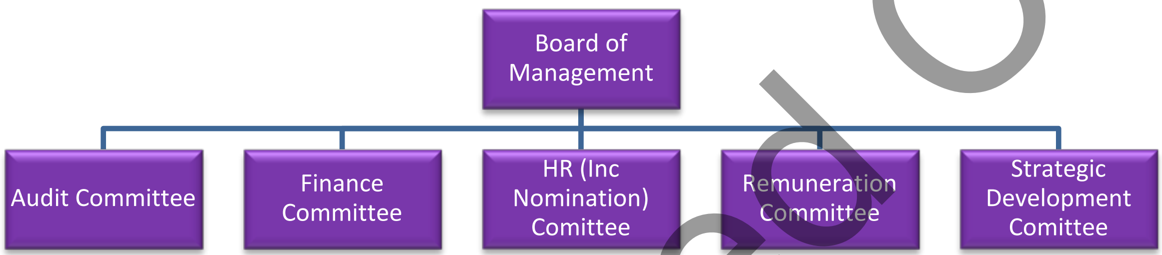
Introduction

The College is committed to exhibiting best practice in all areas of corporate governance. This summary describes the manner in which the College has applied the principles in the Code of Good Governance for Scotland's Colleges.

This governance statement is designed to supplement the information provided in the financial statements. It sets out the governance structures, risk management and internal control processes that have been operating in Forth Valley College in the 16 month period to 31 July 2015 and reports the Board's assessment of the effectiveness of these arrangements.

Governance Structure

The College has a robust and effective Board and Committee structure in place.



Additionally, in recognition of the significant developments as the Falkirk Campus Project Board progresses towards the realisation of the new Falkirk Headquarters Campus, an additional committee has been established. While the Falkirk Campus Project Board is separate from the main Board of Management structure, three non-executive Board Members serve on this Board to ensure adequate representation from the main Board of Management.

Board of Management Committees

Audit Committee

The committee met on four occasions. Its role is to contribute to good governance by providing assistance to the Board of Management on issues of compliance, risk, financial probity and the overall effectiveness of internal College control systems. The internal and external auditors normally attend meetings.

Finance Committee

The committee met on four occasions during the period. Its role is to contribute to good governance by providing independent advice to the Board of Management on the financial management of the College, providing a strategic overview of the College's financial direction while ensuring a position of financial security and that all relevant audit and legislative requirements are met.

HR Committee (Inc. Nomination Committee)

The committee met on four occasions and advises on HR strategy (including industrial relations matters), oversees the Board's health & safety responsibilities, monitors the Board's equal opportunities aspirations, and oversees the Board nominations process.

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Statement of Corporate Governance and Internal Control (continued)

Remuneration Committee

The committee met once during this period. Its role is to provide good governance advice and assistance to the Board of Management on the remuneration of senior College staff, considering sectoral guidance and maintaining comparability with relevant external bodies.

Strategic Development Committee

The committee met on five occasions. Its role is to contribute to good governance by providing assistance to the Board of Management on the strategic direction of the College, to act as the primary linkage between the Board of Management and the Student Union Executive, and to consider matters relating to the interests of learners in the College.

Board of Management Members

In line with the requirements of the College Sector Board Appointments: 2014 Ministerial Guidance, the College undertook an open, fair and merit-based recruitment exercise in 2014/15 to fill the 12 non-executive positions on the Board. A skills matrix was developed to support the recruitment process and to ensure that the appointments would provide the correct mixture of skills to enable the Board to fully undertake their duties.

Owing to the number of existing non-executive members who has expressed an interest in continuing to serve on the Board, a specialist recruitment panel was established to oversee the interview and appointment process. This panel consisted of the Chair, Board members who were not seeking to be re-appointed and an independent external member.

Following the recruitment process, the recommendations of the panel were communicated to Scottish Ministers who approved the recommendations. This also resulted in the College achieving, for the non-executive positions available, a 50-50 gender balance.

The first meeting of the new Board of Management occurred on 26 March 2015 and the membership now consists of 18 members as follows –

- Chair
- 12 Independent Non-executive members
- 2 Student Members
- 2 Staff Members
- Principal

There is a clear differentiation in the roles of the Chair of the Board and that of the Principal. Matters reserved to the Board of Management are set out in the Standing Orders and Operating Guidelines, the Scheme of Delegation, and under the Financial Memorandum with the Scottish Funding Council. The Board of Management is responsible for the on-going strategic direction of the College, approval of major developments and the approval of annual budgets.

Members of the Board have a collective responsibility for the proper conduct of the College's affairs. Members have full and timely access to all relevant information to enable them to perform their roles effectively. Members' roles and responsibilities are described in the Code of Good Governance for Scotland's Colleges and the Guide for Board Members in the College Sector. A register of members' interests is available on the College's website at http://www.forthvalley.ac.uk

Board Effectiveness

The Board of Management has adopted the Code of Good Governance for Scotland's Colleges. The code outlines the activity to be undertaken by a Board. The Board of Management has an effective mix of skills in place,

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Statement of Corporate Governance and Internal Control (continued)

supplemented by a comprehensive induction process which is further enhanced by Board training activities such as the provision of equalities training.

There are self-evaluation processes, led by the Chair and an evaluation process for the activity of the Chair led by the Vice-Chair. These offer a mechanism for members to feedback on their perceptions of the Board, their contribution and any future training needs.

Attendance

The Board of Management normally meets formally four times per year and has a number of committees which are formally constituted with terms of reference. As this financial period covers 16 months, there were a total of 5 meetings of the Board of Management.

	Status	Date of Appointment	Date of Retiral (If Applicable)	Board of Management (Five Meetings)	Audit Committee (Four Meetings)	Finance Committee (Four Meetings)	HR (Inc. Nomination) Committee (Four Meetings)	Remuneration Committee (1 Meeting)	Strategic Development Committee (Five Meetings)
Mr H Hall, Chair	Regional Chair	3/3/14	N/A	4				1	
Mrs A Mearns, Vice Chair	Senior Non-Exec	02/03/15	N/A	4				1	4
Dr K Thomson	Principal	01/08/13	N/A	5					
Mr R Addie	Staff	01/04/10	11/12/14	2					2
Mr C Alexander	Non-Exec	02/03/15	N/A	4	4				
Dr W Blair	Non-Exec	01/08/06	26/06/14	1			1	1	
Mr A Buchan	Student	26/03/15	N/A	2					1
Mr R Burns	Staff	26/03/15	N/A	2					
Mrs F Campbell	Non-Exec	02/03/15	N/A	3			3		5
Mr A Carver	Non-Exec	02/03/15	N/A	5		2			3
Ms L Dougall	Non-Exec	26/03/15	N/A	2					
Mr D Gentles	Student	20/09/12	26/06/14	1					1
Mr B Gil	Non-Exec	01/08/07	11/12/14	2	2				
Ms B Hamilton	Non-Exec	02/03/15	N/A	5	2		4		
Mrs C Jack	Non-Exec	02/03/15	N/A	4		4			5
Mr L McCabe	Non-Exec	02/03/15	N/A	3		4			
Mrs E McGeorge	Staff	01/09/09	25/03/15	2			3		
Mr K Richardson	Non-Exec	02/03/15	N/A	5		3			1
Mr N Scott	Non-Exec	02/03/15	N/A	5	3		3		
Ms L Simpson	Student	11/09/14	N/A	4					3
Mr T Smith	Student	11/09/14	11/12/14	0					
Ms A Stephen	Staff	26/03/15	N/A	1					1
Mrs S Struthers	Non-Exec	01/09/08	25/09/14	1		1			
Mr S Tolson	Non-Exec	26/03/15	N/A	1					
Ms A Winchester	Non-Exec	26/03/15	N/A	2					1

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Statement of Corporate Governance and Internal Control (continued)

Assessment of corporate governance

In the opinion of the Board of Management, we can confirm that corporate governance has been exercised throughout the period in accordance with the principles of the Code of Good Governance for Scotland's Colleges, the Scottish Public Finance Manual (SPFM) and the Financial Memorandum.

Risk Management and Internal Control

The Board of Management has overall responsibility for ensuring the effective identification, mitigation and monitoring of strategic risks within the College. The Audit Committee has delegated authority from the Board of Management to approve the Risk Management Policy and to review regular reports from the College Senior Management Team regarding risk.

The College operates a Strategic Risk register which identifies the most significant risks to the College. This register is taken to every meeting of the Audit Committee for comment and challenge. It is also provided annually to the Board of Management and Finance Committees.

The Principal is responsible for the maintenance of the College strategic risk register and for ensuring appropriate risk mitigation actions are implemented to address significant risks to College operations and strategic objectives.

Senior Management Team members are responsible for establishing controls to mitigate identified risks wherever possible. This information is included on the Strategic Risk Register in summary form.

Risk Management is embedded in the operations of the College. The identification and mitigation of risk is a component in all decision making and is a standing item at all Senior Management Team, Board Committee and Board of Management meetings.

The College also operates a risk management system whereby areas of significant risk to the College have their own specific risk register. It is under this approach that an estates risk register was established to support the Falkirk Headquarters campus project.

Delegation of responsibility for managing the key risks in the risk registers is essential if risk management is to be effective. The risk registers, therefore identifies "owners" for each risk.

Internal Audit

The College has an internal audit service, the work of which concentrates on areas of key activities determined by an analysis of the areas of greatest risk, input from Senior Management Team and areas of significant change to operational systems/practices and in accordance with the annual internal audit plan approved by the Audit Committee. The internal auditors report to the Principal and to the Audit Committee on a regular basis and have direct access to the Chair of the Audit Committee. The internal auditors have issued an annual report which gives an opinion of the adequacy, reliability and effectiveness of the College's internal control systems. On the basis of the work undertaken during the period the auditors have expressed an opinion that no significant issues were noted with governance and the College's system of internal control and risk management.

Internal Control

The Board of Management is aware of the need for effective internal control and acknowledges its responsibility for such a control system to be in place. The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

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Statement of Corporate Governance and Internal Control (continued)

The system of internal control is based on a framework of regular management information, financial regulations and administrative procedures.

In particular it includes:

- comprehensive budgeting systems with an annual budget approved by the Board of Management;
- regular reviews by the Finance Committee of quarterly and annual financial reports which indicate financial performance against forecasts; and
- setting targets to measure financial and non-financial performance.

Assessment of the effectiveness of internal controls

The Board of Management is of the view that there is an on-going process for identifying, evaluating and managing the College's significant risks. This process is reviewed by the Board of Management through the Audit Committee. A formal Business Continuity Plan is maintained within the College.

For the period to 31 July 2015, the Internal Auditors reported completion of all reviews in the Audit Plan. Internal Audit was of the opinion that based on internal audit work undertaken, that risk management processes were well developed and not significant issues were noted with the system of internal control and governance.

The external auditors have given an unqualified audit opinion on the accounts for the period to 31 July 2015 and on the regularity of transactions reflected in the accounts. No further significant issues have been identified as part of their audit process.

On the basis of the assurances provided from the sources of assurance outlined above, I can confirm that sound systems of governance, risk management and internal control, consistent with the requirements of the SPFM, have operated for the period ended 31 July 2015 and up to the date of approval of the annual report and financial statements.

Going Concern

The financial statements have been prepared on a going concern basis as the Board of Management believes that the College has adequate resources to allow it to continue for the foreseeable future.

Approved by order of the members of the Board on 10 December 2015 and signed on its behalf by:

Hugh Hall
Chairman

Dr Ken Thomson
Principal

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Statement of the Board of Management's Responsibilities

The Board of Management are required to present audited financial statements for each financial period.

In accordance with the Further and Higher Education (Scotland) Act 1992 and 2005, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial period.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial 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. These financial statements comply with the Accounts Direction issued by the Scottish Funding Council.

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

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud;
- secure the economical, efficient and effective management of the College's resources and expenditure;
- ensure sound corporate governance and 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 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 Board of Management;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee;

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Statement of the Board of Management's Responsibilities (continued)

- a professional internal audit team whose annual programme is approved 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 system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

In October 2010, the UK Office for National Statistics (ONS) decided to reclassify incorporated further education colleges throughout the UK so that they would be treated as part of central government for financial budgeting and reporting purposes. The UK ONS's reclassification decision is the consequence of the current level of Ministerial control and does not relate to the plans for improved governance that feature in the Post-16 Education (Scotland) Act 2013.

The implications of this are material and impact upon the ability of the College to generate and retain income, to generate and retain surpluses (reserves), to protect and use existing reserves, and to access capital funding and commercial borrowing. The use of Arm's Length Foundations on a sector wide basis to shelter on-going College reserves was approved by Scottish Government Ministers. Forth Valley College Foundation was incorporated in December 2013 and has been awarded charitable status from the Office of the Scottish Charity Regulator (OSCR).

Disclosure of information to auditors

The Board members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each Board member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Approved by order of the members of the Board on 26 June 2014 and signed on its behalf by:

Hugh Hall

Chair

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

We have audited the financial statements of Forth Valley 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 the Income and Expenditure Account, Statement of Historical Cost Surpluses and Deficits, Statement of Total Recognised Gains and Losses, Balance Sheet, and 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 the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the college's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the report and financial statements 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 colleges affairs as at 31 July 2015 and of its deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

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Independent auditor's report to the members of the Board of Management of Forth Valley College, the Auditor General for Scotland and the Scottish Parliament (continued)

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.

Catherine Wyllie
Statutory Auditor
For and on behalf of Henderson Loggie
Statutory Auditors
Chartered Accountants
34 Melville Street
Edinburgh
EH3 7HA

10 December 2015

…………………………….

Henderson Loggie is eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006.

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Income and Expenditure Account for the sixteen month period ended 31 July 2015

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Balance Sheet as at 31 July 2015

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Cashflow Statement for the period ended 31 July 2015

	Note	**Period Ended 31 July 2015**	Period ended 31 March 2014
		£000	£000
Cash inflow/(outflow) from operating activities	21	**1,053**	(5,463)
Returns on investments and servicing of finance	22	**(230)**	(43)
Capital expenditure and financial investment	23	**0**	0
Increase/(decrease) in cash in the period		**823**	(5,506)

Reconciliation of net cash flow to movement in net funds			
Increase/(Decrease) in cash in the period		**823**	(5,506)
Change in net funds resulting from cash flows		**0**	0
Movement in net funds in period		**823**	(5,506)
Net funds at 31 March 2014	25	**786**	6,292
Net funds at 31 July 2015	25	**1,609**	786

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Notes to the Financial Statements

1 Statement of Principal Accounting Policies

Basis of preparation

The financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and 2005, and the Accounts Direction issued there under by the Scottish Further and Higher Education Funding Council which requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2007).

Basis of accounting

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain fixed assets.

Recognition of income

Income from grants, contracts and other services rendered is included in proportion to the extent of completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Recurrent grants from the Scottish Funding Council (SFC) are recognised in the period in which they are receivable.

Tangible fixed assets

Land and buildings

The majority of the College's buildings being specialised buildings, open market value is not an appropriate basis of valuation. Land and buildings are therefore valued on the basis of depreciated replacement cost with the exception of the land at Branshill, Alloa and the Middlefield site which are valued on the basis of Open Market value. Land is not depreciated and buildings are depreciated over their estimated life as identified by the valuer.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to income and expenditure account over the estimated life of the building on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are capitalised as part of the cost of those assets.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs. They are not depreciated until they are brought into use.

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Notes to the Financial Statements (continued)

1 Statement of Principal Accounting Policies (continued)

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- market value of the fixed asset has subsequently improved ;
- asset capacity increases;
- substantial improvement in the quality of output or reduction in operating costs;
- significant extension of the asset's life beyond that conferred by repairs and maintenance.

Buildings owned by third parties

Where land and buildings are used, but the legal rights are held by a third party, for example a charitable trust, they are only capitalised if the College has rights or access to on-going future economic benefit.

These assets are then depreciated over their expected useful economic life.

Equipment

Equipment costing less than £10,000 per individual item or grouped items is written off to the income and expenditure account in the year of acquisition. All other equipment and vehicles are capitalised and depreciated in accordance with the depreciation policy.

Where items of equipment are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to the income and expenditure account over the estimated life of the asset on a basis consistent with the depreciation policy.

Depreciation

Depreciation is provided to write off the cost or valuation of tangible fixed assets on a straight-line basis over the expected useful lives of the assets. New build campuses at Alloa and Stirling are depreciated using a component accounting approach.

i) Buildings	20 - 50 years
ii) Plant & Equipment	5 years
iii) Building improvements	10 years
iv) IT Equipment	4 years
v) Motor vehicles	7 years
vi) Equipment acquired for other projects	project life
vii) Specialist Equipment acquired for Oil and Gas teaching	10 years

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Rental costs in respect of operating leases are charged to the income and expenditure account on a straight line basis.

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Notes to the Financial Statements (continued)

1 Statement of Principal Accounting Policies (continued)

Revaluation reserve

Surpluses arising on the revaluation of the College's properties are transferred to the revaluation reserve. Additional depreciation charged on the revalued amount of these assets is transferred from the revaluation reserve to the income and expenditure account together with any surplus or deficit on disposal.

