

Cumbernauld College
Year Ended 31 July 2006
Report to the Board and the Auditor
General for Scotland December 2006



BDO Stoy Hayward

Contents

Contents	1
1 Executive Summary	2
Introduction.....	2
Scope of Work	2
Corporate Governance Arrangements	2
Compliance with Scottish Funding Council ('SFC') Accounts	
Direction	3
Conclusion.....	3
Acknowledgement	3
Financial performance	3
2 Introduction	4
Purpose of Report	4
Audit Bodies	4
College Responsibilities.....	4
Auditors' Responsibilities and Approach	5
3 Scope of Work	6
Financial Memorandum	6
Accounts Direction.....	6
Guidance on Audit	6
Statement of Recommended Practice (SORP)	6
4 Audit Findings	7
Preparation of Financial Statements	7
Audit Opinion.....	7
Financial Performance.....	7
Performance Indicators.....	7
Grant in Aid Funding	8
Corporate Governance Framework and Statement.....	8
System of Internal Control	8
Prevention and detection of Fraud and Corruption.....	9
Review of Internal Audit.....	9
Misstatements	9
Accounting and Internal Control System Weaknesses.....	9
Qualitative Aspect of the College's Accounting Practice and	
Financial Reporting.....	9
Other matters	9
5 Internal control systems weakness	11
Findings from 2006 audit process.....	11
Recommendations made during 2005 audit.....	11
'High Priority' Recommendations originally made by Internal	
Audit	12

1 Executive Summary

Introduction

- The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of Cumbernauld College ('the College') for the year ended 31st July 2006.
- The matters raised in this report, are only those which have come to our attention arising from or relevant to our work that we believe need to be brought to your attention. Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.
- This report has been prepared solely for the use by the Board of Management of Cumbernauld College and the Auditor General for Scotland.
- We have completed our audit work in respect of the financial statements for the year ended 31 July 2006 and will be issuing an unqualified audit opinion for the year.

Scope of Work

- The accounting rules and regulations applied to Further Education Colleges are specifically laid out in various documents as discussed in section 3 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents.

Corporate Governance Arrangements

- The corporate governance statement within the College's financial statements states that the College has been fully compliant with guidance on corporate governance for the year ended 31 July 2006. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Compliance with Scottish Funding Council ('SFC') Accounts Direction

- We can confirm in preparing the financial statements the College has complied with the Accounts direction for Scotland's colleges and universities issued under circular SFC/35/2006.

Conclusion

- The audit of Cumbernauld College was performed in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. This report has been issued to College management and will be considered by the Audit Committee.

Acknowledgement

- The 2005/2006 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

Financial performance

Profitability	The college made a surplus of £60,000, and a historical cost surplus of £183,000 for the year
Cashflow	There was a net cash outflow of £3,958,000 during the year.
Balance Sheet	The financial statements show net assets of £14,992,000. The balance on the revaluation reserve carried forward is a surplus of £4,679,000.
Forecasts	The Board of Management are forecasting an operating surplus of £55,000 in the forthcoming year.

2 Introduction

Purpose of Report

- This report has been prepared in connection with our audit of the financial statements of the College for the year ended 31 July 2006. This report summarises the principal matters that have come to our attention during the course of the audit.
- The contents of the report should not be taken as reflecting the view of BDO Stoy Hayward LLP except where explicitly stated as being so. To a certain extent, the content of this report comprises general information which has been provided by, or is based on discussions with, the management of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.
- One of the purposes of this report is to record features of the year's activities, the way they are treated in the financial statements and the comments thereon provided to audit staff by the College's staff.

Audit Bodies

- The Auditor General, a royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish public spending bodies to account for the proper, efficient and effective use of public money.
- Audit Scotland is an independent statutory body which was set up in April 2000 to provide assistance and support to the Accounts Commission and to the Auditor General for Scotland in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.

