INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Forth Valley College

Annual audit report for 2005-06 to the Board of Management and the Auditor General for Scotland

21 December 2006

AUDIT

Contents

Notice: About this report

This report has been prepared in accordance with the responsibilities set out within Audit Scotland's *Code of Audit Practice* ('the Code') and *Statement of Responsibilities of Auditors and Audited Bodies*.

This report is for the benefit of only Forth Valley College and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary

Financial position

The financial statements reflect a consolidated deficit for the year of £3,380,000 after depreciation. The income and expenditure account shows a deficit balance of £1,091,000 at 31 July 2006 (excluding net pension liabilities).

Full implementation of FRS 17 'retirement benefits' ("FRS 17") required a prior year adjustment to the 2004-05 comparatives, resulting in a reduction of £2,089,000 to opening reserves at 1 August 2004. During the year, the College's share of the liabilities of the Falkirk local government pension scheme increased from £3,062,000 to £3,610,000 at 31 July 2006. Some of this increase relates to employees of the former Clackmannan College.

The College received various ring-fenced funds during 2005-06, of which £1,794,000 was awarded to assist the College in completing the acquisition of Clackmannan College and £351,000 towards funding teachers' superannuation.

Corporate governance

During the 2005-06 financial statements audit our work has identified no significant weaknesses in the operation of financial controls and procedures.

In the year the College's internal auditor produced audit reports on network security and student services. Full assurance was provided in relation to the controls in place over student services. However, internal audit were only able to offer limited assurance in relation to network security.

The College's internal auditor's overall opinion for the year ended 31 July 2006 states that "substantial assurance that the internal controls and governance frameworks which it operates are sufficient to ensure the efficient and effective operation of the organisation."

The 2005-06 corporate governance statement on the systems of internal control prepared by the College does not disclose any major weaknesses. The statement confirms that "the College complies with all the provisions of the combined code on corporate governance, in so far as they apply to the further education sector, and it has complied for the year ended 31 July 2006".

We have not identified any significant control weaknesses in relation to fraud and irregularity, standards of conduct or prevention of corruption.

Financial statements

During 2004-05 the College obtained confirmation from the Scottish Ministers that Falkirk College would acquire Clackmannan College on 1 August 2005 and its legal name would change to Forth Valley College. The acquisition has been undertaken in compliance with FRS 6 'acquisitions and mergers' under the 'acquisition accounting' methodology. Prior year balances have therefore not been restated in respect of the acquisition and only relate to Falkirk College. A number of adjustments have been made to the assets and liabilities acquired from the former Clackmannan College under FRS 7 'fair values in acquisition accounting'.

A number of adjustments were required to the draft financial statements during our audit, primarily in relation to accounting for the acquisition and the implementation of FRS 17.

On 21 December 2006 we issued an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2006 and on the regularity of the financial transactions reflected in those financial statements.

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Introduction

Audit framework

2005-06 was the final year of our five year appointment as external auditors of Forth Valley College ("the College"), formerly Falkirk College. We were also external auditors of Clackmannan College until 31 July 2005. Audit Scotland appointed us as external auditors of Forth Valley College from 1 August 2005. This report summarises our opinion and conclusions and highlights significant issues arising from our work. While a requirement of Audit Scotland's *Code of Audit Practice*, this report, having been discussed in draft with the audit committee, also discharges our obligations under International Auditing Standard 260: *Communication of audit matters to those charged with governance*.

The framework under which we operate under appointment by Audit Scotland was outlined in our 2005-06 annual audit plan.

The scope of the audit was to:

- provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;
- review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and
- review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

Our audit planning process identified a number of other areas for specific attention:

- full implementation of FRS 17;
- accounting for the acquisition of Clackmannan College; and
- accounting for ring fenced grant funding.

Basis of information

External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of KPMG LLP except where explicitly stated as being so.

Acknowledgement

Our audit has continued to bring us into contact with a range of College staff. We wish to place on record our appreciation of the continued co-operation and assistance extended to us by staff in the discharge of our responsibilities. In preparing for the audit visits in October and November the finance team prepared good quality supporting files which were available from the first day of our visit. Some delays were experienced in obtaining complete draft financial statements due to uncertainties over FRS 17 and acquisition accounting.

Since this is the final year of our audit appointment it is our intention to minimise the disruption to the College from a change in auditor through briefing and liaison on unresolved issues with the incoming auditor's staff.