Impairment of assets

Any reduction in the recoverable amount of fixed assets arising from impairment reviews are recognised in the Income and Expenditure account or Statement of Total Recognised Gains and Losses as appropriate.

Maintenance of premises

The costs of maintenance are charged to the income and expenditure account in the period in which they are incurred.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

Taxation

The College has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue & Customs as a charity for the purposes of section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax.

Provisions

The College provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using an appropriate discount rate.

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Notes to the Financial Statements (continued)

1 Statement of Principal Accounting Policies (continued)

Agency arrangements

The College acts as an agent in the collection and payment of certain Student Support Funds. These funds are excluded from the College Income and Expenditure Account, and movements have been disclosed in the notes to the accounts. Where the College has more discretion in the manner in which specific funds are disbursed, and those funds do not meet the definition of agency funds, the income and expenditure relating to those funds are shown in the College Income and Expenditure Account.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the yearend rates. The resulting exchange differences are dealt with in the determination of income and expenditure.

Retirement benefits

Local Government Pension Scheme (LGPS)

The Local Government Pension Scheme is a pension scheme providing benefits based on final pensionable pay, prior to 1/4/15 and a career average scheme from 1/4/15. The assets and liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with the College. The contributions are determined by an actuary on the basis of triennial valuations using the Projected Unit Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the scheme, after making allowances for future withdrawals. The amount charged to the income and expenditure account represents the service cost expected to arise from employee service in the current year.

Scottish Teachers' Superannuation Scheme (STSS)

The College participates in the Scottish Teachers' Superannuation Scheme pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the College. The College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

Pension Provision

Provisions are recognised when the College has a present or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. The College has made provision for the enhanced pensions, payable to former employees who have taken early retirement, for which it is liable. This provision is calculated based on the actuarial tables which take account of the enhancement payable, the age, sex and marital status of the former employee. The annual cost of the enhancement is funded from the provision. The provision is made in accordance with FRS12 and any movements are adjusted through the Income & Expenditure Account.

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Notes to the Financial Statements (continued)

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Notes to the Financial Statements (continued)

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Notes to the Financial Statements (continued)

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Notes to the Financial Statements (continued)

35 Deficit arising from non-cash transactions

One consequence of college reclassification as central government bodies is that, from 1 April 2014, while colleges continued to prepare accounts under the FE/HE Statement of Recommended Practice, they are now also required to comply with Central Government budgeting rules. This affects, amongst other things, the way in which non-cash depreciation charges are treated. For the financial year 2014-15 this meant that the College generated surplus cash of £622k from SFC funding and commercial income, which had been earmarked against depreciation. The Scottish Funding Council , issued guidance to the College on this matter on 30 January 2015 (SFC/AN/03/2015) which gave approval for the cash to be applied to student support, loan repayments and to deliver improved services to learners. This guidance was further expanded in March 2015 to allow the College to make a donation to Forth Valley College Foundation. Without the approval to spend this cash it would have been effectively frozen.

The impact of the above, together with the impact of pension valuations and a loss on revaluation of land in Alloa has resulted in a £2.8m reported deficit the College for 2014/15. The Scottish Funding Council has confirmed (in its letter to the College on 30 March 2015) that a deficit resulting from the College following SFC's guidance on the treatment of net depreciation should be treated as a 'technical' deficit and should not be interpreted, on its own, as a challenge to the College's on-going financial sustainability. The "technical" deficit also applies to the pension and land revaluation adjustments. This position has been agreed with Audit Scotland and the Scottish Government.

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Appendix 1

Accounts Direction

Direction by Scottish Funding Council

2014-15 Accounts direction for Scotland's colleges and universities

1 It is the Scottish Funding Council's direction that colleges and universities comply with the 2007 *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP) in preparing their annual report and accounts[1].

2 Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2014-15 (FReM) where applicable.

3 Incorporated colleges are also reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2015.

4 The financial statements should be signed by the chief executive officer and by the chair, or one other member of the governing body.

5 Incorporated colleges should reproduce this Direction as an appendix to the financial statements.

Scottish Funding Council

10 August 2015

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[1] A new SORP has recently been approved by the Financial Reporting Council which will be applicable to all UK further and higher education institutions from the 2015-16 reporting year

HENDERSON LOGGIE
Chartered Accountants

Forth Valley College

Annual Audit Report for 2014/15 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2015/02

Draft Issued: 25 November 2015
2nd Draft Issued: 26 November 2015
Final Issued:

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Contents

Notice: About this report

This report has been prepared in accordance with our responsibilities under International Standards on Auditing (ISAs) and those set out within Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only Forth Valley College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against Henderson Loggie CA (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

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Executive Summary

Financial Statements

- On 10 December 2015 we plan to issue an audit report with an unqualified opinion on the financial statements of the College for the period ended 31 July 2015 and on the regularity of the financial transactions reflected in those financial statements.

- The current financial period covers the 16 months from 1 April 2014 to 31 July 2015. This change in year-end was as a result of the Cabinet Secretary for Education accepting the Chief Secretary to the Treasury's offer of derogation to all colleges to change their year-end from 31 March to 31 July on 5 September 2014. This change has allowed the College's financial year to be aligned to its academic year, although the College is still required to meet HM Treasury budgeting and reporting requirements at a March year end.

- The College has shown a deficit for the 16 month period ended 31 July 2015 of £2.873 million (surplus of £0.240 million for the eight months ended 31 March 2014). The College has an Income and Expenditure Account balance of £(4.787) million at 31 July 2015 (31/03/14: £(3.477) million).

- The College met its WSUMs target for the academic year to 31 July 2015 (2013/14: target met).

- There was an increase in the enhanced early retirement provision largely as the result of changes in actuarial assumptions which increased expenditure recognised in the Income and Expenditure Statement by £1.282 million.

- A donation of £1.100 million was made to the Forth Valley College Foundation, an arms' length body, prior to 31 March 2015. On 24 June 2015 the Forth Valley College Foundation agreed to award a grant of £1.800 million to the College for assistance with the new Falkirk campus redevelopment project although none of this was received prior to 31 July 2015.

- The College's pension liability increased in total by £3.315 million to £13.517 million at 31 July 2015 (2013/14: increased in total by £3.024 million) which was largely due to changes in key actuarial assumptions relating to discount rates, and higher pensionable pay as a result of auto-enrolment legislation taking effect which led to an increase in staff enrolled in the LGPS pension scheme. This increase in pensionable pay also had an impact in the increase of £0.425 million in Financial Reporting Standard (FRS) 17 pension costs recognised in the Income and Expenditure Statement. There was also a 2% staff pay increase award and slight increase in staff numbers which increased pay costs.

- The annual financial statements of the College comply with the Accounts Direction issued by the Scottish Funding Council (SFC), the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education and, as far as applicable, the Government Financial Reporting Manual 2014/15 ('the FReM').

- 10 composite audit and accounting adjustments were made to the draft financial statements presented for audit; which had the impact of decreasing the reported deficit for the period by £0.213 million.

- A number of disclosure and clarification adjustments were made to the financial statements to ensure SORP, FReM and Accounts Direction compliance and improve the overall presentation of the financial statements.

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Corporate Governance

- The College's Statement of Corporate Governance and Internal Control confirms that corporate governance has been exercised throughout the period in accordance with the principles of the Code of Good Governance for Scotland's Colleges, the Scottish Public Finance Manual (SPFM) and the new SFC Financial Memorandum with colleges.

- No material weaknesses in the accounting and internal control systems were identified during the 2014/15 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Some areas were however identified from our systems controls testing during 2014/15 where controls could be further improved to bring them more into line with good practice.

- We did not identify any matters of concern relating to the College's corporate governance arrangements regarding the prevention and detection of fraud, or standards of conduct and the prevention and detection of corruption.

- The College had an on-going process for identifying, evaluating and managing its significant risks.

Performance

- The College management and committee structure included mechanisms to monitor and manage financial and non-financial performance which are considered appropriate.

- A Regional Outcome Agreement with the SFC was in place for 2014/15 and the Self-Evaluation review of this found that all key targets had been met.

Outlook

- The funding position will remain challenging going forward. Commercial work has been an important income source to generate extra income for the College. However the downturn in the oil and gas sector, which is affecting commercial income, and the impact of national pay bargaining proposals are of significant concern and robust budget setting and monitoring arrangements will be essential in helping to retain sustainability.

- The College's total funding allocations for the 2015/16 academic year from the SFC for Teaching and Fee Waiver is £19.767 million, the same as that received for 2014/15 and with the equivalent academic output (15/16: 83,984 credits, 14/15: WSUMs target 118,503). The College's capital allocation for 2015/16 from the SFC has decreased by £0.355 million to £1.056 million (2014/15: £1.411 million).

Outlook (Continued)

- The College's planned Falkirk campus redevelopment project is progressing with a Final Business Case being developed by the College in conjunction with appointed consultants. However legal issues with the Non-Profit Distribution model being used by the Scottish Futures Trust have been identified and the College is waiting on the Scottish Futures Trust to resolve these before proceeding with the project.

- Three new accounting standards (FRS 100, 101 and 102) come into force in 2015/16, however comparative figures for 2014/15 will be required to be restated using these new standards. In addition, a new Education SORP has been developed following the publication of the new FRSs, which will also be effective from 2015/16.

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Introduction

Background

1. 2014/15 was the fourth year in our five year appointment as external auditors of Forth Valley College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by International Standard on Auditing (ISA) (UK and Ireland) 260: Communication of Audit Matters with Those Charged with Governance. The financial statements for 2014/15 cover a 16 month period to July 2015 and the comparative figures are for an eight month period to 31 March 2014. Paragraph 25 explains the reasons for this.

2. The audit framework is outlined in our Strategic Planning Memorandum and 2014/15 Annual Audit Plan issued on 27 May 2015 and considered and approved by the Audit Committee at its meeting on 4 June 2015. The scope of the audit was to:

   - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Financial Reporting Council;

   - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and

   - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include:

   - compliance with legislation and financial regulations;
   - fixed assets transactions, including consideration of any impairment as a result of revaluation or asset conditions, on-going estate improvements and maintenance; and compliance with relevant financial reporting standards;
   - recoverability of debtors;
   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;
   - the accounting for transfers made to the Forth Valley College Foundation (arms-length foundation);
   - compliance with FRS 17 – Retirement Benefits and provision for pension liabilities for early retirals; and
   - compliance with the SORP on Accounting for Further and Higher Education, FReM and Accounts Direction. In particular, the additional disclosures required this year where the FReM requirements go beyond the SORP.

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Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

5. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.

6. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light. Weaknesses or risks identified by us are only those that have come to our attention during our normal audit work in accordance with the Audit Scotland Code of Audit Practice, and may not be all that exist.

Acknowledgement

7. Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.

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Financial Statements

Audit Opinion

8. On 10 December 2015 we plan to issue an audit report with an unqualified opinion on:

- the financial statements of the College for the period ended 31 July 2015;
- the regularity of the financial transactions reflected in those financial statements; and
- other prescribed matters, being the part of the Remuneration Report to be audited and the consistency of the information in the Operating and Financial Review with the financial statements.

9. We are required to undertake audit work from the Balance Sheet date up to the date of signing the financial statements and this will be undertaken in the period up to 10 December 2015. To date no post balance sheet events have been identified that required adjustment to be made to the financial statements or additional disclosure in a note thereto.

Audit Completion

10. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. Table 1 summarises the three key elements of the audit process.

Table 1: Key elements of the audit process

Completeness of draft financial statements A set of draft financial statements was received on 14 September 2015, the first day of the audit fieldwork. The first draft did not include the Operating and Financial Review, Corporate Governance information and a number of financial statement disclosures. These were received on 23 November 2015 after the audit fieldwork had been completed. These were of a high standard and required minimal presentational changes as part of the audit process.
Quality of supporting working papers Working papers provided to support financial statement figures were of a satisfactory standard.
Response to audit queries Audit queries were dealt with in a timely manner.

Corporate Governance Statement

11. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

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Corporate Governance Statement (Continued)

12. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process and report where the statement is not consistent with our knowledge of the body and report if the statement does not comply with SFC requirements.

13. The College's Statement of Corporate Governance and Internal Control for 2014/15 confirms that corporate governance has been exercised throughout the period in accordance with the principles of the Code of Good Governance for Scotland's Colleges, the SPFM and the new SFC Financial Memorandum with colleges.

14. From our audit work and our review of the College's statement we have no issues to report within our audit opinion.

Remuneration Report

15. 2014/15 is the first time a Remuneration Report has been required in college financial statements. The information to be included is prescribed by the FReM.

16. We are required to audit part of the Remuneration Report and review the remainder as part of our review of the Operating and Financial Review. We express a specific opinion on whether the audited part has been properly prepared.

17. We received the Remuneration Report for audit on 17 November 2015. At the date of issue of this draft report the audit of the report is not complete. From the work done to date the disclosure narrative appears adequate but we are awaiting information to check staff pension figures. An update on progress will be given at the Audit Committee meeting on 1 December 2015.

Operating and Financial Review

18. The SORP sets out the requirements for an Operating and Financial Review to be included in the financial statements. The content is prescribed through the Accounts Direction from the SORP and the FReM.

19. We review the information provided in the Operating and Financial Review and consider whether or not it is consistent with the financial statements and other information we have gathered in the course of our audit. We are not required to verify, or report on, the completeness of the information in the Operating and Financial Review, with the exception of the audited element of the Remuneration Report.

20. We received the Operating and Financial Review on 23 November 2015 and have concluded an unqualified opinion can be provided for this.

Audit and Accounting Adjustments and Confirmation

21. In Table 2 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process which had the impact of decreasing the 2014/15 deficit by £0.213 million.

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Audit and Accounting Adjustments and Confirmation (Continued)

Table 2: Audit and accounting adjustments

	Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
1	Other SFC grant income		188		
	Accrued Income			188	
	Being accrual of ESF grant earned but not received as at 31/07/15				
2	SFC Grant Income – release of deferred capital grants		189		
	Deferred capital grants			189	
	Being correction of error made in calculation of release of deferred capital grants				
3	Staff costs		46		
	Accruals			46	
	Being errors in holiday pay accrual calculation identified				
4	Prepayments			10	
	Expenditure		10		
	Being omission of a prepayment relating to a telecommunications invoice				
5	Fixed Assets – IT Equipment Accumulated Depreciation			282	
	Fixed Assets – IT Equipment Cost				282
	Being writing out of IT equipment disposed of which was fully written down at period end				
	Reclassifications				
6	Other income – Residences and catering		64		
	Other income – Other income	64			
	Being misclassification of offsite catering income				
	Late Adjustments made by the College				
7	Fixed Assets – Accumulated Depreciation			5564	
	Fixed Assets – Cost				5279
	Exceptional loss on revaluation of land	615			
	Revaluation Reserve				900
	Being adjustments for revaluation received after audit fieldwork				
8	Staff costs		25		
	Accruals			25	
	Being adjustment for Chair's remuneration not claimed				
9	Operating Expenses	16			
	Accruals				16
	Being late accruals/adjustments relating to expenditure				
10	Income	40			
	Accrued income and prepayments				17
	Accruals and deferred income				23
	Being late accruals/adjustments				
	Total	**735**	**522**	**6,304**	**6,517**
		=====	=====	======	======
	Overall increase in Net Deficit	**213**			

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Audit and Accounting Adjustments and Confirmation (Continued)

22. In addition, a number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

Confirmations and Representations

23. We confirm that as at the date of this report, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

24. In accordance with auditing standards, we obtained representations from the College on material issues.

Financial Reporting

25. Colleges were reclassified as Government Bodies from 1 April 2014, resulting in a change of financial year-end to 31 March. From 1 April 2014 Incorporated Colleges and Regional Boards were required to comply with the SPFM, except where directed by SFC's Accountable Officer. Financial reporting is now undertaken in accordance with HM Treasury's FReM 2014/15 in addition to the SORP on Accounting for Further and Higher Education and the SFC's Accounts Direction. As a result:

- in 2013/14 colleges prepared financial statements for an eight month period to 31 March 2014;

- following this change colleges have been allowed to return to the 31 July financial year end although they are still required to meet HM Treasury annual budgeting and reporting requirements at March. The current financial period for 2014/15 covers the 16 months from 1 April 2014 to 31 July 2015.

