

Banff and Buchan College of Further Education
Financial Statements for the 3 months to 31 October 2013

Paper 1 - Draft Financial Statements

Paper 2 - Glossary of Terms

Paper 3 - Audit Scotland's Report to those charged with governance

Paper 4 - Letter of Representation



**BANFF AND BUCHAN COLLEGE
OF FURTHER EDUCATION**

**ACCOUNTS FOR THE 3 MONTH PERIOD
1ST AUGUST 2013 - 31ST OCTOBER 2013**

Charity No SC021178

**ACCOUNTS ARE
AVAILABLE IN LARGE PRINT**

**ACCOUNTS FOR THE 3 MONTH PERIOD ENDED
31ST OCTOBER 2013**

INDEX

PAGE(S)

Contents

INDEX	2
OPERATING AND FINANCIAL REVIEW	3
REPORT OF THE BOARD OF MANAGEMENT	3
STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL.....	13-14
STATEMENT OF BOARD OF MANAGEMENT RESPONSIBILITIES.....	17-18
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF NORTH EAST SCOTLAND COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT	19
ACCOUNTING POLICIES.....	21
INCOME AND EXPENDITURE ACCOUNT FOR 3 MONTH PERIOD ENDED 31 ST OCTOBER 2013.....	26
STATEMENT OF HISTORICAL COST SURPLUSES AND DEBITS.....	27
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE 3 MONTH PERIOD ENDED 31 ST OCTOBER 2013	27
BALANCE SHEET AS AT 31 ST OCTOBER 2013	28
CASH FLOW STATEMENT FOR THE 3 MONTH PERIOD ENDED 31 ST OCTOBER 2013.....	29
NOTES TO THE FINANCIAL ACCOUNTS	30-47

OPERATING AND FINANCIAL REVIEW REPORT OF THE BOARD OF MANAGEMENT

NATURE, OBJECTIVES AND STRATEGIES

The Board of Management of North East Scotland College present their report and the financial statements of Banff and Buchan College for the 3 months ended 31st October 2013, being the final 3 months before merger with Aberdeen College as a consequence of the Government's regionalisation agenda. Under Financial Reporting Standard 6 acquisition accounting applies which means that Audited accounts were required for the period 1 August 2013 to 31 October 2013.

LEGAL STATUS

Banff and Buchan College of Further Education was constituted as the Buchan Technical College in 1966. The Buchan Technical College became the Banff and Buchan College of Further Education in 1982.

In 1992, Parliament passed the Further and Higher Education (Scotland) Act, as a result of which 43 former colleges of further education in Scotland became incorporated bodies. These financial statements are for the nineteenth accounting period of the College following incorporation on 1 April 1993.

On that date staff in local authority employment, land and other property owned by the education authority were transferred to the College. Control of the College passed to a Board of Management and the College Principal, who are responsible for the stewardship of the College's finances and assets. Under the Scottish Parliament's reform agenda Banff and Buchan College will merge with Aberdeen College on 1st November 2013 to form North East Scotland College.

The College is a registered charity (Scottish Charity Number SC021178) for the purposes of the Law Reform (Miscellaneous Provision) (Scotland) Act 2005.

SCOPE OF THE FINANCIAL STATEMENTS

The financial statements cover all activities of the College. The College subsidiary company, Banff and Buchan College Company Ltd, was dormant throughout the period.

The Board of Management have agreed that Banff and Buchan College will merge with Aberdeen College, with a vesting date of 1 November 2013, to form North East Scotland College (Scottish Charity Number SC021174). The merger process is proceeding to plan and college staff and managers are working well with their colleagues in Aberdeen College to finalise plans for merger.

The recently appointed principal designate of the new college is Rob Wallen, principal of Aberdeen College. The senior management team and College Board are in place and consultation is underway for the academic management structure.

MISSION

The College's principal mission statement is:

“To provide high quality lifelong learning opportunities which are relevant to the needs of students, employers and communities.”

As part of the process of regionalisation and the revised arrangements for the governance and funding of colleges, the Scottish Government and Scottish Funding Council (SFC) have instituted a process of developing outcome agreements for each of the 13 geographic regions in Scotland.

The outcome agreement sets out the activities the region will undertake and the contribution that it is expected to make to nationally agreed outcomes. Each outcome agreement is set in the context of the needs of the particular region but also contains common elements to enable each region to benchmark its progress with others.

The finalisation of an outcome agreement between SFC and the college(s) in a particular region is a condition of grant for the region for 2013-14. Penalties may be imposed on a region and/or on individual colleges who do not meet targets laid down in the outcome agreement. Banff & Buchan and Aberdeen College have worked closely to develop and agree the region's outcome agreement with the SFC.

The agreement is based around 5 outcomes:

1. Regional governance arrangements in line with the outcome of the options appraisal process.
2. State-of-the-art facilities for learners in all subject areas in so far as is achievable within allocated levels of funding.
3. Maintenance of the quality of provision and current levels of access to provision in so far as is compatible with levels of funding provided and Scottish Government policy initiatives.
4. An extension of the range and volume of provision offered by the Oil and Gas Academy for Scotland in line with employer needs, supported by additional funding from SFC, other government agencies, industry bodies and individual companies.
5. Effective and efficient management structures and process for the region, based on the development of a balanced budgetary position that is sustainable in the long term

IMPLEMENTATION OF STRATEGIC PLAN

We have maintained provision for learners despite serious cuts to our grant in aid and there is evidence that attainment and achievement are improving. We continue to support national priorities by developing a range of opportunities for young people (age 16-24) to ensure that they have the skills and attributes to access and maintain sustainable careers. We have improved the resources for our learners through the redevelopment of our main campus in Fraserburgh, the introduction of a thin client ICT infrastructure and the development of the Scottish Maritime Academy at Peterhead. We are responding to the Scottish Government's reform agenda for Further Education by merging with Aberdeen College. We continue to support key sectors of the economy including maritime, engineering and oil and gas and have built strong effective partnerships with employers.

FINANCIAL OBJECTIVES

The College's main financial objective is to ensure long term financial sustainability. The College's financial objectives are:-

- to achieve an annual operating surplus
- to pursue alternative sources of funding, on a selective basis, consistent with the College's core competencies, and the need for a financial contribution to the College's overall finances
- to generate sufficient levels of income to support the asset base of the College
- to further improve the College's shorter term liquidity
- to fund continued capital investment

To that end the College maintains prudent policies in relation to pensions provision and investments.

PERFORMANCE INDICATORS

In accordance with SFC requirements, the College is required to publish and report progress against targets for national priorities. The performance indicators used by the College include:

- student retention
- student outcomes
- activity target
- continued professional development for staff

STUDENT NUMBERS

During the past year, the College has further reduced its enrolment level by reducing the number of short part time programmes particularly for school age pupils. Enrolments in recent years were:

MODE OF ATTENDANCE	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	3 Months to 31/10/13
Full Time	1313	1361	1373	1385	1406	1200	1305
Part Time	19044	16347	10891	6650	5547	5000	2324
Short Full Time	244	249	156	282	274	491	65
TOTAL	20601	17957	12420	8317	7227	6691	3694

STUDENT ACHIEVEMENTS

Statistical data for 2012-13 has been forwarded to SFC and audited outcomes have been published. The College had the following outcomes:

FE - Full-Time (BBCFE)	2009-10	2010-11	2011-12	2012-13
% Early Withdrawal	9	10	7	6
% Further Withdrawal	18	13	19	13
% Partial Success	13	19	13	9
% Success	60	58	61	72

FE - Part-Time (BBCFE)	2009-10	2010-11	2011-12	2012-13
% Early Withdrawal	1	1	1	0
% Further Withdrawal	7	4	1	2
% Partial Success	14	32	6	6
% Success	78	63	92	92

HE - Full-Time (BBCFE)	2009-10	2010-11	2011-12	2012-13
% Early Withdrawal	6	7	6	3
% Further Withdrawal	14	17	15	8
% Partial Success	17	19	15	10
% Success	63	57	64	79

HE - Part-Time (BBCFE)	2009-10	2010-11	2011-12	2012-13
% Early Withdrawal	1	4	1	0
% Further Withdrawal	5	12	2	1
% Partial Success	17	22	14	10
% Success	77	62	83	89

College Performance Indicators by Mode of Attendance

FE		2009-10	2010-11	2011-12	2012-13
Full-Time	Success	60	58	61	71
Short Full-Time	Success	64	52	87	90
Block Release	Success	100	44	100	98
Part-Time	Success	95	84	93	90
Evening	Success	90	67	91	88
Open Learning	Success	92	0	97	94
Workbased	Success	36	36	83	85
NCLP	Success				78

HE		2009-10	2010-11	2011-12	2012-13
Full-Time	Success	63	57	64	79
Short Full-Time	Success				
Block Release	Success	92	64	96	100
Part-Time	Success	74	63	81	87
Evening	Success	76	85	64	100
Open Learning	Success	87	37	91	92
Workbased	Success				

CURRICULUM DEVELOPMENTS

In January 2013 the College was reviewed by Education Scotland and consequently the most significant curriculum developments related to some key points for action identified by HMIe.

