

ANNIESLAND **COLLEGE**

**ANNUAL REPORT
TO THE BOARD OF MANAGEMENT AND THE AUDITOR
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR
THE YEAR ENDED 31 JULY 2006**

DECEMBER 2006

Date of commencement of Final Visit	01/11/06
Date of Draft Report to College	30/11/06
Date of Meeting re Draft Report	05/12/06
Date of College Responses	05/12/06
Date of Presentation of Report	07/12/06

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GLOSSARY OF TERMS

Annual Report	-	Report
Anniesland College	-	The College
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Anniesland College with effect from 1 August 2001 for a period of 5 years until 31 July 2006.
- 1.2 The Annual Report has been prepared following the conclusion of our audit of the financial statements of Anniesland College for the year ended 31 July 2006.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in July 2001.
- 1.4 Paragraph 19 of the 'Code' states that the auditor's objectives are to:
 - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
 - Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
 - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 Our audit report on the financial statements for the year ended 31 July 2006 is unqualified.
- 1.8 The Annual Report covers the following areas as set out in the Code:

- a) Internal Controls and audit approach
 - b) Internal Audit
 - c) Corporate Governance
 - d) Value for Money
 - e) GMAP visits
 - f) Prevention and detection of fraud and irregularities
 - g) Management letter – 2005
 - h) Management letter – 2006
- 1.9 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10 Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

Wylie & Bisset

2. INTERNAL CONTROLS AND AUDIT APPROACH

- 2.1 We have reviewed in the course of our audit the key elements of the College's systems of internal financial controls including the following areas;
- a) The College's medium and short term planning processes including budgets;
 - b) The College's review of key performance indicators, financial and management accounts;
 - c) The College's controls over income and expenditure;
 - d) The College's financial controls and procedures;
 - e) The input from the Audit Committee and the Finance Committee;
 - f) The College's internal audit service.
- 2.2 In carrying out our audit work we have taken into account the following:
- a) The Code of Audit Practice issued by Audit Scotland;
 - b) The Code of Audit Practice issued by SFC;
 - c) Guidance issued by Audit Scotland;
 - d) Guidance issued by SFC;
 - e) The College's internal control procedures;
 - f) The College's Corporate Governance procedures;
 - g) The College's approach to Value for Money;
 - h) The financial memorandum between SFC and the College.
- 2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:
- a) Reviewing previous financial statements;
 - b) Reviewing internal audit plans and reports;
 - c) Discussions with senior management and staff at the College;
 - d) Completing appropriate audit programmes;
 - e) Carrying out analytical review procedures;
 - f) Carrying out substantive and compliance audit tests on a judgemental basis;
 - g) Reviewing the minutes of the principal College committees.
- 2.4 Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 9 & 10.
- 2.5 The audit recommendations are included in the appropriate sections of this report.
- 2.6 The recommendations have been graded as either High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

3. FINANCIAL STATEMENTS

- 3.1 The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.
- 3.2 The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

AUDIT REPORT

- 3.3 We are pleased to record that there are no qualifications in our audit report on the College's 2005/06 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

FINANCIAL PERFORMANCE

- 3.4 The income and expenditure account shows an operating surplus for the year of £186,000 on the year's operations. The surplus represents an improved position from the previous year's surplus of £175,000.
- 3.5 In 2005/06 the College budgeted for an operating surplus of £201,000. The College has budgeted for a £34,000 operating surplus in 2006/07.
- 3.6 After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £355,000 is shown (£344,000 surplus in 2004/05).
- 3.7 The balance brought forward on the income and expenditure reserve at 1 August 2005 was £996,000. Amounts were transferred from the revaluation reserve to the income and expenditure reserve to match the depreciation charge for the year. The balance on the income and expenditure reserve at 31 July 2006 is £1,351,000.
- 3.8 In May 2006 the Scottish Funding Council (SFC) published circular Financial performance indicators for further education colleges in Scotland 2004-05, which contained a series of performance indicators (PIs) assessing the

financial performance of further education colleges for 2004/05. The indicators show that in 2004/05 the College was generally in a stronger financial position than the sector average, particularly in regard to:

- ◆ the reserves (designated reserves plus I&E reserves) were 8.6% of total income, compared with a sector average of 7 %;
- ◆ the liquidity ratio (current assets: current liabilities), was 1.9 compared with a sector average of 1.3.
- ◆ the days cash to total expenditure was 90 compared with a sector average of 57.

SUBMISSION OF ACCOUNTS

- 3.9 The management accounts were submitted for audit on 1 November 2006, in line with the agreed timetable, however the statutory accounts for the year were not submitted for audit until late November 2006. The accounts submitted for audit were substantially complete. Working papers provided have generally been of a high standard and queries arising from the audit have all been resolved. Key staff were readily available for consultation throughout the audit process.

