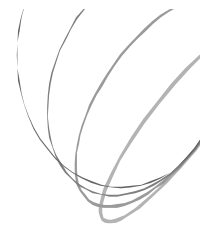


# John Wheatley College

**Report to members on the 2005/06 audit**

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# 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 John Wheatley College for 2005/06.

The income and expenditure account shows a surplus for the year of £22,000 on the year's operations. After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £39,000 is disclosed. The balance on the general reserve has increased from £102,000 at 31 July 2005 to £141,000 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.

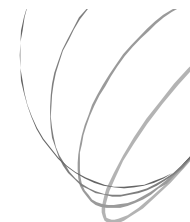
## Outlook for future audits

The 2006/07 to 2008/09 college plan was approved by the board of management in June 2006. Progress against the targets set in this plan will be monitored on a regular basis by the board.

On the basis that the college is unable to identify its share of the underlying assets and liabilities of the 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 some of this information may be available for SPF in future years. This would require the scheme to be accounted for as defined benefit, and is likely to have a significant impact on the college's financial statements.

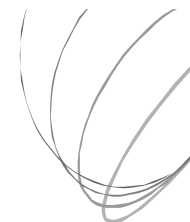
This is the final year of our appointment to the audit of John Wheatley College. From 2006/07 the college's auditors will be KPMG.

**Audit Scotland  
December 2006**



# Introduction

1. This report summarises the findings from our 2005/06 audit of John Wheatley College. The scope of the audit was set out in our 2005/06 audit planning memorandum, which was submitted to management in February 2006 and the Audit Committee in May 2006. This described the audit work we planned to carry out in the year.
2. 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.
3. 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 the authority's 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 value for money in its use of resources.
4. 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, the Chief Finance Officer and their staff during the course of our audit work.



# Performance

## Introduction

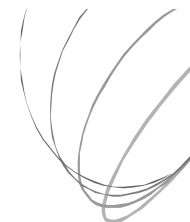
5. In this section we summarise key aspects of the college's performance and provide an outlook on future performance.
6. It is the responsibility of the board of management to ensure that proper arrangements are in place to secure the economy, efficiency and effectiveness in the use of its resources. 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

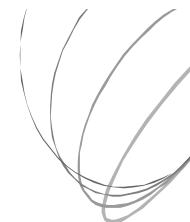
7. The college has in place a planning document setting out the college's strategic aims and key targets for the period. The college plan is reviewed and updated on an annual basis by the board of management. Progress against the strategic and operational targets for the 2005/06 academic year was reported to the board of management in October 2006. The college plan is discussed further at paragraph 10 below.
8. Over recent years the college has attracted increasing student numbers. The college's contract with the Scottish Funding Council is 32,747 weighted SUMS and in 2005/06, this contracted amount was exceeded by 1,316.
9. We are pleased to note that the college has taken steps to evaluate its performance against the Scottish Executive's best value framework. Its assessment of where the organisation against the nine criteria are discussed in the report of the board of management in the 2005/06 accounts.

## Performance outlook

10. In June 2006, the board of management approved the 3 year college plan 2006/07 to 2008/09. This identifies the college's purpose as being *"to offer opportunities in Lifelong Learning of the highest quality to raise educational attainment levels in the East End of Glasgow and Greater Easterhouse to the Glasgow norm. It also seeks to play a central role in the economic and social regeneration of these and other communities in its catchment area"*. Priorities have been set to support the achievement of the college's three strategic objectives:
  - inform, establish and respond to the environment in which it operates;
  - provide learning experiences of the highest quality to meet the aspirations of its learners and key stakeholders; and



- provide an operational environment which supports learning of the highest quality.
11. The college plan demonstrates how the strategic objectives will be discharged, with specific reference to fifteen strategic priorities, ranging from financial management to widening access and details specific actions to be taken under each priority. Action plans have been developed together with a responsible individual person identified to ensure appropriate attention.



# Financial position

## Introduction

12. 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.

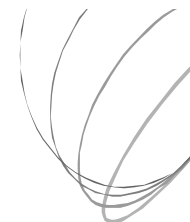
## Revenue Account

### Revenue performance 2005/06

13. The college's income and expenditure account shows a surplus for the year of £22,000 on the year's operations compared to an expected surplus of £20,000 as per the 2005/06 financial forecast return (FFR). The college's surplus in 2004/05 was £15,000 and £27,000 in 2003/04.
14. After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £39,000 is disclosed (£42,000 in 2004/05).
15. The balance brought forward on the general reserve at 1 August 2005 was £102,000. Following on from the transfer of the £22,000 surplus from the income and expenditure account, and a transfer from the revaluation reserve of £17,000, the accumulated balance as at 31 July 2006 is £141,000.