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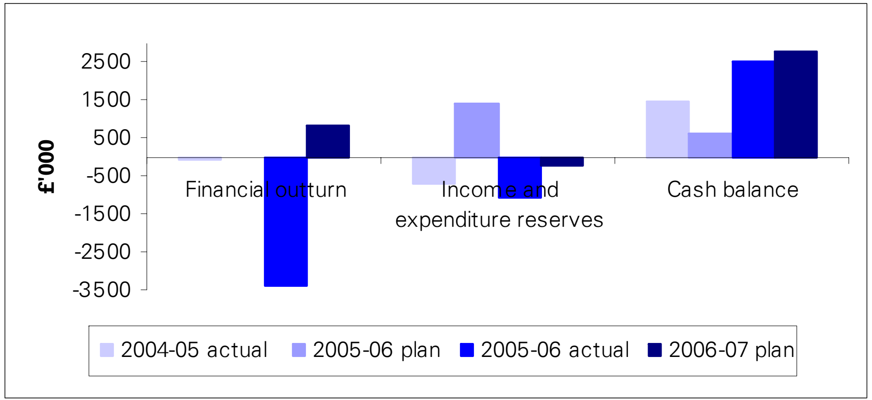
Financial position

Funding Council circular FE/54/02, issued on 20 December 2002, defines a college that is financially secure as one that *"on a continuing basis, is able 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."*

Figure 1 provides a summary of the College's planned and actual financial results, based on the formal returns submitted by the College to the Funding Council. In order to enable comparisons to be made, prior year balances have been restated in figure 1 to include both Falkirk and Clackmannan Colleges' financial information.

Figure 1: comparison of planned and actual results



The College has reported a deficit in 2005-06 of £3,380,000 after depreciation of £1,225,000. This has resulted in an accumulated income and expenditure balance of £1,091,000 (excluding pension reserves) and cash balances of £2,499,000 as at 31 July 2006. Income and expenditure reserves include a one-off credit of £1,264,000 representing the net recoverable amount of the assets and liabilities received on acquisition of Clackmannan College.

The College reported an adverse variance of £3,344,000 against its budgeted outturn for the year primarily due to a £2,878,000 increase in the valuation of the pension provision, the net impact relating to FRS 17 of £588,000 and net costs of £616,000 relating to the acquisition of Clackmannan College and subsequent restructuring. The College is budgeting for a surplus of £856,000 in 2006-07. Surpluses generated will mainly be used to support the College's estates strategy.

The College has reported a strong cash position for the past two years. Management intend to use surplus cash reserves to help fund the estates strategy, which has identified a number of maintenance and redevelopment projects.

The College's annual deficit for 2005-06 included a number of non-recurring items as shown in figure 2. Management demonstrate consideration of non-recurring funding throughout the budget setting process, ensuring that such funding is used for non-recurring purposes.

Figure 2: recurring deficit in 2004-05 and 2005-06

Description	2005-06 £000	2004-05 £000
Reported deficit	**(3,380)**	**(58)**
Net impact of change in accounting for FRS 17	546	133
Pension provision charges	2,878	195
Exceptional costs relating to acquisition and restructuring	2,410	
Acquisition related grant income	(1,794)	-
Recurring surplus/deficit	**660**	**270**

2006-07 budget

The College has budgeted for a surplus of £856,000 for the year ending 31 July 2007. The 2006-07 outturn will be significantly affected by the implementation of the College's estates strategy as well as other changes such as continued increases in energy costs and the known increase, to 13.5%, in employer contributions to the Scottish Teachers' Superannuation Scheme from April 2007.

FRS 17 'retirement benefits' ("FRS 17")