The College had four main points for action:

- The college should improve success rates in programmes where they are low.
- Managers should fully develop arrangements for the effective evaluation of learning and teaching across the college.
- The college should ensure that support services teams engage in self-evaluation activities which lead to effective plans for improvement.
- Managers and staff should ensure self-evaluation activities are effective and they should fully evaluate the impact of actions to inform improvement.

Education Scotland HMI returned to the college in October 2013 and concluded that:

- The college has therefore addressed fully the main point for action, to improve success rates in programmes where they are low.

- The college has therefore successfully addressed the main point for action, that managers should fully develop arrangements for the effective evaluation of learning and teaching across the college.
- The college has therefore successfully addressed the main point for action, that support services teams engage in self-evaluation activities which lead to effective plans for improvement. The college has also made satisfactory progress against the main point for action, that managers and staff should ensure self-evaluation activities are effective and they should fully evaluate the impact of actions to inform improvement.

FINANCIAL POSITION

The Income and Expenditure account for the 3 months showed a surplus of £8,000 (2012/13 12 months planned deficit £285,000). The surplus was due to a timing difference due to consumable materials not being purchased evenly over the year and the first 3 months containing 6 weeks of holidays. After adjusting for the effect of depreciation on the revalued fixed assets, the historical cost surplus was £8,000 (2012/13 12 months deficit of £285,000). The College has accumulated reserves of £5,463,000, cash balances of £3,398,000, and no short or long term borrowing.

The redeveloped College estate was revalued at 31st October 2013 and included in the Balance Sheet at depreciated replacement cost. Fixed asset additions during the 3 month period were £258,000. The increase in debtors on the balance sheet relates to monies claimed from the Scottish Funding Council for voluntary severance and claimed for the OGas redevelopment of the welding and machine shop - both figures were unpaid and so accrued as income at 31st October 2013 .

CHARITABLE AND TAXATION STATUS

The College is registered as a charity with the Office of the Scottish Charities Regulator and with the HM Revenue and Customs and is not liable to corporation tax or capital gains tax. The College receives no exemption in respect of value added tax.

The College registered for value added tax on 1st February 2009.

TREASURY POLICY AND OBJECTIVES

Our aim is to maximise the interest received from funds held and to minimise any interest paid when funds are borrowed, within a policy of reducing risk by diversifying where funds are placed. The College carefully monitors the financial viability of the organisations that it entrusts with its funds.

CASH FLOWS

The College attempts to maintain a positive cash flow by placing funds long term (up to twelve months) and short term (overnight and a week) on the market. Advanced and capital funding from the Funding Council has allowed us to maximise this opportunity.

LIQUIDITY

The College currently has no debt and good cash balances, resulting in interest receipts for the 3 months of £5,000 despite the severely reduced interest rates available.

PROMPT PAYMENT TO SUPPLIERS

The College complies with the CBI Prompt Payment Code and has a policy of paying its suppliers by the due date of the invoice unless the invoice is contested. All disputes and complaints are handled as quickly as possible. There were no payments made in relation to interest on late payments. The proportion of period end creditors to the aggregate invoiced amounts during the period equates to 36.5 days (20.53 days 2012/13). The increase is due to the short period for the total spend.

CURRENT AND FUTURE DEVELOPMENTS AND PERFORMANCE

POST-BALANCE SHEET EVENTS

The College merged with Aberdeen College on 1st November 2013 to form North East Scotland College. The 3 month period to 31st October 2013 is the last accounting period of Banff and Buchan College. The College company was dormant during the 3 month period to 31st October 2013 and was dissolved on 7th March 2014.

ENVIRONMENTAL ISSUES

The College retains its membership of the Environmental Association of Universities and Colleges and has signed up to the Universities and Colleges Climate Commitment for Scotland. This commits the college to produce an action plan to reduce its carbon footprint.

Significantly improved environmental performance has been a key criteria for the development of the College 2012 project. Overall, the project has been designed to achieve a BREEAM Very Good rating through improved insulation, ground source heating and energy efficient ICT and lighting systems combined with effective use of solar gain and passive ventilation.

FUTURE DEVELOPMENTS

Since the 2012-13 year-end, the College estates development has progressed so that only minor snagging is outstanding. The Peterhead Outreach Centre project has been completed.

RESOURCES

The College has various resources that it utilises in pursuit of its strategic objectives.

Property: The College owns its main campus in Fraserburgh and Peterhead, and rents properties in Macduff, Aberdeen and Ellon.

Financial: In the 3 months to 31st October the College has a turnover of £3.2m, net assets of £24.9m, and no borrowings.

People: The College has 253 employees which equates to 205 FTE for the 3 month period.

Reputation: The College has an excellent reputation both locally and nationally.

PRINCIPAL RISKS

A detailed risk register is updated three times a year and some key risk areas, such as the refurbishment of the College (College 2012) will often have their own separate risk management strategy. The audit committee of the Board of Management receives regular reports on the development of critical risks and appropriate mitigating actions.

Currently the four headline risks and control measures are

- I. Changes in Government FE Policy that impact negatively on the organisation (Risk owner Principal)
 - membership of Scotland Colleges/Rural Colleges group
 - maintain effective close links with Scottish Funding Council
 - maintain membership of professional organisations (e.g. SCDI)
 - liaise with local MP/MSP/Council members/Chief Executives forum

- II. Detrimental impact on core college services as a result of a further reduction in core grant and increasing costs (Risk owner Principal and Finance Director)
 - rigorous budget setting and cost control
 - effective budget monitoring and action
 - financial regulations and internal controls
 - effective audit procedures
 - staff planning processes
 - effective partnership forum for salary negotiations
 - development of a sustainability action plan

- III. Failure to reach income generation targets (Risk owner Assistant Principal Business and Skills)
 - Procedure for identifying income generating opportunities
 - Effective support for delivery of full-cost programmes
 - Staff training
 - High priority in Development Plan
 - bSolutions and associated systems

- IV. Detrimental impact on core college services as a result of merger proposals (risk owner principal)
 - Separate risk register

EQUAL OPPORTUNITIES

Banff and Buchan College is fully committed to equality of opportunity. As well as fulfilling its statutory equality duties the College seeks to promote, develop and sustain an educational and working environment where all stakeholders can participate fully and equally within the College community. In doing so, Banff and Buchan College continues to implement and monitor plans,

policies and practices which aim to ensure that no one is disadvantaged for reasons relating to race, disability, gender, religious belief, age and sexual orientation.

STAKEHOLDER RELATIONSHIPS

The College has, over an extended period, sought to develop relationships with both public and private sector organisations.

The college works closely with Aberdeenshire Council in a range of communities including Ellon, Peterhead and Macduff. The Council is also a key client for both commercial and schools related training.

Other public sector organisations with which the College has effective partnerships include Skills Development Scotland, Job Centre Plus and the Scottish Funding Council.

The College also works extensively with a range of private entities and charities including:

- Shell sponsorship of a full engineering technician programme;
- “Next Steps – Engineering”: Schlumberger, Subsea 7, Technip, Weatherford, Halliburton and Acergy as well as other engineering training companies such as ITCA, Peterhead Training etc.
- “Next Steps – Nautical”: Ocean Mainport, North Star Shipping, Vroon Offshore Services and Nomis Shipping.
- “Next Steps – Accounting”: Johnston and Carmichael.
- The Scottish Traditional Skills Training Centre
- Pöyry sponsorship of HND Business

EMPLOYMENT INFORMATION AND CONSULTATION

The College considers good communication with its staff to be very important and to this end the Principal releases a weekly team-brief following the Senior Management Team meeting.

It is the policy of the Board to promote good communications with their employees both directly to individual members and through the Partnership Forum. The Board also promotes good relationships with the support staff trade union, UNISON, the College Support Staff Association and the lecturing staff trade union EIS/FELA. The Partnership Forum for conducting staff negotiations and consultation consists of representatives of EIS/FELA, UNISON, the College Support Staff Association and Managers. Staff are also represented on a range of Committees and Working Parties. All College policies and procedures are available on the College Intranet.