## Pension Disclosures

16. 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 (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.
17. 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, the college has used reduced 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.

18. 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 notes 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. However, this represents a change in accounting policy from previous years, and this has been reflected in the statement of accounting policies included within the financial statements.

## **Financial position outlook**

19. 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 though a small number of separate rates may be introduced at an earlier date. Assets are currently apportioned based on the liability profile though employer assets have been tracked for each employer since 2002. Indications are, therefore, that in future years the college will therefore 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 surplus in future years.

***Action plan no. 1***





# Governance

## Introduction

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

## Overview of arrangements in 2005/06

21. 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.
22. 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. The statement also records that the college complies with all the provisions of the Combined Code on Corporate Governance 2003 and it has complied throughout the year ended 31 July 2006. 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.
23. Although full compliance with the Combined Code of Corporate Governance 2003 is not required until 2006/07, I have recommended that the college carries out a formal review of its corporate governance arrangements to demonstrate compliance with the 2003 Code. I am, however, pleased to note that the college has considered its position in relation to the guide for College Board Members issued by the Association of Scottish Colleges and the Further Education Unit in December 2003.

### ***Action plan no. 2***

24. The College has a formal approach to risk management and a formally approved risk policy statement. The College's compliance with risk management disclosure requirements is monitored by the College's Risk Management Committee which meets on a quarterly basis. I am also aware that the risk register is subject to ongoing review and that a separate risk register has been established in relation to the new college campus.

## Systems of internal control

25. 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.

26. 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 Audit Scotland checklists. This work confirmed that overall the college's corporate governance arrangements appear to be well developed and operating effectively. We are also aware that the college has assessed itself against the principles contained within the revised guide, 'On board—a guide for board members of public bodies in Scotland'.
27. Audit's conclusions are that overall the college's financial systems are adequate for the purpose of producing the financial statements.

## **Review of internal audit**

28. 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.
29. Internal audit services are provided by Baker Tilly. 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.
30. 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.
31. In August 2006 Baker Tilly issued the internal audit annual report for the year ended 31 July 2006, which concluded that, 'on the basis of the work undertaken .... and improvements undertaken following our reports, John Wheatley College has .... an adequate framework of control over the systems we examined.'

## **Prevention and detection of fraud and irregularities**

32. The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. We are pleased to record that the College has in place a formal fraud and corruption policy and has set up effective whistle-blowing procedures. These contribute to the College's arrangements to prevent and detect fraud and corruption. The assessment also identified that College has implemented formal codes of conduct for both Board Members and staff.
33. No frauds were identified by the College in 2005/06.



# Financial statements

## Introduction

34. In this section we summarise key outcomes from our audit of the college's financial statements for 2005/06.
35. 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.
36. 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

37. I have given an unqualified opinion on the financial statements for 2005/06 and can record that they give a true and fair view of the state of affairs of John Wheatley College as at 31 July 2006.
38. The college's unaudited financial statements were submitted for audit on 4 October 2006, in line with the agreed timetable. A file of working papers was provided, and this was of a high standard. Key staff were readily available for consultation throughout the audit process which enabled the audit to progress smoothly.
39. The College's audited financial statements and my final report are to be submitted to the Auditor General by 31 December. I am pleased to record that, following approval of the financial statements by the Board of Management on 7 December 2006, the audited financial statements will be submitted within this timetable.
40. Audit Scotland's work during 2005/06 included the audit of the student support funds. I am pleased to record that no matters arising were identified from the audit of these funds and the funds have now been certified.
41. Matters raised in the 2004/05 final report to the Board of Management were followed up as part of the audit and have been reported separately.



## Accounting practice

42. The college's financial statements 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. We did however note one instance where the accounts did not fully comply with the accounts direction, and this is discussed further at paragraph 45 below. During the course of the audit a number of issues arose which were resolved in discussion with the Chief Finance Officer. This practice is an established part of the audit process. A number of minor changes have been made to the accounts following completion of the audit.

## Accounting for assets

43. Financial Reporting Standard (FRS) 11 Impairment of Assets and Goodwill requires that annual reviews for impairment are undertaken and the accumulated and future depreciation adjusted accordingly. We are pleased to record that a report detailing the arrangements for reviewing fixed assets during 2005/06 to identify impairment was presented to the Strategic/Operational Board of Management in July 2006. Some £25,000 was identified as asset impairment in 2005/06.
44. No intangible assets are disclosed within the college's balance sheet. Guidance requires that software licences should be capitalised and classified as intangible assets. While software licences have been capitalised and included within equipment assets (£80,000), no separate disclosure has been made of these assets. We would recommend that the college continues to review the categorisation of future purchases of software licenses which extend beyond one year and which are above the college's de minimis level of £5,000 for individual items.