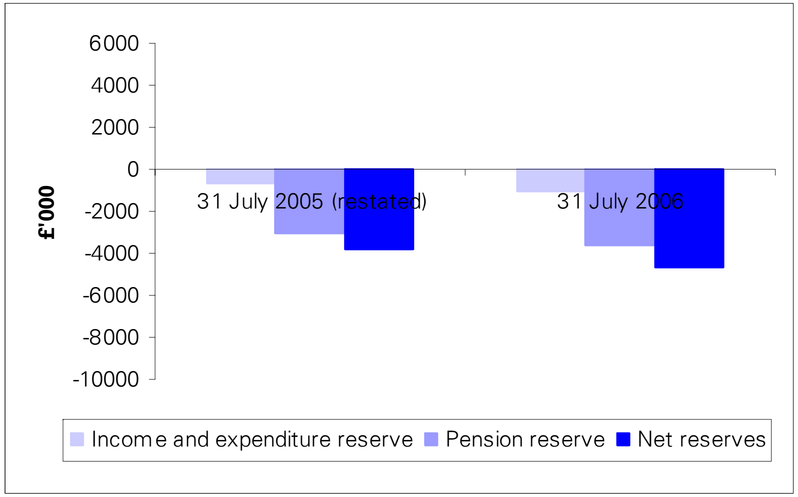
The College fully implemented FRS 17 during the year ended 31 July 2006, resulting in inclusion of the College's share of Falkirk Council Pension Scheme in the balance sheet for the first time.

Considerable discussion took place with the actuary on the assumptions to be used in arriving at the FRS 17 report. The College has recognised that in future years, it will engage with the actuary to agree on the key assumptions before the actuary commences calculations for FRS 17 and triennial valuations.

Full implementation of FRS 17 'retirement benefits' is a change of accounting policy and required a prior year adjustment in compliance with FRS 3 'reporting financial performance'. The 2004-05 comparatives have been restated, resulting in a reduction of £2,089,000 to previously reported reserves as at 1 August 2004. Implementation of FRS 17 resulted in the recognition of a net pension liability on the balance sheet of £3,610,000 as at 31 July 2006 (2005, £3,062,000).

Figure 3 highlights the impact of the College's share of the pension deficit on its income and expenditure reserves.

Figure 3: impact of FRS 17 pension deficit



Provisions

The College's enhanced pension provision is £6,211,000, based on an actuarial valuation as at 31 July 2006. Full implementation of FRS 17 resulted in reversal of the previously unfunded element of the provision of £224,000 relating to members of the Falkirk Council Pension Scheme, which is now included in the pension liabilities disclosed on the face of the balance sheet.

Ring-fenced funding

The Scottish Funding Councils ('SFC') allocated £2,499,000 of ring fenced funding to the College during 2005-06, primarily for acquisition related costs and the funding of teachers' superannuation. The College's financial monitoring procedures include consideration of the use of this funding to ensure it is used for the purposes identified.

Capital income and expenditure

The College has incurred capital expenditure of £516,000 in the year, relating to the purchase of plant and equipment. This has been funded from SFC ring fenced grants, which have been capitalised in accordance with the College's accounting policies. Fixed asset impairment in the year of £145,000 relate to assets capitalised in 2004-05, which were subsequently found not to have added value.

2005-06 SUMS outturn

The College's outturn against its 2005-06 SUMS targets are shown in figure 4. Since the College acquired Clackmmannan College on 1 August 2005, outturn against 2004-05 targets have not been included.

Figure 4: SUMs outturn

	2005-06
SUMS target	**108,431**
SUMS actual	**109,766**
Impact on recurring grant	**Nil**

The College's internal auditors have completed their work on the 2006-07 SUMs return to the Scottish Funding Council. Their audit certificate does not disclose any significant weaknesses in processes or errors in the return.

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Corporate governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, control and behaviour at the upper levels of the College in accordance with the fundamental principles of openness, integrity and accountability. Management is responsible for establishing arrangements for the conduct of its affairs, including compliance with applicable guidance, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. The *Code* requires auditors to review aspects of the corporate governance arrangements as they relate to:

- the board's review of its systems of internal control;
- the prevention and detection of fraud and irregularity; and
- standards of conduct, and the prevention and detection of corruption.

Framework

Following the acquisition of Clackmannan College on 1 August 2005 the board of management approved its corporate governance structure, establishing formal lines of reporting and accountability and a committee structure, supported by formal procedures. The College is in the process of finalising and revising some corporate governance documents and reviews all corporate governance documents on an ongoing basis.

Financial memorandum

We have discussed with management and the audit committee the revised financial memorandum, which took effect from 1 January 2006, in accordance with guidance issued by the Funding Council to assess the impact on financial regulations, standing orders and governance. The board of management formally considered the draft revised financial memorandum on 31 August 2005. The finalised financial memorandum was formally adopted by the board on 2 November 2005.

Control environment

During the 2005-06 audit process our work identified some minor areas for improvement in the operation of financial controls and procedures, which have been included in the action plan in appendix one. We have not identified any grade one "significant" recommendations.