PROFESSIONAL ADVISERS

The College Boards of Management no longer appoint their own external auditors. Audit Scotland allocates External Auditors to each college. Audit Scotland themselves commenced their five year appointment for the 2011/12 accounts.

External Auditors:	Audit Scotland
Internal Auditors:	Scott Moncrieff
Bankers:	Lloyds TSB
Solicitors:	Brodies

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 _____ and signed on its behalf by:-

.....

Chairman

.....

Principal

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the Combined Code on Corporate Governance as updated by the London Stock Exchange and in the Turnbull Code. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

The Board of Management is responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board of Management is of the view that the College is in compliance with all the code provisions set out in the Combined Code on Corporate Governance insofar as they relate to colleges and specifically the Turnbull Code Principle C.2. There is an ongoing process for identifying, evaluating and managing the College's significant risks and that it has been in place for the 3 months ended 31st October 2013 and up to the date of approval of the annual report and accounts, and it is regularly reviewed by the Board of Management.

The College's Board of Management meets five times a year. The committee structure for the 3 months of 2013/14 consisted of a Human and Financial Resources Committee, a Learning and Teaching Committee, a Chairs' Committee and an Audit Committee. In advance of session 2012/13, the Board reviewed the committee structure and it was agreed that the Finance and General Purposes Committee and Staffing Committee would merge to form the Human and Financial Resources Committee. In addition, a Learning and Teaching Committee of the Board was formed. It was further agreed that the Search and Nomination Committee and Remuneration Committee would be subsumed into a Chairs' Committee. The Audit Committee remained in place. All of these Committees are formally constituted with terms of reference contained within a Governance Manual. Membership of the Board of Management and Committees are reviewed on a regular basis. The College Governance Manual outlines the legislative framework and internal context under which the Board operates as well as the remits of Committees and delegated powers as appropriate. The Steering Group, initially formed to oversee the initiation and delivery of the College 2012 estates development project, was used as a vehicle to oversee the Peterhead Outreach Centre project.

The Human and Financial Resources Committee recommends to the Board of Management the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Chairs' Committee considers nominations and applications for Board Membership. This Committee then brings a recommendation to the Board. Appointments to the Board of Management are approved by the full Board. The Board consists of no more than 16 members. Members are eligible to remain on the Board for a maximum of three terms of office, i.e. 12 years. An initial induction is provided for new Members by the College. Board Members are encouraged to attend external training sessions and video conferencing is used when available to allow members to participate in events held in the central belt. In addition, the Board also undertakes a minimum of two training sessions a year, including in-house courses organised through Scotland's Colleges.

The Chairs' Committee determines the remuneration of the Principal and reviews the senior management remuneration framework on a triennial basis.

The Audit Committee meets four times a year, with the College's external and internal auditors invited to attend. The remit of the Committee is to oversee the management of the key risks which may affect the College. The Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the College's business and monitors adherence to the regulatory requirements. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee and once a year the Committee meets the Internal and External Auditors on their own for independent discussions.

The Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units. The Senior Management Team and the Audit Committee also receive regular reports from the internal audit and health and safety functions. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. The Board of Management's agenda includes a regular item for consideration of risk and control and receives reports thereon from senior managers and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. The Board has a well developed strategic planning framework and additional full meetings annually are dedicated to this process. The outcomes of the strategic planning process are informed by input from senior managers and external sources as appropriate. The executive undertakes a full strategic and operational planning process based on the framework document. This planning process was commented on favourably by HMI during their review in March 2009.

The Board have determined to adopt a partnership approach in their relationships with staff and a Partnership Forum has been convened.

A comprehensive policy framework has been developed and is available to all staff on the College intranet.

The Board of Management considers that the College has adequate resources to continue in operation for the foreseeable future. The College will merge with Aberdeen College on 1st November 2013 as part of the regionalisation process.

BOARD OF MANAGEMENT

All Board Members finished their term with Banff and Buchan College at 31st October 2013 when it merged with Aberdeen College to form North East Scotland College.

	*	Date of Appointment	Area of Interest
Mr B Cruickshank (handover period)	L	1 st July 2013	Sabbatical President, Students' Association 2012-13
Mr P Sherrington	Z	April 2010	Principal, Banff and Buchan College
Mr J Cousins (Chair March 2012-demitted office 31 st July 2013)	Z	1 st August 2005	Consultant, Energy, Management and Purchasing
Ms L Macfarlan (Chair 1 st August 2013)	Z	1 st August 2005	Finance Director, Score Europe
Mr D Cook	H	1 st August 2005	Management, Banff and Buchan College
Mr W Weir	H	12 th December 2007	Head of Policy and Resources (Education, Learning and Leisure), Aberdeenshire Council
Ms J Fowlie	A	23 rd June 2010	Branch Manager, Clydesdale Bank
Mrs C Inglis	H	23 rd June 2010	Human Resources Director, University of Aberdeen
Mr J Raine	A	23 rd March 2011	Communication Executive, Shell UK Ltd
Mr K Sime	H/L	12 th May 2011	Lecturing Staff Member
Ms A Bell	A/L	22 nd June 2011	Fisheries Training and Offshore Employability
Ms A Simpson	L	22 nd June 2011	Community Learning and Development
Ms S Cormack	L	12 th December 2012	
Mr B Milton	A	12 th December 2012	
Mr R Woods	H	12 th December 2012	Support Staff Member

Ms L Macfarlan succeeded Mr J Cousins as Chair of the Board on 1st August 2013. Mr Cousins had completed 8 years on the Board.

It was agreed at the Board meeting of 7th October 2009, following a request from the Students' Association, that the President of the Students' Association should attend all Board meetings, while the Vice President of the Students' Association attend the Finance and General Purposes Committees.

Four Board Members moved to the new Board of Management of North East Scotland College on 31st October 2013. Four further members moved but only had observer status.

* Committee Involvement :
Z – All committees except Audit
A – Audit
H – Human and Financial Resources
L – Learning and Teaching

The Chairs' Committee consists of the Chair of the Board and the Chairs of each of the Standing Committees.

RELATED PARTY TRANSACTIONS

The Board of Management of Banff and Buchan College is a body incorporated under the Further and Higher Education (Scotland) Act 1992.

SFC is regarded as a related party. During the period Banff and Buchan College had various material transactions with SFC and with other Public Sector entities viz: - Student Awards Agency for Scotland, Scottish Qualifications Authority, Skills Development Scotland and a number of other colleges and higher education institutions.

In addition, the College has had a small number of material transactions with other bodies sponsored by other Government Departments viz. Aberdeen City Council, Aberdeenshire Council and Scottish Water.

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 College's 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.

The College had transactions during the period or worked in partnership with the following publicly-funded or representative bodies in which members of the Board of Management hold or held official positions.

Member	Organisation	Position
Wilf Weir	Aberdeenshire Council	Head of Policy and Resources (Education, Learning and Leisure), Aberdeenshire Council
Anne Simpson	Aberdeenshire Council	Part time position

The College had transactions during the period with the following non-public bodies in which a member of the Board of Management had an interest and which in aggregate exceeded £5,000.

Member	Organisation	Position
Lynne Macfarlan	Score Europe	Finance Director
Jennifer Fowlie	Clydesdale Bank	Branch Manager
John Raine	Shell	Communication Executive
Caroline Inglis	Aberdeen University	Human Resources Director
Shona Cormack	Robert Gordon University	Vice-Principal and Pro Vice-Chancellor

Approved by order of the members of the Board on _____ and signed on its behalf by:-

.....
Chairman

.....
Principal

STATEMENT OF 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 as amended, 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 to enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council (SFC) and the College's Board of Management, the Board, through the Principal, 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 the surplus or deficit and cash flows for that period.

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

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

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 sector and administrative managers.
- 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 monthly reviews of financial results involving variance reporting and updates or 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 Audit Committee and Finance & General Purposes Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management 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.

By order of the Board and signed on its behalf by:-

Date: _____

Chairman

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

I have audited the financial statements of Banff and Buchan College for the three month period ended 31 October 2013 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Responsibilities of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Generic scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body'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, I read all the financial and non-financial information 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 me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 October 2013 and of its surplus for the period then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on regularity

In my 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 my opinion the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

I have nothing to report in respect of these matters.

Anne MacDonald CA
Senior Audit Manager
Audit Scotland
Business Hub 11, 2nd Floor West
Marischal College
Broad Street
Aberdeen
AB10 1AB

Anne MacDonald is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Directions issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2007) and in accordance with applicable accounting standards.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Recognition of Income

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the period and any related contributions towards overhead costs. All income from short term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the period, together with any related contributions towards overhead costs.