- in April 2015 the College submitted the required Resource and other returns for 31 March 2015 to the SFC. In September, as allowed, an update was submitted which made the following adjustments:
  - ♦ Deferred Capital Grant additional release £0.140m
  - ♦ Reduced donation to Foundation £0.250m
  - ♦ Pension liability accrual (as at 31 July 2015) (£1.973m)

26. The application of the FReM results in some changes and additional disclosure. The College has valued assets at current value with a valuation taking place and being applied in the financial statements every five years (with an interim valuation in year three) for some time. In 2013/14 the College also included an accrual for holiday pay in the financial statements. As a result changes that might have been required in 2014/15 to comply with these elements of the FReM were already in place in the College's financial reporting. Other changes to reporting in 2014/15 are inclusion of the following information in the Operating and Financial Review:

- Estates strategy information,
- Remuneration Report

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Financial Position

27. Colleges are required to break even in line with their agreed spending budgets each year to 31 March. Updated returns at 31 March show a resource underspend of £0.532m, due in the main to the adjustments noted in paragraph 25 (excluding pension liability).. For 2014/15, as noted in the financial statements at note 35, the SFC has allowed colleges to treat the depreciation allocation of their budgets as if it was a cash resource, thereby resulting in a deficit in the Income and Expenditure Account. There are also a number of other non-cash items impacting on the deficit position. Table 3 provides a summary of the College's planned and actual financial results.

Table 3: Comparison of planned and actual financial results

	2013/14 (8 months) Actual £000	2014/15 (16 months) Planned £000	2014/15 (16 months) Actual £000	2015/16 (year) Planned £000
Financial outturn Surplus/(Deficit)	240	(724)	(2,873)	63
Income and expenditure reserves (excluding pension reserve)	(3,477)	(3,449)	(4,787)	(2,822)
Cash balances	786	1,689	1,609	1,735

Source: Audited financial statements and June 2015 Forecast Financial Return (FFR)

28. The deficit of £2.873 million includes the following non-cash items:

	£'000
Use of depreciation cover	622
Early retirement pension revaluation	1,702
Loss on revaluation of land	615

29. A direct comparison of College income in 2014/15 of £43.419 million against last financial period is not possible given the change in accounting year-end. Points to note for 2014/15 include:

- SFC Capital and Maintenance Grant recognised has increased as £0.500 million of the 2015/16 grant allocation (relating to 1 April 2015 – 31 March 2016) has been accrued, £0.500 million of grant funding was received for the demolition of the Middlefield building, and ESF WSUMs income of £0.600 million was received (nil in 2013/14 as there was no ESF programme) along with receipt of a range of other one-off or new grants; and
- there has been slightly increased income from tuition fees and education contracts, including collaboration with universities and continuation of major commercial contracts won in 2013/14.

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Financial Position (Continued)

30. A direct comparison of College expenditure in 2014/15 of £45.677 million against last year is not possible given the change in accounting year-end. Points to note for 2014/15 include:

- there was a 2% staff pay increase award and small increase in staff numbers which increased pay costs;
- a £0.900 million increase in pension costs (including FRS17 pension cost increase of £0.425 million) was noted. This was largely due to higher pensionable pay as a result of the number of staff enrolled in the LGPS pension scheme increasing by 21% through implementation of the Government's auto-enrolment legislation;
- there was an increase in the enhanced early retirement provision cost by £0.514 million largely due to changes in actuarial provision as a lower discount rate on liabilities was applied by the actuary; and
- expenditure includes a donation of £1.100 million (2013/14: £4.400 million) made to the Forth Valley College Foundation (refer paragraph 46 below).

31. During the period the Middlefield building was demolished as it has reached a condition where it was uneconomical to operate and unsuitable to accommodate staff or students. A SFC grant was used to fund the cost of this expenditure (£0.287 million).

32. In recent years, voluntary severance costs, accounting for estates developments and the donation to the Forth Valley College foundation has led to the College reporting an Income and Expenditure Account reserve deficit (£4.787 million at 31 July 2015). As demonstrated from the information in paragraphs 27 to 30 the underlying position in 2014/15 continues to be robust and projections show that the College should be able to manage the position long term as long as it reacts to any negative changes on a timely basis.

2014/15 SUMs Outturn

33. The College's outturn against its 2014/15 Weighted SUMs target is shown in Table 4 below.

Table 4: 2014/15 Weighted SUMs estimated outturn

	2013/14	2014/15
WSUMs target (including ESF and PACE WSUMs)	118,503	121,664
WSUMs actual	118,631	121,781
Excess	128	117

Source: Audited SUMs returns

Accrued Income

34. In 2013/14 due to differences between the timing of SFC teaching grant in aid payments and the amount of SFC income recognised there was £2.076 million of teaching grant income accrued at 31 March 2014. As the year end has changed back to a July year end there is no need to accrue such income in 2014/15 and this has led to a material decrease in accrued income.

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Financial Position (Continued)

Accruals and Deferred Income

35. In 2013/14, due to the 31 March year end, there was a significant accrual for holiday pay which was due to staff earning holidays which they would mostly use in June, July and August. Due to the change in year end to July, the holiday pay accrual is not as significant and this is the reason for the material decrease in the accruals and deferred income figure.

FRS 17 Retirement Benefits

36. In 2014/15 the College accounted for its participation in the local government pension scheme as a defined benefit scheme. This is consistent with the accounting treatment adopted in previous years.

37. The College's pension liability increased in total by £3.315 million (2013/14: increased in total by £3.024 million) to £13.517 million at 31 July 2015 which was largely due to changes in key actuarial assumptions relating to discount rates.

Capital Income and Expenditure

38. Arrangements to access capital funding have changed under the FReM.

39. The majority of the £0.638 million of capital additions in 2014/15 related to the purchase of IT equipment (£0.562 million). Of this most expenditure related to replacement and upgrades of desktop computers as part of year one of the College's IT replacement strategy.

40. In December 2014 an Outline Business Case for a new Falkirk campus was completed. It set out that £19 million of backlog expenditure on the existing Falkirk campus had been identified and that with the future of the Grangemouth petro-chemical complex secure it was important that the College had a modern fully equipped facility to support the oil and gas industry as well as the needs of other local employers and residents. The need for a new campus was also identified as important in order to achieve the College's curriculum strategy and to become a national and international centre of excellence.

41. An external project manager for the project was appointed in March 2015, along with a Falkirk Campus Project Board which includes the project manager, Scottish Futures Trust, Senior Management Team members, and some Board members. The College are now at an advanced stage with a full business case.

42. Legal issues with the Non-Profit Distribution model planned to be used by the Scottish Futures Trust to part fund the project have been identified and the College is waiting on the Scottish Futures Trust to resolve these before proceeding with the project.

43. As part of the plans for the new Falkirk campus the Middlefield building was demolished (see paragraph 31). At 31 July 2015 the Middlefield site was included in the College's financial statements at a value consistent with an independent valuation on the basis of market value less expected directly attributable selling costs deducted in line with the Education SORP. Based on the valuation obtained we are content that the Middlefield site is included in the financial statements at an appropriate valuation.

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Financial Position (Continued)

Capital Income and Expenditure (Continued)

44. FRS 15 – Tangible Fixed Assets and the SORP require 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 FRS 15 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. We noted in last year's Annual Report that the new Alloa and Stirling campuses were depreciated on a component accounting basis in 2012/13 for the first time. We noted however that the Falkirk campus buildings has been depreciated over 32 years as a whole and not as separate components and last year recommended that component accounting was considered further for the College's other buildings in future years. Management advised that the College does not intend to adopt component accounting for the current Falkirk Campus. It is proposed that if when the new Falkirk Campus is brought into use component accounting will be adopted for the new building.

Provisions

45. The College has a provision in its balance sheet at 31 July 2015 of £8.698 million (31/03/14: £7.536 million) relating to pension costs from early retirements awarded to former employees. The College's approach to the valuation of the provision is to have an independent actuarial firm calculate this provision annually.

Forth Valley College Foundation

46. An arms-length foundation, the Forth Valley College Foundation, was set up in December 2013. The objects of the Foundation are to advance the charitable purposes of the College to include the advancement of education by making grants and financial support for projects and activities being carried out by and supported by the College. The main reason for setting up the Foundation is that the Central Government budget mechanisms mean that the ability to use college reserves and surpluses in future periods is restricted. The College has donated £1.100 million to the Foundation by way of a donation in March 2015.

47. On 24 June 2015 the College made an application to the Forth Valley College Foundation for a £1.800 million grant towards the new Falkirk campus redevelopment project. This was approved by the Foundation and is still to be received by the College.

48. To ensure that the Foundation is not consolidated into the College's financial results it requires to be independent of the College. College management determined, and we concur, that the Foundation is at arms-length from the College and does not require to be consolidated at 31 July 2015. This position will be reviewed annually.

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Corporate Governance

Corporate Governance

49. The College is responsible for ensuring that governance arrangements follow the three fundamental principles of openness, integrity and accountability and that these arrangements are in place to ensure the proper conduct of its affairs. Mechanisms to monitor the adequacy and effectiveness of these arrangements should also be in place.

50. Our responsibility, as noted in the Code of Audit Practice, is to review and report on audited bodies' corporate governance arrangements as they relate to:

- Bodies' reviews of corporate governance and 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
- The financial position of audited bodies.

51. Comments on the financial position and the College's Corporate Governance Statement are covered in the Financial Statement section of this report.

52. The Designation of Regional Colleges (Scotland) Order 2014 came into force on 3 March 2014 and formally designated Forth Valley College as the Central regional college.

53. The Board of Management has been kept up-to-date regularly with information about the regionalisation process including the duties of regional colleges. During the period the Scottish Government appointed a Regional Chair for the College's Board and the new Regional Board was appointed. A skills matrix was developed to support the recruitment process and a panel consisting of the Chair, Board members not seeking reappointment, and an independent external member undertook this process.

54. The Post-16 Education (Scotland) Act 2013 includes provisions in relation to the identification of principles of good governance practice for the college sector. In December 2014 the 'Code of Good Governance for Scotland's Colleges' was published which is mandatory for Colleges to comply with. The Code sets out the principles of good governance across five main areas: Leadership and Strategy; Quality of the Student Experience; Accountability; Effectiveness; and Relationships and Collaboration. Colleges will be expected to comply with the new Code as condition of grant from the SFC or their regional strategic body. We requested the College to undertake an evaluation of their compliance with this which did not highlight any areas of non-compliance.

55. Incorporated colleges and Regional Boards are required to comply with the requirements of the SPFM, except where directed by SFC's Accountable Officer. During the period College procedures have been updated to reflect SPFM / FReM requirements.

56. A new Financial Memorandum with Colleges has been agreed with the SFC setting out the formal relationship between the SFC and fundable bodies in the college sector, and the requirements with which fundable bodies are expected to comply in return for payment of grant by the SFC.

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Corporate Governance (Continued)

57. We have considered the College's governance arrangements through formal review of documents and procedures and informal observation of the operation of committee arrangements and the relationships between Board members and staff. In particular we have considered arrangements for risk management and reporting to committees. We did not identify any areas of concern regarding the College's governance arrangements.

Risk Management

58. Risk management is important for the development and on-going review of systems of internal control.

59. The College's Risk Management Policy and Procedure details the College's approach to risk capture, monitoring and reporting.

60. The College has a Strategic Risk Register which is reviewed by the Audit Committee. Risk is a standing item on the agenda for the Senior Management Team, all Board committees and the Board. There are also risk registers which are compiled and reviewed by each operating area of the College.

Systems of Internal Control

Control Environment

61. No material weaknesses in the accounting and internal control systems were identified during the 2014/15 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

62. Some areas were however identified from our system controls testing undertaken during 2014/15 where controls could be further improved to bring more into line with good practice. These have been raised with management, an action plan has been agreed and some items have already been addressed. Actions for improvement included:

- Ensuring that all payroll runs and bank reconciliations have evidence of being appropriately reviewed and authorised;
- incorporating further checks to ensure that all changes made to supplier standing data in the Sun finance system are bona fide;
- making sure that staff do not have the ability to both raise and authorise a purchase request on the P2P purchase order authorisation system;
- considering what controls could be put in place to ensure that transactions processed by the administrator of the P2P and Sun systems are appropriate;
- reviewing the BACS transaction limits and requiring two electronic BACS signatories;
- ensuring that all cash income banking sheets are correctly completed and signed-off and that till rolls are always attached and agree to banking sheets; and
- implementing procedures to ensure that all journals are reviewed and evidence of this review is recorded.

Internal Audit

63. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Baker Tilly provided internal audit services to the College in 2014/15.

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Systems of Internal Control (Continued)

64. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate. We have also considered the adequacy of the provision and are content that the audit service is of good quality.

65. The annual internal audit report for the year ended 31 July 2015 found that, based on the work undertaken, there were no significant issues noted with governance, the system of internal control, or the risk management framework.

Fraud and irregularity, standards and conduct, and prevention and detection of corruption

66. During 2014/15 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

67. The College has appropriate arrangements in place regarding the prevention and detection of fraud, including Standing Orders and Operating Guidelines and Code of Conduct, Financial Regulations and an Anti-Fraud Policy and Anti-Bribery and Corruption Policy.

68. No frauds were identified during the period from 1 April 2014 up to the date of signing the financial statements.

69. The College has in place the following procedures / policies in relation to standards of conduct and prevention and detection of corruption:

- Standing Orders and Operating Guidelines and Code of Conduct;
- Register of Board Members' Interests;
- Anti-Fraud Policy;
- Anti-Bribery and Corruption Policy; and
- Whistleblowing Policy.

70. The arrangements for maintaining standards of conduct and the prevention and detection of corruption are considered to be appropriate.

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Performance

Performance Audit

Introduction

71. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

72. No mandatory performance audit studies were identified by Audit Scotland for the College during 2014/15 although Audit Scotland has requested auditors to provide information in a data set for use in a sector report. In particular it has requested information about voluntary severance schemes and payments. During the 2014/15 period the College made three severance payments to staff totalling £0.050 million (ex-gratia payments and pay in lieu of notice), and no payments were made under a voluntary severance scheme.

Education Scotland Review

73. We are required by Audit Scotland's Code of Audit Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.

74. Education Scotland undertook their annual engagement review in May 2015 and feedback from this was positive.

College Performance Arrangements

75. Arrangements for financial and non-financial management are established in the College, through the operation of the Senior Management Team and the Board and its various committees. This includes budget setting and monitoring structures.

76. The College's Standing Orders and Operating Guidelines and Code of Conduct, including its Scheme of Delegation records the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner

77. The College has a Corporate Plan 2014-18 and an annual 2014/15 Operational Plan.

78. Key performance indicators are set out in the Operating and Financial Review in the College's annual report.

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Performance Audit (continued)

79. The College has a Regional Outcome Agreement which is aimed at responding to the national objectives and priorities for post-16 education, and works with Local Authorities, Community Planning Partnerships, Skills Development Scotland and employers to ensure its education provision meets the needs of learners and the community. The College continues to work in partnership with organisations to achieve economies of scale and better efficiency.

80. In October 2014 the College undertook a self-evaluation against the targets set out in the 2014/15 Regional Outcome Agreement and this found that all significant targets had been met.

81. The College's arrangements for performance management as outlined above are considered to be appropriate.

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Outlook

2015/16 and beyond

82. The funding position will remain challenging going forward. Commercial work has been an important income source of extra income. However the downturn in the oil and gas sector, which is affecting commercial income, and the impact of national pay bargaining proposals are of significant concern and robust budget setting and monitoring arrangements will be essential in helping to maintain sustainability.

83. The College's total funding allocations for the 2015/16 academic year from the SFC for Teaching and Fee Waiver is £19.767 million, the same as that received for 2014/15 and with effectively the same academic output (15/16: 83,984 credits, 14/15: WSUMs target 118,503). The College's capital and maintenance allocation, excluding arrangements to fund the new campus, for 2015/16 from the SFC has decreased by £0.355 million to £1.056 million (2014/15: £1.411 million).

84. It is expected that the use of depreciation allocations as if they were a cash allocation will be allowed again in 2015/16, resulting in a further deficit in the financial statements if the money is spent.

ONS Reclassification

85. Arrangements between colleges and the SFC to manage the revised funding mechanisms are likely to develop further as lessons are learned from the initial period of change.

FRS 102 'The Financial Reporting Standard' and new Education SORP

86. The FRC has been implementing a convergence programme aligning UK Generally Accepted Accounting Practice (GAAP) to International Financial Reporting Standards (IFRS) and published three new FRSs (FRS 100, 101 and 102) with the substantive FRS 102 'The Financial Reporting Standard' representing the final step towards IFRS convergence. These three new FRS' become the new UK GAAP, which is fully IFRS-based. The new accounting standards come into force for accounting periods commencing on or after 1 January 2015 which means that 2015/16 will be the first reporting year. However, comparative figures for 2014/15 will require to be restated.

87. In addition, a new Education SORP has been developed following the publication of the new FRSs and this received final approval from the FRC on 26 March 2014 following an extensive consultation process, and will also be effective from 2015/16. The new SORP was formally published in May 2014 and is available on www.fehesorp.ac.uk.

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Appendix I - Audited Bodies' Responsibilities

Extracts from the Audit Scotland Code of Audit Practice

The Scottish ministers, elected members, governing bodies, boards, accountable officers, managers and officials have primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with integrity and spent appropriately. Public bodies and those responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (e.g., the Financial Reporting Manual or an Accounting Code of Practice)
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Many audited bodies publish other information, such as an annual report, alongside the financial statements.