Overall our audit testing of the College's controls and procedures over cash income and banking, ordering and purchase invoice processing, sales invoice processing and payroll administration revealed no material weaknesses. The increasing demands on the College's finance function as a result of the ongoing estates strategy and the bedding down of merged systems and processes mean that continued strict financial controls and procedures are critical to the College's success.

As part of our planning process we reviewed the College's system of high level financial and corporate governance controls. At 31 July 2006, the College has a system which includes a code of conduct in line with the constitution and articles of governance, board of management register of interests, a scheme of delegation and a strategic risk register.

Internal audit

During 2005-06, Chiene & Tait were contracted to provide internal audit services to the College. We have reviewed the scope and extent of work performed by internal audit during 2005-06 and considered the impact of their findings and conclusions on our work, where appropriate.

In the year the College's internal auditor produced audit reports on network security and student services. Full assurance was provided in relation to the controls in place over student services. However, internal audit were only able to offer limited assurance in relation to network security.

During 2005-06 we reviewed the annual internal audit plan to identify areas where we could place reliance in order to dovetail the audit process and reduce duplication. However, due to the lack of coverage over key financial systems we were only able to note their findings in the areas concerned.

Corporate governance statement

As part of the development of corporate governance, public sector bodies are required to make a statement of how they have applied the principles of corporate governance. We are required to review this to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal controls.

The 2005-06 corporate governance statement on the systems of internal control prepared by the College does not disclose any major weaknesses. The statement confirms that "the College complies with all the provisions of the combined code on corporate governance, in so far as they apply to the further education sector, and it has complied for the year ended 31 July 2006."

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

Work in these areas has been addressed over the duration of our appointment. In relation to fraud, we have had regard to relevant auditing standards when completing our work. We also had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements*.

Performance audit

The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors. No performance audit studies were identified by Audit Scotland for the College during 2005-06.

Reviews and inspections

The College was not subject to a review by *Her Majesty's Inspectorate of Education* during 2005-06. The College was subject to a post-merger review by the SFC during the year. There were no significant matters arising from this review. In their letter 11 July 2006, the SFC noted that *"we came away with a very positive feeling about progress with the merger. In particular it was good to see that the College was on target with the merger, the new Board arrangements were working well; and that there was an abundance of enthusiasm and goodwill at the College."*

The Charities and Trustee Investment (Scotland) Act 2005 ("the Act") came into force in April 2006, introducing new duties and responsibilities for the *Office of the Scottish Charity Regulator* ("OSCR"). Over time OSCR intends to undertake a rolling review of charities entered in the Scottish charity register to assess whether they meet, and continue to meet, the charity test: purposes will have to be charitable in the context of the charity test set out in Section 7 of the Charities and Trustee Investment (Scotland) Act 2005 and charities will have to show that they provide public benefit.

OSCR has recently proposed that the first phase of the rolling review should focus on those charities where uncertainty may exist regarding their ability to meet the new test, for example whether stated purposes are charitable, or where 'unduly restrictive conditions', such as fees, may exist. We understand that OSCR has written to parent organisations and umbrella bodies of such charities to inform them of the proposals and to invite comments.

There have been no other major external inspections in the year.

Audit committee

Oversight of the Council's internal control and reporting arrangements is provided through its audit committee. The audit committee includes two members with formal accountancy qualifications.

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Audit opinion

On 21 December 2006 we issued an audit report expressing an unqualified opinion on the financial statements of the College and of its group for the year ended 31 July 2006 and on the regularity of the financial transactions reflected in those financial statements.

Audit completion

An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. Figure 5 summarises the key elements of the audit process with which we require management to engage.

Figure 5: key elements of the audit process

Completeness of draft financial statements
Although a set of draft financial statements were received at the start of the final audit visit on 11 October 2006, a number of presentational disclosures were not immediately available for review, including FRS 17 and acquisition accounting adjustments and disclosures.
Quality of supporting working papers
In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. Documentation provided was to a good standard, however, the College was not at a normal standard of readiness for the start of the final audit visit on 11 October 2006 due to the exceptional complexities involved in accounting for the acquisition, FRS 17, relevant re-structuring and operating two financial systems. This resulted in some delays during the audit process.
Response to audit queries
As noted above, management have been focussing on acquisition-related issues during 2005-06 and the audit process, resulting in some delays in finalising the audit.

