Agenda

29 November 2016
AUDIT COMMITTEE

Falkirk Boardroom, Falkirk Campus at 5.30pm

AGENDA

1. Declarations of interest

FOR APPROVAL

2. Minutes of meeting of 15 September 2016

3. Matters Arising

   a) A/15/021 Internal Audit Programme Progress Report
   b) A/160/006 Presentation of Internal Audit Reports

4. Annual Report and Financial Statements 2015/16 (Joint item with Finance Committee) — Alison Stewart

(Elements of this paper 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.)

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

FOR DISCUSSION

6. Presentation of Internal Audit Reports — Scott Moncrieff

   a) Review of the 2015/16 Credits data return

7. Progress Report on Audit Recommendations — Stephen Jarvie

(Elements of this paper 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.)

8. Risk Management — Alison Stewart

(Elements of this paper 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. External Board Effectiveness Review — Alison Stewart

10. Review of Risk

11. Any other competent business

For Info

Assurance Map

2. Minute of Meeting of 15 September 2016
For Approval

29 November 2016
AUDIT COMMITTEE

Boardroom, Falkirk Campus (commencing at 4.30pm)

Present:	Mrs Lorna Dougall (Chair) Mrs Beth Hamilton Ms Angela Winchester
In Attendance:	Mrs Alison Stewart, Associate Principal and Executive Director of Finance Mr Stephen Jarvie, Corporate Governance and Planning Officer Mr Michael Smith, Scott Moncrieff

A/16/001 Apologies for Absence

Mr Colin Alexander

A/16/002 Declarations of Interest

None

A/16/003 Minute of Audit Committee of 2 June 2016

The Minute of 2 June 2016 was approved as accurate.

A/16/004 Matters Arising

a) A/15/021 Internal Audit Programme Progress Report

The Chair noted that the Risk Workshop had been discussed with the Board Chair. The Committee recommend that a short risk workshop be part of the December Board of Management meeting.

b) A/15/034 Progress Report on Audit Recommendations

The Corporate Governance and Planning Officer updated members on the recent Business Continuity Test. He outlined the scenario used and lessons learned from the test.

c) A/15/036 Review of Risk

The Corporate Governance and Planning Officer confirmed that the Information Governance risk had been updated to reflect the outcome of the IT Health check audit.

A/16/005 Internal Audit Plan 2016/17

Michael Smith, Scott Moncrieff, presented the 2016/17 plan for approval.

He provided an overview of the planned activity for the year and how this tied into the previously approved three year plan.

Members noted the 'audit universe' section which seemed to indicate not all identified areas of audit activity were covered within the three year plan. Mr Smith confirmed that the items highlighted would normally form part of a five year cycle and that the 'audit universe' section ensured these would be picked up for consideration at the end of the current three year plan.

a) Members approved the Internal Audit Plan 2016/17

A/160/006 Presentation of Internal Audit Reports

Michael Smith presented the two internal audit reports which had occurred since the last meeting of the committee. He noted that the follow up review audit had confirmed that the College was making excellent progress in implementing audit recommendations.

For the SFC Financial Return audit, he highlighted that the audit was focussed on the processes involved rather than the actual information presented to SFC. He noted that the audit had only picked up a single housekeeping issue from their review.

The Associate Principal and Executive Director of Finance noted that this report would also be taken to the Finance Committee to provide reassurance on the management of SFC Financial reporting.

a) Members noted the content of the audit reports

A/16/007 Internal Audit Annual Report

Michael Smith presented the annual report covering 2015/16 internal audit activity. He noted that there had been no high recommendations made and no control objectives classified as red or black.

He confirmed that the College had a clean audit opinion for the year and thanked the staff who had supported him and his team throughout the audits over the year.

a) Members noted the content of the report

A/16/008 Progress Report on Audit Recommendations

The Corporate Governance and Planning Officer presented the update on progress against audit recommendations. He noted that there were some recommendations where an extension was requested and outlined the rational for each of these.

a) Members noted the content of the report and agreed to the extensions requested within the report

A/16/009 **Risk Management**

The Associate Principal and Executive Director of Finance presented the current Strategic Risk Register. She noted that one risk had been downgraded and also requested approval for the removal of risk 15 as this activity had now occurred and was contained in the College budget.

Members queried whether the risk associated with the Forth Valley College Foundation was still relevant. The Associate Principal and Executive Director of Finance confirmed that, as the Foundation is independent of the College and had yet to fully allocate their funds, this was still worth retaining on the risk register.

a) Members noted the content of the report and agreed to the removal of risk 15

A/16/010 **Review of Risk**

Members noted that the delay to conducting the risk workshop was a risk.

A/16/011 **Any Other Competent Business**

None.

4. Annual Report & Financial Statements 2015/16
For Approval

29 November 2016
AUDITCOMMITTEE

1. **Purpose**

To present to members the Annual Report and Financial Statements for the year to 31 July 2016.

2. **Recommendation**

Members consider the financial position of the College for the year ended 31 July 2016 and approve the Annual Report and Financial Statements for the year ended 31 July 2016.

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.

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 2015 (2015 SORP), the Scottish Public Finance Manual (SPFM) and the Scottish governments Financial Reporting Manual (FReM).

The SPFM and FReM both require additional disclosures. Key changes from previous years disclosures is the incorporation of a Performance Report in place of the Operating and Financial Review.

4. **Key Considerations**

The adoption of the Financial Reporting standard (FRS) 102 and the 2015 SORP in this reporting period has required changes to accounting policies, the key ones being in relation to the treatment of Government Grants and Financial Instruments both of which have had a significant impact on these Financial Statements. This combined with the government accounting restrictions on the ability to retain cash surpluses due to resource budgeting restrictions means it is becoming increasingly difficult to present the College's financial position in a way which informs readers of the true underlying financial sustainability of the College.

The key consideration for members is the long term financial sustainability of the College. This is referred to within the Annual Report and Financial Statements as the College continuing to operate on a "going concern" basis. Under the current reporting regime previous indicators such as reporting an operating surplus and having a strong Balance Sheet with net assets are no longer achievable. This does not however mean that the College is financially unstable.

The key measure going forward is the College's ability to generate cash from its day to day operational activities and that it can meet its liabilities as they fall due. The impact of non cash technical accounting adjustments while they are relevant to some extent should be excluded when assessing the College's financial strength.

The Financial Performance section of the Performance Report provides a detailed review of the College's financial performance for the year ended 31 July 2016 and its financial position at 31 July 2016. The key points to note are

- The actual outturn was an increased operational surplus of £699k against the original budget, excluding non-cash adjustments and the estates development cost.
- The net liability position is distorted due to the technical accounting adjustments in relation to the treatment of government capital grants and pension liabilities. Also, the impact of reclassification where surplus cash has been donated to an arm's length foundation or spent to support the estates development programme impacts on the net liabilities
- The external auditors are content there are no going concern issues as the underlying financial position has been clearly demonstrated.

5. Financial Implications

SFC guidance states that for the financial period ended 31 July 2016 Colleges are permitted to report deficits equivalent to the net depreciation figure and FRS 17 pension charges and FRS 102 adjustments of £3.976m. The net depreciation at 31 March 2016 was £608k 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 2016. . 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 ongoing financial sustainability. The full Statement is in Note 36 of the Accounts.

6. Banking Covenants

[redacted]

7. Equalities

Assessment in Place? – N/a

8. 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		x
High		
Medium	x	
Low		
Very Low		

Due to the implementation of FRS 102 in terms of the accounting treatment of certain items and the required changes to presentation the college's underlying financial health is being masked. There is a risk that those not familiar with the technical aspects of Financial Statements will misinterpret the state of the College's financial health. In mitigation of this it needs to be stressed that both the Board of Management, SFC and the external auditors are in agreement that there is no going concern issues.

[redacted]

Risk Owner – Alison Stewart

Action Owner – Irene Andrew

Paper Author – Alison Stewart

SMT Owner – Alison Stewart

FORTH VALLEY COLLEGE OF FURTHER AND HIGHER EDUCATION

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 July 2016

Scottish Charity No. SCO21191

The financial statements were approved and authorised for issue on 8 December 2016.

Contents

PROFESSIONAL ADVISERS

Financial Statement Auditors:	Henderson Loggie 34 Melville Street Edinburgh EH3 7HA
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	Campbell Dallas Titanium 1 King's Inch Place Renfrew PA4 8WF
Bankers:	Barclays Bank 120 Bothwell Street Glasgow G2 7JT
Solicitors:	MacRoberts Capella 60 York Street Glasgow G2 4TB
	CMS Cameron McKenna LLP 191 West George Street Glasgow G2 2LD
	Simpson & Marwick (t/a Clyde & Co) 144 West George Street Glasgow G2 2HG

PERFORMANCE REPORT

OVERVIEW

Principal and Chief Executive's statement

In 2015/16, thanks to the dedication of our staff and the hard work of our students, the College has continued to live up to its mission of "Making Learning Work".

The year has not been without its challenges. Continued 'flat cash' awards from the Scottish Funding Council and the inability to retain surpluses owing to reclassification as a public body have underlined the need for careful management of College resource to minimise the impact on our students.

In order to support our aspirations for the College, our commercial and apprenticeship activity has continued to play a vital role in the life of the College and the development of these and new markets have remained a key priority for the College. We are grateful for the continued support from existing stakeholders and welcome the opportunity to work with new partners locally, nationally and internationally.

The College has continued to make headway with our aspirations to deliver a new Falkirk headquarters campus to the standard of our Alloa and Stirling campuses. 2015/16 saw the Scottish Government reaffirm their commitment to this project by transferring it from an NPD funded project to a Capital project. We are excited to maintain the momentum of these developments and look forward to opening the new campus in 2019 for our students.

In 2015/16 the College also successfully undertook a full Education Scotland review. The review confirmed that the College's commitment to Creative Learning is key to maximising the resources on hand and to generate a worthwhile learning experience for students across all levels of study. Our staff have fully embraced the benefits to be gained from creative learning and this has led to a more engaging learning experience for students.

Further external recognition of the work of the College includes the College winning the TES Innovation in Learning and Teaching Award, a number of high profile visits from Scottish Ministers and Gold awards for Essential Skills and Creative Learning at the College Development Network awards.

Overall I am proud of how we have met the challenges facing us and have continued to deliver for students, our staff and other College stakeholders.

Dr Ken Thomson
Principal and Chief Executive
8 December 2016

Vision, purpose and activities

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 period 2014-2018. 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.

Performance Summary

2015/16 was a strong year for the College as we continued to progress 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. The College is now progressing with a strategy to build a new £83m Falkirk Headquarters campus, supported by a £70m grant from Scottish Government.

A full Technical Team were appointed following relevant procurement exercises to assist the College in the preparation of the Full Business Case (FBC). This document was completed and submitted to Scottish Funding Council for approval in September 2016 and a decision is awaited. Extensive internal consultation has also occurred along with public events and meetings with key external stakeholders. The College has agreed to purchase land, conditional on final FBC approval, next to the existing intended site for the new campus. The Application for Approval of Matters Specified in Conditions (detailed planning permission) was also submitted in September 2016.

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 comprises members of the Board of Management, a dedicated College Project Team, along with representation from College staff and the Scottish Futures Trust.

Our new campuses in Alloa and Stirling also 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.

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 2015/2016 we further developed our 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 and the latest available information about regional skills needs.

In 2015/2016 the College further developed its cutting edge Creative Learning initiative, with over 60 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. This initiative is proving so successful that in 2015/2016 it attracted two high profile sector awards – the College Development Network Learning and Teaching Award and the TES FE Award for Best Teaching and Learning Initiative.

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.

Finally, in May 2016 the college's quadrennial Education Scotland external review report was published. The report highlighted a sector-leading nineteen areas of positive practice and three examples of Excellence, along with two areas for development, which were already embedded within the college's future plans. The full report can be viewed on the Education Scotland website at this link http://www.educationscotland.gov.uk/inspectionandreview/reports/othersectors/collegereviews/ForthValleyCollege.asp

Instilling an energy and passion for our people, celebrating success and innovation – This year the College was the only Scottish College to achieve the highly prestigious TES award for Best Teaching and Learning Initiative. This accolade once again put the College in an excellent position to develop further its ambition of recognising and celebrating success in creative learning.

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 staff development theme of Creative Learning develops into its next stage of innovation and has seen staff throughout the organisation embracing this in their practice. The Ambassador role within the College has also moved onto the next stage with an interactive web page and blog which captures the benefits of representing Forth Valley College at a wide range of national and international events. This also gives more opportunities for staff to represent the College at a wide range of national and international events.

The total response rate for our second cultural survey was 340 completed surveys, which is around 54% of the college establishment. This figure is a slight drop of around 2.3% from the previous survey. Overall engagement of the cultural survey was extremely positive - achieving over 80% engagement across all 9 sections. Discussions are now in place to provide an action plan which will highlight key targets from the survey and focus on improvements.

Forth Valley College has officially been accredited as a UK Living Wage Employer.

Leading as a business that is a champion for governance, financial control and balanced risk taking – The Board of Management approved the adoption of the Code of Good Governance for Scotland's Colleges in March 2015. The College continues to work within this framework. During the year the College started a recruitment process for new Board members in line with the Sector Board Appointments: 2014 Ministerial Guidance. The appointments of 2 non-executive members and 1 co-opted member were approved by Scottish Ministers in November 2016. A formal induction process has been completed by all new members.

A full report on the College's financial performance is included within the Performance Analysis section of this report. The adoption of FRS102 for the first time has had a significant impact on the presentation of the financial statements. Overall the College's financial health continues to be strong which is demonstrated by the ability to generate significant levels of cash surplus on the day to day operational activities of the College. In 2015/16 this has been used to support our estates development programme for a new Falkirk campus. As an arms -length public body the College is not expected to retain reserves for future investment and is required to balance its Resource Budget.

Enhancing our position as the business and community partner of choice – Strong employer and stakeholder relationships are key to ensuring we maintain our position as a partner of choice. This has been a challenging year with the impact of the oil price drop when many of our partners have been adversely affected. We have however successfully managed to maintain and develop some key relationships; with Engineering Construction Industry Training Board (ECITB) we delivering a pre apprenticeship programme alongside the apprenticeship programme to ensure the talent is available when the oil and gas sector starts to recover. With Forth Electrical Services (FES) we have developed a bespoke management and leadership programme to provide a progression route for their apprenticeship programme. We have also maintained our position as a leading Modern Apprenticeship provider in the sector building on the engineering provision locally and have successfully extended our reach with the local SME market. Additionally we have developed our Vocational Qualification delivery direct to employers and are expanding this activity in a number of areas.

Partnerships are core to the College's vision of Making Learning Work both nationally and internationally. Relationships and collaborations have developed with both national organisations like CBI (Confederation of British Industry) and SCDI (Scottish Council for Development and Industry), and international ones like CBBC (China-Britain Business Council), SDI (Scottish Development International), the BC (British Council) as well as the University of Stirling and Glasgow Caledonian University. The international connections have created a sound platform from which we are building international activity and we have delivered COMPEX courses in Ghana and developed a skills partnership with educational institutes in Iraq.

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 onto their correct course.

Through the development of a College Data dashboard we expanded the amount and range of 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 further 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.

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.

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 –

- There will be inadequate facilities for learners due to lack of capital investment
- Failure to successfully exit from the current contractual obligations for the telecoms array on the West Block will negatively impact on College finances and estates development
- Strike action arising from National Bargaining negotiations will impact on the learning and teaching provision for students
- The current economic environment including Brexit will impact of the College's ability to generate commercial income
- Uncertainty over future SFC funding levels which impacts on curriculum planning and financial sustainability.

Going concern

The net liability position reported in these Financial statements is due to the adoption of Financial Reporting Standard (FRS)102 which resulted in the reclassification of Capital Government Grants previously treated as Reserves to Liabilities due greater than one year. The net liabilities include a Pension Provision for early retirements of £7.3m and Pension Liability of £16.8m for College's share of the Falkirk Council Local Government Pension Scheme (LGPS). To the extent that the pension deficit is not met from the College's other sources of income, it may only be met by future grants or Grant In Aid from the Scottish Funding Council. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be paid in advance of need. The Board of Management of Forth Valley College has no reason to believe that future support will not be forthcoming. Given the above it has accordingly been considered appropriate to adopt a going concern basis for the preparation of these annual accounts.

PERFORMANCE ANALYSIS

Performance Indicators

The College has adopted the core set of performance indicators which were developed by the Colleges' Finance Community of Practice. The table below details performance in 2015/16 and 2014/15.

	Year Ended 31 July 2016	Period Ended 31 July 2015 Restated
Operating surplus as % of total income: surplus on continuing activities after depreciation of assets at valuation, and exceptional items and before disposal of assets and tax expressed as percentage of total income.	**-6.2%**	-5.3%
Non SFC Income as % of total income*:* total of non-SFC income expressed as a percentage of total income.	**30.8%**	27.4%
Current assets : current liabilities: ratio of total current assets to the total of creditors: amounts falling due within one year.	0.65:1	0.69:1
Days cash: cash and short-term investments divided by total expenditure less depreciation and expressed in days.	**11**	14
Staff turnover: FTE staff on a permanent contract of employment that leave for whatever reason during the year divided by the total FTE permanent staff at the college at the period end.	**4%**	4%
Working days lost through sickness absence: Working days lost per staff FTE through sickness absence divided by the total FTEs employed at the institution at the period end (expressed as percentage).	**2%**	3%
WSUMs per staff FTE: actual WSUMs delivered in the year per FES return divided by total of FTEs involved in delivery of WSUMs.	***N/A***	*457*
Credits per staff FTE: actual Credits delivered in the year per FES return divided by total of FTEs involved in delivery of Credits.	***378***	*N/A*
Performance against Credits / WSUMs activity target: actual Credits / WSUMs delivered in the year divided by target Credits / WSUMs.	***100%***	*100%*

		Year Ended 31 July 2016	Year Ended 31 July 2015
Student outcomes: total enrolments for students completing programme with a national qualification aim, expressed as a percentage of all enrolments (per the student and staff performance indicator publication).	FE Full time	***70%***	*70%*
	FE Part time	***91%***	*88%*
	HE Full time	***75%***	*79%*
	HE Part time	***88%***	*89%*
Student retention: measures number of enrolments for which the student has completed the programme, expressed as a percentage of all enrolments (per the student and staff performance indicator publication).	FE Full time	***75%***	*77%*
	FE Part time	***95%***	*97%*
	HE Full time	***83%***	*86%*
	HE Part time	***92%***	*95%*
Early student retention: measures the number of enrolments for which the student has reached the 25% date for funding purposes, expressed as a percentage of all enrolments (per the student and staff performance indicator publication).	FE Full time	***96%***	*95%*
	FE Part time	***99%***	*99%*
	HE Full time	***98%***	*97%*
	HE Part time	***99%***	*98%*

Current & Future 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 continued specific focus for curriculum development during 2015/2016 was the Developing the Young Workforce agenda and the associated Scottish Government 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 pupils achieving vocational qualifications at SCQF level 5 or above. In pursuit of this aim, the College continued to develop and expand its portfolio of qualifications at SCQF levels 5-7 for senior phase school pupils from our three partner local authorities. This included a sixth HNC course and two pathfinder offerings of the newly developed Foundation Apprenticeships in Social Services and Healthcare and Children and Young People.

In terms of learning and teaching, in 2016/17 we will maintain our strong focus on developing a culture of creativity in learning, using a lively and engaging Creative Learning Conference for staff in August 2016 as a catalyst for all staff to develop personal objectives for creative learning which will be formalised and monitored through our PRD process throughout the year. In 2016/17 we will also build on the success of our current Learning Strategy: Empowering Learners and develop this into a new, future-focused Creative Learning and Learning Technology Strategy for 2017 - 2022, ensuring that we are fully prepared to maximise the benefits to learning and teaching that our new Falkirk Campus will bring.

In terms of curriculum, we will continue to rigorously review our future portfolio to ensure that it fully reflects SDS regional skills plans, maximises employer engagement and delivers on our Outcome Agreement targets. This will include further development of vocational provision for senior phase school pupils, including further SDS funded Foundation Apprenticeships. We will also continue to work closely with our HEI partners to maximise success and progression on our existing integrated degree programmes and to develop additional articulation agreements for HN graduates.

We are also continuing to develop the Graduate Level Apprenticeship with Heriot Watt and Glasgow Caledonian University in Instrumentation and Control, Mechanical and Electrical engineering. We are now part of the Technical Expert Group driving forward the frameworks for this programme and will seek to deliver in 2017/18.

Internationally we are connecting with the University of Stirling and Glasgow Caledonian University to offer a 2 plus 2 degree programme to international students in Biological Sciences and Engineering. The international students will be students of the university for the 4 year period with the college delivering years 1 and 2. This model will be based on our highly successful integrated degree programmes and other courses will be explored as an option for international students.

We have initiated an E-Portfolio project, One-File, to offer initially modern apprentices an electronic system for monitoring and assessing vocational qualifications. This will be piloted in construction, engineering and business development.

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

Financial Performance

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 SFC for the stewardship of the College's finances and assets.

The reclassification of the College as an arm's length public body, effective from 1 April 2014, means the College is also regulated by the Financial Reporting Memorandum (FReM) and also by the Scottish Public Finance Manual (SPFM).