- BDO Stoy Hayward LLP was appointed by Audit Scotland as external auditor to Cumbernauld College for 5 years covering the financial years 2001/02 to 2005/06. This report summarises our audit work for 2005/06 and details how the requirements of the Statement of Responsibilities and the Code of Audit Practice have been met by the College and by BDO Stoy Hayward LLP

College Responsibilities

- The College is publicly accountable for the conduct of business and the stewardship of funds under its control. The College's Board of Management is therefore responsible for:
 - establishing adequate corporate governance procedures;
 - ensuring 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 SFC and any other conditions which the SFC may from time to time prescribe;
 - ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
 - safeguarding the assets of the College and taking reasonable steps to prevent and detect fraud and other irregularities;
 - securing the economical, efficient and effective management of the College's resources and expenditure;
 - maintaining proper accounting records and preparing financial statements.

Auditors' Responsibilities and Approach

- We are required to report to the Board of Management of the College and to the Auditor General for Scotland on the financial statements of the College. Our responsibilities are to:
 - provide an opinion, to the extent required by the relevant authorities, on the financial statements 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 requirements of Audit Scotland's Code of Audit Practice, regarding the College's corporate governance arrangements relating to:
 - the College's review of its systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct, and prevention and detection of corruption
 - its financial position.
 - obtain an understanding of the accounting and internal control systems in place in the College sufficient to allow the audit to be planned and an effective audit approach developed.
- Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.

3 Scope of Work

- We took reasonable steps to plan and carry out the audit to ensure that the above responsibilities were met and that we complied with the requirements of Audit Scotland's Code of Audit Practice.
- In essence the scope of our work is similar to that applied to a limited company audit, however, the accounting rules and regulations applying to Further Education Colleges are specifically laid down in various documents as detailed below.

Financial Memorandum

- This memorandum sets out the terms and conditions under which the Scottish Funding Council will make payments to the Board of Management of Colleges of Further Education out of funds made available by the First Minister of Scotland. We can confirm the College fully complies with the terms and conditions of the memorandum.

Accounts Direction

- In preparing its annual accounts the College is required to comply with the directions of the Scottish Funding Council (SFC). The Accounts Direction is designed to ensure that disclosures in the financial statements of all colleges follow best practice. We can confirm the College's financial statements comply with the Accounts Direction.

Guidance on Audit

- Audit Scotland's Code of Audit Practice sets down Audit Scotland's requirements for both internal and external audits. In carrying out our audit work we are also required to comply with International Standards on Auditing (UK and Ireland) and to take cognisance of any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board. We also comply with relevant ethical

standards and guidance issued or adopted by the relevant professional accountancy bodies and any supplementary guidance issued by Audit Scotland.

Statement of Recommended Practice (SORP)

- The HE/FE SORP board issued the revised SORP effective from 1 August 2003. The SORP combines the requirements of institutions of Further and Higher Education to ensure financial statements are prepared on a consistent basis. We can confirm that the financial statements of the College comply with the SORP.

4 Audit Findings

Preparation of Financial Statements

- The Financial statements and the required working papers were not ready for audit on 20 November 2006, in line with the agreed timetable. The financial statements were not submitted to us until the completion of the audit process. The audit working papers were submitted throughout the course of the audit process.

Audit Opinion

- We are satisfied that the financial statements of the College present a true and fair view of its financial position as at 31 July 2006. Following approval of the financial statements by the Board of Management on 19 December 2006, we issued an audit report expressing unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2006 and (ii) regularity.

Financial Performance

Surplus for Period

- The College made an historic cost surplus of £183,000 in respect of the year ended 31 July 2006 compared to a surplus of £178,000 for the year ended 31 July 2005.
- Net assets at 31 July 2006 are £14,992,000 (31 July 2005: £9,309,000)
- The balance on the income and expenditure account carried forward as at 31 July 2006 is a surplus of £1,468,000 (31 July 2005: £465,000).
- The balance on revaluation reserve carried forward as at 31 July 2006 is a surplus of £4,679,000 (31 July 2005: surplus £4,802,000).

Cash Flow

- During 2005/2006 the College experienced a net outflow of cash of £3,958,000 (2004/05: inflow of £2,064,000).

Going Concern Basis

- In preparing the accounts on a going concern basis the Board of Management is satisfied that SFC will provide sufficient funding to enable the College to operate for at least twelve months from 19 December 2006.

