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Members of the Board of Management
Glasgow Metropolitan College
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11 December 2006

Auditor General
Audit Scotland
110 George Street
EDINBURGH

Dear Board/Auditor General

REPORT ON THE AUDIT FOR THE YEAR ENDED 31 JULY 2006

I have now completed my audit of the college's accounts for the year ended 31 July 2006.

As part of my responsibilities as external auditor to the college I am required to submit, at the conclusion of each year's audit, a final report addressed both to the members of the Board of Management and to the Auditor General.

This report aims to summarise all significant matters which have arisen during the course of the audit and which I feel are worthy of members' attention.

I have pleasure in attaching my final report on the college's audit for the year to 31 July 2006, which will be submitted to the Board of Management.

I should like to take this opportunity to thank the Principal and his staff for their assistance during the course of the audit.

Yours faithfully

Fiona Mitchell-Knight
Senior Audit Manager

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Glasgow Metropolitan College

Report on the 2005/06 audit

Contents

Key Messages

Introduction

In 2005/06 we audited the financial statements and looked at aspects of performance and governance. This report sets out our key findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

Key outcomes from 2005/06 audit

We have given an **unqualified** opinion on the financial statements of Glasgow Metropolitan College for 2005/06.

The income and expenditure account shows a surplus for the year of £611,000 on the year's operations. The balance on the income and expenditure account has increased from £4,778,000 at 31 July 2005 to £5,875,000 at 31 July 2006.

The corporate governance statement complies with accounting requirements and is not inconsistent with audit findings. The statement reflects the fact that adequate assurance can be placed on the college's corporate governance arrangements and internal control systems.

Outlook for future audits

In June 2006, the Board of Management approved the college's strategic plan 2006-2009. Progress against the targets set in this strategy will be monitored by the board.

The Glasgow city centre colleges' estates review is ongoing. The outcome of this review is fundamental to how the college will operate in the coming years.

2005/06 is the first year in which colleges are required to fully implement *financial reporting standard 17 (FRS 17) retirement benefits.* On the basis that the college is unable to identify its share of the underlying assets and liabilities of Strathclyde Pension Fund (SPF), the college's accounts reflect reduced pension disclosure requirements in accordance with accounting guidance. The reduced disclosure requirements do not require the inclusion in the accounts of the full cost of benefit entitlements earned by employees or the asset/liability attributable to the college. Therefore in 2005/06 the requirement to account for pension costs in line with FRS 17 has had no impact on the college's surplus. However, it is envisaged that in the future some of this information may be available for SPF. This would require the scheme to be accounted for as defined benefit, and is likely in future years to have a significant impact on the college's financial statements.

This is the final year of our appointment to the audit of Glasgow Metropolitan College. From 2006/07 the college's auditors will be KPMG.

Audit Scotland
November 2006

Introduction

1. This report summarises the findings from our 2005/06 audit of Glasgow Metropolitan College. The scope of the audit was set out in our 2005/06 audit planning memorandum, which was submitted to the Audit Committee on 21 March 2006. This described the audit work we planned to carry out in the year.

2. Glasgow Metropolitan College came into existence on 1 August 2004 from the merger of Glasgow College of Building and Printing and Glasgow College of Food Technology. All assets, liabilities and staff were transferred to Glasgow Metropolitan College on 1 February 2005. The two predecessor colleges still exist as legal entities, and will until a formal winding up order is issued by the Scottish Parliament. This was expected in 2006, but has not occurred to date.

3. The financial statements of the college are the means by which it accounts for its stewardship of the resources made available to the college 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 Scottish Funding Council, 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.

4. The Board of Management are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
    - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
    - the college's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
    - the college has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
    - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption; and
    - the college has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

5. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the Board of Management, the Principal, Vice Principal (Corporate Services), Head of Finance and their staff during the course of our audit work.

Performance

Introduction

6. In this section we summarise key aspects of the college's performance and provide an outlook on future performance.

7. It is the responsibility of the Board of Management to ensure that proper arrangements are in place to secure the economy, efficiency and effectiveness in the use of its resources. As part of the auditor's statutory responsibilities we are required to consider whether the college has made appropriate arrangements to fulfil its duty in this regard.