The financial statements have been prepared to comply with the Accounts Direction issued by SFC, the FReM and the revised Statement of Recommended Practice: Accounting for Further and Higher Education which was issued in July 2015.

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.

Adoption of FRS 102 and the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (2015 SORP)

The adoption of FRS 102 and the 2015 SORP in this reporting period has required changes to accounting policies in relation to the treatment of Government Grants and Financial Instruments both of which have had a significant impact on these Financial Statements.

Government Capital Grants – under the old SORP capital government grants given to the College to support any fixed asset purchases or construction were permitted to be accounted for as deferred capital grants on the balance sheet within reserves. The reserve was then released to the income and expenditure account in line with the depreciation charge of the respective fixed asset, in essence offsetting the depreciation charge within the income and expenditure account.

Under the 2015 SORP there is a choice of two accounting policies:
Accruals Model – in essence the same as the existing model however this is only permitted for government grants for non-land purchases. Also the deferred element of the capital grant must be retained within creditors as deferred income rather than in reserves.
Performance Model – under this model grants must be recognised within the income in full immediately when the performance conditions of the grant are met. This method would result in more volatile surpluses and deficits. Future Statements of Comprehensive Income would no longer benefit from the credit arising from the release of deferred capital grants which would reduce on-going reported surpluses or increase deficits.

The College has chosen to apply the accruals model for all government funded non-land capital grants and the performance model for all land grants. The impact of doing so has resulted in net liabilities as deferred capital grants which were previously classified as reserves have now been reclassified to Creditors amounts falling due within 1 year and more than 1 year.

Financial Instrument - the college uses an interest rate swap to adjust interest rate exposure in order to guarantee fixed interest payments for the bank loan where payments are variable and hence exposed to interest rate movements. Previously under UK GAAP this was not shown on the college's balance sheet. With the implementation of FRS102 the interest rate swap is now recorded at fair value on the balance sheet and the in-year movement accounted for through the Statement of Comprehensive Income.

Financial Outturn against Budget for the year ended 31 July 2016

The year ended 31 July 2016 is the first year where the College is required to adopt FRS 102. The table below summarises the financial outturn against the original budget which excluded the impact of adopting FRS 102 and pension valuations.

	Actual Year Ended 31 July 2016	Budget Year Ended 31 July 2016
	£000	£000
Operating Activities		
Income	**33,152**	**33,278**
Expenditure	**32,390**	**33,215**
	762	**63**
Pension Valuations	**(1,037)**	
FRS 102 - Interest Swap	**(441)**	
Estates Development		
Grant from Forth Valley College Foundation	**370**	1,800
Exceptional Estates Development Costs	**(1,739)**	**(1,800)**
	(2,085)	**63**
Actuarial loss/(gain) in respect of pension scheme	**(2,498)**	
Unrealised (deficit)/surplus on revaluation of land and buildings	**(1,650)**	
(Deficit) / surplus	**(6,233)**	**63**

Overall the College delivered an improved operating position of £699k against the original budget. The main reasons for this related to savings in operational expenses due to efficiency drives and effective procurement processes together with unutilised contingencies included within the original budget.

In October 2014 the Scottish Government announced funding for a new Falkirk campus through Scottish Future's Trust NPD (Not for Profit Distribution) programme. In April 2016 the College received confirmation from Scottish Government that the funding route was being changed to Capital Grant. The costs expensed through the Statement of Comprehensive Income have been identified as exceptional items and relate to professional advisors fees in the preparation of the College's Full Business Case for the new campus.

SFC issued assurance to the College that deficits which arise from non-cash transactions should not be interpreted as a challenge to the College's financial sustainability and these should be treated as a "technical" deficit. Audit Scotland accepts that a deficit arising from the use of cash funding originally provided for non-cash depreciation does not indicate an underlying financial sustainability concern. This is detailed in Note 36 to the Financial Statements.

Balance Sheet

As per FReM guidelines, due to the potential impairment of land held at the Middlefield site, a revaluation of this land was undertaken at 31 July 2016. This resulted in an impairment of £1,650k being recognised in the Balance Sheet.

The interest rate swap has been recorded as a liability on the balance sheet at fair value and accounted for at fair value through profit and loss. Under previous UK GAAP these were not re-valued to fair value or shown on the college balance sheet at the year-end. An adjustment was made to reflect the opening fair value as at April 2014 (£92k), and the movement during both 14/15 (£309k) and 15/16 (£441k) has been included within the Statement of Comprehensive Income.

The College has net liabilities of £3m (2015 - net assets £4m). The net liability position is due to the reclassification of Deferred Government Capital Grants from Reserves following the adoption of FRS102. A reconciliation of the net liability / asset position to the underlying historical cash surplus of the College is detailed in the following table.

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
Reserves		
Income & expendtiure	**(21,170)**	(17,076)
Revaluation	**18,563**	20,715
	(2,607)	3,639
Income & Expenditure	**(21,170)**	(17,076)
Non Cash adjustments		
Early Retirements Pension Provision	**7,317**	7,169
LGPS Pension Liability	**16,804**	13,416
FRS 102 - Interest Swap	**843**	402
Cash adjustments due to relcassifcation		
Donation to FVC Foundation	**5,500**	5,500
Utilisation of net depreciation	**1,234**	622
Other		
Estates Development Costs funded by reserves	**4,283**	4,283
Underlying historical operational cash surplus	**14,811**	14,316

Resource Outturn for the year ended 31 March 2016

A consequence of the college reclassification is that the College is required to report on its Resource Outturn to Scottish Government which is based on the government's financial year end of 31 March.

There are differences between the government accounting rules used for the Resource Outturn and the financial reporting accounting requirements used for these Financial Statements. One significant difference 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 16 (Scottish Government's financial year end). The net depreciation for the College was £613k. SFC authorisation was received to utilise this to support the proposed new estates development of our Falkirk Campus. This prevented that cash becoming inaccessible to the College.

A summary of the Resource Outturn reported to SFC and Scottish Government is noted below.

Resource Outturn 2015/16	RDEL Year Ended 31 July 2016	CDEL Year Ended 31 July 2016
	£000	£000
Total Income	(34,602)	(305)
Revenue Expenditure	34,458	305
Underspend on Resource Budget	(144)	0
Ringfenced RDEL		
Depreciation	613	
AME Expenditure	127	

The RDEL underspend of £144k is equivalent to the annual loan repayment the College has to make in relation existing borrowings entered into prior to the reclassification as an arm's length public body. Although the repayments utilise cash they do not score against the resource outturn.

The CDEL budget was fully utilised.

Creditor Payment Performance

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 23 days (2015 - 29 days).

Sustainability Report

The College recognises that the changing climate will have far reaching effects on Scotland's economy, people and environment. Consequently, the commitment to carbon reduction remains a key strategic objective for the College, within the College mission statement of Making Learning Work.

Our vision is to lead by example in all our activities and to ensure that learners are aware of the impact their actions will have, on the environment. This commitment is supported by the College Green Sustainability Statement that is approved by the Board of Management and Senior Management Team.

The College has an established Sustainability Committee which performs a strategic function to set, and measure sustainability progress throughout the college. The Committee representatives agree a series of performance indicators annually, which are monitored and progressed. The Committee is led by our Associate Principal, HR & Organisational Development.

A significant area of measurement is the College Carbon Management Plan (CMP) which was developed as a result of the College signing the Universities and Colleges Climate Commitment for Scotland (UCCCfS) in partnership with the EAUC (Environmental Association of Universities and Colleges). The CMP reflects all carbon associated with waste, fleet travel and utilities at each site. The College's estate has altered considerably since the CMP baseline year of 2008/09, with the opening of our new campus in Alloa (2011) and new campus in

Stirling (2012) both of which received the BREEAM (Building Research Establishment Environmental Assessment Method) Excellent rating. The College remains on target to reduce total carbon dioxide (tCO2) levels by 25% from the baseline figure of 2,873.62 tCO2 by the year 2020. The figures for Session 2015/16 evidence that we are ahead of target with our gross carbon footprint reduced to 2,262 tCO2.

The College has targeted the majority of projects that have a positive carbon reduction with the lowest capital investment, however it is becoming increasingly challenging to identify further reductions without significant capital expense. The most significant project with low carbon benefits will be the fruition of the new Falkirk Campus, planned for completion in 2019.

In addition, the Scottish Government has made the reporting of carbon use mandatory from 2016, using a specific template created by Sustainable Scotland Network (SSN) in association with the EAUC. The College submitted its first SSN completed carbon reporting template for the deadline of 30 November 2015 as part of the voluntary initial pilot year and will continue to submit annual reports.

Dr Ken Thomson
Principal and Chief Executive
8 December 2016

ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

Board of Management Report

Membership of the Board of Management

The Post 16 Education (Scotland) Act 2013 requires that the board of a regional College should consist of no fewer than 15, nor more than 18 members. The Board of Management members who held office during the year and up to the date of signing these financial statements were as follows:

Mr H Hall, Chair	Regional Chair	
Mrs A Mearns, Vice Chair	Senior Independent Member / Non-executive member	
Dr K Thomson	Principal	
Mr C Alexander	Non-Executive member	
Mr A Buchan	Student	
Mr R Burns	Staff	Resigned July 2016
Mrs F Campbell	Non-Executive member	
Mr A Carver	Non-Executive member	
Ms T Craggs	Non-Executive member	Appointed November 2016
Ms Pamela Duncan	Staff	Elected August 2016
Ms L Dougall	Non-Executive member	
Mr D Flynn	Non-Executive member	Appointed November 2016
Ms B Hamilton	Non- Executive member	
Mr S Harrison	Staff	Elected August 2016
Mrs C Jack	Non-Executive member	
Mr L McCabe	Non-Executive member	
Mr K Richardson	Non-Executive member	
Ms Lorraine Simpson	Student	Resigned June 2016
Ms A Stephen	Staff	Retired June 2016
Mr N Scott	Non-Executive member	Resigned February 2016
Mr S Tolson	Non-Executive member	
Ms Karen Williams	Student	Resigned November 2016
Ms Amy Scobbie	Student	Elected November 2016
Ms A Winchester	Non-Executive member	Resigned November 2016

Membership of the Senior Management Team

The SMT is responsible for the day to day management of Forth Valley College's activities and operations and consists of:

Dr K Thomson	Principal
Mr D Allison	Associate Principal & Executive Director Information Services
Mrs F Brown	Associate Principal and Executive Director Curriculum & Quality
Mr T Gorman	Associate Principal and Executive Director Estates Development
Mr A Lawson	Associate Principal and Executive Director HR & Organisational Development
Mrs A Stewart	Associate Principal and Executive Director Finance
Mrs C Walker	Associate Principal and Executive Director Business Development

Conflicts of Interest procedures

Forth Valley College has comprehensive procedures for dealing with potential conflicts of interest. These include holding, and updating at least annually, a Register of Board Members Interests. The register is available to any member of the public who wishes to examine it and is available on the college website, http://www.forthvalley.ac.uk. Interests that must be registered, in terms of the name and nature of the organisation in which the interest is held, include: remuneration, related undertakings, contracts, houses, land and buildings, shares and securities, and non-financial interests. Declarations by Board members of any conflicts of interest are recorded in the minutes of the appropriate Board meetings.

Personal data related incidents

Section 417 of the Companies Act 2006 requires that organisations report on personal date related incidents. In 2015/16, the College had no reported personal data incidents.

Dr Ken Thomson
Principal and Chief Executive
8 December 2016

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 2015 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
- 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).

Auditor

The Auditor General for Scotland has appointed Henderson Loggie to undertake the audit for the year ended 31 July 2016.

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 8 December 2016 and signed on its behalf by:

Hugh Hall
Chair

Governance Statement

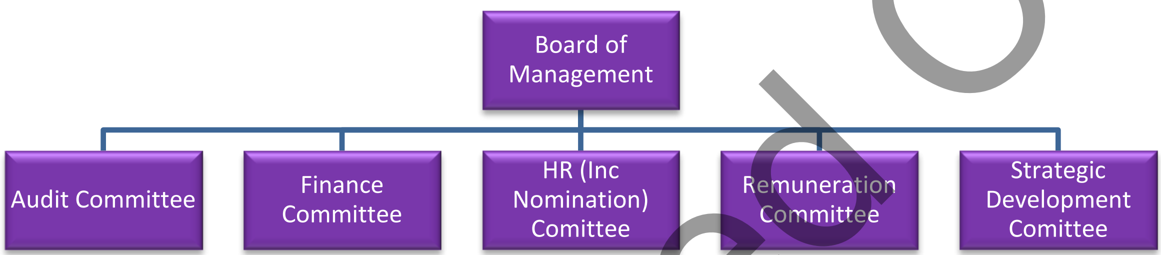
Introduction

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 year to 31 July 2016 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 two 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.

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 four 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.

During 2015/16 one non-executive Board member resigned and a further recruitment process in line with the 2014 Ministerial guidance was undertaken. Following this process, the recommendations of the Board of Management were communicated to Scottish Ministers who approved the recommendation. This also resulted in the College maintaining, for the non-executive positions available, a 50-50 gender balance.

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.

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, 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. During 2015/16 one meeting was cancelled.

	Status	Date of Appointment	Date of Retiral/Resignation (If Applicable)	Board of Management (Three Meetings)	Audit Committee (Four Meetings)	Finance Committee (Four Meetings)	HR (Inc. Nomination) Committee (Two Meetings)	Remuneration Committee (One Meeting)	Strategic Development Committee (Four Meetings)
Number of Meetings				3	4	4	2	1	4
Mr H Hall, Chair	Regional Chair	3/3/14	N/A	3				0	
Mrs A Mearns, Vice Chair	Senior Non-Exec	02/03/15	N/A	2			0	1	4
Dr K Thomson	Principal	01/08/13	N/A	3					
Mr C Alexander	Non-Exec	02/03/15	N/A	2	3				
Mr A Buchan	Student	26/03/15	N/A	3					4
Mr R Burns	Staff	26/03/15	29/07/16	2		4			
Mrs F Campbell	Non-Exec	02/03/15	N/A	3			2		2
Mr A Carver	Non-Exec	02/03/15	N/A	2		2			2
Ms L Dougall	Non-Exec	26/03/15	N/A	3	4				4
Ms B Hamilton	Non-Exec	02/03/15	N/A	3	4		2	1	
Mrs C Jack	Non-Exec	02/03/15	N/A	3		3			1
Mr L McCabe	Non-Exec	02/03/15	N/A	2		4			1
Mr K Richardson	Non-Exec	02/03/15	N/A	3		1			
Mr N Scott	Non-Exec	02/03/15	29/02/16	1	2		1		
Ms L Simpson	Student	11/09/14	26/06/16	3					3
Ms A Stephen	Staff	26/03/15	31/05/16	1					2
Mr S Tolson	Non-Exec	26/03/15	N/A	2			0		
Ms A Winchester	Non-Exec	26/03/15	N/A	2	1				1
Ms K Williams	Student	26/06/16	N/a	1					

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.

One exception to this is in relation to the role of a Secretary to the Board. The Code of Good Governance states; "The board secretary may be a member of the senior management team in their board secretary capacity, but they cannot hold any other senior management team position at the same time".

The Board of Management recognises the importance of the Board Secretary being able to report directly to the Chair independently of the Principal in order to prevent any conflicts of interests, however believe that this can be achieved without the requirement to appoint a Board Secretary without other Senior Management Team responsibilities. The Board of Management have appointed the Associate Principal and Executive Director of Finance as Secretary to the Board along with the Corporate Governance & Planning Officer as Deputy Secretary to the Board, both of whom will report directly to the Chair in relation to the Board Secretary duties. The Board of Management believes any risk of non-disclosure or non-compliance not being reported to the Board of Management due to a conflict of interest is mitigated by the appointment of two individuals with direct reporting to the Chair. The Board of Management considers that governance is strengthened rather than weakened by the Associate Principal and Executive Director of Finance having a dual role within the Senior Management Team. This arrangement is not unusual in either the public or the private sector, indeed a similar practice is adopted by the Scottish Funding Council.

Estates Strategy

The Forth Valley College agreed Estates strategy comprises a vision for three new campuses. The first in Alloa, the second in Stirling and a third in Falkirk. A significant investment has already taken place 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's successful Outline Business Case for Phase 3, its new campus in Falkirk, has been followed by a Full Business Case submission to Scottish Funding Council in September 2016. Approval is awaited.

The new campus plans include servicing the current Falkirk Campus curriculum and will accommodate over 11,000 students of which almost 2000 will be full time. The proposed New Falkirk Campus will be located on the cleared 10.87 acre Middlefield Campus site and an additional section of land (4.8 acres) to the East of this, which the College has secured thorough conditional missives from Callendar Estates. The new facility will be 20,148 sqm and will incorporate state of the art and flexible teaching accommodation, as well as low carbon initiatives, such as Photovoltaics, a Ground Source Heat Pump system, Combined Heat and Power boilers, along with other sustainable functions required to meet the Building Research Establishment Environmental Assessment Method (BREEAM) standard.

Assuming the Full Business Case is approved by Scottish Government, the College will issue an ESPD/OJEU notice in November 2016, tender documents in April 2017, commence site operations in September 2017 and complete and occupy the new Campus in October 2019.

Risk Management

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 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 identify "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 the College has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of objectives and the management of key risks and proper arrangements are in place to promote value for money and deliver best value.

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.

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
- 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 2016, the Internal Auditors reported completion of all reviews in the Audit Plan except for a Risk Workshop which has been deferred until 2016/17. Internal Audit was of the opinion that the College has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of objectives and the management of key risks and proper arrangements are in place to promote value for money and deliver best value.

The external auditors have given an unqualified audit opinion on the accounts for the period to 31 July 2016 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 2016 and up to the date of approval of the annual report and financial statements.

Going Concern

The Board of Management believes that pension liabilities resulting in a net liability in the Balance Sheet can be met as these fall due from future funding. The Board of Management has no reason to believe that future support from Scottish Funding Council will not be forthcoming and on that basis these financial statements have been prepared on a going concern basis.

Approved by order of the members of the Board on 8 December 2016 and signed on its behalf by:

Hugh Hall
Chairman

Dr Ken Thomson
Principal and Chief Executive

REMUNERATION AND STAFF REPORT

Remuneration Report

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 year ended 31 July 2016.

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 2015/16 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.

During the year the membership of the Remuneration Committee was extended and is now made up of the Chair of the Board of Management plus the Chairs of each of the Board Sub Committees. All members have completed the mandatory online College Development Network Remuneration Committee training.

Senior Management Team Remuneration

As part of 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
- 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.

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 College's 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 9.2% to 12% and Forth Valley College contributed 17.2% of the employees' pensionable salary to the SPPA and 17.9% to the LGPS along with an additional flat fee for past pension costs. 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 and other Senior Management Team who served during the year to 31 July 2016, including salary, pension benefits and other allowances was:

	Year Ended 31 July 2016			Year Ended 31 July 2015		
	Salary	**Pension Benefit**	**Total**	Salary	Pension Benefit	Total
	£000	**£000**	**£000**	£000	£000	£000
Ken Thomson	115 - 120	55 - 60	170 - 175	105 - 110	115 - 120	225 - 230
Andy Lawson	95 - 100	35 - 40	135 - 140	90 - 95	60 - 65	150 - 155
Tom Gorman	90 - 95	50 - 55	140 - 145	85 - 90	20 - 25	105 - 110
Alison Stewart	80 - 85	30 - 35	110 - 115	75 - 80	20 - 25	100 - 105
David Allison	75 - 80	35 - 40	110 - 115	70 - 75	55 - 60	130 - 135
Colette Walker	75 - 80	30 - 35	110 - 115	70 - 75	5 - 10	80 - 85
Fiona Brown	65 - 70	25 - 30	95 - 100	60 - 65	40 - 45	105 - 110

Salary

Salary information includes gross salary, overtime and allowances to the extent that they are subject to UK taxation. This report is based on accrued payments made by the College and thus recorded in these accounts.

Chair Remuneration

For the year to July 2016 the Chairman was entitled to claim remuneration of £200 for every 7.5 hours up to a maximum total fee of £20,800 for which an accrual has been included. The Chair is not entitled to a pension in respect of their office.

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:

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£	£
Annualised remuneration of the highest paid member of the Senior Management Team	116,115	109,923
Median Remuneration of Forth Valley College Employees	30,042	28,874
Remuneration Ratio	1 : 3.87	1 : 3.81

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

Including severance payments, no employee (2015: no employees) received remuneration in excess of the highest paid member of the Senior Management Team.

Pension Benefits

Pension benefits are provided to the Senior Management Team on the same basis as all other staff. The accrued retirement benefits of the Senior Management Team for the twelve months to 31 July 2016 are:

	Accrued Pension at pension age as at 31 July 2016 and related lump sum	Real increase in Pension and related lump sum at pension age	Cash Equivalent Transfer Value		
			At 31 July 2016	At 31 March 2015	Increase net of members contributions
	£000	£000	£000	£000	£000
Ken Thomson	40 - 45 plus lump sum of 130 - 135	2.5 - 5 plus lump sum of 7.5 - 10	911	823	74
Andy Lawson	30 - 35 plus lump sum of 90 - 95	2.0 - 2.5 plus lump sum of 5 - 7.5	736	666	59
Tom Gorman	15 -20 plus lump sum of 20 - 25	2.5 - 5 plus lump sum of 0 - 2.5	334	275	50
Alison Stewart	10 -15 plus lump sum of 0 - 5	0 - 2.5 plus lump sum of 0 - 2.5	135	105	22
David Allison	25 -30 plus lump sum of 45 - 50	0 - 2.5 plus lump sum of 2.5 - 5	387	327	53
Colette Walker	0 - 5 plus lump sum of 0 - 5	0 - 2.5 plus lump sum of 0 - 2.5	37	17	13
Fiona Brown	15 - 20 plus lump sum of 50 - 55	0 - 2.5 plus lump sum of 2.5 - 5	396	352	37

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:

- 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
- 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.