Financial adjustments and confirmations

In figure 6 we draw attention to adjustments to the financial statements made by management as a result of the audit process.

Figure 6 financial statement adjustments

	Income and expenditure account £'000	Balance sheet £'000
Correction of acquisition related grants income / (expenditure) disclosure	1,794 (1,794)	-
Recognition of capital expenditure incurred to 31 July 2006	(180)	(180)
FRS 17 disclosures	Disclosure only, per SORP	
Note 13: tangible fixed assets changed disclosure to separately identify constituent movements in year	Disclosure only, per SORP	
Various acquisition related disclosures	Disclosure only, per FRS 6 and FRS 7	
Note 29: financial commitments changed to show payments due in next year analysed per expiry date rather than all future payments.	Disclosure only, per SORP / SSAP 21	
Net adjustment	**(237)**	**(237)**

Confirmations and representations

We confirm that as of 29 November 2006, in our professional judgement, KPMG LLP was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff is not impaired. This has been confirmed separately in writing to the audit committee.

In accordance with auditing standards, we obtained representations from the board's directors on material issues prior to signing our opinion. Management have adjusted all audit differences.

Significant accounting issues

FRS 17: retirement benefits

In 2005-06 the College was required to make full disclosures in its financial statements including amending comparatives and bringing in the effect of a prior year adjustment. This required information from the actuaries of the College's pension fund.

In August 2006 the College's actuaries reported, in accordance with FRS 17, the College's share of the pension liability of the Falkirk Council Pension Scheme at 31 July 2006. Following our review of management's interpretation of the report a revised actuarial report was received on 4 December 2006. A number of changes were made to the College's FRS 17 disclosures during the audit process.

FRS 6: acquisitions and mergers

On 1 August 2005, Falkirk Colleges acquired the assets and liabilities of Clackmannan College. Management considered the nature of this transaction with reference to FRS 6 '*acquisitions and mergers'* and determined to account for the transaction as an acquisition. The nature of the transaction is consistent with the requirements of FRS 6 and all relevant financial statement adjustments and disclosures have been made, including the adjustment of Clackmannan College's balance sheet as at 1 August 2005 so as to reflect the fair value of the assets and liabilities as required by FRS 7 '*fair values in acquisition accounting*'. The College has analysed these fair value adjustments in note 12 in the financial statements.

The fair value adjustments processed by management relate to the full implementation of FRS 17 and the revaluation of land and buildings to their recoverable amount, both effected on 1 August 2005. This resulted in a decrease to Clackmannan's net assets as previously reported on 31 July 2005 of £1,687,000.

FRS 15: tangible fixed assets

FRS 15 '*tangible fixed assets*' ("FRS 15") requires that land and buildings are fully revalued every five years. Clackmannan College formally commissioned Graham and Sibbald in 2005 and requested valuations of all owned land and buildings at 1 August 2005 to ensure that all relevant financial information was available in order to account for the acquisition of Clackmannan College in accordance with FRS 6 and FRS 7. Formal reports and associated working papers were presented in line with the original timetable.

As noted above, the revaluation was used to adjust the net book value of land and buildings acquired from Clackmannan College to their recoverable amount, judged by management to be their market value. However, the land and buildings belonging to Falkirk College, as it was then named, have not been revalued in the balance sheet. These assets were last revalued in the balance sheet on 31 July 2003. In order to support the College's estates strategy and to ensure that the College's land and building assets are fairly stated in accordance with FRS 15, we recommend that management carries out a full revaluation of land, buildings and fixed plant during 2006-07.

Estates strategy

We understand that the College is planning to upgrade or replace existing campuses at Falkirk, Stirling and Alloa, which are currently in a relatively poor condition. Capital expenditure has been committed in recent years so as to maintain the standard of these campuses at an acceptable standard as an interim measure but management have recognised the need for a more comprehensive redevelopment. An outline business case was submitted to the SFC in August 2006 with a view to soliciting funding in support of these initiatives.

The College entered into a joint PPP agreement with Stirling Council to develop an educational facility in the Raploch community area of Stirling. £1,577,000 was received by the College from the SFC and paid to Stirling Council in August 2006 as a capital contribution towards the project. This transaction will therefore be reflected in the 2006-07 financial statements.