Audited bodies should prepare financial statements in accordance with statutory timescales or in good time to allow audits to be completed by any dates specified by sponsoring directorates or other bodies. Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

Corporate governance arrangements

The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer

Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.

Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

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Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls.

They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Rigorous self-evaluation should be a central part of audited bodies' performance management to support continuous improvement

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity.
This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland.

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

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers
- promoting appropriate values and standards
- developing, promoting and monitoring compliance with standing orders and financial instructions

Financial position of audited bodies

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and future use
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

The Scottish Public Finance Manual explains that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value is defined as the continuous improvement in the performance of functions. This includes having regard to the concepts of economy, efficiency and effectiveness and the need to meet equal opportunity requirements, and contributing to the achievement of sustainable development.

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

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Appendix II – Follow Up of 2013/14 Annual Audit Report Recommendations

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer/Time For Action	Progress 2014/15
36	**Financial Position** **Forth Valley College Foundation** **R1** The College should maintain an ongoing review of its involvement with the Foundation to ensure that this remains independent and that the Foundation does not need to be consolidated in the College financial statements in future.	Medium	The Board of Management believes that it holds no control over the operations of Forth Valley College Foundation. The College however has recognised the risk that if the Foundation's operations are not seen to be independent this may lead to consolidation. This risk will be monitored by the Audit Committee to ensure independence is maintained.	Yes	Alison Stewart, Director of Finance Will need to be reviewed year on year	This has been considered and the Foundation remains at arms-length

Grade

High	Issue subjecting the organisation to material risk and which should be dealt with as a high priority
Medium	Issue subjecting the organisation to significant risk and which should be addressed by management.
Low	Less significant matters, which would enhance efficiency, or do not require urgent attention but which should be followed up within a reasonable timescale.

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6. Student Funding for 2015-2016
For Discussion

1. Purpose

To update members on the final position for Student Funding in Academic Year 2014-2015 and an update on the position for 2015-2016.

2. Recommendation

That members note that there was an underspend in student support funds in 2014-2015 and the shortfall in 2015-2016 funding has been improved as we have received ESF funding, leaving the shortfall in funds for 2015-2016 at £26k, which will be funded through using surplus cash for the "net depreciation".

3. Background

The College has historically taken the view to manage within the Student Support Budget allocated by SFC and if required apply for in year distribution from SFC. In 2014-2015 we reduced our Weekly FE Bursary Maintenance by £10, as a way of managing the Fund and we released the additional £10 per week in March when we were comfortable there was funding available. We have reviewed other College's policies and most pay the maximum amount set by SFC, which for 2014-2015 was £73.61 for students who still stay at home and £93.03 for students who stay away from home. The current SFC review is also recommending that students should receive a 100% of their calculated award; therefore we are paying the maximum awards this session, £74.79 per week for students who still stay at home and £94.52 for students who stay away from home. We have also spent 2014-2015 developing the system we use to record Student Funding Payments. We have moved the payment process into a new database within the accounts system, this has allowed us to record the Students calculated monthly payments and the actual payment they receive based on their attendance. This has allowed us to gather better information and be able to run more detailed reports.

4. Key Considerations

a. 2014-2015

Appendix Two shows the Budget, Commitment and Forecasted Outturn for 2014-2015 Student Support Funds. We received a total budget of £4,177m and spent £3,912m, this resulted in an underspend of £265k for academic year 2014-2015.

One reason for the underspend is we did not release the top up until March, this meant only active students received the top up payment and not any students who had withdrawn prior to the payment being made.

We also did not factor in that attendance percentages would drop from January to July, when forecasting we assumed 95% of our committed payments would be made. However we have found that the average percentage for these months was 87%, this reduced our forecasted spend by around £156k.

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b. 2015-2016

Appendix Two shows the Budget, Commitment and Forecasted Outturn for 2015-2016 Student Support Funds. We have a total budget of £3,929m and are forecasting to spend £3,956m, resulting in an overspend of £26k.

The forecast is based on paying students their full funding from the start of academic year and a reduced attendance percentage for the later months in the academic year.

For the Childcare fund this session, we are paying for short holidays to avoid students incurring additional costs for college holidays. We have also introduced the Student Assistance Fund, which will come from discretionary funding, this fund will support students who experience unexpected financial difficulties due to circumstances which could not have been predicted at the start of their course.

c. Student Support Review

Scottish Funding Council has been carrying out a review of Student Support Funding and published their finding in November last year and has been gathering feedback on this report since then. 2016-2017 is likely to see significant changes to Student Support Funding, key recommendations are:

- Students should receive 100% of their calculated bursary award
- Students aged 18-19 years old and live at home receive EMA funding rather than Bursary
- Income Bands for calculating Bursary brought into line with SAAS
- Attendance Policies should require student attendance of 100%
- Childcare Funding should pay for short holidays; placements; self-study and school holidays that do not match college holidays

We have made changes in 2015-2016 as mentioned to cover some of these changes. For 2016-2017 we will have to update our attendance policy as currently we pay a percentage payment on 90% attendance and a full payment on attendance 95% or above. We will require SFC input before we can implement any of the other changes.

We will also be implementing changes to the EMA fund from the 1st January, the fund is be expanded to include part-time non-advanced college courses and the household income thresholds will increase meaning that a family with one dependent child earning up to £24,421 is now eligible, an increase of £4,070 on current levels. For a family with more than one dependent child, the increase is £4,481 up to £26,884. This means students who found themselves ineligible for EMA from August, may now be eligible and we will need to reassess these students. SFC and Scottish Government have awarded additional EMA Admin Income to fund the cost of this additional work.

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5. Financial Implications

The financial impact on the College budget is estimated at £26k. In essence, the College will fund the overspend in relation to Student Support and this will potentially result in the College reporting an operating deficit.

6. Equalities

Assessment in Place? – Yes ☐ No ☒

If No, please explain why –

Please summarise any positive/negative impacts (noting mitigating actions)

7. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High	x	
Medium		x
Low		
Very Low		

Please describe any risks associated with this paper and associated mitigating actions:

The College continues to be penalised for managing its Student Funding budget while others are rewarded for over committing their funds resulting in FVC students being disadvantaged and increasing the potential risk of Students withdrawing due to facing financial difficulties.

The SFC review of Student Support funding does not recognise the true shortfall in student support.

Risk Owner – Alison Stewart **Action Owner –** Louise Burnett

8. Other Implications – NA

Communications – Yes ☐ No ☒ Health and Safety – Yes ☐ No ☒
Please provide a summary of these implications –

Paper Author – Louise Burnett **SMT Owner –** Alison Stewart

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Appendix One

Student Support Spend 2014-2015

Fund	Available Funding	Committed Spend	Spend	Under/(Over) Spend
FE Bursary	3,079,412	3,262,178	2,930,591	148,821
ESF Bursary	52,952	33,948	32,575	20,377
FE Childcare	454,167	454,167	438,996	15,171
HE Childcare	173,152	173,152	113,676	59,476
ESF Childcare	10,080	0	0	10,080
FE Discretionary	280,670	248,718	273,500	7,170
HE Discretionary	126,956	139,132	123,022	3,934
	4,177,389	**4,311,295**	**3,912,360**	**265,029**

Appendix Two

Student Support Spend 2015-2016

Fund	Available Funding	Committed Spend	Forecasted Outturn	Under/(Over) Spend
FE Bursary	2,835,155	3,227,997	2,853,726	(18,571)
ESF Bursary	131,396	142,998	126,786	4,610
FE Childcare	459,297	459,297	481,920	(22,623)
HE Childcare	116,703	116,703	106,477	10,226
FE Discretionary	259,969	227,055	259,969	0
HE Discretionary	126,808	122,838	126,808	0
	3,929,328	**4,296,888**	**3,955,686**	**(26,358)**

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7. FRS 102 Gap Analysis and Action Plan
For Discussion

1 December 2015
FINANCE COMMITTEE

1. Purpose

To highlight the importance to the College of adopting the UK revised financial reporting requirements (FRS 102) for periods beginning on or after 1 January 2015 and to document the first steps required to ensure full, accurate and timely compliance.

2. Recommendation

Members review and consider the content of the attached report which summarises the areas of our accounts that require to be looked at and analysed with a view to transitioning the College's financial reporting processes, procedures and disclosures to FRS 102 compliance, the revised regulatory framework. The report also provides a high level action plan to help us to achieve this and this plan will evolve over time as we continue through this exercise. Members should satisfy themselves that the College is undertaking the necessary steps to ensure full, accurate and timely compliance with the revised regulations while also taking into account the sector guidance provided by the FEHE SORP 2015, the FReM and SFC Accounts Direction.

3. Background

In order to bring UK Generally Accepted Accounting Practice (UK GAAP) up to date and to increase consistency with International Financial Reporting Standards, the financial reporting standards for the UK and Republic of Ireland have been revised for periods beginning on or after 1 January 2015. All of the standards in existing UK GAAP have been replaced by – FRS 100, FRS 101, FRS 102 and FRS 103.

The College will be required to comply with FRS 102 while continuing to have to also comply with the FEHE SORP (revised for the financial period 15/16), and the FReM. Both the SORP and the FReM take precedence over FRS 102 if so stated and these departures from FRS 102 must be disclosed in the Financial Statements. The SORP also takes precedence over the FReM.

4. Key Considerations

Planning
The document in Appendix 1 highlights the differences between existing UK GAAP and the FRS 102 regulatory framework. Phase 1 of this transitional project is to work through these differences and understand whether and how they impact the College either operationally or in terms of financial outturn. These actions are detailed on page 39 of the report. Phase 2 will be to drill down into the areas of most impact and to work through those and will be reported and documented in due course.

All aspects of the College's accounts will be reviewed for any changes under the new regulations and our findings documented and communicated to members for discussion or approval. Key areas for consideration that we are aware of at this stage are the treatment of government grants, lease accounting, holiday pay accruals (which we have already adopted since the period ended 31 March 2014) and the presentation and disclosures within the Financial Statements.

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System Developments

As well as understanding accounting policy and treatment changes, we also have to adopt a different format of reports in the published Financial Statements. This will require system development work to ensure we can produce accurate and efficient reports in the correct format and also training of the Finance Team and any other colleagues who may be affected.

Conversion and restatement of prior accounting periods

When publishing Financial Statements for any accounting period, it is mandatory to also publish prior year comparative figures for the benefit of the readers of the accounts. As the accounting treatment of certain aspects of our operations will be different due to the revised regulatory framework, then we also have to apply these new regulations to the prior year figures in order that they are a meaningful comparative upon publication. This means re-stating the Balance Sheet both at 31 March 2014 (in order that we have an opening Balance Sheet) as well as the Balance Sheet at 31 July 2015. In order to restate the Balance Sheet we also have to reproduce the Income and Expenditure account in line with the FRS 102 regulations.

Procedures

An exercise will be undertaken to fully review our current procedures update them to adhere to the new FRS 102 compliance regulations. Some of these procedures are internal within Finance however some will also be shared with our colleagues in the College in order that they can also recognise when they may need to discuss with us the implications of some contractual obligations or funding streams under FRS 102.

5. Financial Implications

FRS 102 regulations will likely lead to a more volatile Income and Expenditure Account as we may be required to recognise income as it is received instead of deferring it – depending on the policy adopted by the College. The actual financial implications on both our statutory accounting reports and our government accounting reports will be calculated as part of the project to transition and convert and these figures will be presented to Members in due course.

6. Equalities

Assessment in Place? – Yes ☐ No ☐ Non-Applicable ☒

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7. Risk

	Likelihood	Impact
Very High		
High	X	x
Medium		
Low		
Very Low		

Please describe any risks associated with this paper and associated mitigating actions
The risks will be clearer as we work through Phase 1 and will be reported at a later date.

Risk Owner – Alison Stewart

Action Owner – Monica Halcro

8. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes ☐ **No** ☒

Health and Safety – Yes ☐ **No** ☒

Paper Author – Monica Halcro

SMT Owner – Alison Stewart

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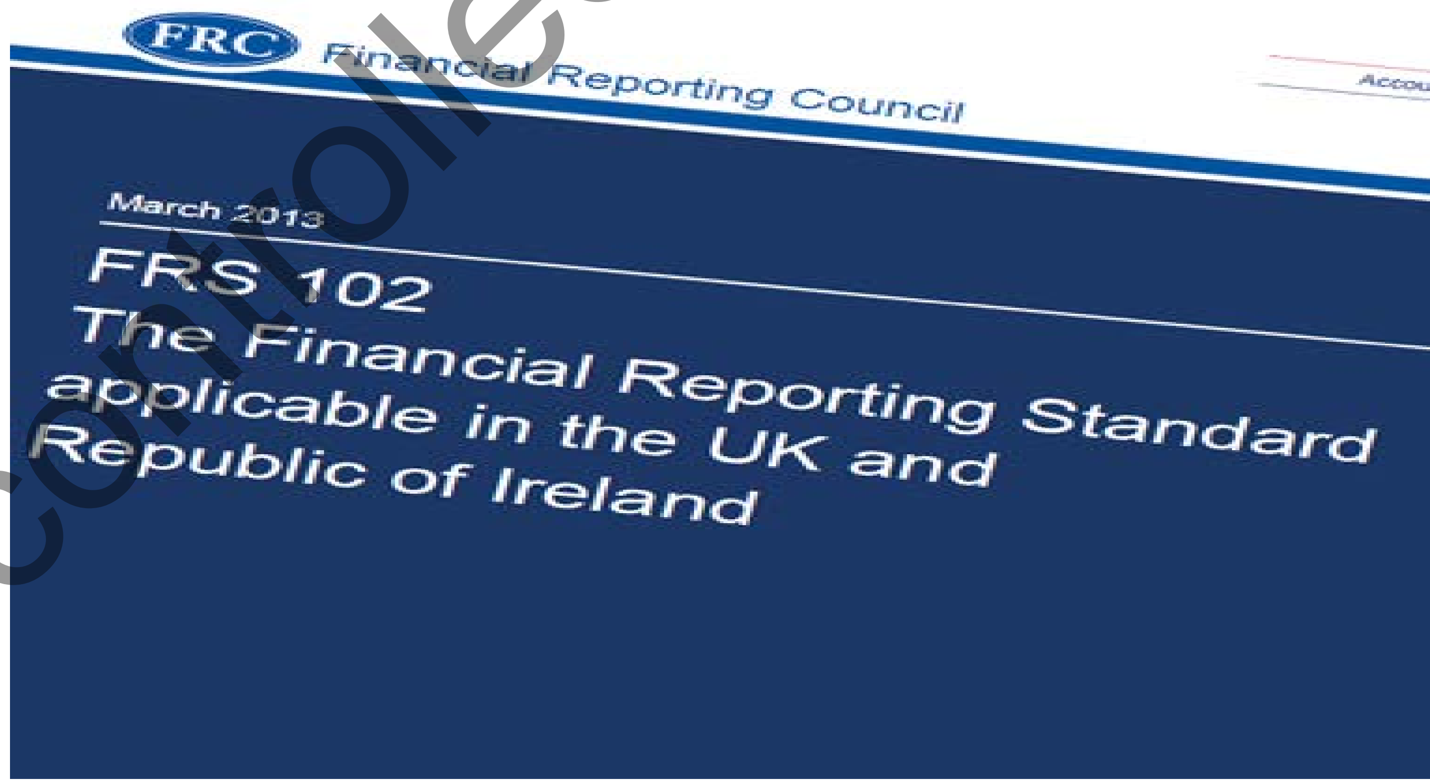
Forth Valley College

Making Learning Work



FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland

March 2013

Financial Reporting Council

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Contents

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Overall Summary

Forth Valley College ('the College') will be required to present its financial statements under FRS 102 ('new UK GAAP') for the year ended 31 July 2016, in line with all of Scotland's incorporated further education institutions. FRS 102 is a single set of accounting standards developed by the Financial Reporting Council (FRC) and replaces current UK GAAP. A new Statement of Recommended Practice (SORP) has been published as supplementary guidance for further and higher education institutions to be consistent with the requirements of FRS 102.

As part of the conversion, the Colleges will need to restate both the opening Balance Sheet as at 1 April 2014 and comparative Balance Sheet as at 31 July 2015 as if FRS 102 had always been in place. This report compares the College's existing accounting policies with FRS 102 and the SORP. For areas where we have identified FRS 102 will have a significant impact on the College we have produced an implementation plan (Section 3). From the implementation plan we have developed an action plan (Section 4).

We have identified actions relating to:

- **S** = systems and processes;
- **A** = accounting and reporting;
- **P** = people and change; and
- **B** = business.

Overall impact

The concepts and basic principles included within FRS 102 are not significantly different to UK GAAP. Four primary statements are to be presented:

- statement of comprehensive income (SOCI);
- statement of movement in reserves;
- balance sheet; and
- cash flow statement.

The statement of movement in reserves is a new primary statement and there is no longer a requirement for a statement of historical cost surpluses and deficits. In addition, the formats and naming conventions are slightly different. In general, the notes to the financial statements are more extensive under FRS 102 which follows the lead set by IFRS. The adoption of FRS 102 proposals will present colleges with an opportunity to consider their accounting policies on first time adoption and also improve some business processes.