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.

Staff Report

As at 31 July 2016 there were 629 staff in post. The split across gender and business area is detailed in the table below.

Employees	Male	Female	Total
Senior Management Team	4	3	7
Heads of Teaching / Service	7	8	15
Academic Staff	152	153	305
Support Staff	112	190	302
	275	354	629

The table below shows the number of inward seconded and agency staff employed by the College during the year:

Seconded and Agency Staff	Year Ended 31 July 2016 Inward secondees	Year Ended 31 July 2016 Agency staff	Year Ended 31 July 2016 Total of inward secondees and agency staff	Period Ended 31 July 2015 Total of inward secondees and agency staff
	£000	£000	£000	£000
Total costs	**65**	**70**	**135**	121
Number of staff				
Academic/ Teaching Departments & Services		**2**	**2**	5
Administration and Central Services	**2**	**8**	**10**	16
	2	**10**	**12**	21

Consultancy Costs

In addition to the above staff costs, £72k was spent on consultancy costs during 2015/16 to support business improvement. £27k of which was spent on additional lecturing staff resource and the remainder was in relation to technical and specialist services including VAT and governance and business planning advice.

Attendance Management

Forth Valley College accepts that employees will be prevented from attending work due to illness or injury from time to time. Although the College recognises that employees need to be properly supported during absences, our priority is to meet our operational objectives. As a result, we take distinct steps to balance the needs of the individual with the needs of the organisation to effectively manage sickness absence. To achieve this balance, working with our Occupational Health advisors, we take a positive and pro-active approach to attendance management. We also offer a range of services that staff can access to help them with their own wellbeing.
These include:

- advising all employees and line managers of their roles and responsibilities in managing absence through appropriate training, guidance and support
- monitoring and analysing absence and providing useful Management Information
- supporting employees with regular short-term absence to improve their level of attendance
- assisting employees on long-term absence to return to work successfully via individually tailored return to work plans
- allowing staff to self-refer to our Occupational Health Advisor on a confidential basis
- offering sessions to staff to help them with their own wellbeing at work, including those on managing stress or mindfulness
- providing access to a confidential Employee Assistance scheme to provide advice or counselling when dealing with issues of a personal, financial or legal matter.

In 2015/16, an average of 9.87 days (including leavers) was lost per staff year (11.3 days in 2014/15).

Equalities Policy

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

We have a range of policies including our Equalities Policy and Equality Outcome Plan, which ensure that staff, learners and visitors are treated equally regardless of age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion and belief, sex and sexual orientation.

We value diversity and aim to advance equality of opportunity, foster good relations and eliminate discrimination, victimisation and harassment in all our activities, in order to meet both the General Equality Duty and Public sector Equality Duty.

Compensation for loss of office

Five members of staff left the College during the year, three of which left under the voluntary exit terms, the details of which are as follows:

	Year Ended 31 July 2016	Year Ended 31 July 2016	Year Ended 31 July 2016	Year Ended 31 July 2015
Compensation for loss of office	Number of voluntary redundancies	Number of other departures	Total number of departures	Total number of departures
< £5k	**3**	**1**	**4**	0
£5k - £10k	**0**	**0**	**0**	1
£10k - £15k	**0**	**0**	**0**	0
£15k - £20k	**0**	**1**	**1**	0
£20k - £25k	**0**	**0**	**0**	2
Total number of exit packages	**3**	**2**	**5**	3
Total resource cost			**£49k**	£49k

Dr Ken Thomson
Principal and Chief Executive
8 December 2016

AUDIT REPORT

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 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and 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 us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the college's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the 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 college's affairs as at 31 July 2016 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement 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

8 December 2016

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

FINANCIAL STATEMENTS

Statement of Comprehensive Income for the year ended 31 July 2016

INCOME	Note	Year Ended 31 July 2016 £000	Period Ended 31 July 2015 Restated £000
Scottish Funding Council grants	2	**23,188**	31,522
Tuition fees and education contracts	3	**8,214**	9,926
Other grant income	4	**651**	97
Other operating income	5	**1,455**	1,849
Investment income	6	**14**	26
Total Income		**33,522**	43,420
EXPENDITURE			
Staff costs	8	**23,467**	28,939
Pension provision charge	10	**547**	159
Other operating expenses	11	**6,543**	10,010
Depreciation	15	**2,194**	3,542
Interest and other finance costs	12	**1,117**	1,178
Donation to FVC Foundation	13	**0**	1,100
Total Expenditure		**33,868**	44,928
Deficit before other gains/losses		**(346)**	(1,508)
Exceptional Items			
Loss on Revaluation of Land & Buildings		**0**	615
Estates Development Costs		**(1,739)**	176
Surplus/(Deficit) before other comprehensive income		**(2,085)**	(2,299)
Other comprehensive income			
Actuarial loss in respect of pension scheme		**(2,498)**	(1,759)
Unrealised (deficit)/surplus on revaluation of land and buildings		**(1,650)**	899
Total comprehensive income for the year		**(6,233)**	(3,159)
Represented by:			
Unrestricted comprehensive income for the year		**(4,081)**	(3,306)
Revaluation reserve comprehensive income for the year		**(2,152)**	147
		(6,233)	(3,159)

All items of income and expenditure are in respect of continuing activities.

Statement of Changes in Reserves for the year ended 31 July 2016

	Income and expenditure account Unrestricted	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2014 (restated)	**(13,770)**	**20,568**	**6,798**
(Deficit) from the income and expenditure statement	**(2,299)**		**(2,299)**
Other comprehensive income	**(1,759)**	**899**	**(860)**
Transfers between revaluation and income and expenditure reserve	**752**	**(752)**	**0**
Total comprehensive income for the period	**(3,306)**	**147**	**(3,159)**
Balance at 1 August 2015	**(17,076)**	**20,715**	**3,639**
(Deficit) from the income and expenditure statement	**(2,085)**		**(2,085)**
Other comprehensive income	**(2,498)**	**(1,650)**	**(4,148)**
Transfers between revaluation and income and expenditure reserve	**502**	**(502)**	**0**
Total comprehensive income for the year	**(4,081)**	**(2,152)**	**(6,233)**
Balance at 31 July 2016	**(21,158)**	**18,563**	**(2,595)**

Balance Sheet as at 31 July 2016

	Note	As at 31 July 2016 £000	As at 31 July 2015 Restated £000
Non Current Assets			
Tangible fixed assets	15	**57,405**	61,094
Current assets			
Stocks		**30**	27
Trade debtors and other receivables	16	**1,620**	1,409
Cash at bank and in hand		**926**	1,609
Total current assets		**2,576**	3,045
Less: Creditors - amounts falling due within one year	17	**3,936**	4,383
Net current assets/(liabilities)		**(1,360)**	(1,338)
Total assets less current liabilities		**56,045**	59,756
Creditors - amounts falling due after more than one year	18	**34,519**	35,532
Provisions			
STSS early retirement provision	19	**7,317**	7,169
LGPS pension provision	19, 27	**16,804**	13,416
		24,121	20,585
Total Net (Liabilities)/Assets		**(2,595)**	3,639
Unrestricted Reserves			
Income and expenditure reserve - unrestricted		**(21,158)**	(17,076)
Revaluation reserve		**18,563**	20,715
Total Reserves		**(2,595)**	3,639

The financial statements on pages 35 to 58 were approved by the Board of Management on 8th December 2016 and were signed on its behalf on that date by:

Hugh Hall
Chairman

Dr Ken Thomson
Principal and Chief Executive

Cash Flow Statement for the year ended 31 July 2016

	Note	Year Ended 31 July 2016	Period Ended 31 July 2015 Restated
		£000	£000
Cash flow from operating activities			
Deficit for the year		**(2,085)**	(2,299)
Adjustment for non-cash items			
Depreciation	15	**2,194**	3,542
Loss on revaluation		**0**	615
Decrease/(increase) in stock		**(3)**	6
Decrease/(increase) in debtors	16	**(211)**	1,783
Increase/(decrease) in creditors	17, 18	**(324)**	(1,370)
Increase/(decrease) in pension provision	19	**148**	(367)
Pension Costs	27	**399**	843
Adjustment for investing or financing activities			
Investment income	6, 22	**(14)**	(26)
Interest payable	12	**1,117**	1,178
Capital grant income		**(1,586)**	(2,713)
Net cash inflow from operating activities		**(365)**	1,192
Cash flows from investing activities			
Capital grants receipts		**155**	638
Investment income	6, 22	**14**	26
Payments made to acquire fixed assets	15	**(155)**	(638)
		14	**26**
Cash flows from financing activities			
Interest paid	12	**(186)**	(256)
Repayments of amounts borrowed		**(146)**	(139)
Capital element of finance lease payments			
		(332)	**(395)**
(Decrease)/increase in cash and cash equivalents in the year		**(683)**	823
Cash and cash equivalents at beginning of the year		**1,609**	786
Cash and cash equivalents at end of the year		**926**	1,609

Notes to the Financial Statements

1. Statement of Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice (SORP) 2015: 'Accounting for Further and Higher Education'; the Financial Reporting Standards FRS 102 and the 2015-16 Government Financial Reporting Model (FReM) issued by the Scottish Government and in accordance with applicable Accounting Standards. They conform to the Accounts Direction and other guidance issued by the Scottish Funding Council.

Basis of accounting

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

The financial statements do not include the income and expenditure of the Students' Union as the College does not exert control or dominant influence over policy decisions.

Going Concern

The Board of Forth Valley College has no reason to believe that future funding will not be forthcoming. It has accordingly been considered appropriate to adopt a going-concern basis for the preparation of these financial statements.

FRS 102 requirements

The accounts have been prepared incorporating the requirements of the accounting standard FRS 102 which includes a change to the treatment of capital grants. Previously capital government grants were permitted to be accounted for as deferred reserves on the balance sheet. The income was then released to the income and expenditure account in line with the depreciation charge of the respective fixed asset. This is the same for FRS 102 however the deferred element of the capital grant is now retained within creditors as a liability rather than a reserve. Accordingly the total reserves within the balance sheet have been significantly reduced.

FRS 102 also requires an actuarial valuation of the pension scheme liability as explained in note 27 to the accounts. This reflects the inclusion of liabilities falling due in future years. To the extent that the pension is not met from the College's sources of income it may only be met by future grant-in-aid from the Scottish Funding Council. This is because under normal conventions applying to parliamentary control over income and expenditure, such grants may not be paid in advance of need.

Recognition of income

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.

Grant Funding

Government revenue grants including Funding Council block grants are recognised in income over the periods in which the College recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Grants from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Capital Grants

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Tangible fixed assets

In line with FReM all tangible assets must be carried at fair value.

Land and Buildings

Land and buildings are measured using the revaluation model and accordingly, assets are revalued to fair value. Where appropriate Depreciated Replacement cost has been used as a measure of fair value for land and buildings otherwise Market Value will be used. The land at Branshill, Alloa and the Middlefield site have been valued on the basis of Open Market value.

The College has a policy of ensuring a full revaluation takes place at least every 5 years such that the fair value is not materially different to the current value. In line with the FReM this will be supplemented by an interim professional valuation in year 3.

Depreciation and impairment losses are subsequently charged on the revalued amount.
Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

Costs incurred in relation to land and buildings after initial purchase or construction, and prior to valuation, are capitalised to the extent that they increase the expected future benefits to the College.

If a building is brought into use mid-way through a year the depreciation charge in the first year will be pro-rated to reflect the number of months that the asset was in use.

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, incurred to 31 July 2016 and are not depreciated until they are brought into use.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives.

The expected useful life of buildings can vary from 20 to 50 years as determined by professional opinion and valuation.

Equipment

Equipment costing less than £10k per individual item or grouped items is written off to the Statement of Comprehensive Income and expenditure account in the year of acquisition. All other equipment and vehicles are capitalised and depreciated in accordance 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

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

Leased assets

Finance Leases

Leases in which the College assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. Assets held under finance leases are depreciated over their useful life.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

The lease rentals are treated as consisting of capital and interest. The capital element is applied to reduce the outstanding obligation and the interest element is charged to the Statement of Comprehensive Income in proportion to the reducing capital element outstanding.

Operating Leases

Leases not meeting the criteria of a finance lease are treated as an operating lease. Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

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.

Stocks

Stock is held at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Cash and cash equivalents

Cash and cash equivalents 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, contingent liabilities and contingent assets

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 amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the College a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

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's Statement of Comprehensive Income, 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's Statement of Comprehensive Income.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year-end rates. The resulting exchange differences are dealt with in the determination of income and expenditure.

Employment Benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

Retirement benefits

The two principal pension schemes for the College are the Local Government Pension Scheme (LGPS) and the Scottish Teachers' Superannuation Scheme (STSS).

Local Government Pension Scheme (LGPS)

The LGPS is a pension scheme providing benefits based on final pensionable pay, prior to 1 April 2015 and a career average scheme from 1 April 2015. 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 Statement of Comprehensive Income represents the service cost expected to arise from employee service in the current year.

Scottish Teachers' Superannuation Scheme (STSS)

The College participates in the STSS 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 FRS 102, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the year.

Pension Provision

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 FRS 102 and any movements are adjusted through the Statement of Comprehensive Income.

Derivatives

Derivatives are held on the balance sheet at fair value with movements in fair value recorded in the Surplus or Deficit.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.
The fair value of interest rate swap contracts are determined by calculating the present value of the estimated future cash flows based on observable yield curves.

Reserves

Reserves are classified as restricted or unrestricted. Restricted reserves include balances where the donor has designated a specific purpose and therefore the College is restricted in the use of these funds.

Change in accounting policy

The College is preparing its financial statements in accordance with the 2015 SORP for the first time in the financial year to 31 July 2016.

Following the conversion to 2015 SORP the College has changed the following accounting policies in the financial year 31 July 2016.

Deferred Capital Grant

Under the 2007 SORP capital government grants given to the College to support any fixed asset purchases or construction were permitted to be accounted for as deferred reserves on the balance sheet within reserves. The income was then released to the income and expenditure account in line with the depreciation charge of the respective fixed asset, in essence offsetting the depreciation charge within the income and expenditure account.
As a result of FRS 102 the college has elected to use the accruals model for all government grants which requires the deferred element of the capital grant to be retained within creditors as a deferred income rather than a reserve. Note 38 provides the detail of the adjustments required for both the previous and the current financial year.

Derivatives

The college uses an interest rate swap to adjust interest rate exposure in order to guarantee fixed interest payments for the bank loan where payments are variable and hence exposed to interest rate movements. The interest rate swap has been recorded as a liability on the balance sheet at fair value and accounted for at fair value through profit and loss. Under previous UK GAAP these were not re-valued to fair value or shown on the college's balance sheet at the year end. An adjustment was made to reflect the opening fair value as at April 2014 (£92k), and the movement during both 14/15 (£309k) and 15/16 (£441k) has been included within the Statement of Comprehensive Income.

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
2 Scottish Funding grants		
FE recurrent grant (including fee waiver)	19,767	25,202
Childcare funds	646	696
SFC deferred income	1,586	2,712
Scottish Funding Council maintenance grant	393	1,396
Other Scottish Funding Council grants	796	1,516
Total	23,188	31,522
3 Tuition fees and education contracts		
Further education fees - UK & EU Students	130	145
Higher education fees	1,532	1,877
Skills Development Scotland Income	993	1,298
Education contracts	1,900	1,635
Other contracts	3,659	4,971
	8,214	9,926
4 Other grant income		
European funds	**0**	0
Forth Valley College Foundation	370	0
Other grants	281	97
Total	651	97
5 Other operating income		
Residences, catering and conferences	817	1,064
Other income-generating activities	93	118
Other income	545	667
Total	1,455	1,849
6 Investment income		
Other interest receivable	**14**	26

7 Donations

There were no donations during 2015/16.

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
8 Staff costs		
Salaries	**18,614**	22,961
Social security costs	**1,485**	1,752
Other pension costs (including FRS 102 adjustment of £399k (2014/15: £843k)	**3,368**	4,226
Total	**23,467**	28,939
Academic/ Teaching Departments	**14,330**	17,905
Academic/ Teaching Services	**3,156**	3,742
Administration and Central Services	**3,307**	4,296
Premises	**628**	779
Other expenditure	**356**	417
Catering and Residences	**411**	354
Modern Apprentice Trainees	**1,279**	1,446
Total	**23,467**	28,939

Compensation for loss of office payable to a senior post-holder:
No senior post holder left office during the year.

The average number of full time equivalent employees, including higher paid employees, during the period was:

	No.	No.
Senior management	**7**	7
Teaching departments	**262**	266
Teaching services, Admin and central services	**232**	221
Premises	**13**	12
Catering	**18**	13
Modern Apprentice Trainees	**108**	111
Total	**640**	630
Analysed as:		
Staff on permanent contracts	**606**	596
Staff on temporary contracts	**34**	34
	640	630

The number of staff, including senior post-holders and the Principal, having responsibility for planning, directing and controlling the activities of the College, and who received emoluments including benefits in kind where appropriate, excluding pension contributions, annualised from the 12 and 16 month periods in the following ranges were:

	2016	**2016**	2015	2015
	Senior post-holder	**Other members of staff**	Senior post-holder	Other members of staff
	No.	**No.**	No.	No.
£50,001 to £60,000 per annum	**0**	**8**	0	6
£60,001 to £70,000 per annum	**1**	**1**	1	1
£70,001 to £80,000 per annum	**2**	**0**	3	0
£80,001 to £90,000 per annum	**1**	**0**	1	0
£90,001 to £100,000 per annum	**2**	**0**	1	0
£100,001 to £110,000 per annum	**0**	**0**	1	0
£110,001 to £120,000 per annum	**1**	**0**	0	0

	Year Ended 31 July 2016	Period Ended 31 July 2015
9 Senior post-holders' emoluments		
	No.	No.
The number of senior post-holders that form the senior management team, including the Principal was:	**7**	7

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
Senior post-holders' emoluments are made up as follows:		
Salaries and benefits	**611**	753
Employer's Pension contributions	**107**	128
Total emoluments	**718**	881
	£000	£000
The above emoluments include amounts payable to the Principal, the highest paid senior post-holder, of:		
Salary	**116**	147
Benefits in kind	**0**	0
	116	147
Pension contributions	**20**	22

The Principal and two other senior post-holders were members of the Scottish Public Pensions Agency and the other four senior post-holders were members of the Local Government Pension Scheme. All pension contributions were paid at the same rate as for other members of staff.

The Chair of the Board of Management was entitled to claim remuneration of £21k in the financial period and an accrual has been made for his fee. Other members of the Board of Management, other than the Principal and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
10 Pension Provision Charge		
Increase due to revaluation of pension liability	**296**	(261)
Interest	**251**	420
	547	159

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
11 Other operating expenses		
Teaching departments	**1,676**	2,961
Administration and central services	**1,331**	1,915
Premises costs	**1,288**	1,959
Planned maintenance	**299**	1,004
Other employee related costs	**420**	539
Agency staff costs	**70**	58
Other income generating activities	**321**	451
Residences, catering and conferences	**491**	427
Childcare	**647**	696
Total	**6,543**	10,010
Other operating costs include:		
Auditors' remuneration		
- external audit of the financial statements	**26**	26
- internal audit services	**14**	28
- external auditors other services	**4**	4
- internal auditors other services	**0**	13
Hire machinery - operating leases	**126**	143
Hire of premises - operating leases	**70**	88
	240	302
12 Interest and other finance costs		
Loan interest	**186**	256
Increase in fair value of derivatives	**441**	309
Pension finance costs (note 27)	**490**	613
Total	**1,117**	1,178
13 Forth Valley College Foundation		
Donation to Forth Valley College Foundation	**0**	1,100

14 Taxation

The Board does not consider that the College was liable for any corporation tax arising out of its activities during the period.

15 Tangible Fixed Assets

Land and buildings were revalued at 31 July 2015 by DM Hall, Chartered Surveyors, in the capacity of independent valuer and in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. As the majority of the College's buildings are specialised buildings, open market value is not an appropriate basis of valuation. Accordingly, Land and buildings are valued on the basis of depreciated replacement cost with the exception of the land at Branshill, Alloa and the Middlefield site at Falkirk, 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.

During 2015/16 site investigations were undertaken as part of the planning stage of the new Falkirk campus on the Middlefield site, which identified the need for significant piling work to be carried out prior to commencement of the new building. A valuation for the Middlefield site was obtained as at 31 July 2016 on the basis of fair value which resulted in the land being impaired by £1,650k.

