

LANGSIDE COLLEGE

**ANNUAL REPORT
TO THE BOARD OF MANAGEMENT AND THE AUDITOR
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR
THE YEAR ENDED 31 JULY 2006**

DECEMBER 2006

Date of Final Visit	17 November 2006
Date of Draft Report to College	1 December 2006
Date of Meeting re Draft Report	1 December 2006
Date of College Responses	1 December 2006
Date of Presentation of Report	6 December 2006

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GLOSSARY OF TERMS

Annual Report	-	Report
Langside College	-	The College
Governance and Management – Appraisal and Policy	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Langside College with effect from 1 August 2001 for a period of 5 years until 31 July 2006.
- 1.2 The Annual Report has been prepared following the conclusion of our audit of the financial statements of Langside College for the year ended 31 July 2006.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in July 2001.
- 1.4 Paragraph 19 of the 'Code' states that the auditor's objectives are to:
 - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
 - Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
 - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix E and in the "Independent Auditors' Report" in Appendix F.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix F.
- 1.7 Our audit report on the financial statements for the year ended 31 July 2006 is unqualified.
- 1.8 The Annual Report covers the following areas as set out in the Code:
 - a) Internal Controls and audit approach
 - b) Internal Audit

- c) Corporate Governance
 - d) Value for Money
 - e) GMAP visits
 - f) Prevention and detection of fraud and irregularities
 - g) Management letter – 2005
 - h) Management letter – 2006
- 1.9 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10 Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

Wylie & Bisset

2. INTERNAL CONTROLS AND AUDIT APPROACH

- 2.1 We have reviewed in the course of our audit the key elements of the College's systems of internal financial controls including the following areas;
- a) The College's medium and short term planning processes including budgets;
 - b) The College's review of key performance indicators, financial and management accounts;
 - c) The College's controls over income and expenditure;
 - d) The College's financial controls and procedures;
 - e) The input from the Audit Committee and the Finance Committee;
 - f) The College's internal audit service.
- 2.2 In carrying out our audit work we have taken into account the following:
- a) The Code of Audit Practice issued by Audit Scotland;
 - b) The Code of Audit Practice issued by SFC;
 - c) Guidance issued by Audit Scotland;
 - d) Guidance issued by SFC;
 - e) The College's internal control procedures;
 - f) The College's Corporate Governance procedures;
 - g) The College's approach to Value for Money;
 - h) The financial memorandum between SFC and the College.
- 2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:
- a) Reviewing previous financial statements;
 - b) Reviewing internal audit plans and reports;
 - c) Discussions with senior management and staff at the College;
 - d) Completing appropriate audit programmes;
 - e) Carrying out analytical review procedures;
 - f) Carrying out substantive and compliance audit tests on a judgemental basis;
 - g) Reviewing the minutes of the principal College committees.
- 2.4 Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Appendix D.
- 2.5 The audit recommendations are included in the Appendices to this report.
- 2.6 The recommendations have been graded as either High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Appendix.

3. FINANCIAL STATEMENTS

3.1 The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it 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 SFC, 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.

3.2 The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

AUDIT REPORT

3.3 We are pleased to record that there are no qualifications in our audit report on the College's 2005/06 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

FINANCIAL PERFORMANCE

3.4 The income and expenditure account shows a surplus for the year of £80,000 on the year's operations. The surplus represents a slight improvement from the previous year's surplus of £73,000.

3.5 In 2005/06 the College budgeted for an operating surplus of £80,000. The main factors contributing to the actual surplus achieved are as detailed below:

	£,000
Budget Profit for 2005-2006	80
Shortfall in Funding Grants	(103)
Favourable Childcare Income	18
Favourable release of Deferred Grants	35
Shortfall of other SFC Grants	(84)
Favourable Tuition Fees and Education Contracts	18
Favourable Other Income	109
Favourable Interest Receivable	25
Favourable Payroll Costs	172
Adverse Other Operating Expenses	(155)
Adverse Depreciation	(35)
	—
Actual Surplus 2005-2006	80
	===

The College exceeded its funded activity contract with the SFC by 6,022 weighted sums. The College has budgeted for a £80,000 operating surplus in 2006/07.