Recurrent grants from the SFC are recognised in the period in which they are receivable.

Non recurrent grants from the SFC or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Pension Schemes

The College has adopted FRS17 Retirement Benefits in the financial statements. While the full adoption of the standard in 2005/06 represented a change in accounting policy, there was no impact on the financial statements as previously stated, and consequently no prior year adjustment was required.

Retirement benefits for employees of the College are provided by the Teachers' Superannuation Scheme (Scotland) (STSS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes which are externally funded and contracted out of the State Second Pension Scheme. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method. Due to the multi employer nature of the schemes, the scheme actuaries being unable to identify the specific assets and liabilities in relation to the College's employees, and there being a fixed

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

rate of contributions for all employers in the schemes, the College accounts for contributions to the schemes as if they were defined contribution schemes, as permitted by FRS17.

Tangible Fixed Assets

(a) Land and Buildings

Land and buildings were stated in the balance sheet at depreciated replacement cost from a valuation at 31st October 2013. The revalued properties are specialised properties for which there is no market evidence and have been valued on the depreciated replacement cost basis. Feuhold land associated with the buildings and undeveloped feuhold land is not depreciated. Feuhold buildings are depreciated over their expected useful economic life to the College of 50 years. The life expectancy of the building was reviewed in July 2003 by A.R. Scott & Partners (Aberdeen).

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

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31st October. They are not depreciated until they are brought into use.

The project management, architect and other professional fees for the College redevelopment project have been capitalised. Whilst there was no guarantee that the project would commence, the fees were being written off over their estimated useful life of 5 years. As the project commenced during 2009/10 this write-off has been suspended until the building work is complete. The net book value at 1st August 2011 is now being written off over the 50 year expected life of the new building.

(b) Equipment

Equipment costing less than £10,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost and is depreciated over its useful economic life as follows:-

Boiler	25 years
Other Plant and Equipment	up to 10 years
Computer Equipment	up to 4 years
Vehicles	up to 4 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

Subsequent Expenditure on Existing Fixed Assets

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

- Market value of the fixed asset has subsequently improved
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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.

Finance Leases

The College has no finance leases.

Operating Leases

Rentals paid under operating leases are charged to the Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

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 revaluation reserve to income and expenditure account together with any surplus or deficit on disposal.

Provisions

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using the discount rate prescribed by the Scottish Funding Council. Unfunded pensions are accounted for under FRS 12 as required by the Accounts Direction issued by the Scottish Funding Council.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

Agency Arrangements

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

Investments

Investments are recorded at cost in the financial statements.

Stocks

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

Maintenance of Premises

The cost of maintenance is charged to the income and expenditure account in the period in which it is incurred.

Tuition fees

The College charges tuition fees as advised by the SFC and other central funding bodies. Under SFC guidance contained within the national fee waiver policy, eligible full time students have their fees waived. Part time students in receipt of certain state benefits and link school students also have their fees waived.

Taxation

The College has been granted charitable status by the HM Revenue & Customs and as such is broadly exempt from corporation tax on income it receives from tuition fees, interest and rents.

The College is exempt from levying VAT on most of the services it provides to students. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased.

Restricted income

Restricted income is any income which is for specific purposes designated by the granter or donor, e.g. Access funds and SFC Specific Grant.

Restricted income and expenditure have been accounted for so that the entries in the income and expenditure account are matching.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

Consolidated accounts

The investment in the subsidiary is stated at cost. Group accounts have not been prepared as the subsidiary was dormant throughout the period.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

INCOME AND EXPENDITURE ACCOUNT FOR 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

	Notes	3 month period ended 31 st October 2013 £000	12 months ended 31st July 2013 £000
Income			
SFC grants	1	2,163	8,328
Tuition fees and education contracts	2	376	2,150
Other grants and contracts	3	19	48
Other income	4	635	1,076
Investment income	5	5	106
Total income		3,198	11,708
Expenditure			
Staff costs	6	2,003	7,886
Other operating expenses	8	654	3,428
Depreciation	10	160	653
Total expenditure		2,817	11,967
Surplus/(Deficit) on continuing operations after depreciation of fixed assets at valuation and before tax		381	(259)
Taxation	9	-	-
Exceptional Restructuring Staff Cost	6	(373)	(26)
Surplus/(Deficit) on continuing operations after depreciation of fixed assets at valuation and tax	17	8	(285)

All activities are classed as continuing. The College merged with Aberdeen College on 1st November 2013 as part of the regionalisation process. The Formal Transfer of Assets from Banff and Buchan College to Aberdeen College (to be renamed North East Scotland College) was approved at the Board Meeting of 19th June 2013. There are no recognised gains or losses other than the income and expenditure for the 3 months.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

	Notes	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and tax		8	(285)
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount		-	-
Historical cost surplus/(deficit) for the period		<u>8</u>	<u>(285)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

	Notes	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Surplus/(Deficit) on Continuing Operations after Depreciation of Fixed Assets at Valuation		8	(285)
Revaluation of Tangible Fixed Assets	10	<u>3,573</u>	<u>-</u>
Total Recognised Gains/(Losses) for the Year		<u>3,581</u>	<u>(285)</u>
Reconciliation		3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Opening Reserves	17	1,882	2,167
Total Recognised Gains/(Losses) for the Year		<u>3,581</u>	<u>(285)</u>
Closing Reserves		<u>5,463</u>	<u>1,882</u>

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

BALANCE SHEET AS AT 31ST OCTOBER 2013

	Note	As at 31 st Oct 2013 £000	As at 31 st Oct 2013 £000	As at 31 st July 2013 £000	As at 31 st July 2013 £000
FIXED ASSETS					
Tangible fixed assets	10		23,569		19,898
Investments	11		-		-
			<u>23,569</u>		<u>19,898</u>
CURRENT ASSETS					
Stocks		12		9	
Debtors	12	1,412		605	
Short term investments		2,253		1,750	
Cash at bank and in hand		1,145		1,907	
		<u>4,822</u>		<u>4,271</u>	
CURRENT LIABILITIES					
Creditors:					
Amounts falling due within one year	13	3,066		2,520	
		<u>3,066</u>		<u>2,520</u>	
NET CURRENT ASSETS			<u>1,756</u>		<u>1,751</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			25,325		21,649
Provisions for liabilities and charges	15		420		424
NET ASSETS			<u>24,905</u>		<u>21,225</u>
Deferred Capital Grants	16		19,442		19,343
RESERVES					
Revaluation reserve	17	3,863		290	
Designated reserves	17	992		993	
Income and expenditure account	17	608	5,463	599	1,882
TOTAL			<u>24,905</u>		<u>21,225</u>

The Financial Statements on pages 21 to 47 were approved by the Board of Management on _____ and signed on its behalf by :-

.....
Chairman

.....
Principal

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

CASH FLOW STATEMENT FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

	Notes	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Net cash (outflow)/inflow from operating activities	18	(264)	(1,203)
Returns on investment and servicing of finance	19	5	106
Taxation	9	-	-
Capital expenditure	20	-	-
Financing		-	-
		<hr/>	<hr/>
(Decrease)/Increase in cash in the period		(259)	(1,097)
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds			
(Decrease)/Increase in cash in the period	21	(259)	(1,097)
Cash outflow from decrease in debt financing		-	-
		<hr/>	<hr/>
Movement in net funds in the period		(259)	(1,097)
Net funds at 1 August		3,657	4,754
Net funds at 31 October		<u>3,398</u>	<u>3,657</u>

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

1. SFC FE GRANTS

	3 month period ended 31 st October 2013 £000	12 months ended 31st July 2013 £000
SFC FE recurrent grant (including fee waiver)	1,810	6,871
FE childcare funds	62	189
HE childcare funds	15	32
Release of deferred capital grants (Note 16)	140	585
Estates grant	134	642
Additional one off resources	-	-
Other specific SFC grants	2	9
	<u>2,163</u>	<u>8,328</u>

The further 10% cut in Grant in Aid for 2012/13 is shown here.