	Land and Buildings	Plant and Equipment	Total
	£000	£000	£000
Cost or valuation			
At 1 August 2015	60,101	4,678	64,779
Revaluation	(1,650)	0	(1,650)
Additions	0	155	155
Disposals	0	0	0
Transfers	(5)	5	0
At 31 July 2016	**58,446**	**4,838**	**63,284**
Depreciation			
At 1 August 2015	0	3,685	3,685
Charge for the year	1,759	435	2,194
At 31 July 2016	**1,759**	**4,120**	**5,879**
Net Book Values at 31 July 2015	60,101	993	61,094
Net Book Value at 31 July 2016	**56,687**	**718**	**57,405**

Land and buildings with a net book value of £50.2m have been funded from either local authority sources or from Scottish Funding Council capital grants. These assets may not be disposed of without the prior approval of the Scottish Funding Council and the College may have to return all or part of the sale proceeds to the Scottish Funding Council.

	As at 31 July 2016	As at 31 July 2015
	£000	£000
16 Trade debtors and other receivables		
Amounts falling due within one year:		
Trade debtors - net of provision for doubtful debts	**448**	468
Prepayments and accrued income	**1,172**	941
	1,620	1,409

17 Creditors: Amounts falling due within one year

Trade creditors	**251**	157
Other taxation and social security	**505**	451
Accruals and deferred income	**1,498**	1,679
Loan Repayment	**151**	146
Other creditors	**112**	402
Deferred capital grant	**1,419**	1,548
	3,936	4,383

Deferred income

Included with accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met.

Donations	0	0
Research grants received on account	**0**	0
Grant income	**66**	29
Other income	**218**	273
	284	302

18 Creditors: Amounts falling due after one year

Deferred Income		
Secured/Unsecured Loan	4,064	4,215
Deferred capital grant	29,612	30,915
Interest rate swap	843	402
	34,519	35,532

	As at 31 July 2016	As at 31 July 2015
	£000	£000
Analysis of secured and unsecured loans		
Repayable within one year	**151**	146
Repayable between one and two years	**160**	151
Repayable between two and five years	**574**	502
Repayable over five years	**3,331**	3,563
	4,216	4,362

The term loan is a 29 year loan from Barclays, taken out 30 September 2010. The first drawdown against the facility was in 2011/12. The College has an interest rates swap at 31 July 2016 of £4.2m at a fixed rate of 4.3% which terminates on 30 July 2029. In the 12 month period to 31 July 2016, the College repaid £146k of the loan principal.

19 Provisions for liabilities and charges	**STSS Early Retirement £000**	**LGPS Pension £000**	**Year Ended 31 July 2016 £000**	Period Ended 31 July 2015 Restated £000
At 1 August 2015	**7,169**	**13,416**	**20,585**	17,737
Utilised in year	**(399)**	**(1,401)**	**(1,800)**	(2,129)
Additions in 2015/16	**0**	**1,801**	**1,801**	2,446
Revaluation adjustment	**296**	**2,498**	**2,794**	1,498
Interest charged	**251**	**490**	**741**	1,033
At 31 July 2016	**7,317**	**16,804**	**24,121**	20,585

The provision above is solely in respect of future pension liabilities arising from early retirals. The value of the provision is based on a valuation at 31 July 2016 performed by Hymans Robertson, an independent firm of actuaries.

The valuation of the STSS unfunded pension liabilities at 31 July 2015 was overstated due to an error made by the actuary. The key actuarial assumptions adopted as at 31 July 2015 were based on a discount rate of 3.6% pa and a pension increase assumption of 2.6% pa. However the valuation of the STSS unfunded pensions at 31 July 2015 was incorrectly based on a pension increase assumption of 4.0% pa (as opposed to 2.6% pa). This led to the unfunded liabilities at 31 July 2015 being overstated (by around 20%).

As a result of this overstatement the 2014/15 STSS early retiral provision included in these financial statements have been restated from the figures in the 2014/15 financial statements and have been revised downwards by £1.5m.

20 Restricted Reserves

The college has no restricted reserves as at 31 July 2016

	Note	Year Ended 31 July 2016 £000	Period Ended 31 July 2015 £000
21 Reconciliation of operating surplus to net cash flow from operating activities			
Operating (deficit)/surplus after depreciation of assets, exceptional items and tax		**(2,085)**	(2,299)
Pension costs (less contributions payable)	27	**399**	843
Depreciation	15	**2,194**	3,542
Interest payable on swap		**441**	309
Revaluation adjustment for Land and Buildings		**0**	615
Deferred capital grants released to income		**(1,586)**	(2,713)
Decrease/(Increase) in stocks		**(3)**	6
Decrease/(Increase) in debtors	16	**(211)**	1,783
(Decrease) in creditors	17, 18	**(324)**	(1,370)
Increase/(Decrease) in provisions	19	**148**	(367)
Interest receivable - bank interest	6, 22	**(14)**	(26)
Interest paid - loan interest	12, 22	**186**	256
Net return on pension liability	27	**490**	613
Net cash inflow/(outflow) from operating activities		**(365)**	1,192
22 Returns on investments and servicing of finance			
Interest received	6	**14**	26
Interest paid	12	**(186)**	(256)
		(172)	(230)
23 Capital expenditure and financial investment			
Purchase of tangible fixed assets	15	**(155)**	(638)
Sales of tangible fixed assets		**0**	0
Deferred capital grants received		**155**	638
Net cash outflow from capital expenditure		**0**	0
24 Financing			
Loan repayment	17, 18	**(146)**	(139)
Net cash inflow from financing		**(146)**	(139)

25 Cash and cash equivalents	As at 31 July 2015 £000	Cash Flows £000	As at 31 July 2016 £000
Cash and cash equivalents	1,609	(683)	**926**
Finance lease/hire purchase contracts	0		**0**
TOTAL	1,609	(683)	**926**

26 Lease commitments	Equipment £000	Property £000	Year Ended 31 July 2016 Total £000	Period Ended 31 July 2015 Total £000
Payable during the year	126	70	196	245
Future minimum lease payments due:				
Not later than 1 year	74	35	**109**	210
Later than 1 year and not later than 5 years	267	0	**267**	35
Later than 5 years	0	0	**0**	0
Total lease payments due	**341**	**35**	**376**	**245**

27 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) and the Local Government Pension Scheme (LGPS).

	Year Ended 31 July 2016 Total	Period Ended 31 July 2015 Total
	£000	£000
The total pension costs for the institution was :		
Contribution to STSS	**1,567**	1,780
Contribution to LGPS	**1,402**	1,603
Pension costs as a result of implementing FRS 102	**399**	843
Total pension cost (Note 8)	**3,368**	4,226
Employer contribution rates		
STSS	17.2%	14.9%
LGPS	17.9%	19.4%

The Scottish Teachers' Superannuation Scheme

(a) Forth Valley College participates in the Scottish Teachers' Superannuation Scheme. The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2012. The valuation as at 31 March 2016 will set contribution rates from 1 April 2019.

(b) Forth Valley College has no liability for other employer's obligations to the multi-employer scheme.

(c) As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

(d) (i) The scheme is an unfunded multi-employer defined benefit scheme

(ii) It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where Forth Valley College is unable to identify its share of the underlying assets and liabilities of the scheme

(iii) The employer contribution rate from 1 April 2015 was 14.9% of pensionable pay. This increased to 17.2% from 1 September 2015. While the employee rate applied is a variable it will provide an actuarial yield of 9.6% of pensionable pay

(iv) At the last valuation a shortfall of £1.3 billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employer's pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employer's contribution rate

(v) The total employer contributions received for the Scottish Teachers' scheme in the year to 31 March 2015 were £350.7million as per the Scottish Public Pensions Agency website. Forth Valley College's level of participation in the scheme is 0.4% based on the proportion of the employer contributions paid in 2015/16.

The Local Government Pension Scheme

The Falkirk Council Pension Fund for non-academic employees is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the period ended 31 July 2016 was £1,823k of which employer's contributions totalled £1,402k and employee's contributions totalled £421k. The agreed contribution rates are 17.9% for employers and between 5.5% and 12% for employees.

The following information is based upon a full actuarial valuation of the fund at 31 March 2014 by a qualified independent actuary, rolled forward to 31 July 2016 using approximation methods which allow for changes in financial assumptions, additional benefits, cash flows and actual pension increase orders.

Principal Actuarial assumptions

Life expectancy is based on the Vita Curves mortality tables with some adjustments. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Male years	Female years
Current pensioners	22.1	23.8
Future pensioners	24.3	26.3

	As at 31 July 2016	As at 31 July 2015
Pension increase rate	1.9%	2.6%
Salary increase rate	3.4%	4.0%
Discount rate	2.4%	3.6%

The assets of the scheme and the expected rates of return were:

	Split of investments 31 July 2016	Split of investments 31 July 2015
Equities	65%	63%
Bonds	24%	24%
Property	7%	8%
Cash	4%	5%

The following information is in relation to the Statement of Comprehensive Income:

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
Comprehensive Income and Expenditure Statement		
Current service cost	**1,801**	2,446
Interest cost	**1,527**	2,138
Interest income on plan assets	**(1,037)**	(1,525)
Total	**2,291**	3,059
Reconciliation of present value of defined benefit obligations		
Opening defined benefit obligations	41,748	35,887
Current service cost	1,801	2,446
Interest cost	1,527	2,138
Contributions by members	422	491
Remeasurements		
- change in demographic assumptions	0	(297)
- change in financial assumptions	5,687	1,397
- other experience	(459)	294
Benefits paid	(824)	(571)
Unfunded benefits paid	(28)	(37)
Closing defined benefits obligation	**49,874**	41,748
Reconciliation of the movements in the fair value of the plan assets		
Opening fair value of the plan assets	**28,331**	25,685
Interest income on plan assets	**1,037**	1,525
Remeasurements		
- return on plan assets excluding the amount included in the net interest	**2,730**	(365)
Contributions by members	**422**	491
Contributions by employer	**1,374**	1,566
Contributions in respect of unfunded benefits	**28**	37
Benefits paid	**(824)**	(571)
Unfunded benefits paid	**(28)**	(37)
Closing fair value of the plan assets	**33,070**	28,331
The underlying net liability for retirement benefits attributable to the College at 31 July 2016 is £16.8m	**16,804**	**13,417**

An adjustment was made for the year ended July 2015 as the basis for the net interest calculation was changed due to the implementation of FRS102 and as a result the 2014/15 pension finance cost increased by £645k (note 12), the 2014/15 actuarial loss decreased by £745k and the pension liability at 31 July 2015 decreased by £100k.

	Year Ended 31 July 2017
Analysis of projected amount to be charged to operating result for the year to 31 July 2017	**£000**
Projected current service cost	2,111
Interest on obligation	1,387
Interest income on plan assets	(804)
Total	2,694

28 Related Party Transactions

The College's board members are the trustees for charitable law purposes. Due to the nature of the College's operations and the composition of its Board of Management being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board of Management may have an interest. All transactions involving organisations in which a member of the Board of Management may have a material interest are conducted at arm's length and in accordance with normal project and procurement procedures.

During the period under review, transactions with bodies in which a member of the Board of Management has an interest and which, in aggregate, exceeded £5k are noted below:

Member	Organisation	Contract type	College Sales £000	College Purchases £000
Mr H Hall	University of Strathclyde	Educational	79	0
Miss L Dougall	University of Strathclyde	Educational	79	0
Ms C Jack	Scottish Power	Educational	220	9
Mr L McCabe	University of Stirling	Educational	1137	26
Mr L McCabe	APUC	Educational	0	68
Mr C Alexander	BP Oil Exploration Ltd	Educational	552	0
Mr H Hall	Colleges Scotland	Educational	0	34
Mr K Thomson	Historic Environment Scotland	Educational	60	0

At 31 July 2016 the following balances existed which were greater than £5k, for the organisations noted above:

Organisation	Due to the College	Due from the College
	£000	£000
University of Stirling	196	0
BP Oil Exploration	37	0
	233	0

The College had transactions during the year, or worked in partnership with, the following bodies in which members of the Board of Management hold, or held, official positions.

Member	Organisation	
Mr H Hall	University of Strathclyde	Chief Operating Officer
Miss L Dougall	University of Strathclyde	Faculty Manager
Ms C Jack	Scottish Power Energy Networks	Head of Delivery (Central & Fife)
Mr L McCabe	University of Stirling	Director of Finance
Mr A Carver	Fujifilm Diosynth Biotechnology	Senior Commercial Development Manager
Mr C Alexander	BP Oil Exploration Ltd	Reliability and Maintenance Manager
Mr K Thomson	Historic Environment Scotland	Board Member

29 Financial Instruments

Financial assets and liabilities are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the assumption that the fair value of trade and other receivables (note 16) and trade creditors (note 17) is taken to be the invoiced or billed amount.

Liquidity risk – The College uses an interest rate swap to adjust interest rate exposure in order to guarantee fixed interest payments for a bank loan (note where payments are variable and hence exposed to interest rate movements. The swap has a fixed rate of 4.3% and the fair value as at July 2016 was £843k. The swap is due to terminate on 30 July 2029. The term loan is a 29 year loan from Barclays, taken out 30 September 2010. The first drawdown against the facility was in 2011/12. In the 12 month period to 31 July 2016 the college repaid £146k of the loan principal. A covenant was arranged as part of the original loan agreement.

30 FE Bursary and other Student Support Funds

	FE Bursary	EMA's	Other	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000	£000	£000	£000
Balance brought forward	231	20	1	252	80
Allocation received in period	2,764	176	259	3,199	4,819
	2,995	196	260	3,451	4,899
Expenditure	(3,034)	(196)	(221)	(3,451)	(4,649)
Virements	39	0	(39)	0	0
Balance Carried forward	(0)	(0)	(0)	0	250
Represented by:					
Repayable to Funding Council as Clawback	0	0	0	0	250
Retained by College for Students	0	0	0	0	0
	0	0	0	0	250

FE Bursary and Student Support Fund grants are available solely for students, the College acting only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

31 Childcare Funds

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
Balance brought forward	13	0
Allocation received in period	633	710
	646	710
Expenditure	(646)	(697)
Balance Carried forward	(0)	13
Represented by:		
Repayable to Funding Council as Clawback	0	13
	0	13

Childcare Fund transactions are included within the College Income & Expenditure account in accordance with the Accounts Direction issued by the Scottish Funding Council.

32 HE Discretionary

	Year Ended 31 July 2016	Period Ended 31 July 2015
	£000	£000
Balance brought forward	1	58
Allocation received in period	127	119
	128	177
Expenditure	(126)	(176)
Repayable to SAAS as Clawback	(1)	0
Balance Carried forward	1	1
Represented by:		
Repayable to SAAS as Clawback	1	1
	1	1

33 Capital Commitments

There were no capital commitments as at 31 July 2016

34 Contingent Liabilities

The college has no contingent liabilities at 31 July 2016

35 Post Balance Sheet Events

There are no post balance sheet events.

Or

Scottish Ministers approved the Full Business Case for a new Falkirk Campus. The current fair value of the existing Falkirk campus, based on depreciated replacement cost will change to being based on market value. This will result in an impairment in the value of the existing Falkirk Campus of £15.5m based on the market value included within the Full Business Case

36 Deficit resulting 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 2015/16 this meant that the College generated surplus cash of £608k (2014/15: £700k) 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. 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 has resulted in a £6.2m reported deficit for 2015/16. 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 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. Audit Scotland accepts that a deficit arising from the use of cash funding, originally provided for non-cash deprecation, does not indicate an underlying financial sustainability concern.

37 Accounting estimates and judgements

During financial year 2016/17 there will be formal revaluations obtained for the following areas which may cause material adjustments to the carrying values, but which are non-cash items:

a) Land and buildings - should the full business case be approved during 2016/17 for the new Falkirk campus, a formal valuation will be obtained for the existing Falkirk building on an open market basis (rather than the current depreciated replacement cost basis) and the expected impairment will be reflected within the 2016/17 annual accounts

b) Interest rate risk - the College is exposed to interest rate movements on the loan and as a result entered into a swap arrangement when the loan was agreed. As a complex financial instrument the swap is being accounted for at fair value at each year end. In the current market environment the fair value of the swap agreement is a liability to the College, as assessed by the bank and confirmed as reasonable through an independent assessment. The interest rate swap fair value was a liability at 31 July 2016 but if the LIBOR interest rates and other market factors change going forward there is the potential for the fair value of the swap to be assessed as an asset for the College rather than a liability, or for the liability to increase

c) LGPS Pension liability - the College's participation in the Local Government Pension Scheme requires the funding of liabilities that may stretch out 60-70 years based on the working lives of active members and period during which pensions are in payment. During these periods there will be diverse economic cycles, varying levels of investment return and changes in mortality rates. The key assumptions that impact on the net pension liability in future are set out within note 27

d) STSS Early Retirement provision. The College has a provision for staff who had early retirement. The amount of this liability varies based on a number of factors, but most significantly on the discount rate applied by the actuary. The key assumptions used in the valuation are the same as for the LGPS (as set out in note 27).

The following are other areas where there is significant estimates or judgements which affect the financial statements:

a) Depreciation - depreciation rates have been set for the Falkirk, Alloa and Stirling campuses based on the recommendations of estimated useful lives by valuers

b) LGPS - Cash payments - all of the factors set out above regarding the LGPS could impact on the College's Cash flow position as they could require the actuary to set a revised employer contribution rate having undertaken the three yearly valuation of the pension fund. Whilst there is always an element of uncertainty as to the extent of any change in the contribution rate, the actuary is obliged to have regard to the Fund's Funding Strategy which is to take a prudent long term view of liabilities and maintain as constant an employer contribution rate as possible.

38 Transition to FRS102 and the 2015 SORP

As explained in the accounting policies, these are the College's first financial statements prepared in accordance with FRS 102 and the SORP 2015. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended July 2016, the comparative information presented in these financial statements for the year ended July 2015 and in the preparation of an opening FRS 102 Statement of Financial Position at 1 August 2015. In preparing its FRS 102, SORP based Statement of Financial Position, the College has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (2007 SORP).

An explanation of how the transition to FRS 102 and the SORP 2015 has affected the College's financial position, financial performance and cash flows is set out in the following tables.

	As at 1 April 2014	As at 31 July 2015
Financial position	**£000**	£000
Total reserves under 2007 SORP	41,426	36,502
Deferred capital grant	(34,537)	(32,462)
Financial Instrument - fair value of the swap	(92)	(401)
Total effect of transition to FRS 102	(34,629)	(32,863)
Total reserves under 2015 SORP	6,797	3,639

	Period Ended 31 July 2015
Financial performance	£000
Surplus for the year under 2007 SORP (restated)	(1,345)
Financial Instrument - movement in fair value of the swap	(309)
Increase in pension costs	(645)
Effect of transition to FRS 102	(954)
Reclassification of actuarial losses into the Statement of Comprehensive Income	(1,759)
Total comprehensive income for the year under 2015 SORP	(4,058)

Deferred Capital Grants

Under the 2007 SORP capital government grants were permitted to be accounted for as deferred reserves on the balance sheet within reserves.

The College has adopted the accrual model to account for the deferred capital grants with the result that the deferred element of the grant is now reflected as deferred income within creditors as opposed to being held within reserves with no adjustment required to the financial performance**.**

Pension Costs
FRS 102 requires that the net interest expense (or income) is based upon the net deficit (or surplus) within the scheme however this differs from UK GAAP where the interest is equal to the difference between unwinding the discount on scheme liabilities and the expected return on assets.

Financial Instruments
Interest rate swaps are recorded on the balance sheet at fair value and accounted for at fair value through profit and loss. Under previous UK GAAP these were not re-valued to fair value or shown on the college balance sheet at the year end. Net interest payable is accrued.

Cash Flows
There was no impact of the transition to FRS 102 on the cash flows of the College.

Appendix 1 Accounts Direction from Scottish Funding Council

2015-16 Accounts direction for Scotland's colleges and universities

1. It is the Scottish Funding Council's direction that colleges and universities comply with the 2015 *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP) in preparing their annual report and accounts.

2. Colleges and universities must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic *Body (for assigned colleges).*

3. Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2015-16 (FReM) where applicable.

4. Incorporated colleges are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2016.

5. The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body.

6. Incorporated colleges should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
24 August 2016

HENDERSON LOGGIE
Chartered Accountants

Forth Valley College

Annual Audit Report for 2015/16 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2016/02

Draft Issued: 21 November 2016
2nd Draft Issued: 25 November 2016
Final Issued:

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.

Executive Summary

Financial Statements

- On 8 December 2016 we plan to issue an audit report with an unqualified opinion on the financial statements of the College for the year ended 31 July 2016 and on the regularity of the financial transactions reflected in those financial statements.

- Three new accounting standards (Financial Reporting Standard (FRS) 100, 101 and 102) came into force in 2015/16, with comparative figures for 2014/15 restated where relevant using these new standards. In addition, a new Education Statement of Recommended Practice (SORP) has been implemented for the 2015/16 financial statements.

- The current financial period covers the year to 31 July 2016. The comparative period is the 16 months from 1 April 2014 to 31 July 2015. Colleges have been allowed to align their financial year to the academic year, although they are still required to meet HM Treasury budgeting and reporting requirements at a March year end.

- The College has shown a deficit for the year ended 31 July 2016 (before 'other comprehensive income') of £2.085 million (deficit of £2.299 million (restated) for the 16 months ended 31 July 2015). The College has an Income and Expenditure Account balance of £(21.158) million at 31 July 2016 (including pension reserve of £(16.804) million) (31/07/15: £(17.076) million (restated) including pension reserve of £(13.416) million).

- The College met its Credits target for the academic year to 31 July 2016 (14/15: target met).