Performance Indicators

- The Scottish Further Education Funding Council's ('SFEFC') financial security campaign was announced in December 2002, its principal objective being that all colleges would report underlying operating surpluses by the end of 2005-06. Financial security is defined as the ability, on a continuing basis, to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve. The college must also generate sufficient cash to finance its operations and meet its liabilities; regular operating surpluses would ensure this.
- Under the terms of the financial memorandum between SFC and the College, it is the responsibility of the governing body "*to ensure that the institution strives to achieve best value from its use of public funds from all sources*". It is intended that the financial performance indicators used by the Funding Council, when set alongside other performance data, will support the college in seeking best value.
- The table below has been produced from the data published by the Funding Council through circular SFC/36/2006 in respect of the Financial Statements as at 31 July 2005. The formulae have then been applied to the 2005/06 Financial Statements.

- As can be seen Cumbernauld College performs relatively favourably in comparison to other Colleges within their Group (Income base > £6m-£10m) and the Sector.

	<u>Cumbernauld</u> <u>College</u> <u>Factor 2005-</u> <u>06</u>	<u>Cumbernauld</u> <u>College</u> <u>Factor 2004-</u> <u>05</u>	<u>Group</u> <u>Average</u> <u>Factor</u> <u>2004-05</u>	<u>Sector</u> <u>Average</u> <u>Factor</u> <u>2004-05</u>
Underlying operating surplus/ (deficit) % of total income	0.7%	0.0%	0.8%	1.8%
Operating surplus/ (deficit) % of total income	0.7%	0.0%	0.6%	1.0%
Designated plus I&E reserves % of total income	17.1%	6.1%	10.2%	7.0%
Historical cost surplus/ (deficit) % of total income	2.1%	6.1%	2.2%	3.1%
Current assets: Current liabilities	0.5	1.0	1.5	1.3
Interest Cover	6.9	2.0	3.0	4.0

Grant in Aid Funding

- The College achieved its SUMS target for the 2005/06 academic year. The College's WSUMS target was 28,953 against actual WSUMS achieved of 29,244. As a result the College will not be liable to refund any amounts received in 2005/06.

Corporate Governance Framework and Statement

- The Board of Management has seven formally constituted committees which have specific terms of reference and act with delegated authority from the Board.
- We reviewed the College's corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
- From our review of Corporate Governance arrangements within the College we do not believe the Corporate Governance statement to be misleading or inconsistent with other information made available to us during the audit process.

System of Internal Control

- A review and assessment of the College's corporate governance arrangements was carried out. This assessment included a review of the College's committee minutes and completion of a number of standard checklists. The checklists cover issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct, issues of legality and the College's financial position.
- The College, in accordance with the Accounts Direction, has included in its financial statements, a statement covering the

responsibilities of the Board of Management in relation to corporate governance.

- Our review of the statement concluded that it complies with guidance and is not inconsistent with other information we are aware of from our audit.

Prevention and detection of Fraud and Corruption

- The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment showed the arrangements to be operating satisfactorily. No frauds were identified by the College in 2005/06.

Review of Internal Audit

- 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 systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality.
- Internal audit services are provided by Wylie & Bisset. An assessment was made of the adequacy of the internal audit input and it was concluded that we as external auditors were able to place reliance on the work of internal audit. Accordingly a certain amount of reliance was placed on the work of internal audit in the following areas during 2005/2006.

- **Corporate Governance**
- **Income Collection and Credit Control**
- **Purchases & Payments**
- **Fixed Assets, Estates Management and Inventories**

In October 2006, Wylie & Bisset issued the internal audit report for the year ended 31 July 2006. This concluded that, the College has adequate and effective risk management, control and governance processes to manage the achievement of the College's objectives.

Misstatements

- There were no adjusted or unadjusted misstatement of significance uncovered in the course of our audit work.

Accounting and Internal Control System Weaknesses

- Certain internal control weaknesses were identified during the course of our audit. These are listed in section 5. These are split into three sections:
 - 1) Weaknesses from 2006 audit
 - 2) Weaknesses noted previously.
 - 3) Weaknesses from internal auditor's visits

Qualitative Aspect of the College's Accounting Practice and Financial Reporting

- Our overall assessment, based on our work undertaken, is that the financial procedures of the College are adequate to enable annual financial statements to be produced in the prescribed form.