Disclosures required by the HM Treasury Government Financial Reporting Manual ("FReM") outlined the Scottish Funding Council's ("SFC's") communication number 10, are largely still applicable under the revised FRS 102 based SORP. The annual Accounts Direction, issued by SFC will also remain applicable.

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Key Changes and Actions

The review has identified the key changes applicable to the existing financial reporting regime and related systems will be:

- **Government grants** – The SORP gives colleges the option to apply either the accruals model or the performance model when accounting for government grants. The College will need to decide whether to account for government grants:
  - by applying the accruals model with deferred capital grants reclassified as deferred income (i.e. the top half of the balance sheet); or
  - consistently with other non-exchange income and apply the performance model.

The College will be able to choose separate policies for capital government grants and revenue government grants but will then need to apply the chosen policy to all government grants in that class.

- **Capital grants** - It is likely that most capital grants received by the College will have restrictions but not performance related conditions attached to them. Where the grant is from a non-government source (the performance model must be applied) or where the performance model is adopted for government grants, income will be recorded as restricted income immediately on entitlement to the income and transferred from restricted to general reserves once the asset is complete. This will apply to grants or donations from college foundations which is non-government income and therefore applies the performance model. The SOCI will be more volatile reflecting immediate recognition of any capital grants. Where the accruals model is adopted for government grants, the deferred balance of capital grants from government sources will be treated as deferred income, reducing the net assets of the College. Deferred capital grants balance stood at £34.5m at 31 March 2014, of which the significant majority is from government sources.

- **Employment benefits** – The college has accounted for short-term 'holiday benefits' (holiday pay accrual) of £1.1m in its financial statements and its resource return at 31 March 2014 and £0.2m at 31 July 2015 so no additional accrual will be required. This will be updated on an annual basis and the anticipation is that it will not have a significant impact on future financial statements.

- **Retirement benefits** – The College will consider its accounting arrangements for the two main pension schemes where there are active employees; the Scottish Teachers' Superannuation Scheme (STSS) and Falkirk Council Local Government Pension Scheme (LGPS). The liabilities relating to LGPS are recognised on the College's balance sheet at present. The College will discuss the move to FRS 102 with Falkirk Council and their actuary to request FRS 102 compliant information. FRS 102 contains a slight change in that the net interest expense (or income) is based upon the net deficit (or surplus) within the scheme. This differs to current UK GAAP where interest is equal to the difference between unwinding the discount on scheme liabilities and the expected return on assets. STSS is a multi-employer defined benefit scheme accounted for as defined contribution schemes. This is because unfunded multi-employer schemes do not give rise to contractual obligations and any notional deficit is funded on a 'pay as you go' basis. The accounting treatment for both schemes is similar under FRS102 as for current UK GAAP.

- **Investment property –** In line with current UK GAAP, investment properties are measured at fair value under FRS 102. However movements in fair value, measured annually, will be reflected within the statement of comprehensive income. The College does not currently classify any assets as investment properties in its financial statements but should continue to review asset categorisation. Elements of operational assets may be classed and valued as investment property where that is their primary purpose and not incidental to the buildings' use for teaching, for example retail space forming part of new-build projects which attract market rent and were constructed with the intention of securing a rental income rather than to support or facilitate teaching. **[AS – is this relevant to new campus therefore to be included?]**

- **Fixed assets** - As with current UK GAAP, FRS 102 allows classes of assets to be measured at valuation or depreciated cost. The new standard requires valuations to be on the basis of 'fair value' rather than the present 'existing use value' (non specialised) and 'depreciated replacement cost' (specialised assets). Where there is no evidence for fair value due to the specialised nature of the assets, depreciated replacement cost may be used as an estimate for fair value. However, as Scottish colleges' financial statements must comply with the Government Financial Reporting Manual (FReM) following the reclassification of colleges as public bodies from 1 April 2014, all tangible assets must be carried at fair value at the reporting date with effect from 31 July 2015. Consequently, there will be no transitional or opening balance sheet adjustment in respect of valuation of tangible fixed assets. The College non-profit distributing assets, and corresponding liability will require to be recognised on the balance sheet, together with additional disclosures.

- **Leases** – A review of all the current leases held by the College will be carried out with the main lease arrangements to be clarified being the Raploch Campus agreement, photocopier leases, coffee machines, vending machines and franking machine leases . Where new leases are identified, or new leases are entered into, the College will need to review the substance of the arrangements to determine whether the risks and rewards are transferred to the lessor. In terms of disclosures, FRS 102 requires lessees to disclose future minimum lease commitments, analysed by when the payment is due. Equivalent disclosures are required from lessors. This applies to both operating and finance leases and is different to the current UK GAAP disclosures.

- **Embedded leases** – The College will carry out a review of its material contracts to determine whether any of its current contracts contain embedded leases although at first review it appears we do not have any embedded leases.. The College will develop a process to capture new contracts which contain embedded leases at contract negotiation. These typically relate to circumstances where a contract includes the provision or use of assets such as vehicles or equipment which is in effect for the sole use and benefit of the College and where the cost of which is effectively a component of lease payments. As an example, such arrangements may exist in respect of catering, facilities and IT contracts.

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Standard	UK GAAP	FRS 102	Summary of changes including specific SORP requirements	Implications for the College	Impact H/M/L	
Scope	FRS3	1	FRS 102 is applicable to entities which are not required to apply IFRS or the FRS for small entities (FRSSE) and revisions to FRS102 are expected to include applications for smaller entities currently within the FRSSE. The SORP requires the College to apply all requirements under FRS 102. In the event that an institution is required by legislation to, or chooses to, comply with standards and interpretations issued by the International Accounting Standards Board that have been adopted in the European Union (EU-adopted IFRS), then it should use the SORP as guidance to the extent that it does not conflict with the requirements of EU-adopted IFRS.	The financial statements for 8 months to 31 March 2014 and 16 months to 31 July 2015 will need to be converted from current UK GAAP to FRS 102.	H	**A1**: Develop a detailed conversion plan in respect of moving from UK GAAP to FRS 102. **P1**: Present the finance committee with a high level impact assessment (such as this report) **P2**: Identify staff and finance committee training needs and arrange appropriate skills sessions or support as required.
Concepts	FRS3	2	This section of FRS 102 describes the objective of financial statements. The concepts and basic principles are not significantly different to current UK GAAP. The qualitative characteristics set out in FRS 102 include: ▪ understandability; ▪ relevance; ▪ materiality; ▪ reliability; ▪ substance over form; ▪ prudence; ▪ completeness; ▪ comparability; ▪ timeliness; and ▪ balance between benefit and cost.	No significant impact although specific areas of the financial statements will be affected.	L	None.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for the College**	**Impact H/M/L**	**Actions required**
Financial statements presentation	FRS3 FRS18 FRS28	3	Four primary statements are to be presented under FRS 102: ▪ statement of comprehensive income (SOCI); ▪ statement of changes in reserves; ▪ balance sheet; and ▪ cash flow statement. FRS 102 does not include a requirement for a narrative report although the SORP requires the inclusion of: ▪ a strategic review; ▪ a statement of corporate governance and internal control; ▪ a statement of responsibilities of the governing body; and ▪ an independent auditors' report.	The College will need to develop financial statements based upon the model within the SORP. It is expected that typically the published financial statements will be longer under FRS 102 with more disclosures and additional narrative. *FReM 5.1.3: The format and content of financial statements is not set out by the FReM but by the SORP, applied by the annual accounts direction.* *FReM 5.2.2: The requirement to produce a remuneration report and comments on an estates strategy remain.* *FReM 5.3.2: The statement of responsibilities will continue to also refer to the FReM. Incorporated colleges will also need to consider the Scottish Public Finance Manual guidance.*	H	**A3**: Develop FRS 102 template financial statements (based on SORP pro-forma financial statements) ensuring they are suitable for the needs and circumstances of the College and reflect the requirements of the annual accounts direction.
Balance sheet	FRS 3 FRS 17	4	FRS 102 follows the balance sheet format in companies legislation. The SORP requires colleges to show net assets allocated between restricted and unrestricted reserves and will link to a note of income/endowments received with restrictions attached. A columnar presentation of restricted and unrestricted assets is not required but it is permitted.	The College will need to develop financial statements based upon the SORP proforma financial statements.	H	**A3**: Develop FRS 102 template accounts (based on SORP pro-forma financial statements) ensuring they are suitable for the needs and circumstances of the College and reflect the requirements of the annual accounts direction.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Statement of comprehensive income (SOCI)	FRS 3	5	Under current UK GAAP, the income statement is presented separately from the statement of recognised gains and losses. FRS 102 allows a choice of a single statement or an income statement with a separate statement of other comprehensive income. The SORP prescribes a single statement of comprehensive income. A note of historical cost profits and deficits is no longer required. As with current UK GAAP, FRS 102 allows the entity to present additional ('material') items to aid understanding although all additional items are shown in arriving at the operating surplus or deficit. The SORP requires that institutions must disclose the nature and amount of any material items when this information is relevant to the understanding of the institution's financial performance.	The College will need to develop financial statements based upon the SORP proforma financial statements. A single statement of comprehensive income is required under the SORP. The College currently monitors its financial performance using monthly budget monitoring reports. The changes that the SORP brings will mean that consideration will have to be given to the relationship between the financial statements and how performance is monitored. Institutions may decide to present management accounts in line with the SORP, annual resource budget and capital resource returns or a combination of formats. Key stakeholders will require training to understand differences between presentations and to understand financial sustainability. *FReM 1.3.3: In selecting accounting policies, the College should consider budgetary and control requirements but give paramount importance to the truth and fairness of the financial statements.*	H	**A3**: Develop FRS 102 template financial statements (based on SORP proforma financial statements) ensuring they are suitable for the needs and circumstances of the College and reflect the requirements of the annual accounts direction. **B6**: Consider how financial performance should be measured in the future and any changes needed to facilitate the continued preparation of management accounts and resource returns required for budgeting and monitoring purposes – which may require a different treatment for material income and expenditure streams. **B9**: Brief the finance committee and Board members on the expected changes in financial performance and targets.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Statement of changes in equity and statement of income and retained earnings	FRS 3	6	Under current UK GAAP the presentation of changes in funds / reserves is presented as either a primary statement or in the notes. FRS 102 requires that it is presented as a primary statement or appended to the single statement of comprehensive income. Under the SORP, the statement of changes in reserves will be a primary statement and will highlight the movement between restricted and unrestricted reserves.	The College will need to develop financial statements based upon SORP proforma financial statements. A new statement of changes in reserves is to be included within the primary statements.	H	**A3**: Develop FRS 102 template financial statements (based on SORP proforma financial statements) ensuring they are suitable for the needs and circumstances of the College and reflect the requirements of the annual accounts direction.
Statement of cash flows (Cash flow statement)	FRS 1	7	The definition of cash under FRS 102 is broader than current UK GAAP and includes both cash and cash equivalents i.e. short term investment deposits (normally those with an initial maturity of less than three months). The statement of cash flows itself has only three sections under FRS 102: operating, investing and financing. This contrasts to current UK GAAP where there are potentially nine sections. In addition, the presentation of cash flows from operating activities will now be presented on the face of the statement. A model statement of cash flows is included alongside the SORP.	The College will need to develop financial statements based upon the model within the SORP. The College will need to review current asset investments to identify those deposits readily convertible to a known amount of cash (usually those with a maturity of less than three months). These should be classified as cash equivalents under FRS102. As at 31 March 2014 the College had no short term investment deposits, however it has previously held deposits. The College should continue to review its investment balances going forward to ensure they are classified correctly under FRS 102.	L	**A6**: Prepare the College's cash flow statement following the format in the SORP. **A35**: Review investment balances to assess whether they should be classified as cash and cash equivalents.

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Notes to the financial statements	FRS18	8	FRS 102 is more extensive than current UK GAAP (in line with IFRS). The standard requires disclosure of judgments made by management in applying accounting policies and key assumptions regarding the future. This differs to current UK GAAP which only required disclosure of key estimation techniques.	The College will need to develop financial statements based upon the model within the SORP.	M	**A4**: Review the SORP pro-forma financial statements to ensure all required disclosures made have been made.
Consolidation	FRS 2 FRS 5	9	FRS 102 is similar to current UK GAAP regarding the existence of control and actual accounting procedures. The key difference is that the ability to control an entity is deemed control under FRS 102. However, this difference is not expected to impact the College. Investments in subsidiaries can be at cost, fair value through the income statement or fair value through reserves. There are no longer any exemptions based on size. The SORP includes a section on consolidated financial statements. Subsidiaries may be excluded from consolidation where the institution's rights over the assets, or the management of the subsidiary undertaking are severely limited.	No impact given that the College is a standalone entity with no subsidiaries. We are not aware of any entities which should be consolidated on the basis of the change to the definition of control.	L	None.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Accounting policies	FRS 3	10	FRS 102 includes detailed guidance for institutions on: ▪ selecting and applying accounting policies; ▪ consistency of accounting policies; ▪ changes in accounting policies; and ▪ disclosure requirements where there has been a change in accounting policy. The key difference relates to errors found relating to prior periods. Current UK GAAP only requires prior period adjustments for 'fundamental' errors. FRS 102 proposes prior period adjustment for 'material' errors.	The College will need to develop FRS 102 compliant accounting policies. These policies should be reviewed and approved by the audit committee. *FReM 1.3.3: In selecting accounting policies, the College should consider budgetary and control requirements but give paramount importance to the truth and fairness of the financial statements.* *FReM 1.3.4: The College needs to consult SFC before changing significant accounting policies where there could be an impact on budgets / national accounts.* *FReM 1.3.5: Budgeting and estimation implications must be considered as part of retrospective adjustment for change in accounting policies or material errors.* *FReM 2.2.6 (b): Where compliance with a requirement of the FReM would be misleading or conflict with the SORP, any material departures should be discussed with SFC and particulars disclosed in the financial statements.*	H	**A2**: Review 2015/16 accounting policies to ensure compliance with FRS 102. **B1**: Obtain finance committee approval for any amendments to FRS 102 accounting policies. **B11**: Brief the governing body on the greater likelihood of prior period adjustments as required for all material errors (not just those that are fundamental).

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Basic financial instruments	FRS 4 FRS 5	11	Accounting for financial instruments has developed by convention under current UK GAAP. Basic financial instruments include investments, certain loans, trade debtors and bad debt provisions. FRS 102 gives an option to apply IFRS, although these standards are currently under review and FRED59 proposes some restrictions to the adoption of IFRS. The following changes are proposed under FRS 102: ▪ changes in value of equity instruments are recognised in the income statement; and ▪ debt instruments such as investment loans are to be valued at amortised cost rather than fair value. The SORP requires an entity to choose to apply either: ▪ the provisions of both Section 11 and Section 12 of FRS 102 in full; or ▪ the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement / IFRS 9 Financial Instruments and the disclosure requirements of Sections 11 and 12.	Decide whether the College will adopt Section 11 and Section 12 of FRS 102.	L	**A7**: Decide whether to apply the provisions of Section 11 and 12 of FRS 102 in full or IAS39/IFRS 9 and disclosure requirements of FRS 102. **A36**: Review the financial instruments on the College balance sheet to determine whether they should be classified as basic or complex.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Other financial instrument issues	FRS 4 FRS 5	12	Other financial instruments include derivatives such as swaps and forward contracts. The new standard generally requires all other financial instruments to be measured at fair value with gains and losses recognised in the income and expenditure statement. All derivatives must be stated at fair value on the Balance Sheet unless they are closely linked to the host contract. The SORP gives colleges the option to hedge although strict criteria must be met. Hedge accounting criteria are established in section 12.18 of FRS 102 and include specific requirements in respect of documentation and effectiveness reviews which must be considered on inception and regularly thereafter. If applied, hedge accounting will reduce volatility in the SOCI.	Review required of the swap agreement currently in place and how that impacts the Financial Statements.	L	**A7**: Decide whether to apply the provisions of Section 11 and 12 of FRS 102 in full or IAS39/IFRS 9 and disclosure requirements of FRS 102. **A36**: Review the financial instruments on the College balance sheet to determine whether they should be classified as basic or complex.
Stock	SSAP 9	13	There are no significant areas of difference to current UK GAAP. An institution must continue to recognise inventories in the Balance Sheet at the lower of cost and selling price less costs to sell. Institutions may apply the first in: first out (FIFO) or the weighted average methodology for costing inventories. The LIFO model is no longer allowable.	No significant impact. The College had a stock balance of £33k at 31 March 2014 and £27k at 31 July 2015. This balance is not material to the College.	L	None.