Overview of performance in 2005/06

8. In June 2006, the Board of Management approved the college's strategic plan 2006-2009. This states that the college's vision is *"for the college, with a specialist profile, to offer a portfolio of skills attractive to students, employers and the industries, trades and professions served by the college".* Primary strategies are set to support the achievement of the eight key strategic aims:

   - to deliver flexible and accessible lifelong learning opportunities, reflecting the changing demands of learners, industry and the national economy, reflecting the "vision of a more inclusive society and a more vibrant economy";
   - to provide innovative, efficient, and effective learning and support, responsive to the needs and aspirations of the individual;
   - to establish and maintain the financial viability of the college core portfolio;
   - to maintain continuous investment in the professional development of staff;
   - to maintain continuous investment in estates and resources/human resources;
   - to promote actively diversity and equality of opportunity;
   - to embed good practice relating to corporate governance and associated management processes, ensuring student representation and participation; and
   - to promote and facilitate quality assurance, quality improvement and quality enhancement across the college.

9. The strategic plan includes clear links to the aims of the Scottish Funding Council and to the strategic goals of the Scottish Executive.

10. The college's contract with the Scottish Funding Council was 87,470 weighted SUMS in 2005/06. The actual SUMs of 89,694 exceeded the contracted amount by 2,224 (2.54%). The funding council has set the college a SUMs target of 91,581 for 2006/07. The college's student recruitment plan aims to deliver 92,800, 1.3% over the target.

11. During the year reports have been published in the sector describing the corporate governance issues which have contributed to the poor financial health of Inverness College. The findings of these reports were reviewed and considered by the Audit Committee in September 2006. The committee are of the view that the weaknesses in corporate governance arrangements identified in the Inverness College are not replicated in Glasgow Metropolitan College.

Performance outlook

12. As noted in the strategic plan, the Board of Management will undertake reviews of progress against the targets set in June 2007, with an interim review of progress featuring in the next college operational plan during 2006/07.

13. The Glasgow city centre colleges' estates review is ongoing. The outcome of this review is fundamental to how the college will operate in the coming years.

14. A visit of the European Court of Auditors is planned soon to review ESF projects carried out by the college.

15. An HMIe inspection is scheduled for February 2007.

Financial position

Introduction

16. In this section we summarise key aspects of the college's reported financial position and performance to 31 July 2006 and provide an outlook on potential future financial risks.

Revenue Account

Revenue performance 2005/06

17. The college's income and expenditure account shows a surplus for the year of £611,000 on the year's operations compared to a budgeted surplus of £39,511. This increase was primarily due to increased investment income, tuition fees and grants. The college's surplus in 2004/05 was £239,000. The college's 2006/07 financial plan anticipates an operating surplus of £37,000 for the year.

18. After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £1,097,000 is shown (£725,000 in 2004/05).

19. The balance brought forward on the income and expenditure account at 1 August 2005 was £4,778,000. An amount of £486,000 was transferred from the revaluation reserve to the general reserve in respect of the depreciation charge for the year. The balance on the income and expenditure account at 31 July 2006 is £5,875,000.

Pension Disclosures

20. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions including projecting increased life expectancy. *Financial Reporting Standard 17 (FRS 17) Retirement Benefits* is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. 2005/06 is the first year of full FRS 17 disclosure requirement for further education colleges. This means that for defined benefit schemes, the pension asset or liability attributable to the college has to be recognised in the balance sheet and the full costs of benefit entitlements earned by employees, and not simply the cost of employer contributions to the fund, are to be reflected in the income and expenditure account.

21. Retirement benefits to employees of the college are provided by the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). These are both defined benefit multi-employer schemes. On the basis that the college is unable to identify its share of the underlying assets and liabilities of both schemes, in the accounts the college has used reduce disclosure requirements available for defined benefit schemes in accordance with FRS 17. The reduced disclosure requirements are the same as for a defined contribution scheme, and do not require the inclusion in the accounts of the full cost of benefit entitlements earned by employees or the asset/liability attributable to the college. Therefore in 2005/06 the requirement to account for pension costs in line with FRS 17 has had no impact on the college's surplus.

22. In recent years, there has been an ongoing national debate as to whether local government pension schemes, of which SPF is one, should be accounted for as defined benefit or defined contribution schemes. Scottish Funding Council guidance for 2005/06 says that the characteristics of the SPF scheme enable colleges to consider using the reduced disclosure requirements. In common with other colleges, the treatment adopted by the college is in line with this guidance.

Financial position outlook

23. Strathclyde Pension Fund (SPF) has issued a funding strategy statement for consultation. It is envisaged that separate employer rates will be introduced by 2008 at the earliest. Indications are, that sometime in the future, the college will have the information required to enable it to account for the SPF as a defined benefit scheme, and reflect the full costs of benefit entitlement, and any asset or liability in the scheme in the financial statements. This is likely to have a significant impact on the college's balance sheet, and some impact on the surplus.