- Income of £0.339 million from the Forth Valley College Foundation, an arms' length body, has been included in the Statement of Comprehensive Income. This is part of the £1.800 million grant that on 24 June 2015 the Forth Valley College Foundation agreed to award to the College for assistance with the new Falkirk campus redevelopment project.

- There was expenditure of £1.739 million during the year (14/15: £0.176 million) by the College on consultants and other costs related to the Full Business Case for a new Falkirk campus. This has been included under exceptional items in the Statement of Comprehensive Income.

- The College's Local Government Pension Scheme (LGPS) pension liability increased in total by £3.388 million during the year to £16.804 million at 31 July 2016, which was largely due to changes in key actuarial assumptions relating to discount rates, along with net interest on the increased pension liability and a £0.399 million extra charge for the current cost of pensions under FRS102.

- The College's Middlefield site was revalued at 31 July 2016, which led to an impairment of £1.650 million being recognised against the revaluation reserve through other comprehensive income. The reason for the impairment was that ground surveys identified that significant piling works would be required before building on the site which had not previously been known.

- The annual financial statements of the College comply with the Accounts Direction issued by the Scottish Funding Council (SFC), the SORP on Accounting for Further and Higher Education and, as far as applicable, the Government Financial Reporting Manual 2015/16 ('the FReM').

Financial Statements (Continued)

- There was a prior period adjustment made to the enhanced early retirement provision expenditure for 2014/15 as a result of an actuarial error, and this reduced the 2014/15 deficit by £1.543 million.

- Six audit and accounting adjustments were made to the draft financial statements presented for audit; which had the impact of increasing the reported deficit for the year by £1.525 million. The main reason for this was the impact of the error in the actuarial calculations (£1.525 million), with the other five items not having any net impact on the deficit for the year.

- 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.

Corporate Governance

- A Performance Report and Accountability Report (including a Governance Statement and Remuneration and Staff Report) are included in the annual report, replacing the Operating and Financial Review that was included in previous years.

- The College's Governance Statement confirms that corporate governance has been exercised throughout the year in accordance with the principles of the Code of Good Governance for Scotland's Colleges (with one exception in relation to the role of the Secretary to the Board, which has been explained in the report and financial statements), the Scottish Public Finance Manual (SPFM) and the SFC Financial Memorandum with colleges.

- No material weaknesses in the accounting and internal control systems were identified during the 2015/16 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 2015/16 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 2015/16 and the Self-Evaluation review of this found that most 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 2016/17 academic year from the SFC for Teaching and Fee Waiver is £20.148 million, an increase of £0.375 million from 2015/16 and with the equivalent academic output (16/17 and 15/16: 83,984 Credits). The College's capital allocation for 2016/17 from the SFC has increased by £0.225 million to £1.281 million (2015/16: £1.056 million).

- The College's planned Falkirk campus redevelopment project is progressing with a Full Business Case having been developed by the College in conjunction with appointed consultants. This is planned to be funded by the SFC through capital funding.

Introduction

Background

1. 2015/16 was the fifth and final 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 2015/16 cover the 12-month period to 31 July 2016 and the comparative figures are for the 16-month period to 31 July 2015. Paragraph 27 explains the reasons for this.

2. The audit framework is outlined in our Strategic Planning Memorandum and 2015/16 Annual Audit Plan issued on 19 May 2016 and considered and approved by the Audit Committee at its meeting on 2 June 2016. 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 (FRC);

   - 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;

   - audit specific parts of the remuneration report;

   - read and express an opinion on whether the Performance and Accountability Reports are consistent with the financial statements; 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;
   - review of expenditure on the Full Business Case;
   - compliance with FRS102 regarding the provision for pension liabilities and provision for early retirals; and
   - compliance with the SORP on Accounting for Further and Higher Education, FReM and Accounts Direction.

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 into 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.

Financial Statements

Audit Opinion

8. On 8 December 2016 we plan to issue an audit report with an unqualified opinion on:

- the financial statements of the College for the year ended 31 July 2016;
- 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 Performance and Accountability Reports, governance statement and other annual report sections 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 8 December 2016 to determine if there are any post balance sheet events that require adjustment to be made to the financial statements or additional disclosure in a note thereto.

Identified Risks of Material Misstatement and Materiality

10. At the planning stage of the audit we identified some key areas of focus which we considered had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the audit team. The findings from our audit work on these items are set out below. Management override of controls and income recognition are included below as there is a presumption within international auditing standards for all audits to take account of these areas.

Key audit area	Our planned approach	Our findings
Completeness of income	We planned to review all significant revenue streams and transactions and, through a combination of analytical review, compliance testing of key controls and detailed substantive testing, obtain comfort that these transactions appear reasonable based on our knowledge of the College.	Our review of key income streams did not identify any items which had been omitted or accounted for incorrectly.
Management override of controls	Our approach was to review any significant unusual transactions to ensure that they appeared reasonable in the context of our knowledge of the business.	We did not identify any significant unusual transactions or manual postings that did not have adequate back-up or management explanations.

Key audit area	Our planned approach	Our findings
The College may not comply with legislation and financial regulations	We planned to identify major areas of legislation and financial regulations that the College is required to comply with, consider the risk of non-compliance of each, and consider whether there may be a material financial impact from these. We then planned to discuss with management what key controls are in place to ensure compliance and asked whether any actual, suspected or known instances of non-compliance had been noted.	Results from our testing were satisfactory.
The College may not properly account for its capital projects expenditure and related funding or fixed assets transactions. This includes 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	We planned to review a sample of capital expenditure to ensure it was appropriate to capitalise this. We also planned to review significant accounts of a repairs and maintenance nature, and expenditure on the Full Business Case for the new Falkirk campus, to determine whether it was appropriate to expense these items. Our approach regarding impairment was to identify all significant assets and consider whether there were any conditions that might give rise to an impairment, and check that any impairments made had been correctly treated.	Results from our testing were satisfactory.
The College may fail to recognise funding provided for specific purposes appropriately	Our approach was to review all significant ring fenced funds and check whether grant terms and conditions had been met before recognising income.	Results from our testing were satisfactory.
The College may not achieve its planned budget resulting in a deterioration of the financial position, non-compliance with financial covenants and going concern issues	We considered the process undertaken by management to satisfy themselves that the going concern basis of preparation of the financial statements was appropriate. We also reviewed relevant evidence available, including management accounts and the Forecast Financial Return to the SFC.	As part of auditing procedures, auditors must consider whether an entity can continue to operate for a period of 12 months from the date of signing the financial statements. This needs to be considered on an annual basis. Based on our review we consider the College is a going concern.

Key audit area	Our planned approach	Our findings
Compliance with the SORP on Accounting for Further and Higher Education, FReM and Accounts Direction	We planned to check whether disclosures and accounting treatment was in line with the SORP, FReM and Accounts Direction through reviewing the requirements and completing checklists to ensure that the requirements were being met.	Our review found a small number of items requiring amendment. The College amended these for the final version of the financial statements.

11. We told you materiality at the planning stage was £0.299 million. This was revised once draft financial statements were received to £0.335 million. Performance materiality was revised to £0.234 million from £0.209 million, and the amount below which items were deemed to be clearly trivial became £0.023 million. We determined materiality based on the College's annual income.

Audit Completion

12. 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 17 October 2016, the first day of the audit fieldwork. The first draft did not include the Performance Report, Accountability Report (including Corporate Governance information) and a number of financial statement disclosures. These were received on 14 November 2016 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 good standard.

Response to audit queries
Audit queries were dealt with in a timely manner.

Corporate Governance Statement

13. 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.

14. 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.

Corporate Governance Statement (Continued)

15. The College's Governance Statement for 2015/16 confirms that corporate governance has been exercised throughout the year in accordance with the principles of the Code of Good Governance for Scotland's Colleges (with one exception in relation to the role of the Secretary to the Board, as detailed in paragraph 58 below, and which has been explained in the report and financial statements), the SPFM and the SFC Financial Memorandum with colleges.

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

Remuneration and Staff Report

17. 2015/16 is the second time a Remuneration Report has been required in college financial statements and this has been expanded for 2015/16 to include additional information in a Staff Report. The information to be included is prescribed by the FReM.

18. We are required to audit part of the Remuneration and Staff Report and review the remainder as part of our review of the Performance and Accountability Report. We express a specific opinion on whether the audited part has been properly prepared.

19. We received the Remuneration and Staff Report for audit on 17 October 2016. From the work done we were satisfied that we could give an unqualified opinion.

Performance Report and Accountability Report

20. The SORP sets out the requirements for a Performance Report and Accountability Report (which replaces the Operating and Financial Review prepared in previous years) to be included in the financial statements. The content is prescribed through the Accounts Direction from the SORP and the FReM.

21. We review the information provided in the Performance Report and Accountability Report 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 Performance Report and Accountability Report, with the exception of the audited element of the Remuneration and Staff Report.

22. We received the Performance Report and Accountability Report on 14 November 2016 and concluded that an unqualified opinion could be provided for this.

Audit and Accounting Adjustments and Confirmation

23. 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 increasing the 2015/16 deficit by £1.525 million. With the exception of item 2, which processed the actuarial error on the early retirals pension provision, none of the adjustments were material.

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	<u>*14/15 (prior period adjustment)*</u>				
	LGPS pension liability			100	
	Income and Expenditure Reserve				100
	<u>*15/16*</u>				
	Income and Expenditure Reserve			4	
	Interest and other finance costs		4		
	Being adjustment for actuarial error relating to LGPS pension				
2	<u>*14/15 (prior period adjustment)*</u>				
	STSS pension liability			1,543	
	Income and Expenditure Reserve				1,543
	<u>*15/16*</u>				
	Pension Provision Charge	1,529			
	STSS pension liability				1,529
	Being adjustment for actuarial error relating to STSS early retirement pension				
3	Staff costs	12			
	Accruals				12
	Being accrual of pension costs on holiday pay entitlement not initially included				
4	Staff costs	19			
	Accruals				19
	Being accrual for voluntary severance for one staff member				
5	Accrued income			31	
	Other grant income		31		
	Being extra accrual for income from the Forth Valley College Foundation				
6	Accrued income			113	
	Other creditors				113
	Being accrual of income from SFC for Student Support Funds				
	Total (2015/16 impact only)	**1,560**	**35**	**148**	**1,673**
		=====	=====	======	======
	Overall increase in Deficit	**1,525**			

Audit and Accounting Adjustments and Confirmation (Continued)

24. In addition, 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.

Confirmations and Representations

25. 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.

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

Financial Reporting

27. Scottish 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 2015/16 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 were 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 financial period for 2014/15 covered the 16 months from 1 April 2014 to 31 July 2015;

- the 2015/16 financial period covered the 12 months to 31 July 2016;

- in April 2016 the College submitted the required Resource and other returns for 31 March 2016 to the SFC. In September, as allowed, an update was submitted which made the following adjustments:

♦ Other income – reduction in grant from Arm's Length Foundation to College	£(0.011) million
♦ Operating costs – Reversal of accrued costs	£0.011 million
♦ Pension liability adjustment (to reflect impact of pension on the Comprehensive I&E Statement as at 31 July 2016	£0.089 million

28. The application of the FReM results in some changes and additional disclosure, including a Performance Report and Accountability Report.

Financial Reporting (Continued)

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

29. 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' became the new UK GAAP, which is fully IFRS-based. The new accounting standards came into force in the 2015/16 financial statements, which included comparative figures for 2014/15 being restated in the 2015/16 financial statements. The main areas of change for the College related to the treatment of deferred capital grants, pension costs and the interest rate swap.

30. In addition, a new Education SORP was effective for 2015/16 which follows FRS102, and provides specific details on disclosure of the main statements. The new SORP is available at www.fehesorp.ac.uk.

Financial Position

31. Colleges are required to break even in line with their agreed spending budgets each year to 31 March. For 2015/16, as noted in the financial statements at note 36, the SFC has allowed colleges to treat the depreciation allocation of their budgets as if it was a cash resource, thereby contributing to the deficit in the Statement of Comprehensive Income. 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

	2014/15 (16 months) Actual £000	2015/16 (12 months) Planned £000	2015/16 (12 months) Actual £000	2016/17 (12 months) Planned £000
Financial outturn Surplus/(Deficit) (before 'other comprehensive income')	(2,299) restated	63	(2,085)	(603)
Income and expenditure reserves (excluding pension reserve)	(3,660) restated	(2,822)	(4,354)	(4,986)
Cash balances	1,609	1,735	926	1,324

Source: Audited financial statements and June 2015 and June 2016 Forecast Financial Return (FFR)

32. The deficit of £2.085 million includes the following non-cash items:

	£'000
Use of depreciation cover	608
STSS Early retirement pension revaluation	547
LGPS pension revaluation	889
Increase in fair value of derivatives	441

Financial Position (Continued)

33. A direct comparison of College income in 2015/16 of £33.522 million against the last financial period is not possible given the change in accounting period from 16 months to 12 months. Points to note for 2015/16 include:

- SFC Capital and Maintenance Grant recognised has decreased as £0.500 million of the 2015/16 grant allocation (relating to 1 April 2015 – 31 March 2016) was used in 2014/15 as well as the prior year having one off items including grant funding for the demolition of the Middlefield building (£0.500 million);
- Deferred income release has decreased due to some assets becoming fully depreciated in the year;
- Other grant income has increased due to £0.370 million of income being accrued from the Forth Valley College Foundation as a contribution towards the Full Business Case costs for the new Falkirk campus; and
- there has been increased income from education contracts, including collaboration with universities and continuation of major commercial contracts.

34. Similarly, a direct comparison of College expenditure in 2015/16 of £33.868 million against the last financial period is not possible. Points to note for 2015/16 include:

- there was a staff pay increase award and small increase in staff numbers, increase in the STSS pension contribution rate, and removal of national insurance rebates on some national insurance categories which led to increased pay and related costs;
- a £0.399 million increase in pension costs as a result of the calculation under FRS102 of the current pension cost versus the actual contributions;
- there was an increase in the enhanced early retirement provision cost by £0.388 million largely due to changes in actuarial provision as a lower discount rate on liabilities was applied by the actuary;
- other operating expenditure was down as there was no Middlefield demolition expense, less expenditure using SFC capital and maintenance funds (see related note under income above), and a range of other movements;
- depreciation decreased due to a range of assets becoming fully depreciated in 2014/15 and 2015/16;
- Interest and finance costs increased due to the fair value of the College's interest rate swap (which is a liability) worsening;
- there was a significant increase in expenditure on the Full Business Case for the new Falkirk campus (up £1.562 million from the previous period); and
- The 2014/15 expenditure included a donation of £1.100 million to the Forth Valley College Foundation. No donation was made in 2015/16.

35. 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 (£4.354 million at 31 July 2016 (excluding pension reserve)). As demonstrated from the information in paragraphs 31 to 34 the underlying position in 2015/16 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.

Financial Position (Continued)

2015/16 Credits Outturn

36. The College's outturn against its 2015/16 Credits target is shown in Table 4 below.

Table 4: 2015/16 Credits/Weighted SUMs outturn

	2014/15 (Weighted SUMs)	2015/16 (Credits)
Target (including ESF)	121,664	86,214
Actual	121,781	86,272
Excess	117	58

Source: Audited Credits and SUMs returns

Short and Long Term Creditors

37. In 2015/16, due to the application of FRS102, deferred capital grants have been reclassified from reserves into current and long term creditors. Comparative figures at 31 July 2015 have also been restated. The main reason for short term creditors reducing between 31 July 2015 and 31 July 2016 is that there were a number of student support funds that had underspent in 2014/15 which had creditor balances included, but there are no similar underspends this year.

38. The long term creditors have decreased due to deferred capital grants decreasing (due to release of income) and repayment of part of the long term loan, offset by an increase in the fair value of the College's interest rate swap liability.

Pension Provisions

39. In 2015/16 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.

40. The College's LGPS pension liability increased in total by £3.387 million to £16.804 million at 31 July 2016 (2014/15: increased in total by £3.315 million) which was largely due to changes in key actuarial assumptions relating to discount rates, along with net interest on the increased pension liability and a £0.399 million extra charge for the current cost of pensions under FRS102.

41. The College has a provision in its balance sheet at 31 July 2016 of £7.317 million (31/07/15: £7.169 million (restated balance – refer to paragraph 42 below for reason for restatement) 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.

42. There was a prior period adjustment made to the enhanced early retirement provision expenditure for 2014/15 as a result of an actuarial error being identified for that year, and this reduced the 2014/15 deficit by £1.543 million.

Financial Position (Continued)

Capital Income and Expenditure

43. Arrangements to access capital funding have changed following Office of National Statistics (ONS) reclassification.

44. All of the £0.155 million of capital additions in 2015/16 related to the purchase of IT equipment.

45. The Middlefield site was revalued at 31 July 2016, which led to an impairment of £1.650 million being recognised against the revaluation reserve through other comprehensive income. The reason for the impairment was that ground surveys identified that significant piling works would be required before building on the site which had not previously been known. Based on the valuation obtained we are content that the Middlefield site is included in the financial statements at an appropriate valuation.

46. 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.

47. 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 (SMT) members, and some Board members.

48. The College submitted the Full Business Case to the SFC in September 2016 and approval is awaited.

49. Legal issues with the Non-Profit Distribution model planned to be used by the Scottish Futures Trust to part fund the project have led to the project now planned to be funded using capital funding.

50. FRS102 section 17 'Property, Plant and Equipment' 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 102 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 Statement of Comprehensive Income over the periods in which they are consumed. We noted in previous years' Annual Reports 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 29 years as a whole and not as separate components and previously 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 and when the new Falkirk Campus is brought into use component accounting will be adopted for the new building.

Financial Position (Continued)

Forth Valley College Foundation

51. 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.

52. 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 however £0.370 million of this amount has been accrued and included in income in the 2015/16 financial statements.

53. 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 2016. This position will need to be reviewed annually.

Corporate Governance

Corporate Governance

54. 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.

55. 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.

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

57. 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.

58. 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. An updated version of the Code was published in August 2016. The review of the Code took into account recommendations made by the Cabinet Secretary's Good Governance Task Group. 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 are expected to comply with the Code as condition of grant from the SFC or their regional strategic body. The College has undertaken an evaluation of its compliance with the Code and we reviewed this for reasonableness. The College has highlighted one area of non-compliance with the Code in that the Board of Management has appointed the Associate Principal and Executive Director of Finance as Secretary to the Board. The Code states that the Board Secretary may be a member of the SMT in their Board Secretary capacity but cannot hold any other SMT position at the same time. The Board of Management believes that risks relating to a potential conflict of interest are being mitigated and that governance is strengthened rather than weakened by the Associate Principal and Executive Director of Finance having a dual role within the SMT.

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

Corporate Governance (Continued)

60. A 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.

61. 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

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

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

64. The College has a Strategic Risk Register which is reviewed by the Audit Committee. Risk is a standing item on the agenda for the SMT, 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

65. No material weaknesses in the accounting and internal control systems were identified during the 2015/16 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.

66. Some areas were however identified from our system controls testing 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 the checks performed to ensure that all changes made to supplier standing data in the Sun finance system are bona fide is undertaken by someone who cannot make changes to supplier standing data on Sun;
- 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;
- considering changing SAGE payroll users authorisation limits to strengthen controls; and
- implementing procedures to ensure that all journals are reviewed and evidence of this review is recorded.

Systems of Internal Control (Continued)

Internal Audit

67. 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. Scott Moncrieff provided internal audit services to the College in 2015/16.

68. 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.

69. The annual internal audit report for the year ended 31 July 2016 found that, based on the work undertaken, the College has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of objectives and the management of key risks, and proper arrangements are in place to promote value for money and deliver best value.

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

70. During 2015/16 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

71. 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.

72. No frauds were identified during the period from 1 August 2015 up to the date of signing the financial statements.

73. 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.

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

Performance

Introduction

75. 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.

76. One specific piece of audit follow-up work was identified by Audit Scotland for the College during 2015/16, to follow-up on the Accounts Commission and Auditor General report on Scotland's public sector workforce, and a questionnaire provided by Audit Scotland was completed and returned. Audit Scotland also requested auditors to provide information in a data set to inform sector-wide reporting.

Education Scotland Review

77. 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.

78. Education Scotland undertook an external review of the College in March 2016 and a report on the findings from this was published in May 2016. The overarching judgement from the review was that the College has in place effective arrangements to maintain and enhance the quality of its provision and outcomes for learners and other stakeholders. This judgement means that, in relation to quality assurance and enhancement, the College is led well, has sufficiently robust arrangements to address any identified minor weaknesses, and is likely to continue to improve the quality of its services for learners and other stakeholders.

College Performance Arrangements

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

80. 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

81. The College has a Corporate Plan 2014-18 and an annual 2015/16 Operational Plan.

82. Key performance indicators are set out in the Performance Report in the College's annual report.

83. 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.

84. In October 2016 the College undertook a self-evaluation against the targets set out in the 2015/16 Regional Outcome Agreement and this found that most targets had been met.

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

Outlook

2016/17 and beyond

86. The funding position will remain challenging going forward. Commercial work has been an important 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.

87. The College's total funding allocations for the 2016/17 academic year from the SFC for Teaching and Fee Waiver is £20.142 million, an increase of £0.375 million from 2015/16 and with the equivalent academic output (16/17 and 15/16: 83,984 Credits). The College's capital allocation for 2016/17 from the SFC has increased by £0.225 million to £1.281 million (2015/16: £1.056 million).