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Appendix I – action plan

This appendix summarises the performance improvement observations we have identified during the financial statements audit. Each of our observations has been allocated a risk rating, which is explained below.

	Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the College or systems under consideration. The weakness may therefore give rise to loss or error.		**Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future.** The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.		**Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors.** The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation timetable
1	**Fixed asset revaluation** The College has not revalued all its land and buildings in the balance sheet since 31 July 2003. Whilst FRS 15 only requires a full revaluation every five years, redevelopment plans within the College's estates strategy leads to a risk that book values are no longer appropriate.	Management should revalue the College's land, buildings and fixed plant during 2006-07 by entering into discussion with the proposed valuer at an early date to discuss information requirements, including details of any fixed plant. This will ensure that the book value at 31 July 2007 is accurately stated in accordance with FRS 15 and the SORP.	This work will be undertaken during 2006/07.	Director of Estates Development Early 2007

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation timetable
2	**Preparation of financial statements** Audit Scotland's protocol sets out an expectation that audited bodies will produce a complete set of financial statements supported by full working papers by the start of the audit of the financial statements. This did not happen in 2005-06.	Whilst we recognise that operating two accounting systems with changes in finance office personnel, together with acquisition and pension accounting issues, all caused difficulties for 2005-06, we recommend the College plans the finalisation and internal review of the financial statements for 2006-07 in line with Audit Scotland's expectations.	As recognised by KPMG, this has been an exceptional year for the College with many additional complexities. It was flagged at an early stage that advice would be required from KPMG on handling these issues and the draft accounts were prepared on this basis.	Director of Corporate Services September 2007
3	**Anti fraud and corruption policy** The College is in the process of reviewing and updating a number of standing corporate policies and procedures. We have also identified that there is no anti fraud and corruption policy in place. There is a risk that existing policies and procedures do not reflect current activities at the College and the absence of an anti fraud and corruption policy may result in suspected frauds not being identified and investigated effectively.	We understand that management is in the process of reviewing all College standing policies and procedures and is planning to finalise an anti fraud and corruption policy during 2006-07. We recommend that this process is given priority to ensure that systems of internal control are effectively supported by sound and up to date formal standing documentation.	Consideration will be given to the preparation of an anti-fraud and corruption policy as part of the review of policies currently being undertaken.	Director of Corporate Services July 2007

Appendix I – action plan (continued)

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation timetable
4	**Fixed asset register** During 2005-06 there have been a large number of adjustments to the value of land and buildings arising from: • the acquisition process; • revaluation adjustments; and • additions and disposals. The fixed asset register has not been updated to fully reflect these adjustments, which may impact on the estates strategy and the accuracy of fixed asset management information in future accounting periods.	Management should review and update the fixed asset register for accuracy as at 31 July 2006. The register should clearly show the original cost, accumulated depreciation and net book value of each individual asset, in accordance with best practice. This will ensure that management have an accurate source of information on their fixed asset portfolio on which to base the estates strategy and the 2006-07 financial statements.	This work will be undertaken during 2006/07.	Director of Corporate Services July 2007
5	**Authorised signatory list** A number of personnel changes took place in 2005-06. During the course of our audit we noted that some signatures on invoices and journals did not correspond to the authorised signatory list. There is therefore a risk that the College is not acting in accordance with the formal scheme of delegation and that financial transactions are not appropriately authorised.	We recommend that the authorised signatory list is updated now that most staff and post changes have taken place. The authorised signatory list should then be subject to a regular review by management for reasonableness. This will ensure that it is fully up to date and that all financial transactions processed by the College are appropriately authorised in accordance with College procedures.	Agreed.	Director of Corporate Services February 2007

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation timetable
6	**Management accounts: acquisition & merger accounting** Although a paper on acquisition and merger accounting treatment for the acquisition of Clackmannan College was submitted by us during 2005-06 we understand that this was not reflected in management accounting information during the year.	Whilst we understand that the finance committee was happy with the information provided, we recommend that where technical accounting issues are identified, they are resolved on a timely basis and represented in the financial information presented to the Board and sub-committees during the year. This would ensure the Board is fully aware of the financial position of the College, enhancing the budgetary control environment.	Budget monitoring information was prepared on an operational basis and monitored as such in order to ensure the application of the budgetary controls required by the College. We note your views and will consider all future similar transactions individually in order to ensure that transparency, control and reporting requirements are met.	Director of Corporate Services As required
7	**Year end cut off procedures** During the course of the audit we identified instances of expenditure amounting to £237,000 being accounted for in the incorrect period. We extended our testing and found no further errors. Whilst these amounts have since been corrected, these errors illustrate potential deficiencies in the Colleges accruals and prepayments identification processes.	Management should review the year-end cut off procedures to ensure that they are sufficient to ensure that all income and expenditure is accounted for in the correct period.	These three transactions were posted after the review of the cut-off procedures and relate to capital formula funding for 2006/07. We take all appropriate steps to ensure transactions are processed in the correct accounting period and this is reflected in written memos and procedures.	Director of Corporate Services July 2007