Governance

Introduction

24. In this section we comment on key aspects of the college's governance arrangements during 2005/06.

Overview of arrangements in 2005/06

25. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, to ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. The auditor has a responsibility to report on the college's corporate governance arrangements.

26. The corporate governance statement included within the financial statements reflects the Board of Management's view that adequate assurance can be placed upon the adequacy and effectiveness of the college's corporate governance arrangements and internal financial control system.

27. In our opinion, the corporate governance statement included within the financial statements complies with the requirements of the accounts direction and is not inconsistent with the findings of our audit.

Systems of internal control

28. It is the responsibility of the college's management to maintain adequate financial systems and associated internal controls. The auditor evaluates these systems of internal control, both for the purpose of giving an opinion on the statement of accounts, and in order to report to the college on the adequacy of such systems and controls.

29. 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 Audit Scotland checklists. This work confirmed that overall the college's corporate governance arrangements appear to be well developed and operating effectively.

30. Audit's conclusions are that overall the college's financial systems are adequate for the purpose of producing the financial statements.

31. The consolidation of the colleges corporate procedures and policies following the merger has progressed and is monitored by the Audit Committee. However there are some policies and

procedures which are still to be consolidated. These are scheduled for completion by the end of January 2007.

Review of internal audit

32. Internal audit plays a key role in the college's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. To maximise the reliance that can be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

33. Internal audit services are provided by BDO Stoy Hayward. An assessment was made of the adequacy of the internal audit input and it was concluded that external audit can place formal reliance on the work of internal audit.

34. Overall, satisfactory progress has been made in implementing internal audit recommendations and progress towards any remaining actions will continue to be monitored by the Audit Committee.

35. In 2005/06 internal audit conducted a review of *Basic Computer Security and Access Control, Computer Misuse, Contingency Planning and Backup Procedures* which was presented in draft to the Audit Committee on 7 November 2006. This concluded that the college had a number of information and communications technology areas that require focus to ensure that potential risks are reduced. The report includes eleven grade 1 recommendations which require immediate corrective action by the college. The college is taking appropriate action to address the agreed recommendations. All improvements are planned by June 2007. The weaknesses identified by internal audit had no impact on the reliance that could be placed on the financial statements for 2005/06.

36. Internal audit are to present their annual report for 2005/06 to the Audit Committee on 27 November 2006, the draft annual report was presented to the Audit Committee on 18 September 2006 and it concluded that the college has an adequate framework of control which provides reasonable assurance regarding the effective and efficient achievement of the college's objectives, and based on the areas examined in 2005/06, the college has proper arrangements to promote and secure value for money.

Prevention and detection of fraud and irregularities

37. The college has appropriate arrangements in place to prevent and detect fraud. These arrangements include policies on fraud prevention and public interest disclosure (whistle-blowing).

38. The Head of Finance has confirmed that no frauds were identified in 2005/06.

Financial statements

Introduction

39. In this section we summarise key outcomes from our audit of the college's financial statements for 2005/06. We comment on the accounting issues faced and provide an outlook on future financial reporting issues.

40. We audit the financial statements and give an opinion on:

- whether they give a true and fair view of the financial position of the college and its expenditure and income for the period in question; and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

41. We also review the corporate governance statement by:

- considering whether disclosures in the statement comply with the requirements of the Scottish Funding Council; and
- assessing whether disclosures in the statement are consistent with our knowledge of the college.

Overall conclusion

42. We have given an **unqualified** opinion on the financial statements for 2005/06.

43. The college's unaudited financial statements were submitted for audit on 11 October 2006, in line with the agreed timetable. A file of working papers was provided, and this was of a good standard. Working papers were provided in accordance with the agreed audit timetable. This was a much improved position from 2004/05 when the accounts completion process was more onerous due to the merger. Key staff were available for consultation throughout the audit process.

44. Although the unaudited financial statements contained 2005/06 figures there had been little consideration of the amendments required to the narrative within the accounts from the previous year. In particular:

- references to the Scottish Further Education Funding Council (SFEFC) had not been updated to reflect the new title of Scottish Funding Council (SFC);
- cross references to notes had not been updated; and

- the references to Note 26 of the 2004/05 financial statements which included the merger disclosures in line with financial reporting standard 6 (FRS 6) acquisitions and mergers.

45. In order to ensure that the 2006/07 unaudited accounts accurately reflect the position of the college the financial statements should be fully proof read before being passed to the auditors.

46. In May 2006 external audit reviewed the ESF claims of the college. The college have not yet been able to upload the ESF claims onto the system and receive audit certificates. Once the audit certificates are available they will be signed and submitted.