2. TUITION FEES AND EDUCATION CONTRACTS

	3 month period ended 31 st October 2013 £000	12 months ended 31st July 2013 £000
Higher Education - Home and EU	99	439
Further Education - Home and EU	277	1,711
Other SFC Funded Tuition	-	-
Total SFC fees paid by or on behalf of individual students	<u>376</u>	<u>2,150</u>

3. OTHER GRANTS AND CONTRACTS

	3 month period ended 31 st October 2013 £000	12 months ended 31st July 2013 £000
European Funds	-	-
Release from deferred capital grants – non SFC	19	48
	<u>19</u>	<u>48</u>

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

4. OTHER OPERATING INCOME

	3 month period ended 31 st October 2013 £000	12 months ended 31st July 2013 £000
Catering	1	6
Other income generating activities	8	33
Other grant income	423	398
Sponsorship	73	273
Other income	130	366
	<u>635</u>	<u>1,076</u>

5. INVESTMENT INCOME

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Interest receivable	5	106
	<u>5</u>	<u>106</u>

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

6. STAFF

Staff numbers:

The average weekly number of persons (including senior post holders) employed by the College during the period, expressed as full-time equivalents, was:

	3 month period ended 31 st October 2013	12 months ended 31 st July 2013
Teaching departments	139	143
Teaching support services	36	38
Other support services	2	2
Administration and central services	19	21
Premises	5	5
Other income generating activities	2	2
Catering	-	-
Other	2	1
	<hr/>	<hr/>
	205	212

Analysed as:-

Staff on permanent contracts	190	196
Staff on temporary contracts	15	16
Total	<hr/>	<hr/>
	205	212

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Staff Costs:		
Wages and Salaries	1,636	6,441
Social Security Costs	124	499
Other Pension Costs	241	909
	<hr/>	<hr/>
	2,001	7,849
Exceptional Pension Costs (Note 15)	2	37
Restructuring Costs – met by SFC	314	26
Restructuring Costs – met by College	59	-
	<hr/>	<hr/>
	2,376	7,912

A general pay award of 2% was made with effect from 1st August 2013. A 2% pay award applied for 2012/13.

Restructuring costs relate to a voluntary severance scheme introduced in 2010/11 as a result of reductions in funding for 2011/12. A second voluntary severance scheme was offered in 2011/12 as a result of further reductions in funding for 2012/13. A third voluntary severance scheme started in June 2013. This is to be funded by the Scottish Funding Council as part of

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

the merger funding.

Payments in respect of compensation for loss of office under the voluntary severance scheme which offered the same terms to all staff, are provided in the Financial Statements in the year of termination of office.

For 2013/14 the cost relating to two higher paid staff, including strain on the pension fund, was £146,000.

7. **EMOLUMENTS OF BOARD MEMBERS AND HIGHER PAID STAFF**

Emoluments of the Board of Management

The total remuneration of the Board of Management including pension contributions, benefits in kind and bonuses but excluding the salaries of employee Board members for normal staff duties amounted to :

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Fees as Board Members	-	-
Travel and Subsistence paid to Board Members	1	1
Amount paid to third parties for the services of Board Members	-	-
Pensions paid directly to past Board Members	-	-
Emoluments of the Principal – Mr P Sherrington Remuneration for period	22	82
Benefits in kind, taxable expense allowance, bonuses, etc.	-	-
Employers' Pension Contribution	3	14
	<u>25</u>	<u>96</u>

Mr P Sherrington commenced as Principal of the College on 1st April 2010.

Senior post-holders are defined as the Principal and holders of other senior posts whom the Board have selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Board of Management. The Principal is the only senior post-holder under this definition.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

The Principal is an ordinary member of the Scottish Teachers' Superannuation Scheme. The College's contributions to the scheme are paid at the same rate as for other members of academic staff.

Emoluments of higher paid members of staff

The number of higher paid staff, including the Principal, who received emoluments including benefits in kind and excluding pension contributions in the following annualised ranges was:

	3 month period 2013	12 month period 2013
£50,001 to £60,000	4	4
£60,001 to £70,000	-	-
£70,001 to £80,000	-	-
£80,001 to £90,000	1	1
£90,001 to £100,000	-	-

All higher paid staff are ordinary members of the appropriate pension scheme and contributions were paid at the same rates as other members of staff.

Senior post-holders and higher paid staff received the same 2% pay increase as the general pay award. All staff received a pro rata buyout of the surplus share scheme based on £1,000 per FTE staff member, which was paid October 2013.

Overseas Activities

No costs were incurred by Board Members or Senior Post Holders in respect of overseas activities.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

8. OPERATING EXPENSES

	Staff Costs 3 month period ended 31 st October 2013 £000	Staff Costs 12 months ended 31 st July 2013 £000	Other operating expenses 3 month period ended 31 st October 2013 £000	Other operating expenses 12 months ended 31 st July 2013 £000
Teaching departments	1,465	5,958	312	1,177
Teaching support services	262	894	57	286
Other support services	16	57	1	1
Administration and central services	186	679	20	68
Premises costs	34	130	186	667
Planned maintenance	-	-	31	1,104
Other income generating activities	16	45	5	36
Exceptional staff costs	375	63	-	-
Catering	-	-	31	0
Other expenses	22	86	11	89
	2,376	7,912	654	3,428

The planned maintenance, other operating expenses, continues to remain high as we finish off the Scottish Maritime Academy and carry out major roof repairs to the older part of the main College campus.

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Other operating expenses include:		
Auditors' Remuneration (including irrecoverable VAT)		
- internal audit	4	13
- external audit	8	12
- other services provided by:		
Internal auditors	-	4
External auditors	-	-

9. TAXATION

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

The College registered for value added tax on 1st February 2009.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

10. TANGIBLE FIXED ASSETS

	Feuhold Land and Buildings £000	Equipment £000	Total £000
Cost or valuation			
At 31 July 2013	20,982	1,718	22,700
Additions	115	143	258
Revaluation	3,573	-	3,573
Disposals	-	(65)	(65)
	<u>24,670</u>	<u>1,796</u>	<u>26,466</u>
At 31 October 2013	<u>24,670</u>	<u>1,796</u>	<u>26,466</u>
Depreciation			
At 31 July 2013	1,501	1,301	2,802
Charge for period	107	53	160
Eliminated in respect of disposals	-	(65)	(65)
	<u>1,608</u>	<u>1,289</u>	<u>2,897</u>
At 31 October 2013	<u>1,608</u>	<u>1,289</u>	<u>2,897</u>
Net book value			
At 31 October 2013	<u>23,062</u>	<u>507</u>	<u>23,569</u>
Net book value			
At 31 July 2013	<u>19,481</u>	<u>417</u>	<u>19,898</u>
Inherited	290	-	290
Financed by Capital Grant	19,151	507	19,658
Other	3,621	-	3,621
Net book value	<u>23,062</u>	<u>507</u>	<u>23,569</u>
At 31 October 2013	<u>23,062</u>	<u>507</u>	<u>23,569</u>

The campus estate was revalued as at 31st October 2013 by F G Burnett at depreciated replacement cost. The College upgraded its welding area during 2013 which accounts for the building and equipment grant increases.

The College 2012 Project was completed during 2011/12 to plan, only minor snagging is outstanding. The capitalised costs are as budget. During the period the College disposed of a hydraulics system and a video conference suite which were obsolete, fully depreciated and had no residual value to the College.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

11. INVESTMENTS

Investment in subsidiary company at cost £2

The College owns 100% of the issued ordinary £1 shares of Banff and Buchan College Company Limited, a company incorporated in Great Britain and registered in Scotland. The Company has been dormant during the 3 months ended 31st October 2013 and Group accounts have not been prepared.

The Company was dissolved on 7th March 2014.

12. DEBTORS

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Amounts falling due within one year		
Trade debtors	205	85
Prepayments and accrued income	<u>1,207</u>	<u>520</u>
	<u>1,412</u>	<u>605</u>

Accrued income for 2013 includes £565,000 of income being recovered for the welding and machine shop estates work. £364,000 relates to funds from the Scottish Funding Council to be received for voluntary severance payments in relation to merger.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

13. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Trade creditors	228	690
Taxation and social security	384	252
Payments received in advance	1,383	876
Accruals	604	702
Access/Bursary funds to be returned to SFC	467	-
	<u>3,066</u>	<u>2,520</u>

Due to the change of reporting period payments received in advance at 31st October include Grant in Aid and Tuition Fees £426,000, as funds for the year are weighted towards the start of the year. It also included £247,000 of SFC grants carried forward to meet the outstanding retention for the College 2012 project. The balance has been allocated for estates redevelopment and equipment updates. Due to the change of period, Bursary and Access funds that are weighted towards the start of the year have not been fully utilised. These would be used in full over the 12 month Academic year.

14. FINANCE LEASES

Banff and Buchan College as Lessee

Finance Leases

The College has not entered into any finance lease arrangements.

Operating Leases

The College has acquired properties by entering into operating leases.

