SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Barony College

Annual Report to the members of the Board of Management and the Auditor General for Scotland 2005/06

28 November 2006

SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Barony College

Annual Report to the members of the Board of Management and the Auditor General for Scotland 2005/06

1 Summary and Conclusion

Financial statements ***Section 3***	• Our audit opinion on the truth and fairness of the annual accounts and on the regularity of transactions is unqualified. • The annual accounts of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice on Accounting for Further and Higher Education. • We are grateful to the Finance Manager for presenting draft accounts for audit by the agreed date and for her assistance during the course of the audit. The audit was completed on time and the deadline for submitting final accounts to SFC will be achieved.
Corporate governance ***Section 4***	• We identified no significant errors or weaknesses during our audit. In general, the College's systems of internal control appear to be adequate, well designed and operating effectively. • The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the Combined Code on Corporate Governance during 2005/06. • Our review of internal audit concluded that the College's internal audit service is effective and operates in accordance with the SFC Code of Audit Practice. • We identified no issues of concern in relation to fraud and irregularity or standards of conduct. • In our opinion, the College has adequate arrangements in place for financial planning, budgetary control and financial reporting.
Performance audit ***Section 5***	• Audit Scotland did not prescribe any national VFM studies for colleges in 2005/06.
Action plans ***Section 6***	• An action plan covering all issues identified during 2005/06 is included in section 6. The action plan includes agreed recommendations, responsible officers and implementation dates.
Conclusion	This report concludes the 2005/06 audit of Barony College, which we have performed in accordance with the Code of Audit Practice and Statement of Responsibilities issued by Audit Scotland. This report has been discussed and agreed with the Principal and the Finance Manager and has been prepared for the sole use of the College, the Auditor General for Scotland and Audit Scotland. We would like to thank all members of College management and staff who have been involved in our work for their co-operation and assistance during our audit visits. ***Scott-Moncrieff*** ***28 November 2006***

2 Introduction

2.1 Audit framework

The Auditor General for Scotland is the Scottish Parliament's watchdog for ensuring propriety and value for money in the use of public funds. The Auditor General is therefore responsible for appointing auditors to Further Education colleges and for setting the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The purpose of this report is to summarise the results of our audit work for 2005/06. The report describes the ways in which both the College and ourselves have met the requirements of the Statement of Responsibilities and the Code of Audit Practice.

2.2 Responsibilities of the College

The College is accountable to the public for the conduct of public business and the stewardship of funds under its control. The College is therefore responsible for:

- establishing proper corporate governance arrangements;
- maintaining proper accounting records;
- preparing the financial statements;
- safeguarding assets;
- taking reasonable steps for the prevention and detection of fraud and other irregularities;
- managing its affairs to secure the economic, efficient and effective use of resources.

2.3 Responsibilities of auditors

Our responsibilities, which are significantly greater than those of auditors in the private sector, are derived from statute and from the Code of Audit Practice.

Our role is to carry out an independent and objective appraisal of the discharge by management of its stewardship responsibilities and in particular: -

- to provide an opinion on the financial statements and regularity of transactions;
- to review and report on the corporate governance arrangements relating to the prevention and detection of fraud and corruption;
- to review and report on the corporate governance arrangements relating to standards of conduct, accountability and openness;
- to review and report on the corporate governance arrangements relating to the organisation's financial position;
- to review and report on the corporate governance arrangements relating to the organisation's review of its systems of internal control;
- to review and report on the organisation's arrangements for managing its performance economically, efficiently and effectively.

3 Financial Statements

STATEMENT OF RESPONSIBILITIES

It is the responsibility of the audited body and its management to:

- act within the law and ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records;
- prepare financial statements timeously which give a true and fair view of the financial position of the body and its expenditure and income.

The auditor is required to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland) and to give an opinion on:

- whether they give a true and fair view or present fairly the financial position of the audited body and its expenditure and income for the period;
- whether they have been prepared in accordance with relevant legislation and applicable accounting standards;
- on the regularity of the expenditure and receipts.

3.1 Accounts Direction

The College was required, in preparing its annual accounts, to comply with directions given by the Scottish Funding Council (SFC). We are pleased to confirm that the College's annual accounts for 2005/06 comply fully with the Accounts Direction issued by SFC.

3.2 Statement of Recommended Practice (SORP)

The purpose of the SORP on Accounting for Further and Higher Education is to ensure that the financial statements of institutions are prepared on a comparable and consistent basis. The SORP takes account of best accounting practice, the requirements of the Funding Councils, the accounting provisions of the Companies Act and other relevant legislation. We are pleased to report that the 2005/06 annual accounts of the College comply with the SORP in all material respects.

3.3 Annual accounts and audit timetable

We are grateful to the Finance Manager for submitting draft accounts and working papers for audit by the agreed date and for her assistance and support during the course of the audit. The audit progressed smoothly with no significant problems.

We are therefore pleased to report that the deadline for the submission of final accounts to SFC will be achieved. The accounts will be approved by the Board of Management on 14 December 2006 and submitted to SFC prior to 31 December 2006.