Appendix I – action plan (continued)

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation timetable
8	**Banking arrangements** The College operates a large number of bank accounts resulting in additional administrative work within the finance department. In reviewing the monthly bank reconciliations for these accounts, we noted that they are not always being reviewed and signed off by an independent officer, as is best practice. We also noted that £2,900 of unpresented cheques on one bank reconciliation dated back more than six months and should therefore have been written back to the ledger.	We recommend that management review the banking arrangements at the College for reasonableness to minimise unnecessary administration. We also recommend that all bank reconciliations are subject to an independent review and that this review is formally evidenced. This will provide added assurance that this key control is operating effectively. As part of this review, management should ensure that any cheques more than six months old should be written back to the ledger to ensure that the system is accurate and up to date.	The dual financial systems operated by the College during the year necessitated the duplication of bank accounts through the retention of the Clackmannan accounts for operational reasons. There is no further requirement for such accounts and we will undertake a process of rationalisation shortly. All bank reconciliations are independently reviewed. All cheques over 6 months will be written back as part of the monthly procedure.	Director of Corporate Services February 2007
9	**Governance arrangements** Audit Scotland has issued reports on financial difficulties and governance failures at other further education colleges in Scotland. It is important that matters arising from these reviews are considered by management to ensure compliance with expected standards of governance and financial management.	We understand that the audit committee regularly reviews arrangements at Forth Valley College in order to provide assurance that they are satisfied with the systems of internal control and financial management in place. We recommend that this good practice is continued given the increased scrutiny in this area.	Reviews have been undertaken in the light of each of the reports issued by Audit Scotland to date. The board is aware of this work through the updates presented to its committees, as well as reports submitted to the board itself. We will continue to make board members aware of the implications for the College of any new reports as they are published.	Director of Corporate Services. As required

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation timetable
10	**Accounting for pension schemes** Considerable discussion took place with the College's actuary during the audit in relation to the assumptions to be used in arriving at the FRS 17 report. This resulted in a number of delays in finalising the College's financial statements.	Whilst we recognise that there was considerable uncertainty over accounting for FRS 17 across the FE sector in 2005-06, in future years it is important that the College engages with the actuary to agree on the key assumptions underlying the FRS 17 report and any other actuarial valuations of the College's pension schemes before the actuary commences any calculations. This should ensure that the financial statements are finalised within agreed timescales.	This is a sector issue and reflects the lack of advice given to colleges in the run-up to implementation of FRS 17. Audit Scotland and SFC have been less than helpful in this regard. The College has already committed to this with Hymans Robertson for next year but advice of this nature would have been helpful before the 05/06 year-end.	Director of Corporate Services August 2007

Appendix II – follow-up of prior years' recommendations

In this section we provide a brief overview of the action taken to date against recommendations made in previous accounting periods. The following table contains a summary, by report, of the status of recommendations made in previous years. For the purposes of this report, we have considered only those recommendations made by external audit in the 2004-05 annual audit reports of Falkirk and Clackmannan Colleges. Management has indicated that recommendations preceding these reports have either been fully implemented or are no longer considered relevant.

Figure 7: follow-up of prior years' recommendations

	Fully implemented	Ongoing	Not implemented	Not yet due
Falkirk College annual audit report 2004-05	5	2	-	-
Clackmannan College annual audit report 2004-05	6	-	-	-
Total	**11**	**2**	**-**	**-**
% of total due	**85%**	**15%**	**-**	**-**

None of the ongoing audit recommendations are significant in nature. They include the involvement of at least two officers when making manual journal entries to the ledger system and the formal reconciliation between the general ledger and the fixed asset register We encourage management to fully implement these recommendations during the course of 2006-07.