ISSUES ARISING

- 3.10 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Head of Finance. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.
- 3.11 **Strathclyde Pension Fund (SPF):** The financial statements disclose the SPF on the basis that it is a defined contribution scheme. There is inconsistency within the sector at present as to whether the College's share of the underlying assets and liabilities can be identified on a reasonable basis. Therefore a number of Colleges have in accordance with the dispensation given in paragraph 9 (b) of FRS17 chosen to account for their contributions to the scheme as if it was a defined contribution scheme.
- 3.12 **Impairment of fixed assets:** It is anticipated that within the year to 31 July 2007 the college building known as Kiloran House will be demolished in preparation for the New Build at Hatfield Drive. As at the date of signing the accounts the college has no contractual commitment to demolish the building. The net book value of Kiloran at 31 July 2006 is £302,000.
- 3.13 **Estates development:** The College has capitalised costs of £1,054k in relation to the new estates development as construction in progress. In due course this will have to be transferred to the appropriate fixed assets heading.

4. INTERNAL AUDIT

Objective and Approach

- 4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2 The College's internal auditors are Scott-Moncrieff.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2006 in the 2004/2007 Strategic Internal Audit Plan.
- 4.4 In the course of the year ended 31 July 2006 the following internal audit reports were issued:
- a) Strategic and Operational Planning
 - b) Financial Systems Overview
 - c) Follow Up Review
 - d) Annual Internal Audit Report (presented December 2006)
 - e) SUMs Report (presented December 2006)
- 4.5 There were no significant points arising from the above reports which would have impacted on the external audit.

Opinion

- 4.6 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with senior College staff. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on the work of Internal Audit. Accordingly reliance was placed on the work of Internal Audit in the areas on which they reported during 2005/06 as detailed at 4.4.

5. CORPORATE GOVERNANCE

Objective and Approach

5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was carried out using a bespoke checklist. We also reviewed the following:

- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2006;
- b) The College's Corporate Governance strategy;
- c) The minutes of meetings of key College committees issued during the year.

Opinion

5.2 Based on our review the College appears to operate appropriate Corporate Governance procedures and management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff.

Recommendations

5.3 The recommendation in respect of Corporate Governance is set out below. This recommendation was also reported in 2005.

5.4 There are no recommendations graded as "High" priority in this area.

Background	Recommendation	Priority	College Response	Responsibility/ Timescale
1. We noted from our review of the minutes of the Board of Management, Audit, Finance and Property Committees that attendance at meetings was low on some occasions.	We recommend that the College monitors attendance levels at meetings on an ongoing basis to ensure as close to full attendance is achieved.	Medium	Attendance is monitored. Recent changes have been made to the membership and further changes are being considered. Attendance will continue to be monitored.	Director of finance. Ongoing

6. VALUE FOR MONEY

Objective and Approach

6.1 We have reviewed the College's Value for Money systems including the following:

- a) The College's strategy in this area;
- b) VFM studies carried out by the College's internal auditors.

Opinion

6.2 Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources subject to the points noted below.

Recommendation

6.3 The recommendations in respect of Value for Money are set out below. The recommendation was also reported in 2005.

6.4 There are no recommendations graded as "High" priority in this area.

Background	Recommendation	Priority	College Response	Responsibility/ Timescale
1. Whilst we appreciate that the College has a VFM strategy paper, the College does not have a matrix/spreadsheet summarising the VFM work carried out.	We recommend that a matrix/spreadsheet is produced which summarises the College's VFM strategy. It has been noted that the College would like input into a format for the VFM matrix.	Medium	The college would appreciate a sample matrix for consideration from the external auditors.	Director of Finance. January 2007

7. GMAP VISITS

- 7.1 The College had a GMAP visit during the year to review the College financial forecasts.
- 7.2 The recommendation in respect of a previous GMAP visit which remains outstanding is set out below. This recommendation was also reported in 2005.

Background	Priority	College Response	Responsibility/ Timescale
1. It is recommended that the College consider developing a costing system, whereby the contribution made by the individual departments and courses can be provided.	B	The college has looked at this area in conjunction with the internal auditors and concludes that meantime no action is required.	Director of finance. Ongoing

8 PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

- 8.1 The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures.
- 8.2 An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a bespoke checklist.
- 8.3 In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
- a) The monitoring and compliance with financial procedures;
 - b) The College's strategy to prevent and detect fraud and other irregularities;
 - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 8.4 No areas of concern were found during normal audit procedures.
- 8.5 We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Opinion

- 8.6 Overall we concluded that management takes fraud prevention and detection seriously and has reliable controls in place to ensure that potential areas for fraud are detected and dealt with.

Recommendations

- 8.7 There are no recommendations made in this area.