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Investments in associates	FRS 9	14	Under FRS 102 (unlike current UK GAAP) there is no recognition of share of losses in excess of the cost of investment.	The College does not currently account for any investments in associates.	N/A	
Investments in joint ventures	FRS 9	15	FRS 102 identifies three types of joint venture arrangements; ▪ jointly controlled entities (JCE) ▪ jointly controlled operations (JCO); and ▪ jointly controlled assets (JCA). The standard requires that all separate legal entities must be accounted for as a JCE even if they do not carry out their own business. In addition, JCEs are accounted for under the equity method rather than the gross equity method under current UK GAAP. The accounting for JCOs and JCAs is similar to a JANE (Joint Arrangement that is Not an Entity) under current UK GAAP. FRS 102 requires disclosures of JCO and JCA which may not have been included under current UK GAAP. Given that the number of joint research contracts and joint teaching arrangements could be very extensive the proforma financial statement suggests pragmatic and relevant disclosures.	The College is currently involved in some joint teaching arrangements. Generally, teaching is provided at arms length, i.e. in the form of an exchange transaction with relevant costs re-charged to other entities.	L	**A25**: Review the College's joint contractual arrangements to determine whether they should be disclosed in the financial statements. **S10**: Develop a register of joint contractual arrangements. **S11**: Develop a process to assess new material joint contractual arrangements to establish whether they are jointly controlled entities, jointly controlled operations or jointly controlled assets. **P3**: Liaise with key staff within the College responsible for this area to gather the information needed to inform the transition to FRS 102.

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Comparison of current UK GAAP with FRS 102

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Investment property	SSAP 19	16	In line with current UK GAAP, investment properties are measured at fair value under FRS 102. However movements in fair value, measured annually, will be reflected within the SOCI. The SORP allows the movements to be shown in the SOCI on a separate line below income and expenditure to allow readers to distinguish the impact of these movements from other income and expenditure. The SORP allows properties held primarily for public benefit to be held as property, plant and equipment rather than investment properties. Under the SORP, student accommodation is not generally considered to be an investment property as it is supporting the delivery of education and public benefit. We anticipate that colleges will prefer to classify assets as PPE rather than investment properties to reduce the volatility in the SOCI.	The College does not currently classify any properties as investment property. Consideration should be given to the new Falkirk Campus build project to ascertain any future possibility of the College holding an investment property. Where the College holds investment property it should be annually valued at fair value with movements reflected in the SOCI.	M	**A13**: Complete review of property portfolio ahead of implementation to identify investment property. **S5**: Develop arrangements to ensure that new property purchased or constructed by the College is assessed to determine whether it should be accounted for as investment property. **B7:** Ensure that the volatility arising on investment property is understood by stakeholders and appropriately reported in management information and KPIs.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Property, plant and equipment 'Fixed Assets'	FRS 15	17	As with current UK GAAP, FRS 102 allows classes of assets to be measured at valuation or depreciated cost. However, the new standard requires valuations to be on the basis of 'fair value' rather than the present 'existing use value' (non specialised) and 'depreciated replacement cost' (specialised assets). Where there is no evidence for fair value due to the specialised nature of the assets, depreciated replacement cost may be used as an estimate for fair value. The frequency of valuations is not prescribed under FRS 102 other than to state that they should take place with 'sufficient regularity'. FRS 102 requires the application of component accounting. Whilst this was also required under UK GAAP, the introduction of FRS 102 provides an opportunity to ensure compliance in this area. If the major components of a fixed asset have significantly different useful lives, the components are expected to be recognised and depreciated separately.	As Scottish colleges' financial statements must comply with the FReM, following the reclassification of colleges from 1 April 2014, all tangible assets must be carried at fair value at the reporting date. In line with SFC Reclassification of Incorporated Colleges Communication Number 14, this removes the choice of accounting at valuation or depreciated cost. *FReM 5.4.23: provides details of the minimum categories of property, plant and equipment expected (where relevant assets are held) which are more extensive than FRS102.* **Plans to Sell Land and Buildings:** Where disposals take place, for example of the College's former estate, and the sale agreement includes conditions, the College should review the sale against revenue recognition criteria to ensure the disposal and any corresponding gain are accounted for at the correct point in time. Resource implications will also need to be considered by incorporated colleges in respect of planned or actual disposals.	M	**A11**: Review the accounting policy in relation to the valuation of land and buildings, including approach to component accounting and useful economic lives of significant components. **S6**. Develop arrangements to ensure that finance are informed when the use of a property changes so that its classification can be reviewed.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Intangible assets (other than goodwill)	FRS 10 SSAP 13	18	Accounting under FRS 102 is largely the same as current UK GAAP. An institution shall recognise an intangible asset if, and only if: ▪ it is probable that the expected future economic benefits that are attributable to the asset will flow to the institution; and ▪ the cost or value of the asset can be measured reliably. The SORP allows internally developed intangible assets to be capitalised providing specified recognition criteria are met. The capitalisation of web development costs, including electronic courses, is generally discouraged within the sector.	There is no direct impact as the College financial statements do not currently reflect any intangible assets. .	N/A	

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Standard	UK GAAP	FRS 102	Summary of changes including specific SORP requirements	Implications for Forth Valley College	Impact H/M/L	Actions required
Business combinations and goodwill	FRS 6 FRS 7 FRS 10	19	FRS 102 covers acquisitions, combinations and mergers. There are some significant changes outlined in relation to intangible assets recognised in business combinations. Specific guidance to public benefit entities for combinations that are in substance a gift and combinations that are a merger are set out in Section 34 of FRS 102. Goodwill is not recognised unless it can be estimated reliably and intangible assets that are in substance gifts are recognised at fair value rather than subsumed within goodwill. Goodwill acquired on a business combination is recognised as an asset initially at cost with subsequent measurement in line with the amortisation of intangible assets as set out within the SORP. Under FRS 102, intangible assets including goodwill should be amortised over five (increasing to 10) years unless a reliable estimate may be made of the useful life.	No significant impact as the College financial statements do not currently include any goodwill and there are no significant acquisitions planned.	N/A	
Leases	SSAP 21	20	FRS 102 requires lease classification to be based on a 'risk and rewards incidental to ownership' approach (similar to UK GAAP). Indicators of a finance lease arrangement are included in the standard but exclude the 90% test (moving to 'substantially all risks and rewards test'). There is unlikely to be a significant impact on the classification of leases.	Although the classification of leases is unlikely to be significantly affected by the move to FRS 102, the College will need to have a detailed understanding of its leasing arrangements ahead of potential changes to lease accounting under IFRS (which would most likely be incorporated into the new UK GAAP and take effect from 2018/19).	M	**A4**: Review the SORP proforma financial statements to ensure all required disclosures made have been made.

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Leases	SSAP 21	20	*Lease Premiums and incentives* Current UK GAAP requires lease premiums and incentives such as rent free periods to be recognised through profit and loss equally over the term of a lease up until the first rent review (break). FRS 102 does not provide any specific guidance on lease incentives but it is assumed (based upon IFRS) that rent free periods can be spread over the full term of the lease. FRS 102 contains a first time adoption exemption for lease premiums and incentives. *Disclosures* FRS 102 requires lessees to disclose future minimum lease commitments, analysed by when the leases expire. This differs to current UK GAAP which requires only annual lease commitments to be disclosed by when the lease expires. *Embedded leases* FRS 102 also requires entities to consider whether any of its contractual arrangements contain embedded leases. An embedded lease is where an arrangement depends on the use of a specific asset or assets and conveys the rights to use and control the asset.	The College currently does not hold finance leases, however if in the future the College was to avail of a finance lease it should be aware this will result in additional information requirements to support the disclosure of future minimum lease commitments, analysed by when leases expire. This differs to current UK GAAP which requires only annual lease commitments to be disclosed as to when the lease expires. The College will need to review major contracts to identify any embedded lease arrangements but based on our discussions, these are unlikely to be in place. Typical scenarios in which colleges may find embedded leases include catering and facilities contracts (which include the contractor providing material assets for the exclusive use in delivering the College contract, such as kitchen equipment or vehicles). Embedded leases are also common in communication contracts related to internet and data circuits (inter-campus LAN and internet connections).	M	**S12**: Review the central contracts register which records material contracts from all areas of the College including support services and departments. **S15:** Set up a system to record all leased assets that and ensure the disclosure of operating and/or finance leases is complete. Ensure all future leases are captured as part of this system. **P3**: Liaise with key staff within College departments to gather the information needed to inform the transition to FRS 102. **A18**: Carry out a review of major contracts to identify any embedded lease arrangements.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Provisions and contingencies	FRS 12	21	The proposals within FRS 102 on the accounting for provisions and contingencies are very similar to current UK GAAP. Specifically a provision shall only be recognised where: ▪ there is an obligation at the reporting date as a result of a past event, and the institution has no realistic alternative to settlement; ▪ the transfer of economic benefits in settlement is more likely than not; ▪ the value of the obligation can be estimated reliably. The SORP includes specific examples which provide guidance on applying the requirements of Section 21 in recognising and measuring provisions.	No significant impact as the accounting requirements are very similar to existing UK GAAP. As at 31 March 2014, the College had provisions within its accounts of £4.4m, all relating to enhanced pension payments. These provisions will continue to be recognised under FRS 102. In addition the College will need to recognise a provision for past deficits within multi-employer pension schemes where there is an agreed deficit funding plan. This may not be the case in an unfunded scheme such as the Scottish Teachers' Superannuation Scheme. Where there is such an agreed deficit funding plan, FRS 102 requires a liability to be recognised for the present value of the contributions payable that arise from that agreement (to the extent that they relate to the deficit) with the resulting expense recognised in the profit or loss. This accounting is likely to give rise to much more volatility in the profit or loss as deficit funding plans are revised with each triennial actuarial valuation, and previously assessed liabilities are increased or decreased.	M	
Liabilities and equity	-	22	There are no significant areas of difference between FRS 102 and current UK GAAP. In general, this section will not be applicable to most institutions in the sector. Those institutions with subsidiary companies may need to consider the requirements of FRS 102.	No impact for the College based upon its current operations.	N/A	

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Revenue recognition – trading	SSAP 9 FRS 5 App G	23	There are no significant changes proposed in respect of revenue recognition from trading (commercial) activities. In accordance with FRS 102, commercial substance is deemed to exist where a customer receives goods or services in return and at equivalent fair value to the revenue. The SORP includes the following examples of commercial income: ▪ tuition fees paid by students whether or not the cash is provided through a third party, for example the Student Loans Company; ▪ consultancy; and ▪ other commercial revenue including accommodation, catering and commercial research income. Similarly to UK GAAP, income is accounted for gross, unless the College collects it as an agency, in which case it is accounted for on a net basis. Where costs are recharged to other entities as part of joint ventures and partnerships, they should be accounted for on a gross rather than net basis. Fee waivers, bursaries, scholarships and student support may be fee discounts or expenditure, regardless of their title. The substance of arrangements will determine the appropriate accounting treatment. This is the same as under the existing SORP. The SORP takes a principles based approach to these arrangements.	In the year ended 31 July 2015, around 27% (£12m) of the College's annual income came from its trading activities (including non-SFC tuition fees, residences and catering, and commercial activities). There are no significant implications in terms of revenue recognition for these areas.	L	**A19**: Review the accounting treatment for bursaries should the College require to part-fund Student Support Funds to ensure that it complies with the requirements of FRS 102.

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Section Two

Comparison of current UK GAAP with FRS 102

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Government grants and non-exchange transactions Introduction	SSAP 4 SSAP 9 FRS 5 App G	24 34	Under current UK GAAP, grants from government and non-government sources are recognised in the income and expenditure statement on an accruals basis, matching the expenditure towards which they are intended to contribute. FRS 102 allows government grants to be accounted for either based on the performance model or the accruals model and the choice of policy may be made on a class by class basis. However, funding (including grants) from non-government sources is regarded as a non-exchange transaction under FRS 102 and must be accounted for using the performance model. In addition, under the SORP, government grants relating to land purchases must be accounted for using the performance model. We expect that colleges will wish to consider revenue and capital grants as separate classes. The College will need to classify grants as either relating to revenue or to capital. Where revenue funding is applied to capital, the policy for capital grants would apply. Where the College adopts the accruals model for revenue government grants, it will need to recognise the income on a systematic basis to match related expenditure. SFC grants are typically paid in the year of expenditure, simplifying recognition. Where the College adopts the accruals model for capital government grants (excluding those used for the purchase of land), it will need to recognise grants relating to assets in income on a systematic basis over the expected useful life of the asset. In effect grants are deferred to match against future expenditure or to release to income over the future life of the corresponding asset. FRS 102 requires the liability to be held as deferred income within the College's liabilities on the balance sheet.	The College will need to decide whether to adopt the performance model or the accruals model for revenue and capital government grants. Under FRS 102, the SOCI will be more volatile reflecting immediate recognition of grants from non-government sources. Where the performance model is adopted for classes of government grant then this will increase the volatility further. If the College receives grant income (revenue and capital) from non-government sources, application of the accruals method (in respect of government grants) will lead to inconsistency in the treatment of grants from different sources (where the performance model is mandated). We do not expect this to be common in the sector. If the accruals model is adopted for capital government grants, there will also be a significant impact on the College's net assets when deferred government grants are reclassified to deferred income under FRS 102. For the College, this would result in a reduction in net assets of £34 million in relation to deferred SFC capital grants as at 1 April 2014.	H	**A9**: Decide whether to apply the accruals model or the performance model for each of revenue and capital government grants. **A43:** The College should be aware of the impact of a change in accounting policy against bank covenants and continue to liaise with Barclays on this.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Government grants and non-exchange transactions Introduction (continued)	SSAP 4 SSAP 9 FRS 5 App G	24 34	Where the College adopts the performance model for revenue or capital government grants, and for all non-exchange transactions, all revenues will be credited to income unless there are performance related conditions attached (i.e. "a condition that requires the performance of a particular level of service or unit of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance"). Where performance related conditions exist, revenue is recorded as the conditions are met. Any non-exchange income that includes restrictions should be included in restricted reserves and disclosed in the bottom half of the balance sheet. Non-exchange income with performance related conditions will be treated as deferred income on the balance sheet and will also need to be disclosed. Additionally, the SORP requires disclosures of income from non-exchange transactions with details of whether restrictions are temporary or permanent. This disclosure is similar to current disclosure of donations and endowments.	Where performance related conditions are attached to grants, the College will need to consider the "units of output" or "levels of service" from grants that meet the definition of performance related conditions and recognise income accordingly. Examples of performance related conditions could be staff time or specific expenditure. Where the College has submitted a budget to receive a grant, the "levels of service" within this budget (e.g. staff time) are considered performance related conditions. In such circumstances the income will be recorded in line with the expenditure/staff time incurred.	H	**A20**: Review non exchange income to establish whether it should be recognised as income or deferred in line with performance related conditions. Specifically considering income from College foundations **A21**: Where the performance model has been adopted, review government grants at the balance recognised as income or deferred in line with performance related conditions

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Government grants and non-exchange transactions Research income from government and non-government sources	SSAP 4 SSAP 9 FRS 5 App G	24 34	For research grants from government sources, the College will need to decide whether to apply the accruals model or the performance model. Under the accruals model, the accounting will be the same as under current UK GAAP. Research grant funding from non-government sources is regarded as a non-exchange transaction and must be accounted for using the performance model. Under the performance model, all revenues will be credited to income unless there are performance related conditions attached. Where performance related conditions exist, revenue is recorded as the conditions are met. Research contracts are likely to have to have performance related conditions based on units of output within a budget and income will be largely matched to expenditure as under the accruals method.	The college does not currently receive research grants. If in the future the College were to receive income in relation to research contracts, then for grant income from non-government sources including charities, and for government grants if the performance model is adopted for revenue government grants, the move to FRS102 may have an impact in terms of revenue recognition. The College would need to consider the “units of output” or “levels of service” from research grants that meet the definition of performance related conditions and recognise income accordingly.	L	**S7**: Develop a process for new research contracts to identify and record the source and any associated performance related conditions. .

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Government grants and non-exchange transactions Donations and endowments	SSAP 9 FRS 5 App G	34	All revenues will be credited to income unless there are performance related conditions attached (ie "a condition that requires the performance of a particular level of service or unit of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance"). Where performance related conditions exist, revenue is recorded as the conditions are met. Per KPMG consultation, the SORP defines the performance model related condition for an endowment as the creation of the endowment fund. Donations and endowments with restrictions are recorded within restricted income and restricted reserves until such time that the restrictions are met. At such time related expenditure is reported in statement of comprehensive income and will reduce the restricted income held in restricted reserves to nil. Donations without restrictions are recorded as part of unrestricted income as soon as the College is entitled to the income.	The college does not currently receive significant donations and endowments. If in the future the College were to receive income in relation to donations or endowments these monies should be treated as non-exchange income with performance related conditions or as donations with restrictions. KPMT advice is that we would expect most donations and endowments to be recognized immediately as income and then recorded in the College's reserves. The College would need to consider the terms of donations and endowments to determine whether they have restrictions attached. Restrictions only exist where such restrictions are imposed by the donor and are not self-imposed by the institution. **Forth Valley College Foundation** The college has previously transferred £5.5m to the Forth Valley College Foundation. An application for funding of £1.8m was made in 2014-15 for new college campus development however the cash has not yet been drawn down.	H	**A20**: Review non exchange income to ensure that it is recognized as either income or deferred in line with performance related conditions. Specifically considering income from the ALF. **S8**: Develop a process to identify whether endowment and donation income includes performance related conditions or external restrictions so that this can be accounted for appropriately under FRS 102.