88. It is expected that the use of depreciation allocations as if they were a cash allocation will be allowed again in 2016/17, resulting in a further deficit in the financial statements if the money is spent.

ONS Reclassification

89. 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.

Appendix I - Audited Bodies' Responsibilities

Extracts from the May 2016 Audit Scotland Code of Audit Practice

17. The audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Corporate governance
18. Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure 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 should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports
19. Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:
• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation
• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures
• 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 and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

20. Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

21. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error
22. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Financial position

23. Audited bodies are responsible 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 their future use
- how they plan to deal with uncertainty in the medium and longer term
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

26. The Scottish Public Finance Manual sets out 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.

Appendix II – Follow Up of 2014/15 Annual Audit Report Recommendations

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer/Time For Action	Progress 2015/16
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.

Henderson Loggie
Chartered Accountants
Registered Auditor
34 Melville Street
Edinburgh
EH3 7HA

Dear Sirs

Forth Valley College

In relation to the financial statements for the period ended 31 July 2016 we confirm that:

1. The Board members have read, understood and approved the enclosed, signed, representation letter.

2. The Board members have considered the points raised in External Audit Report 2017/02, *Annual audit report for 2015/16 to the Board of Management and the Auditor General for Scotland*

Yours faithfully

Signed on behalf of the Board of Management of Forth Valley College on **(Date)** by

……………………………………..

Chair of the Board of Management

……………………………………….
Principal and Chief Executive

To be printed on College letterhead.

(Date)

Henderson Loggie
Chartered Accountants
Registered Auditor
34 Melville Street
Edinburgh
EH3 7HA

Dear Sirs,

Forth Valley College (‘the College’)

During the course of your audit of our financial statements for the period ending 31 July 2016, the following representations were made to you by management and Board members.

1 We acknowledge as Board members our responsibilities under the Further and Higher Education (Scotland) Act 1992 for preparing financial statements, in accordance with the applicable financial reporting framework (UK GAAP and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education) that give a true and fair view and for making accurate representations to you as auditors.

2 We confirm that all accounting records have been made available to you for the purpose of your audit, in accordance with your terms of engagement, and that all the transactions undertaken by the College have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and Board meetings, have been made available to you. We have given you unrestricted access to persons within the College in order to obtain audit evidence and have provided any additional information that you have requested for the purposes of your audit.

3 We confirm that the financial statements for the period ended 31 July 2016 have been approved by the Board and are free from material misstatements.

4 We confirm that significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

5 We confirm that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you as auditor and accounted for and disclosed in accordance with the applicable financial reporting framework (UK GAAP and the SORP on Accounting for Further and Higher Education).

6 We confirm that there have been no events since the balance sheet date which require disclosing or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly. We are not aware of any future plans which might impact the carrying values disclosed in the accounts which we have not discussed with you.

7 We confirm that all transactions involving public and private sector organisations in which a member of the Board of Management has an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. We are not aware of any related parties or transactions that fall out with these arrangements.

8 We confirm that all related party relationships and transactions have been accounted for and disclosed in accordance with the applicable financial reporting framework (UK GAAP and the SORP on Accounting for Further and Higher Education).

9 We confirm that the College has had, at no time during the year, any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for Board members, nor to guarantee or provide security for such matters, except as disclosed in the financial statements.

10 We confirm that the College has not contracted for any capital expenditure other than as disclosed in the financial statements.

11 We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business and which are central to the College's ability to conduct its business, namely the Further and Higher Education (Scotland) Act 1992, health and safety, HR, tax legislation; and any other relevant laws and regulations, except as explained to you and as disclosed in the financial statements.

12 We acknowledge our responsibility for the design and implementation of controls to prevent and detect fraud. We confirm that we have disclosed to you the results of our risk assessment of the risk of fraud in the business.

13 We confirm that there have been no actual or suspected instances of fraud involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements. We also confirm that we are not aware of any allegations of fraud by former employees, regulators or others.

14 We have considered the College’s future operations and financial position. Where relevant, we have also considered the effect of events outwith one year which may impact the going concern assessment. On this basis, we believe the College is a going concern and will continue to be for a period of at least 12 months from the date of this letter.

15 The effects of unadjusted misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the non-trivial unadjusted misstatements has been provided in the *Annual audit report for 2015/16 to the Board of Management and the Auditor General for Scotland*.

16 We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that:

- so far as each Board member is aware, there is no relevant audit information of which you as auditors are unaware; and
- each Board member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

17 We confirm that the College has good title to all its assets and all assets granted as security have been advised to you.

18 We confirm that the Forth Valley College Foundation is an arms-length organisation, not under the control of Forth Valley College, which does not require consolidation within the Forth Valley College accounts.

We confirm that the above representations are made on the basis of enquiries of other Board members, management and staff with relevant knowledge and expertise (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make these representations to you and that to the best of our knowledge and belief they accurately reflect the representations made to you by the Board members during the course of your audit.

Yours faithfully,

Signed on behalf of the Board of Management of Forth Valley College on **(Date)** by:

……………………………………..

Chair of the Board of Management

……………………………………….

Principal and Chief Executive

6. Presentation of Internal Audit Reports For Discussion

29 November 2016
AUDIT COMMITTEE

1. Purpose

To present members with the audit reports for the internal audit activity which has occurred since the last meeting of the Committee.

2. Recommendation

That members note the contents of the attached internal audit report and the management responses from the College.

3. Background

The College has an agreed programme of internal audit each year, which covers statutory reviews along with areas which are covered on a recurring basis or are new audit areas which are identified by SMT following changes to systems or practices.

4. Key Points

There is one internal audit report attached for presentation –

- Review of the 2015/16 Credits data return

5. Financial Implications

Please detail the financial implications of this item – None. All audit activity is budgeted for under College running costs and there are no recommendations with significant financial implications.

6. Equalities

Assessment in Place? – Yes ☐ **No** ☒

If No, please explain why – Not applicable

Please summarise any positive/negative impacts (noting mitigating actions) – Not Applicable

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		
Medium		
Low		
Very Low	X	X

Please describe any risks associated with this paper and associated mitigating actions – There is an agreed internal audit plan in place. Compliance with this plan will mitigate against key aspects of College processes and procedures not being independently reviewed.

Risk Owner – Ken Thomson **Action Owner –** Alison Stewart

8. Other Implications –

Please indicate whether there are implications for the areas below.

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

Please provide a summary of these implications – Not Applicable

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

Scott-Moncrieff
business advisers and accountants

Kenny Wilson
Senior Policy / Analysis Officer
Funding Policy
Scottish Funding Council
Apex 2
97 Haymarket Terrace
Edinburgh
EH12 5HD

12 October 2016

Our Ref: GJD/SZC

Dear Mr Wilson

Forth Valley College – Credits Audit Certificate for AY 2015/16

Please find enclosed our Auditor's Report in respect of Forth Valley College's Credits submission for the 2015/16 academic year.

We also enclose the original Annex A: College Certificate as signed by the College Principal and a copy of our report on the 'Review of the 2015/16 Credits data return'.

Please contact me should you wish to discuss any aspect of the audit or our report.

Yours faithfully

Gary Devlin
Partner
Gary.devlin@scott-moncrieff.com

Enc.

Credits audit certificate for AY 2015-16

Auditor's report to the members of the Board of Management of Forth Valley College

We have audited the FES return which has been prepared by Forth Valley College under the 'Credits' Guidance issued 19 May 2015 and which has been confirmed as being free from material misstatement by the college's Principal in his Certificate dated 7 October 2016. We conducted our audit in accordance with guidance contained in the 2015-16 audit guidance for colleges. The audit included an examination of the procedures and controls relevant to the collection and recording of student data. We evaluated the adequacy of these controls in ensuring the accuracy of the data. It also included examination, on a test basis, of evidence relevant to the figures recorded in the student data returns. We obtained sufficient evidence to give us reasonable assurance that the returns are free from material misstatement.

In our opinion:

- The student data returns have been compiled in accordance with all relevant guidance.
- Adequate procedures are in place to ensure the accurate collection and recording of the data.
- On the basis of our testing we can provide reasonable assurance that the FES return contains no material misstatement.

FOR AND ON BEHALF OF SCOTT-MONCRIEFF

12 October 2016

Scott-Moncrieff

Gary Devlin, Partner

0131 473 3500

Date FES returned: 5 October 2016

Annex A

College certificate

10 OCT 2016

Scottish Funding Council
Apex 2
97 Haymarket Terrace
EDINBURGH
EH12 5HD

I confirm that the FES return contains details of all Credits claimed in respect of fundable programmes relating to college activity in AY 2015-16. I also confirm that I am satisfied that the information supplied in the FES return is free from material mis-statement. I confirm that the figures include, where appropriate, any adjustments identified from our auditors' review. The total number of Credits claimed is as follows:

	Credits funded target	Credits Claimed
Total	86,214	86,272

College Name Forth Valley College

College Principal's signature ....

Date: 7th October 2016

Forth Valley College

Internal Audit Report

Review of the 2015/16 Credits data return

October 2016

Scott-Moncrieff
business advisers and accountants

Forth Valley College

Internal Audit Report

Review of the 2015/16 Credits data return

Introduction

A review of the funding statistics for Forth Valley College (the College) was undertaken during September 2016. The audit examined the procedures and controls over the preparation of the 2015/16 Credits data returns, together with audit testing to ensure the accurate calculation of the returns and accompanying College certificate.

Scope

Our audit was carried out in accordance with the Guidance Notes issued by the Scottish Funding Council (SFC)[1].

Approach

The audit comprised of 4 days of fieldwork by our audit team with experience of Credits (previously SUMs) reviews. Quality assurance was provided by detailed review of work by the Audit Manager and overall review by the Audit Partner.

Our audit approach involved the following:

- Examination of the procedures and controls relevant to the collection and recording of student and programme data;
- Evaluation of the adequacy of these controls in ensuring the accuracy of the data;
- Testing of the key controls to ensure they were operating satisfactorily;
- Examination, on a test basis, of evidence relevant to the Credits figures recorded in the data returns;
- Review of the risk areas as highlighted in the audit guidance for 2015/16[1];
- Analytical review utilising current year, prior year and funded targets Credits data;
- Further detailed testing where necessary, including reconciliation of the Credits data returns to the College certificate; and
- Follow up of prior year recommendations.

Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

[1] 2015-16 data return for funding purposes (FES return) and audit guidance for colleges

Conclusion

In our opinion, controls over the collection of data and the preparation of the Credits data returns are adequate and effective. Assurance can be gained from the audit testing carried out and the internal checking performed by College management that the Credits count for the College has not been materially misstated. A copy of the audit report is included in Annex A of this report.

Under the conditions of grant, the SFC may claw-back an element of the grant if actual Credits provided are below target. Actual Credits claimed for 2015/16 were 86,272 against a target of 86,214. The difference is 58 (0.07%) above target Credits.

The deadline for submitting the College certificate and Auditor's report is 14 October 2016. Arrangements are in place to ensure that deadlines are adhered to.

Detailed Findings

Our review centred on testing College data on a sample basis and, where appropriate, consulting with staff and senior management. This was performed to provide assurance that all of the risks set out in Annex D of the audit guidance note referred to above had been satisfactorily addressed and that the fundamentals of compiling Credits data were subject to appropriate controls.

Our initial sample was derived following consideration of materiality and application of Scott-Moncrieff's approved sampling methodology, where controls work and analytical procedures are being undertaken. Sample selection was conducted using professional judgement. The sample was subsequently extended where necessary, to ensure that we gained sufficient coverage of all programme and student variables as specified with the audit guidance. Our sample testing has provided 0.17% coverage of total students and 2.32% coverage of programmes that the College has claimed Credits for based on our assessment of the risk of material misstatement in the Credits return.

During the audit, we did not identify any significant errors that impacted on the Credits calculation; therefore testing was not extended. We did identify a trivial matter relating to 12 Credits for which the College amended the FES: further details are included in the adjustment section on page 10 of this report.

1.1 General Systems Review

The accuracy of the data on which the Credits data return is calculated depends on appropriate controls and systems over enrolment and attendance and the timely clearing of errors on the FES report.

We did not identify any significant control weaknesses during our review of the College's systems.

1.2 Follow up

We reviewed the prior year audit report and discussed the progress of implementing the agreed actions with management. The outcome of this analysis was used to inform our audit strategy.

The prior year audit findings appeared to have been addressed by management during 2015/16, and no significant associated issues were identified during the course of our audit work.

2014/15 Audit Finding	2015/16 Follow up
Enrolment forms We reviewed a sample of enrolments to confirm that enrolment procedures had been followed and that students had been enrolled on their chosen programme of study. We noted that, for a number of students (7 out of 27), enrolment dates on the forms were dated after the student's start date. From discussion with staff, we understand that this was because the default course start date on the system was not updated to reflect the students' actual start date following enrolment. In these cases, we reviewed the enrolment date to the date of first	Our testing in this area has confirmed that suitable work has been undertaken by management to address this issue. No matters were noted within our testing this year. **Action: closed**

registered attendance and no issues were noted. Further, it was observed that there were different versions of each type of enrolment form (full-time, part-time, flexible learning) in use throughout the year. This included a version from 2012, which had been manually amended to read 2014/15. **Management Response** Staff will be reminded of the need to accurately update enrolment start dates for individual students. Staff will be reminded to use the enrolment form for the correct session, and not to store old versions of enrolment forms.	
Course start/end dates We reviewed the course start and end dates for each of the 27 students from the FES and compared this to the electronic attendance register. We noted that for five students the date recorded in the attendance system did not match the start date in the FES data and for one student, it did not match the end date in the FES data. This is due to course default start/end dates not being updated by staff to reflect the students' individual circumstances. Although irregularities were noted, there was no impact on the SUMs count, as the 25% date had already been reached; however, this does represent a minor control issue. **Management Response** Staff will be reminded of the need to accurately update enrolment start and end dates for individual students.	Our testing in this area has confirmed that suitable work has been undertaken by management to address this issue. No matters were noted within our testing this year. **Action: closed**

1.3 Key risk areas

The results of our audit work are summarised below against each of the 13 key risk areas highlighted by SFC in Annex D of the 2015/16 data return for funding purposes (FES return) and audit guidance for colleges.

Risk Area 1 – Non-fundable activity is included in the Credit count

Testing confirmed that procedures are in place for identifying elements of non-fundable activity, non-fundable programmes and programmes which span more than one academic session. We confirmed that cost recoverable courses are excluded from the Credits claimed by the College.

We obtained listings for all courses spanning into and out of the 2015/16 academic session and confirmed that Credits were not claimed in respect of these courses.

No issues were identified.

Risk Area 2 – Non-fundable students are included in the Credit count

Testing adequately demonstrated that controls are effective in determining the fundable status of students. Eligibility for Credits on the basis of whether a student was fundable or non-fundable was checked throughout for all students tested. No significant issues were identified and sufficient controls are in place to record the fundable status of students.

No issues were identified.

Risk Area 3 – Programme is not classified correctly

Our sample of programmes tested consisted of a range of different classifications between Higher Education (HE) and Further Education (FE), and full time and part time courses. We did not identify any errors with regard to classification of each of the programmes tested.

No issues were identified.

Risk Area 4 – Infill Student is counted as part of the programme which is being in-filled, rather than their individually tailored course

The College has set up separate course codes for infill students. The College has controls in place to manage and record infill students accordingly. We reviewed the treatment of a sample of students allocated to infill courses to confirm the Credits claimed for the student were in line with the modules the student participated in. We noted that separate course codes are allocated to infill students and that controls are in place

No issues were identified.

Risk Area 5 – Incorrect allocation of Credits for students registered on ECDL courses

We performed a detailed review of European Computer Driving License (ECDL) data and confirmed that students, which the College claimed ECDL credits for had completed an adequate number of ECDL modules, in line with SFC guidance.

No issues were identified.

Risk Area 6 – Incorrect Dominant Price Group Code (superclass) is allocated to programme

We reviewed the superclass and price group assigned to the sample of programmes tested and confirmed that each allocation was in line with SFC guidance.

In addition, we carried out an analytical review of the number of students allocated to each dominant price group and obtained sufficient explanation for any variance deemed material to the audit.

No issues were identified.

Risk Area 7 – Students included in the return do not meet attendance criteria

The 'required date' by which students have to participate in a programme in order for the College to claim Credits, is automatically generated by the Unit-e system based on calendar days or the 1st of November for full-time courses. This allows the College to ensure that Credits are not claimed for students who do not meet the attendance criteria set by the SFC.

We tested a sample of students and confirmed that the required date on the system was in line with SFC guidance and that Credits were only claimed for those who had participated in the programme after the programme's required date.

We tested a sample of 15 students who withdrew from their programme within two weeks after the required date. We identified one instance where a student had only attended one element of the programme and which the full 14 Credits for the programme were claimed. This was due to a processing error, as the student had been recorded as withdrawn from the entire programme rather than being removed from all units with the exception of the art module element of the programme. The art module carried two Credits. The College has removed 12 Credits from the FES in respect of this finding.

Recommendation 1

We filtered the College's withdrawn students report and did not identify any other instances where Credits were claimed for a student attending a low number of days of a programme. Further, our analytical review work on the number of students withdrawing year on year did not identify any significant changes in trends. No issues were noted.

Risk Area 8 – Incorrect Credit value is claimed for the programme of study

Our programmes testing confirmed that Credits had been correctly calculated for each programme sampled.

In addition, our testing also showed that Credits had been assigned correctly to those students undertaking courses categorised as DPG 18 and ELS.

No issues were identified.

Risk Area 9 – The College Credits claim for an individual student exceeds the maximum claim allowed for a student per year

The SFC has provided colleges with detailed guidance on the approval required for claiming additional Credits, above the maximum level prescribed.

Programmes were investigated to ensure that appropriate Credits had been claimed for those courses, which additional credits were claimed above the maximum set out in SFC guidance. Discussion with staff confirmed appropriate treatment of students with multiple enrolments, specifically those attending full-time courses.

No issues were identified.

Risk Area 10 –ELS student classification is applied or claimed incorrectly

All students enrolled on DPG 18 programmes, or for whom the College is claiming Extended Learning Support (ELS) Credits, must have a Personal Learning Support Plan (PLSP) in place.

We reviewed a sample of DPG18/ELS students to confirm that PLSPs were in place for each student. Testing confirmed that PLSPs were in place for all students tested and evidence was available to support Credits claims in line with SFC guidance.

We also reviewed DPG 18 programmes on the FES to ensure that no ELS Credits had been claimed for students on the FES. No exceptions were identified.

No issues were identified.

Risk Area 11 – College records fee waivers which are not covered by the standard fee waiver policy

SFC guidance states that it is the responsibility of colleges to verify that students have produced appropriate evidence in respect of Fee Waiver claims. Each college should be able to provide summary details of the nature of the evidence presented if requested. However, colleges do not need to retain copies of the evidence.

For all Fee Waiver students tested, the evidence provided by the College was sufficient to ensure that required evidence had been provided by the student. We also noted that a field had been added to the application for 2015/16 to record details of evidence reviewed in instances where a copy was not being retained by the College.

No issues were identified.

Risk Area 12 – Students who enrol on an open/ distance learning programme od not continue with programme

We tested a sample of students undertaking open/distance learning programmes to review and test procedures for the monitoring of student progress.

Our testing found that all students were appropriately enrolled, were active in their chosen course of study and that progress was regularly monitored.

Our analytical review work did not identify significant changes to the number of students partaking within each mode of attendance category year on year basis. Any variances identified were satisfactorily explained and supported by the College.

No issues were identified.

Risk Area 13 – Incorrect Credit value is claimed for Collaborative Provision

The College does not claim Credits for Collaborative courses.

No issues were identified.

Recommendations

All actions have been given a risk rating as follows:

Risk rating	Definition
5	Very high risk exposure – Major concerns requiring immediate Board attention.
4	High risk exposure - Absence / failure of significant key controls.
3	Moderate risk exposure - Not all key control procedures are working effectively.
2	Limited risk exposure - Minor control procedures are not in place / not working effectively.
1	Efficiency / housekeeping point.

1. Withdrawn Students

Finding

We tested a sample of 15 students who withdrew from their programme within two weeks after the required date. We identified one instance where a student had only attended one element of the programme and which the full 14 Credits for the programme were claimed. This was due to a processing error, as the student had been recorded as withdrawn from the entire programme rather than being removed from all units with the exception of the art module element of the programme. The art module carried two Credits. The College has removed 12 Credits from the FES in respect of this finding.

We filtered the withdrawn student report and did not identify any other instances where Credits were claimed for a student only attending a few days of a programme.

Risk

Where processing errors arise, there is a risk that Credits are claimed for ineligible students.

Recommendation

The College should establish a review process over withdrawn students to ensure the reasonableness of the credits claimed for a student in accordance with the number of days attended by the student.

Risk rating: 2

Management response:

An additional report will be added to our suite of FES checking reports to identify any students incorrectly withdrawn from their course.

To be actioned by:

Information Systems Co-ordinator

No later than:

December 2016

Adjustments

No significant errors were noted through testing. The College did adjust for one trivial error, as identified in detailed finding 1.1 above, which reduced Credits claimed by 12, resulting in the total Credits claimed by the College for 2015/16 being 86,272.