9 MANAGEMENT LETTER – 2005 and prior

- 9.1 The management letter for the year ended 31 July 2005 was issued by Wylie & Bisset following the audit for the year.
- 9.2 Of the five recommendations set out in the management letter, four recommendations are currently still under review.
- 9.3 There were no recommendations graded as “High” priority in this area.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
1. From our review of the College's Financial Procedures in relation to income, expenditure and wages we noted that the procedures could be more detailed.	We recommend that the Financial Procedures in these areas are revised and updated to give more detailed procedures. This would assist the accounts staff operating in these areas and would assist in ensuring the accuracy of the financial statements.	Medium	Director of Finance and Finance Manager to provide more detailed procedures.	Director of Finance. February 2007
2. During our work on the fixed assets we noted that the detailed fixed assets register had not been updated to reflect all 2006 acquisitions.	We recommend that the detailed fixed assets register is updated as soon as possible.	Medium	Finance Manager to complete update by end December 2006.	Finance Manager. December 2006
3. From our work on creditors we noted that there was no aged creditors report available as at the year end.	We recommend that an aged creditors report is produced at the year end.	Medium	Finance Manager to include in list of year-end procedures.	Finance Manager July 2007
4. From our work on debtors we noted that the bad debt provision is not a specific bad debt provision.	We recommend that provision is only made for bad debts on the basis of a review of the debtors listing highlighting the specific likely bad debts.	Medium	On an annual basis this area will be reviewed to ensure a specific bad debt provision can be more accurately established.	Finance Manager. Ongoing

10 MANAGEMENT LETTER – 2006

10.1 The recommendations following the audit for the year ended 31 July 2006 are set out below.

10.2 There are no high recommendations noted below.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
<p>1. Fixed Assets The College is currently undergoing a significant Estates development. This will have a significant effect on Fixed Assets and Deferred Grants.</p>	<p>We recommend that the following areas are considered prior to next years audit:</p> <ul style="list-style-type: none"> a) the split of Fixed Assets between Land & Buildings and Fixtures & Fittings. The release of the Deferred Grants in respect of these areas should also be considered. b) The College should consider having the Estates valued on completion of the Estates development to assess the carrying value of Fixed Assets. c) The Accounting Policies for Fixed Assets should be revisited to ensure the existing policies are reasonable. 	Medium	Agreed once New Build is complete.	<p>Director of Finance.</p> <p>Ongoing</p>
<p>2. Draft accounts We were not provided with a full set of draft Financial Statements until late November 2006, some three weeks after the commencement of the audit which has caused inefficiencies in the audit process. Although we did have a draft set of the Primary Statements and notes at the start of the audit, a number of figures had not been finalised.</p>	<p>We recommend that the College ensure that draft accounts are available at the start of the audit in accordance with the agreed timetable. This will allow an efficient and effective audit to be carried out and will enable the auditors to meet the agreed timetable.</p>	Medium	This will be reviewed as part of the 2007 audit timetable.	<p>Director of Finance.</p> <p>July 2007</p>

APPENDIX A

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

Statement of the Board of Management's responsibilities

The Board of Management of Anniesland College is a body incorporated under the Further and Higher Education (Scotland) Act 1992. In accordance with the College's Constitution and Articles of Government, 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 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 requirements of the SFEFC and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the SFEFC and the College's Board of Management, the Board, through its designated accounting officer, is required to prepare financial statements for each financial period which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period.

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 which are reasonable and prudent
- Applicable accounting standards have been followed, subject to any material departures being 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 SFEFC are used only for the purposes for which they have been given and in accordance with the provisional Financial Memorandum with the SFEFC and any other conditions which the SFEFC 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, the various designated budget holders, including heads of academic and administrative departments
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- Regular reviews of key performance indicators and business risks, and regular reviews of financial results including variance reporting

- Clearly defined and formalised requirements for approval and control of expenditure, with decisions involving capital and 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 and Property Committee
- The engagement of professional Internal Auditors whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and who provide 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.

It is understood that any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

APPENDIX B

INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF ANNIESLAND COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND

We have audited the financial statements on pages 11 to 28 under the Further and Higher Education (Scotland) Act 1992. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with the accounting policies set out on pages 11 and 12.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance & Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, date July 2001.

Respective responsibilities of the Board of Management and Auditors

As described on page 8, the Board of Management and Accountable Officer are responsible for the preparation of the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the Scottish Further Education Funding Council, which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions, and for the regularity of financial transactions. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the statute and the Accounts Direction. We also report if, in our opinion, the Board of Management has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We also are required to report to you our opinion as to whether, in all material aspects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Further Education Funding Council have been applied in accordance with the Financial Memorandum issued by the Council;
- funds from whatever source administered by the College for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement on page 6 complies with the requirements of the Scottish Further Education Funding Council. We report if the statement does not meet these requirements or if the statement is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or form an

opinion on the effectiveness of the College's corporate governance procedures or risk and control procedures.

We read the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinions

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the College's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and on the regularity of the financial transactions included in the financial statements. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial Statements

In our opinion, the financial statements give a true and fair view of the state of affairs of the College as at 31 July 2006 and of its surplus of income over expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the Scottish Further Education Funding Council.

Regularity

In our opinion, in all material respects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Further Education Funding Council have been applied in accordance with the Financial Memorandum dated 1 August 2000 and any other terms and conditions attached to them for the year ended 31 July 2006; and
- funds from whatever source administered by the College for specific purposes have been properly applied for the intended purposes.

Signature

5 December 2006

WYLIE & BISSET
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