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Government grants and non-exchange transactions Capital	SSAP 4 SSAP 9 FRS 5 App G	24 34	Under current UK GAAP, grants from government and non-government sources made as a contribution towards fixed assets are recognized over the expected useful economic lives of the assets. FRS 102 allows government grants to be accounted for either based on the performance model or the accruals model. However, grant funding from non-government sources and government grants relating to land purchases must be accounted for using the performance model. It is likely that most capital grants have restrictions but not conditions attached to them although in some cases the construction of the asset may be a performance related condition. Stipulations related to the use of the building after construction is completed are not performance related conditions. Restrictions are typically in the application of funds and their intended purpose. A condition is where entitlement to funding is dependent on a certain activity or level of output being performed. A stipulation on the purpose of funds (eg for a new science lab), is not normally a condition. Where there is no performance related condition, income should be recorded as restricted income immediately on entitlement to the income. When the expenditure is incurred and capitalized there is a corresponding transfer from restricted to unrestricted reserves.	If the College adopts the performance model for government grants, the full deferred capital grants balance will be released to reserves on conversion to FRS 102. Subsequent receipts will be recognized as income when performance related conditions are met (often on receipt). If the College adopts the accruals model for government grants then the deferred capital grants balance relating to government grants (other than those used for the purchase of land) will be reclassified to deferred income. The significant majority of the College's £35m deferred capital grants are from government sources. Depending on which model is adopted these will either be: • released immediately to reserves with no impact on net assets • transferred to deferred income, reducing net assets	L	**A9**: Decide whether to apply the accruals model or the performance model for each of capital and revenue government grants. **A20**: Review non exchange income and government grant income to establish whether it should be recognized as income or deferred in line with performance related conditions. **A22:** Review the deferred capital grants balance, releasing deferred capital grants from non-government sources to reserves. **A23:** Where the performance model has been adopted, review the deferred capital grants balance, releasing deferred capital grants from government sources to reserves.

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Review of key areas

Standard	UK GAAP	FRS 102	Summary of changes including specific SORP requirements	Implications for Forth Valley College	Impact H/M/L	Actions required
Government grants and non exchange transactions Capital (continued)	SSAP 4 SSAP 9 FRS 5 App G	24 34	The SORP requires that the financial statements should disclose: ■ the accounting policy for income recognition of government grants; ■ the nature and amounts of grant, for example the major government grant income streams by funding bodies; ■ unfulfilled conditions attached to grants not recognised in income in categories that support the reader of the financial statements. For example conditions that will be met through time, performance or milestones; and ■ an indication of other forms of government assistance from which the entity has directly benefited.	The choice of accounting policy may mean that different elements of the grant funding for an asset will need to be accounted for differently. For example, the College may receive a capital grant from SFC for 50% of an asset match funded by a capital grant from a non-government source. If the College chooses to adopt the accruals model for government capital grants then the two elements of funding for the asset will be accounted for differently: ■ 50% grant from non-government source will be recognised as income when the asset is constructed; and ■ 50% grant from SFC will be held as deferred income and released to income to match depreciation.	H	**A24**: Where the accruals method has been adopted, reclassify deferred capital grants from government sources to deferred income. **S8**: Develop a process to identify on receipt whether capital grants have performance related or externally imposed restrictions to enable them to be correctly accounted for under FRS 102. **S9:** Develop a process to identify on receipt whether capital grants have performance related or externally imposed restrictions to enable them to be correctly accounted for under FRS 102 **B5**: Brief the governing body on the significant impact on the net assets of the College arising from the selected model for the recognition of government grants.

Comparison of current UK GAAP with FRS 102

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Government grants and non-exchange transaction Revenue grants – non research	SSAP 4	24	Under current UK GAAP, government grants are recognised in the income and expenditure statement to match the expenditure towards which they are intended to contribute. FRS 102 allows government grants to be accounted for either based on the performance model or the accruals model. However, grant funding from non-government sources must be accounted for using the performance model. Government grants include funding grants and research grants received from government entities other than those that meet the definition of a trading transaction. Funding from government and non government sources for education contracts and broader research grants are generally not deemed to be of commercial substance despite the benefit that society receives from such income. There may be examples of commercial research contracts whereby the output is delivered specifically for the funder and has commercial substance. Such contracts are recorded as revenue transactions whether or not the funding body is a government body, and therefore income is recorded in line with the service provided.	Under the SORP, annual revenue grants such as the SFC teaching grants are recognised in the year to which they relate. This accounting treatment does not differ from the current SORP. Re-alignment of the accounting reference date and academic year end will therefore reduce accrued and deferred amounts. The opening balance sheet under FRS 102 (as at 1 April 2014) and comparative period in the transitional financial statements, being 1 April 2014 to 31 July 2015 will include material deferred income which should be reviewed against the SORP requirements. If the performance model is adopted for government grants, where SFC grants relate to more than one accounting period it will be necessary to analyse the 'grant' conditions to confirm whether performance related conditions (e.g. teaching for specific time periods) exist. Where the accruals model is adopted for government grants, SFC grants will be matched to the corresponding expenditure. Each significant grant will need to be reviewed for the source of funding and for the existence of performance related conditions. For example, our review deferred SFC economic downturn funding may not have associated performance related conditions.	M	**A20**: Review non-exchange income and government grant income to establish whether it should be recognised as income or deferred line with performance related conditions.

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Borrowing costs	FRS 15	25	There are no significant changes proposed in respect of borrowing costs. Entities can still adopt a policy choice of expensing all borrowing costs or capitalising borrowing costs where specific criteria are met. The SORP allows capitalisation of borrowing costs. When an institution adopts a policy of capitalising borrowing costs it should be applied consistently to all qualifying assets.	The College does not capitalise borrowing costs. Should the College develop significant capital programmes funded through borrowing in the future, it would have to consistently apply the policy of capitalising borrowing costs in the future. *FReM 6.2: Borrowing costs in respect of qualifying assets held at fair value shall be*	L	**A37**: Review accounting policy in relation to borrowing costs ahead of FRS 102 implementation.
Share-based payment	UITF 38 FRS 20	26	FRS 102 allows the use of directors' valuation rather than a fair value exercise on grounds of cost or effort. This section is unlikely to be relevant for further and higher education institutions.	No impact - standard not relevant for the College.	N/A	
Impairment	FRS 11	27	The approach to the impairment of assets under FRS 102 is largely the same as current UK GAAP with impairments recognised when the recoverable amount of an asset falls below book value. FRS 102 explicitly requires an entity to review for indications of impairment at each reporting date. Where specialised assets exist, an indicator of impairment may exist where there is a reduction in service potential from a group of assets which deliver the service. This group of assets is likely to be at a department or faculty level rather than course level.	No significant impact expected given the approach to impairment under FRS 102 is largely the same as current UK GAAP. It should be noted that FRS 102 explicitly requires the College to assess whether there are indications of impairment at each reporting date. Impairment identified by colleges is likely to have resource implications as they will not have formed part of budget expectations.	L	**A10**: Review the accounting policy in relation to valuation of land and buildings including approach to component accounting **A14**: Ensure arrangements are in place to carry out an annual review of impairment at each reporting date.

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Comparison of current UK GAAP with FRS 102

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Employment benefits: post employment benefits	FRS 17	28	The accounting for defined benefit schemes under FRS 102 follows the same principles as FRS 17. Where there would be 'undue cost or effort' in applying the projected unit credit method in measuring the defined benefit liability, the entity is allowed to make simplifications in which future salary progression, service or possible mortality during an employee's period of service are not considered. Current UK GAAP, FRS 102 and IFRSs all acknowledge the difficulties of applying defined benefit accounting to multi-employer schemes (such as the Teachers' Pension Scheme or colleges Superannuation Scheme). However FRS 102 includes the requirement to provide for contracted past benefits arising on funded multi employer schemes. For on balance sheet defined benefit schemes FRS 102 requires that the net interest expense (or income) is based upon the net deficit (or surplus) within the scheme. This differs to current UK GAAP where the interest is equal to the difference between unwinding the discount on scheme liabilities and the expected return on assets.	The College will need to consider its accounting arrangements for the two main pension schemes where it has active employees: Falkirk Council Local Government Pension Scheme (LGPS) and Scottish Teachers Superannuation Scheme (STSS). LGPS is a multi-employer defined benefit Local Government Pension Scheme. The College should discuss the move to FRS 102 with Falkirk Council's actuary to ensure that the actuary is aware of the need to provide FRS102 compliant information. STSS is a multi-employer defined benefit scheme accounted for as defined contribution schemes. This is because unfunded multi-employer schemes do not give rise to contractual obligations and any notional deficit is funded on a 'pay as you go' basis. The accounting treatment for both schemes is similar under FRS102 as for current UK GAAP.	M	**A32:** Confirm all assumptions adopted for salaries, employees and discount rates for pension calculations with the external audit team. **P5**: Liaise with the actuary for the Local Government Pension Scheme to obtain FRS 102 compliant information.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Employment benefits: post employment benefits	FRS 17	28	The accounting for group defined benefit plans differs from current UK GAAP; the cost of a defined benefit plan is recognised in the financial statements of the group entity that is legally the sponsoring employer for the plan if it is not allocated to other entities.		M	

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Employment benefits: Short term employment benefits	FRS 17	28	These are employee benefits (other than termination benefits) which are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. Examples relevant to the sector include: ▪ wages, salaries and social security contributions; ▪ short-term compensated absences such as paid annual leave; and ▪ non-monetary benefits for current employees. Current UK GAAP does not specifically refer to short term employment benefits and accrued annual leave pay is not typically accounted for in the further education sector (except in resource returns for incorporated colleges). FRS 102 does refer to paid annual leave as an employment benefit and as such it will be necessary for entities to provide for employees who have not taken their full leave entitlement.	The College has previously recognised a year-end accrual for untaken annual leave of approximately £1.1 million at 31 March 2014 and £0.2m at 31 July 2015. In future years, assuming the annual leave allowance, staff numbers and leave year remain very similar, the movement in the provision will be limited. In order to estimate the provision, it is necessary to understand the different employment contracts and working patterns in place, particularly to understand differences in annual leave entitlement and holiday years. The College has manual records of annual leave entitlement and holiday taken for all categories of staff.	M	**S4**: Establish a robust system for calculating / updating the employee benefits accrual on an ongoing basis. **P3**: Liaise with key staff within College departments to gather the information needed to inform the transition to FRS 102. **P6**: Inform employees of the need to keep records of any untaken annual leave, flexi-time and time off in lieu up to date to support the calculation of the year end accrual.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Income tax	FRS 16 FRS 19	29	Principles within FRS 102 are similar to those contained in current UK GAAP. However tax issues could arise as a consequence of restatement of prior year profits. The majority of higher education institutions are charities or exempt charities and therefore potentially exempt from taxation in respect of UK income and capital gains.	No significant impact given College's charitable status and no subsidiaries. Consideration should be given to any tax matters that may arise as a result of restatement of profits, gift aid or commercial income.	N/A	
Foreign currency	SSAP 20 FRS 23	30	The initial draft of FRS 102 required that exchange gains and losses arising from the retranslation of foreign operations to be tracked and presented in a separate reserve. However, this requirement has now been withdrawn.	No significant impact for the College based upon its current operations and limited impact of FRS 102.	L	None.
Hyper-inflation	UITF 9 FRS 24	31	FRS 102 is less prescriptive than current UK GAAP on eliminating distortions caused by hyperinflation. This section is unlikely to be relevant for further and higher education institutions.	No impact for College based upon its current operations.	N/A	
Events after the reporting period	FRS 21	32	The principles within FRS 102 are similar to those contained within FRS 21. Institutions are required to identify events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue and make adjustments or disclosures where these are material to the understanding of the financial statements. Two types of events can be identified: ▪ Adjusting events relating to conditions which existed at the end of the reporting period. ▪ Non adjusting events relating to conditions which arose after the end of the reporting period.	No significant impact for the College. The only event noted in the accounts to 31 March 2014 was the ONS reclassification and there are no notes in the draft accounts to 31 July 2015	L	None.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Related-party disclosures	FRS 8	33	Disclosures under FRS 102 are less onerous. FRS 8 requires both the names of related parties and the nature of their relationship to be disclosed. FRS 102 (33) only requires disclosure of the nature of the relationship. The standard is explicit in that the remuneration of key management personnel must be disclosed (note combined balance disclosed). Per the SORP, related parties are likely to include: ▪ Members of the governing body and close family; ▪ Senior staff who hold influential posts on other bodies with which the institution has transactions; ▪ Associates, collaborations and joint ventures not fully eliminated on consolidation; and ▪ Pensions schemes for benefit of employees. Transactions with wholly owned subsidiaries do not need to be disclosed.	No significant impact for the College with similar disclosure requirements to the existing SORP. The College should also note the SORP will require disclosure of highly paid staff in salary bandings and principal emolument disclosures as currently required.	L	**A27:** Review related parties disclosures in the context of FRS 102 and the specific requirements of the revised SORP.
Specialised activities	-	34	This section of FRS 102 includes some specific issues for public benefit entities including agriculture, extractive industries, service concession arrangements, financial institutions, retirement benefit plans, heritage assets, funding commitments, non exchange transactions, public benefit entity combinations and concessionary loans.	.	N/A	

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Specialised activities (Heritage Assets)	-	34	Where the College holds heritage assets, these are to be presented as a separate class of asset on the face of the Balance Sheet. The accounting treatment is the same as the current UK GAAP.	The College does not hold any heritage assets.	N/A	
Specialised activities (Non exchange transactions)	-	34	Non exchange transactions have been considered within Section 24.	Non exchange transactions have been considered within Section 24.	H	
Specialised activities (Concessionary loans)	-	34	FRS 102 offers entities the choice of: a) recognising the amount borrowed / lent with actual interest borrowed; or b) recognising at fair value with interest imputed over the term to repayment Under current UK GAAP an entity offering concessionary loans must follow option a).	The College offers interest free employee loans, computer purchase schemes and cycle to work schemes.	L	**A42:** The College should review inward and outward loans, including any student loans issued to determine whether they should be classed as concessionary loans.

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Specialised activities (Service concession arrangements)	-	34	FRS 102 includes new guidance on Service concession arrangements where a public sector entity grants a contract for the supply of public services to a private operator. Institutions must account for arrangements on the balance sheet if: a) *an institution acts as principal in the arrangement;* e.g. If an institution has made a guarantee through a minimum occupancy guarantee then it will be the principal. An arrangement under which an institution acts as agent will be outside the scope of service concession arrangements. b) *an arrangement meets the definition of a service concession.* Such features would include: ▪ the arrangement is providing an infrastructure asset. ▪ the arrangement is providing an asset for public benefit. ▪ the operator is responsible for managing some of the asset and services provided. c) *the arrangement passes the control tests set out;* Under UK GAAP, assets are more likely to be off balance sheet with the focus on 'risk and rewards'. FRS 102 focuses more towards 'control' of the assets when deciding whether the arrangement should be accounted for on or off balance sheet.	The College is developing the new campus through a Non-Profit-Distributing ("NPD") model. It is possible that this, will meet the control tests set out in FRS 102 and meet the definition of a service concession arrangement. Infrastructure should be recognised as fixed assets of the institution. A related liability should be recognised at the same time within creditors allocated between creditors greater than or less than one year. The asset and liability initially recognised will relate to the present value of minimum lease payments (SORP section 26.21) and the asset will be valued, depreciated and impaired in the same way as assets of the same class (SORP section 26.27). Payments made by the College before the asset is recognised as such, are accounted for as a prepayment before being netted from the liability on recognition, as an initial payment (SORP section 26.26). Subsequent to initial recognition the minimum payments under the arrangement should be allocated between: (a) service costs to reflect the service element of the arrangement; (b) lifecycle additions; (c) repayment of the financial liability; and (d) an imputed finance charge (using the effective interest method set out in paragraphs 11.15 to 11.20 of FRS 102). Detailed disclosures are required as set out in SORP paragraphs 26.29 – 26.30.	H	**A40**: A full review of contracts should be undertaken to determine if any result in a service concession arrangement. **A43:** Where PFI/PP/NPD arrangements are identified, account for assets, liabilities and disclosures in line with the SORP section 26.13 – 26.30 **P7**: Ensure that finance staff have the required skills and knowledge to identify service concessions if such arrangements arise in the future.

Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Specialised activities (Service concession arrangements)	-	34	*d) the institution has a guaranteed minimum payment.* i.e. The payment mechanism provides for the entity to make minimum payments to the operator. This could be through a contracted unitary payment or a minimum occupancy guarantee.		L	
Transition		35	On transition from current UK GAAP, the financial statements for the current year and comparative year are to be presented under FRS 102. It is therefore necessary to have a balance sheet as at 1 April 2014. Accounting policies must be applied retrospectively. An institution is required to make an explicit and unreserved statement in its first set of financial statements of compliance with the SORP. Assets inherited from local authorities and other similar bodies should be held at existing book value on transition to FRS 102 or at revaluation if a transition option to revalue is applied.	In order to comply with FRS 102 and the SORP, the College will need to disclose: ▪ an explanation of how the transition from the 2007 SORP affected the College's reported financial position, financial performance and cash flows; ▪ a description of the nature of each change in accounting policy; ▪ reconciliations of its reserves determined in accordance with the 2007 SORP to its reserves determined in accordance with the SORP for both the date of transition (1 April 2014), and the end of the latest period presented in accordance with the 2007 SORP (31 July 2015); and ▪ a reconciliation of the surplus or deficit determined in accordance with the 2007 SORP for the 2014-15 financial statements to its surplus or deficit determined in accordance with the SORP for the same period.	H	**A1**: Develop a detailed conversion plan to take the UK GAAP financial statements to FRS 102 financial statement **A5**: Prepare workings for 1 April 2014 opening balances with analysis to support opening adjustments. **B2**: Consider the options available under the SORP and approve the choice of options to be made

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Review of key areas						
Standard	**UK GAAP**	**FRS 102**	**Summary of changes including specific SORP requirements**	**Implications for Forth Valley College**	**Impact H/M/L**	**Actions required**
Transition		35		These disclosures will be key to the overall transition and particularly useful in the education of governors. As discussed under section 17, the College does not have the options of adopting the revaluation model, restating to historic cost, or holding assets at a previous GAAP valuation and using this value as the deemed cost going forward. *To comply with the FReM, it must value fixed assets at fair value.* FRS 102 also includes the following exemptions on first time adoption: ▪ The College may choose not to apply section 19 on business combinations and goodwill retrospectively. ▪ Where a lease commenced before the date of transition to FRS 102, the College may choose not to apply paragraphs 20.15A and 20.25A which treat lease incentives as a reduction to lease payments spread over the life of the lease.	H	**P3**: Liaise with key staff within College departments to gather the information needed to inform the transition to FRS 102.

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Areas of greatest likely impact		
Area	**Implication for Forth Valley College…**	**Actions required…**
Audit Committee	Reporting to finance and audit committees members will be an important step in the governance arrangements. The finance and audit committees need to be aware of the high level impacts that they should expect to see on the financial statements, as a result of the implementation of these new standards. They will also require some training so that they can provide appropriate challenge when considering the accounts for approval.	**P1:** Present a high level impact assessment to the finance committee to ensure they are aware of impending changes. **P2:** Identify training needs of finance and audit committee members and provide training as appropriate. **B1:** Obtain finance committee approval for FRS 102 revised accounting policies.
Quality arrangements	External auditors will be assessing the control environment covering the conversion. Therefore, it is important that quality arrangements are put in place to minimise the risk of non-compliance.	**S1:** Establish a robust project plan with clear milestones so that progress against conversions can be monitored by the finance committee. **S2:** Ensure that all work is fully documented and judgments fully explained and justified. **S3:** Design working papers and processes within the existing ledger that will assist in future preparation of the FRS 102 compliant accounts.
Planning and resources committee	Reporting to planning and resources committee and training the committee members will be an important step in the FRS 102 conversion arrangements. The committee need to be aware of the high level impacts that they should expect to see on the management accounts and the financial statements, as a result of the implementation of these new standards.	**P8:** Present a detailed impact assessment to the finance committee. **B10:** Discuss the FRS 102 accounting policies which the College will apply.
Stakeholder communication	Reporting to SFC, funders, banks providing loans and wider stakeholders such as students and local communities is likely to be affected.	**B12:** Identify key stakeholders and arrange relevant briefings or communication plans to ensure they are aware of and understand key changes and that revised reporting arrangements continue to meet their needs.

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Section Four Detailed Action Plan

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Action required	Responsibility	Deadline	Reference
Accounting and reporting			
A1: Develop a detailed conversion plan to take the UK GAAP accounts to FRS 102 accounts.	Monica Halcro	31 Dec 2015	P5 , 36
A2: Review 2015/16 Accounting Policies to ensure compliance with FRS 102	Monica Halcro	15 Feb 2016	P10
A3: Develop FRS 102 template financial statements (based on SORP pro-forma financial statements) ensuring they are suitable for the needs and circumstances of the College and reflect the requirements of the annual accounts direction.	Monica Halcro	31 Dec 2015	P6,7,8
A4: Review the SORP pro-forma financial statements to ensure all required disclosures made have been made.	Monica Halcro	31 Dec 2015	P9, 17
A5: Prepare workings for 1 April 2014 opening balances with supporting workings and a reconciliation back to published Financial Statements	Monica Halcro	31 Dec 2015	P36
A6: Prepare the College's cash flow statement following the format in the SORP.	Monica Halcro	31 Dec 2015	P8
A7: Decide whether to apply the provisions of Section 11 and 12 of FRS 102 in full or IAS39/IFRS 9 and disclosure requirements of FRS 102.	Monica Halcro	31 Dec 2015	P11, 12
A8 Decide which of the options for the valuation of assets available under first time adoption to adopt.	N/A	31 Dec 2015	N/A
A9: Decide whether to apply the accruals model or the performance model for each of revenue and capital government grants.	Monica Halcro/Alison Stewart	31 Dec 2015	P21, 25
A10: Review the accounting policy in relation to the valuation of land and buildings, including approach to component accounting.	Monica Halcro/Alison Stewart	31 Jan 2016	P28
A11: Review the accounting policy in relation to the valuation of land and buildings, including approach to component accounting and useful economic lives of significant components.	Monica Halcro	31 Dec 2015	P15
Where the revaluation model is adopted,			
A12a: Instruct the external valuer to undertake a valuation of tangible fixed assets on the basis of fair value.	N/A		N/A
A12b: Consider the frequency of future external valuations, taking into account market conditions, impairment indicators and cost.	N/A		N/A
A13: Complete review of property portfolio ahead of implementation to identify investment property.	N/A		P14
A14: Ensure arrangements are in place to carry out an annual review of impairment at each reporting date.	Monica Halcro	30 Jun 2016	P28

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Action required	Responsibility	Deadline	Reference
Accounting and reporting (continued)			
A15: Action point removed	N/A		
A16: Review the current clarification of property leases as finance or operating to verify that it is appropriate.	Fiona Lovell	31 Dec 2015	N/A
A17: Undertake an informed estimate of the impact of treating equipment leases as finance leases to confirm that the impact is not material.	Fiona Lovell	31 Dec 2015	N/A
A18: Carry out a review of major contracts to identify any embedded lease arrangements.	Fiona Lovell	31 Dec 2015	P18
A19: Review the accounting treatment for bursaries , should the college part-fund student support funds, to ensure that it complies with the requirements of FRS 102.	Monica Halcro	31 Dec 2015	P20
A20:: Review non exchange income to establish whether it should be recognised as income or deferred in line with performance related conditions. Specifically considering income from college foundations.	Monica Halcro	31 Dec 2015	P22, 24, 25, 27
A21: Where the performance model has been adopted, review government grants at the balance sheet dates to establish whether they should be recognised as income or deferred in line with performance related conditions.	Monica Halcro	31 Dec 2015	P22
A22: Review the deferred capital grants balance at the transition date, releasing deferred capital grants from non-government sources to reserves.	Monica Halcro	31 Dec 2015	P25
A23: Where the performance model has been adopted, review the deferred capital grants balance, releasing deferred capital grants from government sources to reserves.	Monica Halcro	31 Dec 2015	P25
A24: Where the accruals method has been adopted, reclassify deferred capital grants from government sources to deferred income.	Monica Halcro	31 Dec 2015	P26
A25: Review the College's joint contractual arrangements to determine whether they should be disclosed in the financial statements (i.e. are separate legal entities).	Fiona Lovell	31 Dec 2015	P13
A26: Review recharging arrangements for joint ventures and partnerships, as well as any scholarships and bursaries to ensure they are accounted for correctly under FRS 102.	Fiona Lovell	31 Dec 2015	N/A
A27: Review related parties disclosures in the context of FRS 102 and the specific requirements of the revised SORP.	Monica Halcro	31 Dec 2015	P33

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Action required	Responsibility	Deadline	Reference
Accounting and reporting (continued)			
A31: Calculate and agree pension liabilities for inclusion on College Balance Sheet.	Monica Halcro	31 Dec 2015	N/A
A32: Confirm all assumptions adopted for salaries, employees and discount rates for pension calculations with the external audit team.	Louise Burnett/Monica	18 Nov 2015	P29
A33: Undertake an initial review of material contracts to identify any embedded derivatives.	Fiona Lovell	30 Nov 2015	N/A
A34: Determine whether to apply hedge accounting for the £30 million loan swap (and other derivatives) and consider whether the specific type of hedge accounting is available under FRS 102 and/or IAS 39.	Monica Halcro	30 Nov 2015	N/A
A35: Review investment balances to assess whether they should be classified as cash and cash equivalents.	Monica Halcro	30 Nov 2015	P8
A36: Review the financial instruments on the College balance sheet to determine whether they should be classified as basic or complex.	Monica Halcro	30 Nov 2015	P11,12
A37: Review accounting policy in relation to borrowing costs ahead of FRS 102 implementation.	N/A	N/A	P28
A38: Where hedge accounting is to be applied, prepare hedge documentation and establish a process for effectiveness testing.	Monica Halcro	31 Mar 15	N/A
A39: Review the College collections and ensure these do not meet the definition of heritage assets – consider valuing heritage assets.	N/A	N/A	N/A
A40: A full review of contracts should be undertaken to determine if they result in a service concession arrangement.	Fiona Lovell	31 Mar 15	P35
A41: The College should monitor the impact of a change in accounting policy against bank covenants.	Monica Halcro	On-going	P21
A42: The College should review inward and outward loans, including any student loans issued (other than as an agent) to determine whether they should be classed as concessionary loans.	Monica Halcro	31 Dec 2015	P34
A43: Where PFI/PP/NPD arrangements are identified, account for assets, liabilities and disclosures in line with the SORP section 26.13 – 26.30	Alison Stewart	On-going	P21, 35

Detailed Action Plan

Action required	Responsibility	Deadline	Reference
Systems and processes			
S1: Establish a robust project plan with clear milestones so that progress against conversions can be monitored by the finance committee.	Monica Halcro	30 Nov 2015	P38
S2: Ensure that all work is fully documented and judgments fully explained and justified.	Monica Halcro	31 Jan 2016	P38
S3: Design working papers and reports within the existing ledger that will assist in future preparation of the FRS 102 compliant accounts.	Louise Burnett/Fiona Lovell	31 Mar 2016	P38
S4: Establish a robust system for calculating and updating the employee benefits accrual on an ongoing basis.	Louise Burnett/Steve Still	31 Jan 2016	P31
S5: Develop arrangements to ensure that new property purchased or constructed by the College is assessed to determine whether it should be accounted for as investment property.	Monica Halcro	29 Feb 2016	P14
S6: Develop arrangements to ensure that finance are informed when the use of a property changes so that its classification can be reviewed.	Monica Halcro	30 Apr 2015	P15
S7: Develop a process for new research contracts to identify and record performance related conditions.	Fiona Lovell	30 Apr 2015	P23
S8: Develop a process to identify whether endowment and donation income includes performance related conditions or external restrictions so that this can be accounted for appropriately under FRS 102.	Fiona Lovell	30 Apr 2015	P24, 26
S9: Develop a process to identify on receipt whether capital grants have performance related or externally imposed restrictions to enable them to be correctly accounted for under FRS 102.	Monica Halcro	30 Apr 2015	P26
S10: Develop a register of contractual joint arrangements.	Fiona Lovell	31 Dec 2015	P13
S11: Develop a process to assess new material joint arrangements to establish whether they are jointly controlled entities, jointly controlled operations or jointly controlled assets.	Fiona Lovell	31 Dec 2015	P13
S12: Develop a central contracts register which records material contracts from all areas of the College including support services and departments.	Paul Johnson	TBC	P18
S13: Introduce a procedure to flag embedded derivatives at contract stage.	N/A	N/A	N/A
S14: Introduce a process to assess and document the basis for the estimate of the useful life of new intangibles (including goodwill) where this is not five years.	N/A	N/A	N/A
S15. Set up a system to record all leased assets and ensure the disclosure of operating and/or finance leases is complete. Ensure all future leases are captured as part of this system	Fiona Lovell	31 Dec 2015	P18

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Detailed Action Plan

Action required	Responsibility	Deadline	Reference
People and change			
P1: Present the finance committee with a high level impact assessment (such as this report) to ensure they are aware of impending changes.	Monica Halcro	1 Dec 2015	P5, 38
P2: Identify staff and finance committee training needs and arrange appropriate skills sessions or support as required.	Monica Halcro	TBC	P5, 38
P3: Liaise with key staff within College departments to gather the information needed to inform the transition to FRS 102.	Monica Halcro and Fiona Lovell	30 Nov 2015	P13, 18, 31, 37
P4: Liaise with the external valuer regarding the valuation methodology, including consideration of options in relation to component accounting.	N/A	N/A	N/A
P5: Liaise with the actuary for the LGPS to obtain FRS 102 compliant information.	Monica Halcro	18 Nov 2015	P29
P6: Inform employees of the need to keep records of any untaken annual leave, flexi-time and time off in lieu up to date to support the calculation of the year end accrual.	Steven Still	30 Nov 015	P31
P7: Ensure that finance staff have the required skills and knowledge to identify service concessions if such arrangements arise in the future.	Fiona Lovell	31 Jan 2015	P35
P8: Present a detailed impact assessment to the finance committee.	Monica Halcro	15 Mar 2016	P38

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Section Four Detailed Action Plan

Action required	Responsibility	Deadline	Reference
Business			
B1: Obtain finance committee approval for FRS 102 revised accounting policies.	Monica Halcro	15 Mar 2015	P10, 38
B2: Consider options available under the SORP and approve the choice of options to be made.	Monica Halcro	15 Mar 2015	P36
B3: Brief the governing body on the impact on the assets of the College arising from the selected approach to the valuation of fixed assets.	Monica Halcro	15 Mar 2015	N/A
B4: Brief the governing body on the significant impact on the net assets of the College arising from the recognition of pension scheme liabilities on the College's Balance Sheet.	Monica Halcro	15 Mar 2015	N/A
B5: Brief the governing body on the significant impact on the net assets of the College arising from the selected model for the recognition of government grants.	Monica Halcro	15 Mar 2015	P26
B6: Consider how financial performance should be measured in the future and any changes needed to facilitate the continued preparation of management accounts and resource returns required for budgeting and monitoring purposes – which may require a different treatment for material income and expenditure streams.	Monica Halcro	15 Mar 2015	P7
B7: Ensure that the volatility arising on investment property is understood by stakeholders and appropriately reported in management information and KPIs.	N/A	N/A	P14
B8: Consider carrying out a review of all endowments to confirm they are correctly classified as permanent or expendable.	Monica Halcro	15 Mar 2015	N/A
B9: Brief the finance committee and Board members on the expected changes in financial performance and targets.	Alison Stewart	15 Mar 2015	P7
B10: Discuss the FRS 102 accounting policies which the College will apply.	Monica Halcro	15 Mar 2015	P38
B11: Brief the governing body on the greater likelihood of prior period adjustments as required for all material errors (not just those that are fundamental).	Monica Halcro	15 Mar 2015	P10
B12: Identify key stakeholders and arrange relevant briefings or communication plans to ensure they are aware of and understand key changes and that revised reporting arrangements continue to meet their needs.	Monica Halcro	15 Mar 2015	P38

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Forth Valley College
Programme of Finance Committee Business

	Mar-16	Jun-16	Sep-16
1 Apologies for absence	✓	✓	✓
2 Declarations of interests	✓	✓	✓
FOR APPROVAL			
3 Minutes of previous meeting	✓	✓	✓
4 Maters Arising	✓	✓	✓
FVC Foundation - Grant Application	✓	✓	✓
Student Union Accounts			✓
Accounting Policies			✓
Resource Return 2014/15			✓
Annual Accounts			
Procurement Strategy			
Transfer to Forth Valley College Foundation	✓		
Tuition Fees & Fee Waiver Policy	✓		
Budget 2016/17		✓	
Treasury Management Strategy 2016/17		✓	
FOR DISCUSSION			
Forecast Outturn 2015/16 @ January 2016	✓		
Forecast Outturn 2015/16 @ April 2016		✓	
Forecast Resource Outturn - 2015/16			✓
Review of Risk	✓	✓	✓
Any other competent business	✓	✓	✓
FOR INFORMATION			
Programme of Committee Business	✓	✓	✓
Budget Monitoring - Qtr 1 (Oct 2015)			
Budget Monitoring - Qtr 2 (Jan 2016)			
Budget Monitoring - Qtr 3 (April 2016)		✓	

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