Description	Adjustment to number of Credits claimed	% of total Credits claimed
Removal of Credits incorrectly claimed for a withdrawn student	(12)	0.01%

Annex A

Audit Report

Auditor's report to the members of the Board of Management of Forth Valley College

We have audited the FES return which has been prepared by Forth Valley College under the 'Credits' Guidance issued 19 May 2015 and which has been confirmed as being free from material misstatement by the college's Principal in his Certificate dated _______. We conducted our audit in accordance with guidance contained in the 2015-16 audit guidance for colleges. The audit included an examination of the procedures and controls relevant to the collection and recording of student data. We evaluated the adequacy of these controls in ensuring the accuracy of the data. It also included examination, on a test basis, of evidence relevant to the figures recorded in the student data returns. We obtained sufficient evidence to give us reasonable assurance that the returns are free from material misstatement.

In our opinion:

- The student data returns have been compiled in accordance with all relevant guidance.
- Adequate procedures are in place to ensure the accurate collection and recording of the data.
- On the basis of our testing [subject to the exceptions given below] we can provide reasonable assurance that the FES return contains no material misstatement.

Signature

Date

Name of audit firm

Contact name

Contact telephone number

Date FES returned

7. Progress Report on Audit Recommendations
For Discussion

29 November 2016
AUDIT COMMITTEE

1. Purpose

To update members on progress with the implementation of recommendations contained within internal and external audit reports.

2. Recommendation

That members note the content of the report and associated appendix.

3. Background

The College monitors progress against internal and external audit recommendations and reports on progress to each meeting of the Audit Committee.

4. Summary of Changes

The current audit recommendations are detailed in full in Appendix 1. The table below represents a summary of the current position of these recommendations as at 15 November 2016.

The dates used to determine whether a recommendation has passed its implementation date comes from the "Revised Completion Date" column in Appendix 1 attached to this report.

At the meeting of 15 September, there were 2 reports laid before the committee – Follow Up Review and SFC Financial Returns. The recommendations within the Follow Up review report are already part of the tracker and the single recommendation from the SFC Financial Returns report had already been completed so therefore there were no additional recommendations added to the tracker.

There are current 5 recommendations in Appendix 1.

Since the last meeting of the Audit Committee, 3 of the 5 recommendations have reached a stage where the College considers them to be complete. These completed recommendations are highlighted in grey in the appendix.

We are requesting an extension for ID 82. The Policy document was reviewed by SMT and, following this review, it was decided that IT should do some more investigation across the sector on how other College's secure their wireless environment. As such, the policy is unable to be brought for approval in this Board cycle.

	High	Moderate	Limited	N/A	Total
Live within date	0	1	1	0	2
Live recommendation passed implementation date	0	0	0	0	0
Completed since last report to Committee	0	1	2	0	3

5. Financial Implications

Please detail the financial implications of this item – There are no unexpected financial implications expected. All recommendations made to the College have either no cost (i.e. changes to existing procedures) or have been incorporated into College budget setting processes.

6. Equalities

Assessment in Place? – Yes ☐ No ☒

If No, please explain why – Monitoring of audit recommendations does not require equalities assessment. Where a recommendation does have an equalities impact through the amendment to policy, each individual policy will be assessed in line with College procedure.

Please summarise any positive/negative impacts (noting mitigating actions) – Not applicable

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		
Medium		
Low	X	X
Very Low		

Please describe any risks associated with this paper and associated mitigating actions – Any risk to the College would arise from the failure to implement agreed audit recommendations. Regular monitoring, along with accountability for each recommendation being assigned an SMT and action owner; ensures this does not occur.

Risk Owner – Alison Stewart **Action Owner –** Stephen Jarvie

8. Other Implications –

Please indicate whether there are implications for the areas below.

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

Please provide a summary of these implications – Not Applicable

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

ID	Audit Name	Date of Audit	SMT Owner	Action Owner	Recommendation	Management Response	Priority	Evaluation	Scheduled Completion Date	Revised Completion Date	Evidence	Completed
74	Communications and Marketing	01/08/2015	David Allison	Lyndsay Condie	Copyright Policy There was no approved Copyright Policy in place to provide guidance to staff on key regulatory requirements when publishing teaching notes and conducting advertising campaigns.	The College will finalise the Copyright Policy and roll out formal training, which will be delivered through the performance management framework.	3 (Moderate)	Nov 16 - No further update at this time. Aug 16 - The College is participating in a copyright pilot group to look at reducing or eliminating licencing costs. While in it's early stages across the sector, Dundee and Angus College made the decision in June 2016 not to renew their copyright licence. It was agreed to hold development of the policy to see the impact of the D&A decision and potential cost savings of £33,000 to the College per annum. May 16 - In progress for June completion Feb 16 - Initial meeting took place in early Feb and in progress to meet June deadline. Nov 15 - A draft of the policy is available and a further meeting in due to take place in early December.	March 17 (extension approved Sept 15)			
76	Communications and Marketing	01/08/2015	David Allison	Lyndsay Condie	Role Profiles Some of the role profiles for staff within the Department were still to be reviewed and updated as part of the on-going review cycle.	The Marketing and Communications roles will be regularly reviewed as per the normal College practice and also to reflect advances in digital technologies.	2 (Limited)	Nov 16 - Outstanding role profiles completed Aug 16 -No update at this time. [redacted] Nov 15 - No update at this time.	Oct 16 (extension approved Sept 15)		Roll Profiles avialable from manager	Yes
80	Financial Systems	Feb-16	Alison Stewart	Fiona Lovell	The Cash Handling Guidance should be reiterated to staff and training provided where necessary. When cash is dropped-off at the safe a formal independent cash count should be undertaken to ensure that the amount of cash being deposited in the safe is accurate. At least two individuals should be present for the cash count and it should be documented. The same procedures should be applied to till float counts.	The College accepts that there is an increased risk around the lack of independent cash counts when floats are either picked up or dropped off from a safe. The College will review with each of the relevant individuals the process currently in operation and assess where the additional checks can be added to the daily process to ensure that the risk is mitigated. The College will also ensure that any process designed to mitigate the risk above also applies to till float counts.	3 (Moderate)	November 2016 - Process review completed and new form created to ensure cash count occurs and is signed off be two staff members. Aug 16 - The current guidance has been verbally reiterated to all relevant staff. A review of the process is still outstanding. The original completion date of July 16 did not take into account the demands of the preparing the 2016/17 budget and implementing FRS102. It is requested that this recommendation be extended to the end of October to allow completion. May 16 - We have reissued and discussed the cash handling guidance with all relevant staff, however are currently in the process of designing a process that fits into the operational requirement of the College as well as satisfying the internal audit requirement. We aim to have this completed by 1/7/2016.	Oct 16 (extension approved Sept 15)		Cash float form	Yes
82	ICT Health check	Apr-16	David Allison	Graeme Robertson	IT Security Policy - We recommend that the College finalise the IT Security Policy and circulate this to stakeholders once approved by the Board of Management.	An updated IT Security Policy is currently in draft, and will be brought for approval through Senior Management Team and Board of Management.	2 (Limited)	Nov 16 - SMT have reviewed the policy and requested that IT liaise with other College's who operate EDUROAM/Bring Your Own Device environments to investigate how their security operates Sept 16 - The policy has been developed and will be taken to SMT in September for approval. Unfortunately this means that the current cycle of Board and Committee meetings will not be met so the completion date will need to be moved to reflect the next cycle of meetings.	08/12/2016 (extension approved Sept 15)	23/03/2017		
87	ICT Health check	Apr-16	David Allison	Graeme Robertson	Disaster Recovery (DR) Documentation - We recommend that plans and supporting procedures are periodically tested to gain assurance over their effectiveness should they need to be invoked. Evidence of review and testing, along with a lessons learned log, should be retained by College IT.	Ensuring synergy with the College's overall Disaster Recovery testing schedule, we will devise and implement an IT specific Disaster Recovery testing schedule.	2 (Limited)	Oct 16 - IT DR documentation updated and testing schedule in place Sept 16 - The College has completed the annual test of the overall Business Continuity Plan. This test incorporated a number of IT challenges and these are scheduled to be further tested with the IT team to ensure IT disaster recovery actions meet the requirements of the College	Oct-16		IT DR documentation	Yes

8. Risk Management
For Discussion

29 November 2016
AUDIT COMMITTEE

1. Purpose

To present members with the Strategic Risk Register for the College.

2. Recommendation

That members note the content of the register attached to this paper, the actions taken to date and changes to risks as outlined below.

3. Background

The College continues to monitor Strategic Risks to the College. These risks are discussed at SMT meetings and are also brought to each meeting of the Audit Committee.

4. Changes to the Risk Register

The score associated with risk 6 has increased as it is becoming more likely that there will be elements of the upcoming spending review which will impact upon Colleges. College's Scotland are leading engagement with the Scottish Government to mitigate impact.

There have been two new risks (no's 7 and 16) have been added to the register.

5. Financial Implications

Please detail the financial implications of this item – Financial implications for relevant risks are outlined in the attached Strategic Risk Register.

6. Equalities

Assessment in Place? – Yes ☐ No ☒

If No, please explain why – The Strategic Risk Register document does not require equalities impact assessment. Individual risks may result in Equalities assessments being completed for new/revised College policies and procedures.

Please summarise any positive/negative impacts (noting mitigating actions) – Not Applicable

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		
Medium		
Low	X	X
Very Low		

Please describe any risks associated with this paper and associated mitigating actions – Risk continues to be comprehensively managed and reviewed across the College on an ongoing basis.

Risk Owner – Ken Thomson **Action Owner –** Alison Stewart

8. Other Implications –

Please indicate whether there are implications for the areas below.

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

Please provide a summary of these implications – Not Applicable

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

Risk Management and Mitigation						Owners			Initial Risk Score			Score After Mitigation				
No	Area	There is a real or perceived risk that…	Potential Consequences	Mitigating Actions	Actions/Progress to Date	Board Committee	SMT Risk Owner	Action Owner	Likelihood	Impact	Risk Score	Likelihood	Impact	Risk Score	Change to score since last meeting	Date Added and Date Score Updated
1	Estates	[redacted]	• Negatively impact on ability to sell whole existing Falkirk campus site before contract expiry of lease in February 2023 • Requirement to keep and maintain telecommunications equipment on the West Block roof post completion of new campus in Summer 2019 • Potential legal action against the College if forced to break the contract as no exit clause exists	• Continued engagement with Arqiva to look at potential alternative hosting scenarios • Seek legal advice on the range of options available to the College	November 2016 - review with Board member completed, Strategy document being prepared by December 2016. August 2016- Due to continued lack of progress with [redacted] Continued engagement with Arqiva and legal advisors on contractual options.	P	APED	APED	VH	VH	25	VH	VH	25	⟺	May-16
2	Strategic	Strike action arising from National Bargaining negotiations will impact on the learning and teaching provision for students	• Inability to hold classes in line with timetables • Disruption to campus operations during strike action • Impact on the delivery of commercial training • Depending on timing, impact on assessment activity • Commercial clients requesting changes to contracts with College to reflect strike action.	• College continues to liaise with unions on a local and national levels to ascertain potential strike days • Communications plan under development to notify shareholders of potential impacts • Contingency planning for the recovery of lost teaching/assessment time	October 16. Negotiations continue with both unions. there is a dispute with EIS regarding the £100 pay award and how this has been implemented. Unison are currently in discussion with ACAS and the NJNC and continue with their action of not providing additional H&S and Fire Warding cover. (FVC is operating as normal with cover arrangements in place) August 16 - National UNISON strike action planned for 6 September. Contingency plans developed and enacted to allow learning and teaching to continue. May 16. Strike action successfully managed with limited destruction to students. NRPA now signed of by sector with EIS pay award for 15/16 & 16/17 now completed. March 2016 - We have developed a communication plan to make sure that stakeholders are kept fully informed of mitigating actions we may take. We are actively working with departments to alleviate the impact on learners.	HR	P	APHROE	VH	VH	25	VH	H	20	⟺	Mar-16
3	Governance	That the College will be in breach of the covenants relating to the £4.5m term loan facility with Barclay's bank.	Could require immediate repayment or seek to renegotiate facility on less favourable terms	• Barclays have been kept informed through the year on the implications of ONS and the possibility of a breach of covenants.	November 2016 - No further update Sept 16 - Barclays still working towards removing covenants and have spoken with SFC. If covenants remain in place they will need to be re-negotiated due to FRS 102 treatment of government grants. May 16 - Covenants were not breeched at 31 July 15 and are not expected to be breeched at July 16. Barclays still looking to remove covenants but making slow progress. Implementation of FRS 102 at July 16 could result in fluctuating surpluses / deficits due to treatment of non government grants which in turn could impact on covenants. Further meeting scheduled with Barclays in June 16. March 2016 - The College waiting to hear from Barclays on this matter. November 2015 No further update at this time August 15 Meeting held with Barclays in July 15. Chris Hearn, Head of Education in Barclays is progressing the removal of covenants. May 2015 Meeting set up with Barclays to discuss further. College is likely to breach covenant again at 31 July 2015 due to donation to FVC Foundation. March 2015 The accounts have now been submitted to Barclays. AS met Barclays in February and they are still reviewing their position November 2014 • No further update as unable to submit 2013/14 Accounts to Barclays until they have been laid before Parliament. May 2014 • AS met with Chris Hearn, Head of FE/HE Sector at Barclays to discuss the implications of the ONS reclassification on Scottish FE colleges and why this differs from the rest of the UK, in preparation for paper they will need to submit to Barclay's credit department.	F	APEDF	APEDF	VH	H	20	VH	H	20	⟺	March 2015 - Score increased from 15 to 20

4	Finance	National bargaining will impact on the salary structure and terms and conditions of both support and teaching staff	• Inability to fund pay increases agreed at a national level without impacting on College operations/existing staffing establishment • Inability to effectively manage industrial relations with recognised College unions as a result of decisions/proposals made at a national level	• Continue effective local employee relation communication with Unison and EIS/FELA • Participate in and contribute to the National Bargaining process • Identify efficiencies to ensure affordability	October 16 Negotiations continue no further update Aug 16 Detailed work has begun with the NJNC and Workforce of the Future Committees in preparing recommendations to be presented to both Unions on the migration of salaries and revised terms and conditions . This remains a risk in relation to potential disputes May 16 NRPA now signed be the sector however, this remains a high risk as discussion begin on the next stage of Terms and Conditions March 2016 - There are still a number of colleges who have not yet signed the NRPA which is causing difficulties in moving the process further November 2015 National Recognised Procedure Agreement signed by all colleges and a pay offer has been communicated to both unions which has subsequently been rejected and both unions are considering industrial action. July 2015. National Bargaining Process is in the process of being signed by all colleges. This will enable the pay negotiations to move forward and take place at a National Level . The outcome of negotiations will determine the next stage . FVC has budget in place to meet the suggested level of increase for staff May 2015 Discussions continue with National Bargaining Committee and Scottish Government no further information as been received March 2015 - First draft of Recognised Procedural Agreement (RPA) discussed November 2014 - No significant changes May 2014 • College continues to monitor developments at a national level and share information with recognised trade unions.	HR	P	APEDHROE	VH	H	20	VH	H	20		Jun-14
5	Finance	The current economic environment including BREXIT , changes to the Oil & Gas sector, HEI investment levels and international unrest will impact on the College's ability to generate commercial income	Loss of commercial income impacting on the College's ability to cover its overheads and generate surpluses	Identification of new income streams/ expansion of unaffected existing streams and other funding streams	November 2016 - Still a challenging period and impacts of Brexit and oil and gas downturn still affecting MA numbers, continue market as much as possible for MAs and commercial delivery and have managed to secure 76% of MA engineering numbers which is very high in Scotland. International picking up and are starting work in both Russia and Dubai. August 2016 - Strategy in place for Development and Fund Raising and this will be taken to SDC on 8 Sept, marketing support for commercial activities has stabilised the numbers for CompEx and International delivery underway with an Iraqi project and a scoping team currently out in Russia, as well as improved student numbers due to company sponsorship and links being established with universities. Challenges still remain to secure MA places as the oil/engineering sector still experiencing difficulties. May 2016 - No further update at this time March 2016 - Developing areas of activity across the teaching departments to generate additional income. Bid to SDS to expand the numbers and frameworks within the MA programme. Relaunched the MA Engineering programme and seeking to attract additional companies. Active marketing campaign on commercial activities. Recruiting a Development and Fund Raising Manager November 2015 - Meeting held with all Heads of Teaching department to identify new streams of income	F	P	CF	VH	VH	25	VH	H	20		Nov-15
6	Strategic	Uncertainty over SFC allocation levels for the College will impact on the curriculum planning process	• Inability to accurately curriculum plan impacting on course advertising, recruitment and staffing levels • Uncertainty over meeting Outcome agreement targets if reductions are received in allocation	• Liaise with SFC to receive assurance over funding levels • Update Outcome Agreement to match available funding levels once known	Nov 16 - There is a real potential that the spending review (draft budget) in December will produce a cut to Colleges. The SNP manifesto pledge of 116,000 FTE places means that we will be unable to reduce activity to accommodate this. Colleges Scotland are giving this due consideration. Sept 16 - No further funding allocated. Change to ESF funding announced in Aug 16 which could impact on curriculum delivery. May 16 - Publication of SFC Grant In Aid letter. Core funding up but capital and student funding reduced. Letter issued to Lawrence Howells on 20 May 2016. March 2016 - Ongoing dialogue with Outcome Agreement Manager. Principals group involved in strategic dialogue with SFC and Scottish Government.	B	P	P	H	H	16	H	VH	20		March 2016 Score Increase May 2016
7	Finance	The introduction of the Apprenticeship Levy in the UK and subsequently in Scotland will have an impact on the number of apprenticeship places taken up in Forth Valley due to cross border differences in funding (England has higher levels), English system being further ahead in terms of implementation and the costs of levy to employer could mean that they decide to recruit less apprentices as overall costs have	Reduced level of funding to college in terms of SDS places filled and direct contracts from employers for delivery.	Ensure we are well informed of Scottish position and keep employers informed of how they can access their levy funding and thus maintain the apprenticeship numbers.	Attendance at national Colleges Scotland WG for Apprenticeship Levy Contact with CBI Scotland on employer response to Levy Organising an employer event to inform them of the position when Scottish Government announce implementation plans.	F	APEDBD	APEDBD	H	H	16	H	H	16	New	Nov-16

8	Estates	there will be inadequate facilities for learners due to lack of capital investment	• Reputational damage • Inability to deliver quality learning facilities to the same standard as Alloa and Stirling Campuses • Prohibitive on-going maintenance costs for Falkirk • Restriction on ability to grow commercial income • Expiry of temporary occupation certificates for Carron & Grange buildings	• Preparation of Falkirk Outline Business case (OBC) • Development of Funding Strategy which will require SFC approval • Maximising receipts from existing assets • Negotiate extension to temporary occupation certificate with Falkirk Council	November 2016- FBC approval from Ministers awaited November/December 2016. Conditional sale of Branshill site signed by Developer for £3.2m August 16 - FBC approved by Board of Management and submitted to SFC and SFT for approval. May 16 - Draft FBC being updated on basis of capital procurement. Planning Permission in Principal granted. Site Investigation complete. Conditional legal missives being negotiated for the sale of Branshill site. March 2016 - Draft FBC completed February 2016 and issued to SFT and SFC. Planning Permission in Principal (PPP) submitted. Site Investigation contractor appointed. Negotiations commenced on sale of Branshill site. November 2015 - Architect appointed June 2015, Legal Advisor appointed November 2015, Conditional Legal Missives concluded for additional Middlefield strip October 2015. August 2015. Financial Advisors appointed and preferred legal advisors identified. Architects consultation meetings with staff underway. Work ongoing to develop FBC. May 2015 Technical Advisor appointed April 2015. March 2015 - Middlefield demolition complete. Technical Advisor tenders returned 6 March 2015. OJEU for architect issued. November 2014 • NPD funding strategy announced in Scottish Government October 2014 budget for Forth Valley College • Agreement reached with SFC to fund demolition of Middlefield campus; demolition programmed to start in November 2014. • Falkirk OBC completed and to be submitted to SFC for approval in December 2014 • Ongoing discussions with SFT and SFC re overall procurement route, FBC and next steps May 2014 • Fundraising proposal for Middlefield demolition submitted to SFC • Paper on demolition proposal on Board of Management agenda for 26 June 2014.	B	APEDED	APEDED	VH	VH	25	M	VH	15	⇔	Nov-14 score reduced from 20 to 15 Added - 01/08/2013
9	Governance	the Forth Valley College Foundation does not operate as originally envisaged.	• Loss of control over surplus cash by Forth Valley College	• Memorandum of Understanding agreed between parties	November 16 - Grant request for Student Association and Estates funding approved through Board process and submitted to Forth Valley College Foundation. The Foundation will meet late November/early December to consider these applications Sept 16 - No further update May 16 - No further update March 2016 - No further update at this time November 2015 No further update at this time August 2015 Foundation approved grant application. May 2015 Grant Application submitted and awaiting confirmation of meeting date with Foundation to review application. March 2015 The Foundation were supportive of the new Falkirk campus developments and the grant application will be submitted for the FBC costs November 2014 • Meeting scheduled with Foundation 3 December 2014 May 2014 - Memorandum of Understanding signed by Forth Valley College and Forth Valley College Foundation	B	APEDF	APEDF	M	VH	15	L	VH	10	⇔	May-14
10	Finance	changes to legislation regarding overtime as part of holiday payments may lead to retrospective costs for the College.	• Financial cost to the College that has not been budgeted for • Staff/Union relationships whilst this matter is being resolved	• Monitoring situation as it proceeds through a variety of legal steps • Commence contingency planning to identify potential staff affected by this ruling and costs to the College	October 26 No further update Aug 16 - No further update at this time. May 2016 - No further update at this time March 2016 - There has been no further legal advice on this. November 2015 No further developments at this time July 2015 No further update at this time May 2015 No further information received regarding this March 2015 - No update at this time	HR	APEDHROE	APEDHROE	H	H	16	M	M	9	⇔	Nov-14
11	Finance	Government accounting rules restrict Colleges ability to use available resource at the Board's discretion.	• Inability to utilise surplus cash • Additional complexity of managing projects over a number of financial years • Unable to spend our capital without appropriate budget cover	• Implementation of revised budgeting and forecast processes to support decision making • Transfer of surplus funds to Arm's Length Foundation	November 2016 - No further update Sept 16 - All surplus resources being utilised for estates developments. May 16 - No donation made to Foundation in March 16. SFC/SG still reviewing the issues around utilisation of surplus cash. March 2016 - No further update at this time November 2015 - No further update at this time August 2015 - No further update at this time. May 2015 - £1.1M donated to FVC Foundation in March 15. SFC/SG & College group set up to review long term implications. indication is that for 2015/16 surplus cash should be used to fund shortfall in Student Support. March 2015 - Further paper going to Finance Committee in March. Ongoing discussions with SFC and Scottish Government on how we can utilise surplus cash November 2014 • Paper going to Finance Committee on implications of resource budgets - 25/11/14 May 2014 - • Processes in place for drawing down funding from SFC based on cash flow projections	F	APEDF	APEDF	H	VH	20	L	H	8	⇔	March 2015 - Score increased from 12 to 20 01/05/2014