47. Audit Scotland's work during 2005/06 includes the audit of the student support funds. No significant issues were identified in certifying the funds.

Accounting practice

48. During the course of the audit a number of issues arose which were resolved in discussion with the Head of Finance. This practice is an established part of the audit process. A revised set of accounts was provided to reflect agreed changes to the accounts arising from this process.

Statement of recommended practice/accounts direction

49. The college's financial statements generally comply with the requirements of the statement of recommended practice: accounting for further and higher education (SORP) and the funding council's 2005/06 accounts direction. Discrepancies identified during audit review have been discussed with the Head of Finance and amendments to the unaudited accounts have been agreed but are still to be processed.

50. However both the SORP and the 2005/06 accounts direction require that the disclosure of tuition fees be split between UK and EU (excluding UK), this was discussed with the Head of Finance who advised that this information is not separately recorded within the system and could not be provided.

Subsidiary

51. In 2004/05, the college prepared group accounts, reflecting the existence of a subsidiary, GCFT Enterprises. On 1 August 2005 the college acquired GCFT Enterprises, and this is now a department within the college. No disclosures were included within the unaudited accounts to explain the current position or the accounting transactions used to bring in these balances. The Head of Finance has agreed to include the disclosures required for acquisitions as required by *financial reporting standard 6 (FRS 6) acquisitions and mergers*.

Bad Debt Write-offs

52. In 2004/05 audit recommended that the college should review its bad debts on an annual basis to establish whether outstanding debt is deemed to be uncollectable and to write off any such balances. The college has not written off any bad debts in 2005/06. The outstanding debtors in respect of 2002/03 (£63,310) and 2004/05 (£104,198) have been fully provided for, and during 2005/06 only £4,000 (2.3%) of the debt relating to these two years has been collected. In 2004/05 the college wrote off £313,589 of bad debt as there had been no previous write offs of ex-GCBP debt since 1997. The college should avoid accumulating a bad debt provision of this level again, and should annually consider whether uncollectable debt should be written off.

Pension provision

53. The financial statements include a provision for future pension costs arising from early retirement and the equalisation of pension contributions under the Strathclyde Pension fund. The balance on the provision at 31 July 2006 is £639,000. As was the case in 2004/05 the college has not calculated the provision using the actuarial tables provided by Deloitte, but has again based the provision on past experience. In 2004/05 the college agreed to rebase the provision using the actuarial tables provided by the funding council for 2005/06, however this has not been undertaken. Audit have estimated that the college's pension provision is overstated by £30,000.

Unadjusted errors

54. International Standard on Auditing 260 (ISA 260) *Communication of audit matters with those charged with governance* requires me to highlight unadjusted misstatements (other than those which are clearly trifling). Audit testing identified a small number of errors in the college's creditors and prepayments which have not been adjusted. The overall effect on the accounts if these errors were to be corrected would be to increase the college's surplus by approximately £39,000.

Legality

55. Each year we request written confirmation from the Principal that the college's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also reflected in audit programmes and checklists. The Principal is to confirm that, to the best of his knowledge and belief and having made appropriate enquiries of the Board of Management, the financial transactions of the college were in accordance with the relevant legislation and regulations governing its activities.

56. There are no additional legality issues arising from our audit which require to be brought to the board's attention.

Financial reporting outlook

57. Overall the college is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and developing accounting practice.

Change of external auditor

58. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.

59. This is the final year of our current appointment to the audit of Glasgow Metropolitan College. From 2006/07 KPMG will become the college's appointed auditor. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.

Final Remarks

60. The members of the Board of Management are invited to note this report. We would be pleased to provide any additional information that may be required.

61. The co-operation and assistance given to us by the Principal, Vice Principal (Corporate Services), Head of Finance and their staff over the five years of our audit appointment is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	The Glasgow college estates review is not yet complete. The outcome of this review will have a significant impact on the college's activities.	Ongoing review by the Principal and the Board of Management.	Principal Board of Management	Ongoing
2	Separate employer rates may be available for the Strathclyde Pension Fund in the future. This would mean that the pension scheme would be accounted for as a defined benefit scheme, with the full costs of benefit entitlement, and any asset or liability in the scheme included in the financial statements. This is likely to have a significant impact on the college's financial statements in future years.	Continue to monitor developments in this area.	Head of Finance Board of Management	Ongoing
3	The consolidation of the college's corporate polices and procedures is not yet complete.	Continue to monitor developments in this area.	Audit Committee	January 2007