The expenditure charged to the Income and Expenditure Statement during the 3 months in relation to these leases was £8,000 (2012/13 £39,000).

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

Future minimum payments are set out below:-

	5 month period ended 31 st March 2014		2013/14	
	Land and Buildings £000	Vehicles, plant and equipment £000	3 months ended 31 st October 2013	3 months ended 31 st October 2013
Minimum lease rentals payable:				
No later than 1 year	6	-	8	-
Later than 1 year and no later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	<u>6</u>	<u>-</u>	<u>8</u>	<u>0</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for unfunded pensions

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
At 31 July 2013	424	410
Expenditure in the period	(6)	(23)
Revaluation adjustment transferred from income and expenditure account	<u>2</u>	<u>37</u>
At 31 October 2013	<u>420</u>	<u>424</u>

For the 3 months to 31st October 2013 we have assumed the same rates in place as in 2012/13.

For 2012/13 the Funding Council have suggested two different interest rates – 2% if your pension scheme is CPI indexed and 1% if your pension scheme is RPI indexed. Even though the College's scheme is CPI indexed we have prudently left the interest rate at the current 1.5%.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

16. DEFERRED CAPITAL GRANTS

	SFC	Other Grants	Total
	£000	£000	£000
At 1 August 2013			
Land and Buildings	18,632	293	18,925
Equipment	379	39	418
Cash received :			
Land and Buildings	-	115	115
Equipment	-	143	143
Release to Income and Expenditure Account:			
Land and Buildings	(99)	(6)	(105)
Equipment	<u>(41)</u>	<u>(13)</u>	<u>(54)</u>
At 31 October 2013 :			
Land and Buildings	18,533	402	18,935
Equipment	338	169	507
TOTAL	<u>18,871</u>	<u>571</u>	<u>19,442</u>

The land and buildings deferred capital grants relate to funds received towards the building of a marine engineering centre; a design technology transfer centre; an on-site nursery; games hall floor; part of a reconstruction for the College; mezzanine floor for the Technology Sector; a ventilated ceiling in the training kitchen; and a wood waste extraction system. An MDB extraction system was added in the 3 months to 31st October 2013.

The equipment deferred capital grants related to a gas boiler; college vehicles; a radar; a VOIP phone system; servers and switches, nautical simulator, flowrig control system, a carousel storage unit, dual screen TV, photocopiers, IT equipment, scanner, van and welding equipment. Equipment for the new welding workshop was added in the 3 months to 31st October 2013.

These grants are being released back to the Income and Expenditure Account over the useful life of the assets.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

17. RESERVES

	Revaluation Reserve	Designated Reserves	Income and Expenditure Account	Total
	£000	£000	£000	£000
At 1 August 2013	290	993	599	1,882
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation	-	-	8	8
Revaluation of College estate	3,573	-	-	3,573
Transfer from designated reserves	-	(1)	1	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 2013	3,863	992	608	5,463

The designated reserve represents funds earmarked for essential major repairs and essential replacement of equipment. It also includes the required match funding for 2 European funded capital projects, a Marine Engineering Training Facility and the Design Technology Transfer Centre. The revaluation reserve relates to the land at the main campus in Fraserburgh and the College estate. The estate was revalued as of 31st October 2013.

18. RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Surplus/(deficit) on continuing operations after depreciation of assets at valuation	8	(285)
Deferred capital grants released to income (notes 1 and 3)	(159)	(633)
Depreciation (Note 10)	160	653
(Increase)/Decrease in stocks	(3)	-
(Increase)/Decrease in debtors	(807)	(430)
Increase/(Decrease) in creditors	546	(416)
Increase/(Decrease) in provisions	(4)	14
Interest receivable (Note 5)	(5)	(106)
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(264)	(1,203)

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

19. **RETURNS ON INVESTMENT AND SERVICING OF FINANCE**

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Interest received	5	106
Interest paid	-	-
	<u>5</u>	<u>106</u>

20. **CAPITAL EXPENDITURE**

	3 month period ended 31 st October 2013 £000	12 months ended 31 st July 2013 £000
Payments to acquire tangible fixed assets	(258)	(47)
Proceeds of sale of fixed assets	-	-
Capital grants received	258	47
	<u>-</u>	<u>-</u>

21. **ANALYSIS OF CHANGES IN NET FUNDS**

	At 1 August 2013 £000	Cash Flows £000	At 31 October 2013 £000
Cash in hand, and at bank	3,657	(259)	3,398
Overdrafts	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>3,657</u>	<u>(259)</u>	<u>3,398</u>

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

22. PENSION AND SIMILAR OBLIGATIONS

The College's employees belong to two principle pension schemes, the STSS and the LGPS, which are of the defined benefit type, the assets of the schemes being held in separate trustee-administered funds.

Lecturing Staff

Teaching staff participate in the Scottish Teachers' Superannuation Scheme, a defined benefit scheme, which is externally funded and contracted out of State Second Pension Scheme. The assets of the scheme are in a separate trustee-administered fund. Due to the multi employer nature of the scheme, it is not possible to identify the College's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account is equal to the contributions payable to the scheme for the year. The latest actuarial valuation of the scheme was at 31 March 2005. Contributions were payable to the STSS at a rate of 12.5% of pensionable pay with effect from 1 October 2003, 13.5% from 1 April 2007 and 14.9% from 1 April 2009. Employer contribution rates are reviewed every 5 years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred and they reflect past experience of the scheme. The actuarial valuation 31 March 2010 has not been released. Actuarial method – prospective benefits. Assumed rate of return on investment 6.5%.

The valuation has been carried out using the Entry Age Method.

The contributions allowed for in the valuation, are as follows:

Standard employer's contributions

- (i) 12.5% of salaries from 1 October 2003 to 31 March 2007;
- (ii) 13.5% of salaries from 1 April 2007
- (iii) 14.9% of salaries from 1 April 2009

The value of the notional investments as at 31 March 2005 has been determined so that the value of the liabilities is equal to the sum of the values of the notional investments and the future contributions from members and employers.

Surpluses or deficits which arise at future valuations may impact on the College's future contribution commitment.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013

Support Staff

The support staff participate in the Local Government Pension Scheme administered by North East Scotland Pension Fund, a defined benefit scheme which is externally funded and contracted out of State Second Pension Scheme. The assets of the scheme are in a separate trustee-administered fund.

In view of the fact that contributions to the scheme are currently established on a scheme-wide basis and that the College's share of the scheme assets is only derived on a notional basis and has no impact on the College's contribution rates as an employer, the Board of Management is of the view that the scheme should be accounted for as if it was a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account is equal to the contributions payable to the scheme for the year.

The most recent published actuarial valuation was carried out as at 31st March 2011. The value of the fund was £2,218m, and there was a deficiency of £294.4m. The funding level was 88% and an average required contribution rate was 17.9% of the pensionable pay. Due to the current volatility of the investment markets, it has been decided to keep the employer's rate at the current rate of 19.3% of pensionable pay. The funding objective is to achieve and maintain a funding level of 100%.

The contribution rates paid by Banff and Buchan College over the accounting period are as follows:-

April 2011 to March 2012	19.3% of pensionable pay
April 2012 to March 2013	19.3% of pensionable pay
April 2013 to March 2014	19.3% of pensionable pay

These figures include the past service element of the contribution rate.

Surpluses or deficits which arise at future valuations may impact on the College's future contribution commitment. The total LGPS pension cost for the College was £86,000 for 3 months (2012/13 £333,000 for 12 months). This includes £32,000 (2012/13 £29,000) outstanding contributions at the balance sheet date.

23. POST BALANCE SHEET EVENTS

The College merged with Aberdeen College on the 1st November 2013 to form North East Scotland College.