Other matters

The following other matters were noted by us for your attention:

Change in estimated useful life

- During the year the College has changed their estimate of the useful life of the inherited buildings. We understand the change from 25 years to 50 years is based on advice from professional valuers. The old building book value of £6,155,000 amortised over 25 years gives rise to a depreciation charge of £246,200. Following revision of the estimated useful life the charge for the old building is £123,100.

FRS 17 – Retirement Benefits

- This standard was published in November 2000 introducing significant changes to the way in which colleges should account for defined benefit pension schemes. Full implementation of FRS17 – ‘Retirement Benefits’ is mandatory for 2005/06 year ends. The College participates in the Scottish Teachers Superannuation Scheme and the Strathclyde Pension Fund (‘SPF’) which are defined benefit pension schemes. The schemes are multi-employer schemes where the share of assets and liabilities applicable to each employer cannot be identified on a consistent and reasonable basis. The College has therefore accounted for its pension costs for both schemes on a defined contribution basis as permitted by FRS 17 and the guidance issued by SFC.
- The SPF have recently issued a Funding Strategy statement for consultation. It is envisaged that separate employer rates will be introduced by 2008 at the earliest although a small number of separate rates may be introduced in 2006. Assets are currently apportioned based on the liability profile though employer assets have been tracked for each employer since 2002. Indications are that the SPF are moving in the same direction as the Lothian Pension Fund and hence towards full defined benefit disclosures. However consensus at a meeting of college representatives, Audit Scotland, SPF Hymans Robertson and the SFC in January 2006 was that the characteristics of the scheme, as presently constituted, enable college representatives to consider using the reduced disclosure requirements available for defined benefit schemes, within the criteria of FRS17.
- The ASB has issued a FRED that sets out proposals to amend the disclosure requirements contained in FRS17. The FRED proposes replacing the disclosures required by FRS17 with those of IAS 19 – ‘Employee Benefits’. Responses were sent to the ASB in September 2006 for consideration.

Early retirement provision

- Included in the balance sheet is a provision for the cost of providing for enhanced pensions. The College recalculated this early retirement provision using the actuarial tables and guidance issued by SFC. This resulted in a revaluation adjustment in the year of £40,000 which has been charged to the income and expenditure account.

5 Internal control systems weakness

Findings from 2006 audit process

Completion of Financial Statements and Working Papers

Findings

- We were not presented with a complete draft of financial statements and working papers when we arrived on site to commence the audit.

Recommendation

- While we acknowledge there were extenuating circumstances due to staff shortages we recommend that the College strive to have completed information on commencement of the audit. This adds to the efficiency of the audit process.

Management Response

- Agreed

Fixed Asset Register

Findings

- The College did not maintain or present us with an up to date fixed asset register during our audit process.

Recommendation

- We recommend that the College strives to have an asset register which reconciles to the nominal ledger available for audit during the year end audit process.

Management Response

- Agreed

Recommendations made during 2005 audit

Cyclical Fraud Planning

Original recommendation

- We recommend that cyclical fraud planning is addressed through the College's risk register and that areas at particular risk of fraud are addressed on a cyclical basis..

Management Response at December 2005

- Agreed.

Status at October 2006

- This recommendation has now been implemented. Fraud planning is addressed through the risk management committee on a quarterly basis.

Risk register

Original recommendation

- We recommend that the College's risk register is reviewed and areas where potential fraud could occur are revisited to identify action necessary to mitigate the risks.

Management Response at December 2005

- Agreed.

Status at October 2006

- The risk register has been inserted into the strategic plan.

'High Priority' Recommendations originally made by Internal Audit

Financial Regulations

Findings

- The College does not have approved Financial regulations.

Recommendation

- The College should prepare and formally approve Financial Regulations as soon as possible. This document should also be subject to regular review.

Status at December 2006

- The Financial Regulations will be approved by the Resources and General Purposes Committee this month.

Register of Members Interests

Findings

- The College does not have an up to date Register of Members Interests.

Recommendation

- The College should ensure an up to date Register of Members Interests is maintained which is available for public inspection at any time.

Status at December 2006

- An up to date Register of Members Interests is maintained by the College Secretary.

BDO Stoy Hayward LLP

19 December 2006