3.4 Auditors' report – unqualified opinion

We are required to give an opinion as to whether the accounts present a true and fair view of the financial position of the College at 31 July 2006 and of its income and expenditure for the financial year.

We are also required to include a regularity assertion in our audit report stating that expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with SFC.

We are pleased to confirm that our audit opinion on the truth and fairness of the accounts and on the regularity of transactions is unqualified.

3.5 Review of accounting systems – no significant issues

One of the objectives of our audit was to review the accounting systems and internal controls operating at the College to ensure they formed an adequate basis for the preparation of the financial statements.

We identified no significant control weaknesses during our audit of accounting systems. In general, the College's systems of internal control appear to be adequate, well designed and operating effectively.

The action plan in section 6 of this report contains a small number of medium and low priority recommendations arising from our audit. Actions to address the recommendations have been agreed with the Finance Manager.

It should be noted that the issues identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements that may exist.

3.6 FRS 17 – Retirement Benefits

Financial Reporting Standard 17 – Retirement Benefits (FRS 17) has been implemented in preparation of the financial statements for the year ended 31 July 2006. The implementation of this standard has required a prior period adjustment to the 2005 figures to incorporate the pension liability and pension reserve and to eliminate the early retrials provision.

Note 21 to the accounts illustrates the necessary disclosure required to comply with FRS 17, whilst note 20 illustrates the effect of the prior year adjustment upon reserves.

4 Corporate Governance

STATEMENT OF RESPONSIBILITIES

The audited body has a responsibility to:

- Develop and implement systems of internal control and at least annually to conduct a review of the effectiveness of the internal control systems.
- Establish arrangements to prevent and detect fraud and irregularity.
- Ensure its affairs are managed in accordance with proper standards of conduct.
- Conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

The auditor reviews and reports on the audited body's corporate governance arrangements.

4.1 Corporate governance framework

The Board of Management has established the following committees, which contribute to the culture of risk management and internal control at the College:

- Finance & General Purposes Committee,
- Audit Committee,
- Property Committee,
- Education & Training Committee,
- Personnel Committee,
- Remuneration Committee.

The work of these committees is described in the Corporate Governance Statement contained within the annual accounts.

4.2 Corporate governance statement

Requirement for a corporate governance statement

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

Guidance on the 2005/06 statement

The Accounts Direction issued by SFC on 26 May 2006 contains guidance on the corporate governance statement. A revised Combined Code on Corporate Governance was issued in July 2003, which supersedes the Code issued in 1998.

Following consultation with Further Education and Higher Education sector groups, colleges and universities, it was agreed that the 2003 Combined Code will be effective for the 2006/07 financial statements. Colleges have been encouraged to prepare a Turnbull-compliant statement in 2005/06.

The College's corporate governance statement for 2005/06 illustrates that the College was fully compliant with the 1998 code throughout the period.

Unqualified audit opinion

We have reviewed the corporate governance statement included within the annual accounts. Our audit opinion on this statement is covered by our auditors' report and is unqualified in this respect.

4.3 Internal Audit

Review of internal audit

To avoid duplication of effort and ensure an efficient audit process, we have placed reliance wherever possible on the work of the internal auditors Wylie & Bisset.

Reliance on internal audit

We have made use of internal audit findings and conclusions in the following areas:

- Income collection & credit control
- Treasury management
- Risk management
- Corporate governance

We have found internal audit reports to be clear and comprehensive. We are grateful to Wylie & Bisset for their assistance and co-operation during 2005/06.

4.4 Fraud, irregularity and corruption

College's responsibilities

To ensure the integrity of public funds, the College is responsible for establishing arrangements to prevent and detect fraud and other irregularities.

Auditors' responsibilities

We consider the arrangements made by management in the following ways:

- Our systems based audit is planned so as to provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity.
- We focus on specific areas of high risk for potential fraud and irregularity and review the arrangements in place in these areas.
- We review the Technical Bulletins produced by Audit Scotland with regard to fraud reports and ensure that the College has arrangements in place to prevent similar frauds occurring.
- We review the extent and adequacy of the Internal Audit function within the College.
- We examine the financial instructions issued by the College to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control.

Conclusion

We are pleased to report that our audit identified no issues of concern in relation to fraud, irregularity and corruption.

4.5 Standards of conduct, integrity and openness

Propriety requires that public business be conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers' of interest and schemes of delegation and complying with national and local Codes of Conduct.

Conclusion

We are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

4.6 Financial standing

It is the responsibility of the College to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the College's financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the College's operations and use of resources.

Financial position

The College is reporting an operating surplus for the year of £220,575 (2005 – £61,836). However, the historical cost surplus was £275,639 after releasing £55,064 from the revaluation reserve in respect of depreciation on re-valued assets. The relevance of the historical cost surplus is that this is the net impact on the general reserves. Therefore, even if an operating deficit is achieved, if the release from the revaluation reserve creates an historical cost surplus then the College will not go into accumulated deficit.