The College company was dissolved on 7th March 2014.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

24. BURSARY, EMA AND ACCESS FUNDS

	3 months ended 31 st Oct 2013	3 months ended 31 st Oct 2013	3 months ended 31 st Oct 2013	3 months ended 31 st Oct 2013	3 months ended 31 st Oct 2013	Year ended 31 st July 2013
	FE Bursary £000	FE Access £000	EMAs £000	HE Access £000	Total £000	Total £000
Balance brought forward	-	-	-	-	-	-
Allocation received in year (prior to clawback)	827	39	25	27	918	2,144
Expenditure	447	9	25	6	487	2,103
Repaid to Funding Council/funding body (clawback)	-	-	-	-	-	-
Virements	-	-	-	-	-	53
Balance carried forward	<u>380</u>	<u>30</u>	<u>-</u>	<u>21</u>	<u>431</u>	<u>(12)</u>
Represented by:						
Repayable to Funding Council as clawback	-	-	-	-	-	-
Retained by College for students	<u>(380)</u>	<u>30</u>	<u>-</u>	<u>21</u>	<u>431</u>	<u>(12)</u>

Access, Bursary and EMA funds are available solely for students; the College acts only as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

Access and Bursary Funds are front loaded. We are expecting to use the funds in full in the Academic year. We have applied for additional funding later in the year.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

25. FE AND HE CHILDCARE FUNDS

	FE 3 month period ended 31 st October 2013 £000	HE 3 month period ended 31 st October 2013 £000	FE Year ended 31 st July 2013 £000	HE Year ended 31 st July 2013 £000
Balance brought forward	-	-	-	-
Allocation received in period	62	15	188	32
Expenditure	36	6	241	32
Repaid to Funding Council/funding body (clawback)	-	-	-	-
College contribution to funds	-	-	-	-
Virements	-	-	53	-
Balance carried forward	<u>26</u>	<u>9</u>	<u>-</u>	<u>-</u>
Represented by:				
Repayable to Funding Council as clawback	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Retained by College for students	<u>26</u>	<u>9</u>	<u>-</u>	<u>-</u>

26. CAPITAL COMMITMENTS

The only capital commitment at the 3 month-end 31st October 2013 relates to the estates project "College 2012". The capital commitments at the year-end 31st July 2013 also relate to the "College 2012" estates project. The retention for the project £247,800 is still outstanding at 31st October 2013 and has been accrued.

BANFF AND BUCHAN COLLEGE OF FURTHER EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 3 MONTH PERIOD ENDED 31ST OCTOBER 2013**

27. **CONTINGENT LIABILITIES**

There were no contingent liabilities at either the 3 months end, 31st October 2013 or the 12 months ended 31st July 2013.

Glossary of Terms

<u>Abbreviation</u>	<u>Meaning</u>
FRS	Financial reporting standard
FY2012-13	Financial Year ending on 31 st July 2013
2013-14	3 month financial reporting period to 31 October 2013
Group	The consolidated results of the College and its subsidiary company
ICT	Information and communication technologies
LGSS	Local Government Superannuation Scheme
NBV	Net book value
NIC	National Insurance contributions
SAS	Statement of auditing standards
SAAS	Student Awards Agency Scotland
SDS	Skills Development Scotland
SFC	the Scottish Further and Higher Education Funding Council
SORP	Statement of Recommended Practice
SPPA	Scottish Public Pensions Agency
SQA	Scottish Qualifications Authority
STSS	Scottish Teachers Superannuation Scheme
TQFE	Teaching Qualification in Further Education

Banff and Buchan College

Report on the 2013/14 audit



Prepared for North East Scotland College Audit Committee and the Auditor General for Scotland

June 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key Messages	4
2013/14	4
Outlook.....	4
Introduction.....	5
Financial statements	6
Conduct and scope of the audit.....	6
Audit opinion & accounting issues (ISA260).....	6
Financial position	8
Governance and internal control systems.....	8
Appendix A.....	10
Independent Auditor's Report.....	10
Appendix B.....	13
Non-Adjusted Errors within the 2013/14 Annual Accounts.....	13

Key Messages

2013/14

We have issued an unqualified opinion on the final set of financial statements of Banff and Buchan College, covering the 3 month accounting period ending 31 October 2013.

Over the three month period, the college reported a surplus of £8,000 representing 0.3% of income. This was after staff restructuring costs and timing issues that influenced income and expenditure as a consequence of the period containing six weeks of holidays. An unrestricted reserve balance of £608,000 was transferred to North East Scotland College following the merger on 1 November 2013. The outlook for the sector generally is one of continuing financial challenges arising from the reduction in Scottish Government funding and other factors.

A change in accounting policies was made in respect of the valuation of fixed assets in preparation for the merger on 1 November 2013 to ensure consistency with the accounting treatment of Aberdeen College. The measurement basis was changed from a historic cost to valuation basis reflected as at 31 October 2013. This is permitted by Financial Reporting Statement 15 (FRS15) - Tangible Fixed Assets and does not require to be implemented retrospectively.

Due to the absence of supporting evidence confirming management's approval of severance payments to be made, internal audit concluded that £78,000 of the total amount would require to be funded by college reserves. This matter was considered by North East Scotland College's Audit Committee in March 2014 when the Principal gave assurances that, having discussed the payments with his Vice Principal, he was satisfied they were appropriate. He also confirmed that procedures were in place to ensure that documentation would be available to support the approval of future payments.

Overall the college's arrangements for the prevention and detection of fraud were satisfactory during the period. From our review of the key controls within the main financial systems, we concluded that the college's systems of internal control are operating effectively.

Outlook

The college merged with Aberdeen College on 1 November 2013 to form North East Scotland College.

Introduction

This report is the summary of our findings arising from the audit of Banff and Buchan College's 3 month accounting period to 31 October 2013.

The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.

The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of North East Scotland College and no responsibility to any third party is accepted.

[Appendix A](#) contains the proposed independent audit report, which contains an unqualified opinion.

This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Audit Committee.

Financial statements

Conduct and scope of the audit

1. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee of North East Scotland College in January 2014 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
2. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed to the Audit Committee and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues (ISA260)

3. We have issued an unqualified opinion on the financial statements of Banff and Buchan College for the period ended 31 October 2013 and on the regularity of the financial transactions reflected in those financial statements. The auditor's report is included at Appendix A.
4. The merger with Aberdeen College to form North East Scotland College took place on 1 November, and from that date, Banff and Buchan College ceased to have a separate identity. All staff, assets, liabilities, rights and obligations transferred to the new entity.
5. There were no significant monetary errors arising from the audit. A number of presentational adjustments identified during the course of our audit were discussed with the former Director of Finance who agreed to amend the unaudited financial statements.
6. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000. Such errors identified during the audit were discussed with the former Director of Finance and if adjusted would have increased the surplus for the year by £8,000.
7. As part of the completion of our audit we seek written assurances from the Principal on aspects of the accounts and judgements and estimates made. A draft letter of representation under International Standard of Auditing (ISA) 580 was provided to the Principal and this should be signed and returned prior to the independent auditor's opinion being certified.

Key Judgements

Acquisition accounting

8. From 1 November 2013, Banff and Buchan College merged with Aberdeen College to form North East Scotland College. Financial Reporting Standard (FRS) 6 covering acquisitions and mergers provides criteria to determine whether merger or acquisition accounting should be applied. The criteria includes the:
- role of the respective parties in the combination of the bodies
 - dominance of management including the board and senior management structures
 - the relative size of the parties combining.
9. Following management review of the criteria, acquisition accounting was considered appropriate for the combination of Banff and Buchan College with Aberdeen College. This meant that audited accounts were required for the period from 1 August 2013 to 31 October 2013 i.e. the 3 month period between the last financial year end and the vesting date for North East Scotland College. In our view the approach was appropriate and met the requirements of FRS 6.

Accounting policies

10. **Income:** Recurring grant income from the Scottish Funding Council has been reflected in the accounts on the basis of service rendered which is generally equivalent to the level of expenditure incurred during the period. In previous years, grant income was received in respect of the academic year. As 2013/14 is a 3 month accounting period, it was necessary to give particular consideration to the approach to income recognition. Having considered how income accrues to the college, links with student activity and forecasts and the profile of expenditure during the 3 month period, we are satisfied with the college's approach to income recognition.
11. **Fixed assets:** A change in accounting policies was made in respect of the valuation of fixed assets in preparation for the merger on 1 November 2013 to ensure consistency with the accounting treatment of Aberdeen College. The measurement basis was changed from a historic costs to valuation basis reflected as at 31 October 2013. This is permitted by Financial Reporting Statement 15 (FRS15) - Tangible Fixed Assets and does not require to be implemented retrospectively.
12. **Going concern:** Activities, assets and liabilities of Banff and Buchan College transferred to Aberdeen College on 1 November 2013 when the new college was formed. This is a transfer of functions within the public sector and accordingly, the financial statements have been prepared on a going concern basis. Appropriate disclosures have been included within the financial statements.
13. Management have considered the funding available to the merged college in 2013/14 and consider it appropriate to adopt a going concern basis for the preparation of these financial statements. I am satisfied that this basis is appropriate.