## Additional financial security funding

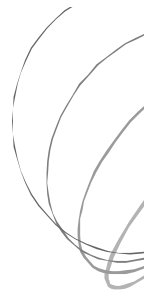
45. The Accounts Direction issued by SFEFC requires that any financial security funding carried forward to future accounting periods, including capital funding, should be carried forward within creditors as deferred income and released to the Income and Expenditure Account to match related expenditure. Our audit identified some £17,000 of financial security funding received in 2003/04 which is earmarked for a specific purpose in 2006/07 but which has been carried forward within deferred capital grants. There was no effect on the stated surplus. We have therefore recommended that the College accounts for any future financial security funding in accordance with the Accounts Direction.

***Action plan no. 3***

## College estate

46. Following on from the acceptance of the full business case by the Funding Council, the College is committed to a new build campus which is due for completion in February 2007. Current costs are estimated to be in excess of £14 million with funding having been secured from various sources of some £13.5 million, with the remainder to be financed through receipts to be received from the sale of

the Shettleston site and external borrowing. As at 31 July some £8.5 million had been spent on the project.



## **Deferred capital grants**

47. We are aware that the College is unable to match capital grant received and its related write down to match depreciation charged with the physical assets recorded within the fixed asset register for assets purchased prior to 2003/04. During 2005/06 a review of all deferred grant income was undertaken which reduced the value of unfunded assets from £144,000 to £74,000. We understand that it is not possible to further reduce this value as complete records are not available.

## **Legality**

48. 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 included in audit programmes and checklists. The Principal has confirmed 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.
49. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## **Financial reporting outlook**

50. 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.

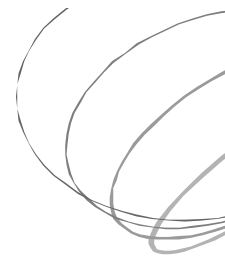
## **Change of external auditor**

51. 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.
52. This is the final year of our current appointment to the audit of John Wheatley 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

53. 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.
  
54. The co-operation and assistance given to us by the Principal, the Chief Finance Officer 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

No.	Issue, risk & recommendation	Responsible officer	Planned Action	Action date
1	<p>It is possible that existing pensions' disclosure and accounting requirements will change during 2006/07.</p> <p><i>Risk: The College may not disclose properly the required accounting disclosures.</i></p> <p>Recommendation: The College should consider the relevant guidance to ensure that they are fully apprised of developments in accounting for pensions during 2006/2007.</p>	Chief Finance Officer	<p>The College will continue to monitor developments relating to the treatment of pensions and the implementation of FRS 17 throughout the coming years. The College will also ensure that its Financial Control Committee and Board of Management are kept well informed of developments in this area.</p>	On-going
2	<p>All colleges are formally required to comply with the 2003 Code with effect from 2006/07 and provide evidence that governance arrangements have been reviewed against the 2003 Code requirements.</p> <p><i>Risk: The College may not fully comply with the requirements of the 2003 Code.</i></p> <p>Recommendation: The College should formally review the Combined Code of Corporate Governance 2003 to ensure full compliance.</p>	Principal	<p>The College reviews its corporate governance procedures on a continuous basis and requested its internal auditors to formally review corporate governance within the College in 2004/05 and in 2005/06. Corporate Governance is also included in the draft Audit Needs Assessment for the 2006/07 financial year. The College's internal auditors made no recommendations for improvement in their 2005/06 review. The College will review</p>	July 2007

No.	Issue, risk & recommendation	Responsible officer	Planned Action	Action date
			current procedures to ensure it complies with the 2003 code.	
3	<p>The College has disclosed financial security funding carried forward to future years within deferred capital grants and not within creditors as deferred income as required by the Accounts Direction.</p> <p><i>Risk: The College's financial statements do not comply with the accounting requirements of the Accounts Direction.</i></p> <p>Recommendation: The College should account for any financial security funding in accordance with the Accounts Direction.</p>	Chief Finance Officer	As disclosed in note 16 of the accounts, the College has carried forward a balance of £17k from SFEFC allocation 37/03. This was an additional in-year allocation of one-off resources in 2003/04 and formed part of the SFEFC Financial Security funding. While financial security was one of the priorities for the use of this funding, colleges were allowed to utilise the grant for other purposes within the terms of the SFEFC circular letter. The College decided to use part of this funding to purchase a time recording system. This has been reported to the College Capital and ICT Committee and to the Funding Council in the previous financial year. As the grant is to be used for capital investment, it has been carried forward as a deferred capital grant from the 2003/04 financial year. The funding will be fully spent during 2006/07 and this has been disclosed in the 2005/06 accounts.	July 2007