12	Business Continuity	As the College becomes ever more reliant on IT and systems to deliver to our learners, and to support learners and staff, that disruption to this provision has a more significant impact.	The College could experience loss of access to any of its core systems, which could result in loss of service to staff and/or learners, or could impact our ability to deliver learning.	• The IT Disaster Recovery plan is maintained, and shows the impact of the loss of each of our core systems, and how we would recover each of these core systems • The College's Business Continuity is updated and informs when to access the College's IT Disaster Recovery Plan • The College's Business Continuity Plan is tested • Physical Security is reviewed • Changes to legislation e.g. (European Data Protection/ Public Records (Scotland) Act) etc are reviewed and relevant sections implemented	Nov 16 - No further update Sept 16 - Risk analysis of physical security carried out May 16 - IT Health check undertaken by Internal Auditors. No significant risks identified. March 2016 - Further resilience added through additional break-out access added to Alloa and Stirling. November 2015 No further update August 2015 An additional high-speed internet connection was installed in May to provide resilience May 2015 • An additional internet connection to provide resilience should there be any disruption to our main connection has been purchased and will be configured and tested this month. March 2015 • We are planning to install an additional internet connection to provide resilience should there be any disruption to our main connection. November 2014 • No Further Update May 2014 • IT services participating as pilot department for Business Continuity planning processes	F	APEDIS	APEDIS	L	VH	10	L	H	8		Jun-14
13	HR	Financial restrictions limit the ability to fund pay increases	• Low staff morale • Inability to attract and/or retain key staff	• Implementation of alternative benefits (i.e. additional holidays, salary sacrifice schemes, season ticket loan for travel, Edenred Staff Benefits system) • Clear communication with staff and engagement with Unions on funding restrictions	October 16 FVC have accounted for the current pay offer to Unison in this financial year. However, there remains a depute with Unison in which the offer has not been accepted. Talks are currently underway between NJNC, Unison and ACAS to agree a solution. Aug 16 Following a ballot by Unison the current pay offer was rejected and we have notification of industrial action May 16 EIS pay award now competed for 15/16 & 16/17 Unison pay ward for 15/16 completed Negotiations still on going for 16/17 March 2016 - Unison have now accepted a pay award backdated to April 2015. Unison have also tabled a pay awards for 16/17 November 2015 National Recognised Procedure Agreement signed by all colleges and a budgeted pay offer has been communicated to both unions which has subsequently been rejected and both unions are considering industrial action. July 2015. National Bargaining Process is in the process of being signed by all colleges. This will enable the pay negotiations to move forward and take place at a National Level . The outcome of negotiations will determine the next stage . FVC has budget in place to meet the suggested level of increase for staff May 2015 National Bargaining process remains ongoing which could result in local pay negotiation taking place. Financial details require to be worked through. March 2015 - No longer a risk pay settlement accepted by both unions. However, new risk for 15/16 is the implications of national bargaining. College agreed not to negotiate until RPA is signed. November 2014 - UNISON accepted pay offer 28 May 2014 • EIS/FELA have accepted the pay award for 14/15 and this has now been processed. A revised pay offer to Unison has now been made. 8 April 2014	HR	APEDHROE	APEDHROE	H	H	16	L	M	6		Nov-14 Score reduced from 12 to 6 (April 2014 score increased from 9 to 12) (January 2014 Score reduced) (21 November 2013 increased) August 2013
14	Governance	In the event of a serious incident, the lack of an up to date and tested Business Continuity Plan could lead to increased risk, delay and costs		• Full review of business continuity conducted by Baker Tilly resulting in a number of recommendations • Initial investigation of engaging external specialist to conduct review of BCP and implementation of audit recommendations • Creation of BCP policy which will govern frequency of update and testing of new plan	November 2016 - No further update Sept 16 - Test undertaken in August 2016 May 16 - Test rescheduled to May 16. March 2016 - Testing to occur in March 2016 November 2015 - Test scenario developed. Test will occur Jan 2016 to accommodate scheduling issues. August 2015 - Business continuity plan in place. Testing to occur during early 2015/16 to close of this risk. May 2015 - No further update March 2015 - Business Continuity Plan developed and approved by SMT 10 November 2014 - • Business Continuity Plan being developed May 2014 - • Business Continuity Policy approved 8 April 2014 - • Discussions undertaken with colleagues at Strathclyde University and Stirling University. Draft Business Continuity Policy prepared and will be presented to Audit Committee on 1 May 2014. 17 January 2014 - • Scope for services required to meet recommendations within Audit Report developed • Potential candidate list for consultancy services created • Discussions on next steps on-going 21 November 2013 • No actions to date - paper will be taken to SMT to get approval to appoint consultant to support development of new BCP	A	P	APEDF	L	VH	10	L	M	6		Nov-13

15	Strategic	Failure to deliver upon targets within Outcome Agreement impact upon the College	• Impact on future financial settlements • Reputational damage • Potential removal of Board members	• KPI reporting to relevant committees to ensure appropriate monitoring occurs • Robust internal monitoring processes to ensure KPI achievement • Regular engagement with SFC on progress and expectations	Nov 16 - No further update Aug 16 - Outcome Agreement approved at June 21 Board meeting May 16 - Outcome Agreement updated and will be taken to next meeting of the Strategic Development Committee March 2016 - Early Draft Outcome Agreement shared with SFC. Revised draft taken to Strategic Development Committee in February 2016. November 2015 - • Early Draft Outcome Agreement for 2016/17 going to Strategic Development Committee on November 19th. • 2014/15 Outcome Agreement Self Evaluation submitted to SFC on 31st October, with key targets met. August 2015 No further update May 2015 Outcome Agreement for 2015/17 agreed with SFC March 2105 - The College continues to monitor progress against all targets November 2014 • Draft Outcome Agreement for 2015/17 going to Strategic Development Committee on November 20th. • 2013/14 Outcome Agreement Self Evaluation submitted to SFC on 31st October, with all key targets met. 8 April 2014 KPI's for 2012/13 reported to SDC ?? 16 January 2014 • Draft Outcome Agreement shared with Strategic Development Committee and Board of Management • Draft Outcome Agreement shared with SFC, with changes made following suggested enhancements 21 November 2013 • 2012/13 Outcome Agreement self evaluation completed and returned to SFC identifying that key targets within the Outcome Agreement have been met. Regular meetings between College and SFC Regional Outcome Agreement manager. Software to produce KPI reports tested	SDC	APEDIS	APEDIS	L	VH	10	L	M	6		Aug-13
16	Finance	SDS funding for Foundation Apprenticeships is insufficient to cover college costs and prevents the college from delivering on this DYW target.	Reputational damage (schools, LAs, SDS, SFC); College finds itself running Foundation Apprenticeships with lower than viable group sizes	Ensure clear communication about the requirements of adequate funding to all stakeholders from the outset; Ensure that tender to SDS makes it clear that courses will only run with adequate funding and sufficient candidates.	The requirement for adequate funding and sufficient candidate numbers has been made expressly clear to Head Teachers and to SDS in the tender documentation; Marketing of Foundation Apprenticeship courses is already underway, pending a successful and adequate funding offer.	F	APEDL&T	APEDL&T	h	m	12	l	m	6	New	Nov-16

9. External Board Effectiveness Review
For Discussion

29 November 2016
AUDIT COMMITTEE

1. Purpose

To present to members the external Board Effectiveness Review framework which has been developed by the Good Governance Steering Group.

2. Recommendation

That members consider the framework and the appointment of Jan Polley to complete the review.

3. Background

The Code of Good Governance for the College Sector in Scotland requires that –

“The board must keep its effectiveness under annual review and have in place a robust self-evaluation process. There should be an externally facilitated evaluation of its effectiveness every three to five years.”

In taking forward this review it will allow us to demonstrate clearly to all concerned that the sector is well governed and that its boards take their responsibilities for continuous development seriously.

The attached framework is based on accepted good practice for externally validated governance reviews and seeks to strike a balance between promoting a consistent and collaborative approach and leaving each board to implement it in a manner that suits its needs. The expectation is that this should be completed by the end of the March 2017 and the Board Chair should have submitted a summery response to [Colleges Scotland/ Good Governance Steering Group/SFC?] by then.

The framework has been developed in consultation with the members of the Good Governance Steering Group, which includes college principals, chairs and board secretaries, as well as representatives from students, staff unions, SFC and Scottish Government. In addition to providing external assurance that the sector takes its governance very seriously it also offers the board an opportunity to discuss and develop our own governance priorities.

4. Key Considerations

Members should consider the attached framework and define the scope of the review to be undertaken.

5. Financial Implications

The cost will be dependent of on the number of days required to complete the review once the scope has been agreed. Jan’s daily rate is £780 (inclusive of VAT).

6. Equalities

N/A

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		
Low	x	
Very Low		

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

Risk Owner – Ken Thomson **Action Owner –** Alison Stewart

8. Other Implications –

None

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

Guidance Note – Conducting Externally Facilitated Effectiveness Reviews

Scope

1. The recently update Code of Good Governance states that:

   "The board must keep its effectiveness under annual review and have in place a robust self-evaluation process. There should also be an externally facilitated evaluation of its effectiveness at least every three years. The board must send its self-evaluation (including an externally facilitated evaluation) and board development plan (including progress on previous year's plan) to its funding body and publish them online".

2. The Board Member Development Framework published in November 2015 offered guidance to the sector on board training and evaluation in general. This Guidance Note builds on that and provides more detailed guidance on conducting an externally facilitated evaluation of board effectiveness.

3. Every board will be slightly different and at a different stage of its own development. It is important therefore that the evaluation focuses on the issues of most importance to the development of the board but the review is also a mechanism to provide assurance to college funding bodies that the level of governance in each organisation is appropriate. It is suggested therefore that the output from an externally facilitated evaluation should be both a basic level of assurance relating to core governance requirements plus an agreed list of actions on areas that board members wish to develop their governance further.

4. This external evaluation process is not intended to duplicate routine work undertaken by internal auditors to assess the governance processes of the organisation either as part of the normal annual audit programme or in order to support the Annual Statement of Compliance in the annual report. Audit reports will however provide helpful background material and should be made available to the external facilitator if appropriate (see below).

Evaluation Process

5. It is suggested that the effectiveness review should cover the five sections of the Code of Good Governance:

   - **Leadership and Strategy**
   - **Quality of the Student Experience**
   - **Accountability**
   - **Effectiveness**
   - **Relationships and Collaboration**

6. A board may choose to add to those topics if it so wishes. A summary of the detailed requirements covered in each section of the Code and two simple questions that a board may wish to use to evaluate itself are set out in Annex A.

7. The process of the review itself should include a number of steps:

Process
1. Board to agree the areas to be covered in the review (all sections of the Code as a minimum), the process and timescales required.
2. Recruit the independent facilitator who is to provide external validation and agree the proforma or questionnaire to be used.
3. Board members and senior staff who work closely with the board, provide their views to the facilitator on (a) board performance to date (b) areas for future development using a proforma/questionnaire. This process can be done in a range of ways including:

i. A board workshop is held that results in an agreed summary of views; or
ii. Members and senior staff complete the proforma/questionnaire and the facilitator summarises the results; or
iii. The facilitator undertakes 1 to 1 interviews with some or all board members and staff based on the proforma/questionnaire.

4. The facilitator pressure tests the views expressed at step 3 by, as a minimum:
    - Observing at least one board meeting.
    - Undertaking a desktop review of:
        - a sample of board and committee remits, minutes, agendas and papers.
        - a sample of corporate documents to examine alignment between corporate objectives, the objectives of supporting strategies such as HR, estates and finance and the performance information coming to the board and its committees.
        - the risk register and a sample of recent audit reports.
        - the current board and board member development plans, appraisal and induction processes and the skills matrix used.
        - recent staff, student or stakeholder surveys and any board responses.
        - any audit reports on governance that are used to underpin the Statement of Compliance in the annual report.
    - If step 3iii above is not chosen, conducting 1 to 1 interviews with a sample of board members and senior staff including a staff and student board member.
5. The facilitator draws up a draft report summarising the output for steps 3 and 4. The board is given an opportunity to discuss and comment on the facilitator's findings and to draw up an action plan for areas of development over the next 12 months.
6. A final report is provided by the facilitator to the board and the board chair writes to the relevant funding body as required by the Code of Good Governance.

External Facilitator

8. It is common across the public and private sectors for annual governance self-evaluations to be alternated every few years by an external review that is independent of the organisation and is used as a means of validating/calibrating the board's view of itself. A number of companies and individuals undertake this work. It is for each board to decide who it wishes to contract with but the successful person should meet the following minimum criteria:

    - A clear understanding of how to undertake an external governance review of the type required.
    - Independent of the board and the college/strategic body being evaluated.
    - Expertise in board governance with knowledge of college sector governance issues and the requirements placed on its boards.
    - An ability to provide rigorous challenge to the board while developing a constructive relationship with it.

9. Each board will agree the terms of the contract with their reviewer but, as a rough guide, if the reviewer were asked to undertake steps 3-6 above, this might require 5-9 days of their time (step 3iii may require more days if chosen).

August 2016

Code of Good Governance Criteria	Our performance in the last 12 months (including evidence)	Development required during the next year
LEADERSHIP AND STRATEGY 1. **Board decisions and behaviour reflects the boards Code of Conduct and Nine Principles of Public Life.** 2. **We determine the vision, direction, educational character, values and ethos of the college.** 3. **Our performance management system is adequate, identifying KPIs and we monitor progress.** 4. **Relevant stakeholders are engaged in compiling the outcome agreement.** 5. **We provide leadership on ethics, equalities, diversity and staff welfare.** 6. **We have regard to the social and economic needs of our area.**		
QUALITY OF THE STUDENT EXPERIENCE 1. **The voice of students and the quality of their experience is central to our decisions including monitoring student surveys and any resulting action plans.** 2. **We have open ongoing engagement with students, working in partnership and encouraging a strong independent student association having regard to the Student Association Framework.** 3. **Our Student Association is adequately resource, operates fairly and in a democratic manner, fulfilling its duties; it has a written constitution that the board has reviewed in the last five years.** 4. **We are aware of and foster good relationships**		

Code of Good Governance Criteria	Our performance in the last 12 months (including evidence)	Development required during the next year
with partner organisations that help us provide coherent learning, including employability. 5. Mechanisms ensure effective oversight of quality and inclusiveness of learning.		
ACCOUNTABILITY 1. We fulfil our primary accountability to our funding body by: a. delivering our outcome agreement. b. fulfilling our statutory duty and terms of our grant. 2. We fulfil our accountability to students, public, employers and our community for provision of education that enhances social and economic wellbeing. 3. We manage conflicts of interest and disclose our register of interests. 4. Our decision making is transparent, informed, rigorous and timely and associated documentation is adequate. 5. Our scheme of delegation to staff and committees is clear and fit for purpose with appropriate two way communication with the board. We ensure: a. we have audit, remuneration, finance and nominations/appointments committees. b. the staff charged with advising each committee are clear. c. committee minutes go to the next meeting of the board. 6. We set the risk appetite, balancing risk and opportunity and this is known to senior staff.		

Code of Good Governance Criteria	Our performance in the last 12 months (including evidence)	Development required during the next year
7. We ensure sound risk management and supporting review systems. **8. The Audit Committee:** **a. Reviews the comprehensiveness, reliability and integrity of all our assurances on the governance, risk and control frameworks, engaging with internal and external auditors and monitoring any actions recommended.** **b. Members are all non-executive, objective and independent with at least one having recent relevant financial or audit experience.** **c. Can hold all or some of its meetings in private, meeting internal and external auditors privately at least once a year.** **9. The Remuneration Committee:** **a. Members understand their role and are trained in it: the chair is not also board chair.** **b. Implements a procedure agreed by the board for setting the principal's salary, including consulting staff and students.** **10. We ensure our body's sustainability, including compliance with the Financial Memorandum and the Scottish Public Finance Manual, ensuring adequate reporting and monitoring and economic, efficient and effective use of our funds.** **11. We ensure compliance with charities provisions.** **12. As an employer we:** **a. promote positive employee relations.**		

Code of Good Governance Criteria	Our performance in the last 12 months (including evidence)	Development required during the next year
b. ensure effective management: union partnerships. c. comply with the Staff Governance Standard. d. comply with any national collective agreements placed on us. e. ensure fair and effective staff management.		
EFFECTIVENESS 1. The board chair provides leadership and ensures board effectiveness, working well with the principal and board secretary. 2. Our board and committees have the right balance of skills, experience, independence and knowledge of the college to fulfil their role effectively. 3. We abide by collective responsibility, taking decisions in the interests of the body and managing conflicts of interest appropriately. 4. Staff and student members are treated as full board members. 5. We have an open and transparent process for recruiting and setting the performance measures for our principal; staff and students can contribute to it. 6. There is a clear understanding of the responsibilities delegated to the principal and the respective roles of the chair, board members and executive staff. 7. The board secretary is: a. appointed by the board with the appropriate		

Code of Good Governance Criteria	Our performance in the last 12 months (including evidence)	Development required during the next year
skills and experience and is not a member of the senior management team in any other capacity. b. available to advise all board members and committees and has adequate time to fulfil the role. 8. We have a formal and open board member recruitment process that reflects Ministerial guidance. 9. We have appropriate arrangements for student and staff member recruitment. 10. All members undertake training tailored to their needs (including committee training), new members receive formal induction tailored to their needs and there are records of training. 11. We review the board's effectiveness annually using a robust self-evaluation process, externally facilitated at least every three years.		
RELATIONSHIPS AND COLLABORATION 1. We work in partnership at a local, regional and national level to: a. secure coherent education provision in our locality. b. achieve commonly agreed outcomes. c. develop agreed priorities. d. address local needs as well as national priorities and specialisms.		

For Information

Strategic Area	External Assurance	Internal Assurance
Creating a superb environment for learning	FES Statutory Compliance e.g. Fire equipment, smoke detectors Insurance Reviews Full Business Case reviewed by SFC and SFT	Health and Safety Team Schedule of Reviews
Cultivating a vibrant learning organisation where learners develop skills, achieve qualifications valued by industry and progress seamlessly	Reviews by External Awarding Bodies e.g. SQA, ECITB, City & Guilds, NEBOSH/IOSH Education Scotland Review	Internal & External Verifiers Annual report to SFC on quality Listening to Learners, Student Council feedback, Student Early Experience Survey National Student Satisfaction Survey
Instilling an energy and passion for our people, celebrating success and innovation	Equal Pay Audits PVG system for Staff	Liaison with College Lawyers Ongoing Job Profile Reviews Staff Cultural Surveys
Leading as a champion for governance, an organisational pathfinder, balanced risk taker, proactive and responsive	APUC for procurement Internal and External Audit HMRC Payroll inspection	Board Register of Interests/Annual Governance Report In College Accounts Quarterly Reports to Scottish Information Commissioner on FOI Business Continuity Plan testing
Enhancing our position as the business and community partner of choice	Reviews by External Awarding Bodies e.g. SDS, ECITB, City & Guilds, NEBOSH/IOSH PAA-VQSET, EAL, CIPD, BPEC, CompEx SDS Audit of MA Provision	Business Development Process
Delivering a whole system approach. Simply effective, efficient and consistent	Reviews by External Awarding Bodies e.g. SQA, ECITB, City & Guilds, NEBOSH/IOSH Annual Internal Audit of Sums Penetration Testing of Systems	Review of Disaster Recovery/Backups and Testing Statutory Compliance Testing