The financial statements for year ended 31 July 2005 required to be re-stated as a result of the implementation of Financial Reporting Standard 17 – Retirement Benefits (FRS 17). This has resulted in the disclosure of a pension liability and pension reserve of £530,000 at 31 July 2006 (2005 - £947,000). The application of FRS 17 also resulted in the previous provision for liabilities and charges of £41,862 in respect of early retrials being removed from the financial statements. The actuaries have accounted for these early retirals within the actuarial valuation report at 31 July 2006.

Financial planning and budgetary control

One of the ways by which SFC assesses the quality of colleges' financial planning and budgetary control is to compare the surpluses or deficits achieved by colleges with those forecast in their annual financial forecast returns (FFR).

The College's 2005/06 revised budget, forecast a historical cost surplus for 2005/06 of £258,704. The difference between the forecast surplus and the surplus achieved of £275,639 is £16,935 which represents 0.4% of the College's turnover.

Financial reporting

The Finance Department provides budget holders with monthly reports comparing actual and budgeted income and expenditure. Performance against SUMs targets is also provided by the Student Records Department on a regular basis.   Budget holders are required to provide explanations for any significant variances from budgets at quarterly budget holder meetings.

The Finance and General Purposes Committee (F&GPC) receives summarised income and expenditure reports, balance sheets, cash flow forecasts and aged debtor reports on a quarterly basis. The income and expenditure reports show actual, budget and previous year data and include a commentary on any significant variances. The reports are discussed at the quarterly F&GPC meetings. The Board of Management receives minutes of these meetings.

Conclusion

In our opinion, the College has established adequate arrangements for financial planning, budgetary control and financial reporting

5 Performance Audit

STATEMENT OF RESPONSIBILITIES

It is the responsibility of the audited body to ensure that suitable arrangements are in place to secure economy, efficiency and effectiveness in the use of resources. These will include arrangements to plan, appraise, authorise and control the use of resources and to ensure that performance targets and required outcomes are met and achieved.

Auditors take reasonable steps to review whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as performance audit.

5.1 The College's responsibilities for securing VFM

The wider dimension of the public sector audit requires that we consider the way in which the College secures value for money (VFM) in its use of resources.

To achieve value for money, the College requires to establish sound management arrangements in relation to its services. This includes procedures for planning, appraisal, authorisation and control, accountability and evaluation.

5.2 Audit objective

The key objective of performance audit is to assist in the process of continuous improvement. We therefore review and report on whether the College has put in place adequate arrangements for managing its performance economically, efficiently and effectively.

5.3 Performance audit reviews

Audit Scotland has a duty to assist FE colleges in achieving value for money by highlighting good practice, providing comparative information and supporting auditors in reviewing performance locally.

In 2005/06 Audit Scotland did not specifically determine any national VFM studies suitable for FE colleges. As a result no VFM studies were undertaken in 2005/2006.

6 Action Plan

6.1 Summary

Our action plan summarises all of the control weaknesses and opportunities for improvement that we have identified during our 2005/06 audit. These are the issues that we consider should be brought to the attention of the Board of Management and the Audit Committee.

We have made no priority one recommendations in 2005/06 or in 2004/05.

It should be noted that the weaknesses identified in this report are only those which have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

6.2 Priority rating

The priority rating is intended to assist the College in assessing the significance of the issues raised and in prioritising the action required to address them. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action;
Priority 2	Medium risk, significant observations requiring reasonably urgent action;
Priority 3	Low risk, minor observations which require to be brought to the attention of management.

6.3 Key Issues from 2005/06 Final Audit

Title	Issues identified	Risk and recommendation	Management comments
6.3.1 **Register of interests'** **Priority 2**	During a review of the College's register of interests, it was noted that no reference was made to the interests of board member J Rogerson.	The college's register is not up to date. We would recommend that the Clerk to the Board updates the register for this omission and ensures that all members' interests are disclosed on the register.	***Responsible Individual:*** M Hawthorn ***Implementation Date:*** December 2006
6.3.2 **Purchase orders** **Priority 2**	It was noted during the audit that the farm manager does not routinely raise purchase orders in respect of the orders placed.	There is a risk that goods are ordered which are not adequately authorised. More significantly the failure to prepare such orders contravenes the guidance contained within the College's Financial Regulations (paragraph 17.4). We recommend that a purchase order is raised for all goods ordered.	***Responsible Individual:*** J Hockin ***Implementation Date:*** To be agreed
6.3.3 **Potential capital expenditure** **Priority 2**	During an analysis of repairs & renewals accounts within the nominal ledger it was noted that automatic doors costing £11,650 were installed in the College during the year. This cost has not been capitalised as a fixed asset within the 2005/06 financial statements, but remains as an expense.	There is a risk that the college's surplus is understated as a result of the decision taken not to capitalise the item. We recommend that where an item is in excess of the capitalisation limit and a decision is taken by the finance manager/principal not to capitalise the item that this is discussed and minuted as acceptable at a Finance & General Purposes Committee meeting.	***Responsible Individual:*** June Stewart ***Implementation Date:*** December 2006

Scott-Moncrieff (www.scott-moncrieff.com), one of Scotland's leading independent professional services firms, provides industry-focused audit, tax, business advisory and corporate consulting services for commercial, public, not-for-profit and private clients.

Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.