Financial position

14. Banff and Buchan College reported a surplus of £8,000 in respect of the three months to 31 October 2013, which represented 0.3% of income and held an income and expenditure balance of £608,000 at 31 October 2013.
15. Income and expenditure both increased primarily as a result of costs associated with voluntary severance offset by transformation funding receivable from the Scottish Funding Council. Management approved 12 voluntary severance applications in respect of Banff and Buchan College.
16. The Balance Sheets reflects an increase in net assets of £3.7 million which largely arose from an increase in the value of fixed assets following adoption of a revaluation accounting policy.

Governance and internal control systems

Overall governance arrangements

17. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Banff and Buchan College had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.

Accounting and internal control systems

18. Scrutiny of the effectiveness of the internal control processes within Banff and Buchan College was undertaken by the Audit Committee. The terms of reference for the committee were largely in line with the UK Corporate Governance Code 2010 (the Code).
19. The Code and the Accounts Direction from the Scottish Funding Council require colleges to include a governance statement within their financial statements. The statement confirmed that in the opinion of the Board of Management, the college complied with the Code throughout the period. We have reviewed the governance statement and have confirmed it is in line with the content required by the Accounts Direction and it reflects our understanding of Banff and Buchan College.
20. The auditor evaluates significant financial systems and associated internal controls for the purpose of giving an opinion on the financial statements and as part of the review of the adequacy of governance arrangements. However, the extent of this work should also be informed by an assessment of risk and the activities of internal audit.
21. Internal audit for the college was provided by Scott Moncrieff. Following the merger, Wyllie Bisset provided the internal audit service for North East Scotland College with effect from 1 November 2013. As part of Wyllie Bisset's work, a report on payroll systems recorded a significant finding in respect of severance payments to two former employees of Banff and Buchan College. Due to the absence of supporting evidence confirming management's approval of the amounts paid, internal audit concluded that £78,000 of the total amount paid would require to be funded by college reserves. This matter was considered by North East

Scotland College's Audit Committee in March 2014 when the Principal gave assurances that having discussed the payments with his Vice Principal, he was satisfied they were appropriate. He also confirmed that procedures were in place to ensure that documentation would be available to support the approval of future payments.

22. Our testing combined with that of internal audit did not identify any material weaknesses in the accounting and internal control systems during the audit which could 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.

Prevention and detection of fraud and irregularity

23. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion, in Banff and Buchan College, the overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Risk management

24. The college's risk management policy and risk register were kept under regular review by the Audit Committee to ensure that risks were adequately managed by the college.

Acknowledgements

25. We would like to express our thanks to the staff of North East Scotland College for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A

Independent Auditor's Report

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

I have audited the financial statements of Banff and Buchan College for the three month period ended 31 October 2013 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Responsibilities of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Generic scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body'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, I read all the financial and non-financial information 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 me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 October 2013 and of its surplus for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on regularity

In my 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 my opinion the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

I have nothing to report in respect of these matters.

Anne MacDonald CA
Senior Audit Manager
Audit Scotland
Business Hub 11, 2nd Floor West
Marischal College
Broad Street
Aberdeen
AB10 1AB

Xx June 2014

Anne MacDonald is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Appendix B

Non-Adjusted Errors within the 2013/14 Annual Accounts

Below is a summary of the non-adjusted errors which have not been processed in the accounts, with an explanation.

Narrative	DR £	CR £
Income & Expenditure Account		
Other operating expenses		8,000
Being a non-domestic rate rebate received which has been omitted from the accounts		
Balance Sheet		
Debtors	13,000	
Creditors: amounts falling due within one year		5,000
Being the accrual for the rate rebate (£8,000) and the transfer of purchase ledger debit balances from creditors to debtors (£5,000)		
Totals	13,000	13,000

Anne MacDonald
Senior Audit Manager
Audit Scotland
Business Hub 11
2nd Floor West
Marischal College
Broad Street
ABERDEEN
AB10 1AB

23 June 2014

Dear Anne

Banff and Buchan College
Audit of the 3 month financial statements for the period ended 31 October 2013

This representation letter is provided in connection with your audit of the financial statements of Banff and Buchan College for the period ended 31 October 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Banff and Buchan College as at 31 October 2013 and its income and expenditure for the three month period then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of board members and the management team, the following representations:

General

1. I acknowledge my responsibility and that of North East Scotland College as successor organisation for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the college have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
2. Disclosure has been made in the financial statements of all matters necessary to give a true and fair view of the financial position of Banff and Buchan College as at 31 October 2013 and the income and expenditure for the period then ended.
3. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

4. To the best of our knowledge and belief we confirm that, in all material respects, the expenditure disbursed and income received during the period ended 31 October 2013, have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.
5. The financial statements of Banff and Buchan College have been prepared in accordance with the relevant legislation and regulations governing its activities, mainly the Further and Higher Education (Scotland) Act 1992 and the Charities Accounts (Scotland) Regulations 2006. All known or possible non-compliance with laws and

regulations whose effects should be considered when preparing financial statements have been disclosed to you, together with the actual or contingent consequences.

Accounting Policies and Estimates

6. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. With the exception of the valuation of land and buildings, the continuing appropriateness of these policies has been reviewed having regard to the concepts and qualitative characteristics set out in the Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP). The policy for land and buildings was revised to reflect a change in the measurement basis from a historic cost to a valuation basis.
7. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.
8. Activities, assets and liabilities of Banff and Buchan College transferred to Aberdeen College on 1 November 2013 when the North East Scotland College was formed. Following due consideration of the financial position and likely funding allocations of North East Scotland College, the management team considers it appropriate to adopt a going concern basis for the preparation of Banff and Buchan College's financial statements.

Assets

General

9. The assets shown in the books and accounts at 31 October 2013 were owned by the college, other than assets which have been purchased under leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.
10. On realisation in the ordinary course of business, current assets in the balance sheet are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

Liabilities

11. All liabilities have been provided for in the books of account, including the liability for all purchases to which title has passed prior to 31 October 2013 and all cases approved by the year end arising from any voluntary early release/severance scheme.

Contingent Liabilities

12. There are no significant contingent liabilities, arising either under formal agreements or through informal undertakings requiring disclosure in the accounts. Legal claims including compensation claims made against the college which have not been provided for under the SORP and FRS12 have been considered and all known contingent liabilities for the college and its group have been fully and properly disclosed.

Provisions

13. Provisions have been made in the accounts for all material liabilities, which have resulted, or may be expected to result, by legal action or otherwise, from events which had occurred by the balance sheet date, and of which the college could reasonably be expected to be aware. The amount recognised as a provision and as set out in note 15 to the accounts is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date.

Accrued expenditure

14. Expenditure has only been accrued where it relates to costs incurred prior to the financial period end.

Unspent grants and contributions

15. Unspent balances from grants and contributions are included in the balance sheet as deferred income when there are conditions which have not yet been complied with. In these cases, funds have been carried forward to future accounting periods and will be released to the income and expenditure account to match related expenditure.

Pension Liability

16. We confirm that for both the Scottish Teachers' Superannuation Scheme and Local Government Superannuation Scheme, the college is unable to identify its own share of the assets and liabilities of the schemes and therefore these have been treated as defined contribution pension schemes for the purposes of the financial statements.

Commitments

17. All commitments under capital contracts have been disclosed in Note 26 to the accounts. Any other significant commitments or obligations which might adversely affect the college have been disclosed.

Other Matters

18. Expenditure on the purchase of furniture, office equipment and computer equipment below £10,000 has been charged to the income and expenditure account. Items costing more than £10,000 have been treated as tangible fixed assets.
19. All related party transactions have been identified and disclosed.
20. Severance payments were made in accordance with the College's policies.
21. Except as disclosed in the financial statements, the results for the period were not materially affected by:
 - (i) transactions of a sort not usually undertaken by the College
 - (ii) circumstances of an exceptional or non-recurrent nature
 - (iii) charges or credits relating to prior periods
 - (iv) any change in the basis of accounting.

22. There are no collateral arrangements that require disclosure within the accounts. There are no college defaults on loans.

Corporate Governance

23. I acknowledge, as the officer with responsibility for the proper administration of the college's financial affairs, my responsibility for the systems for internal control and that the disclosures I have made are in accordance with the Scottish Funding Council's Accounts Direction. As disclosed in Note 23 to the accounts, the merger of Aberdeen College and Banff and Buchan College to form North East Scotland College took place on 1 November 2013. There were no issues identified, since the new college was formed which require disclosure in Banff and Buchan College's 3 month accounts to 31 October 2013.
24. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Events Subsequent to the Date of the Balance Sheet

25. There have been no material events since the date of the balance sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities which have not been notified to audit.
26. Since the date of the balance sheet no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should be brought to your notice.

Yours sincerely

Rob Wallen
Principal and Chief Executive