- 3.6 After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £210,000 is shown (£204,000 surplus in 2004/05).
- 3.7 The balance brought forward on the income and expenditure reserve at 1 August 2005 was £1,153,000. Amounts were transferred from the revaluation reserve to the income and expenditure reserve to match the depreciation charge for the year. The balance on the income and expenditure reserve at 31 July 2006 is £1,363,000.
- 3.8 In June 2006 the Scottish Funding Council (SFC) published circular FE/36/06, which contained a series of Performance Indicators (PI's) assessing the financial performance of Further Education Colleges for 2004/2005. The indicators of Langside College for 2004/2005 compared to the sector average is as follows:-

3.9 PERFORMANCE INDICATORS

	2004/05 Langside College	2004/05 Sector Average
Operating Surplus as a % of income	0.5%	1.0%
The Reserves (designated reserves plus Income & Expenditure reserves) as a % total of income	8.5%	7.0%
Historical cost surplus as a % of income	1.5%	3.1%
The liquidity ratio (current assets: current liabilities)	2.4	1.3
The days cash to total expenditure ratio	62	57
Unit cost of WSUM	179	194
WSUM's per FTE teaching staff	293	369
Staff costs as % of total expenditure	70%	67%
Premises cost as % of total expenditure	8%	9%
Total funding grant as a % of total income	73%	70%
Recurrent grant as a % of total income	63%	62%
Total Education Contracts and Tuition Fees as a % of total income	12%	17%
Total other income as a % of total income	15%	12%
European Income as a % of total income	4.6%	3.6%

SUBMISSION OF ACCOUNTS

- 3.10 The accounts were submitted for audit on 27 October 2006, in line with the agreed timetable. The accounts submitted for audit were substantially complete. Working papers provided have generally been of a high standard and queries arising from the audit have all been resolved. Key staff were readily available for consultation throughout the audit process.

ISSUES ARISING

- 3.11 There were a number of unadjusted immaterial minor issues in relation to the Fixed Assets and VAT and these were highlighted to the Audit Committee.

4. INTERNAL AUDIT

4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

4.2 The College's internal auditors are BDO Stoy Hayward.

4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2006 in the Audit Needs Assessment – dated November 2005.

4.4 In the course of the year ended 31 July 2006 the following internal audit reports were issued:

2005/06 Report No.	Audit Area Covered	Grade 1
Report (1)	Follow up review of earlier internal audit recommendations	-
Report (2)	Purchases Cycle and Creditors Payments Payroll	- - -
Report (3)	European Funding	-

Grade 1 – Recommendations will require immediate corrective action. The weakness gives rise to concern about the adequacy or scope of the controls.

4.5 The Internal audit work carried out and the reports issued in the year were not in line with the Audit Needs Assessment. Personnel Management report has been postponed at the request of the College due to long term absence within the Human Resources Section. The VFM review relating to Teaching Staff Utilisation will be finalised in early 2006/2007. The review of Learning Development Unit has taken place in October 2006.

4.6 At the date of this report the Internal Audit annual report from the College's internal auditors has been finalised and considered by the Audit Committee.

4.7 An assessment was made of the adequacy of the Internal Audit function using a standard checklist. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit. Accordingly reliance was placed on the work of Internal Audit in all areas on which they reported during 2005/06 as detailed at 4.4.

5. CORPORATE GOVERNANCE

- 5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was carried out using a standard checklist. We also reviewed the following:
- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2006;
 - b) The College's Corporate Governance strategy;
 - c) The minutes of meetings of key College committees issued during the year.
- 5.2 The college carried out a risk management exercise with review matrix and action plan in March 2003 covering some major risk areas. The college has carried out periodic reviews of the risk management and most recently in 2006. The Board of Management has been included in these.
- 5.3 Based on our review the College appears to operate appropriate Corporate Governance procedures and that management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff.

6 VALUE FOR MONEY

- 6.1 We have reviewed the College's Value for Money systems including the following:
- a) The College's strategy in this area;
 - b) VFM studies carried out by the College's internal auditors.
- 6.2 Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources subject to the points noted below.
- 6.3 The recommendations for VFM are set out in Appendix B.
- 6.4 There are no recommendations graded as "High" priority in this area.

7. GMAP VISITS

7.1 The College has not had a GMAP visit during the year ended 31 July 2006.

8 PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

- 8.1 The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures.
- 8.2 An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a standard checklist.
- 8.3 In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
- a) The monitoring and compliance with financial procedures;
 - b) The College's strategy to prevent and detect fraud and other irregularities;
 - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 8.4 The College does not have a formal documented policy and/or strategy regarding their arrangements for preventing and detecting fraud and corruption. See Appendix C and the recommendation has been graded "High".
- 8.5 We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.
- 8.6 Subject to 8.4 above, overall we concluded that management takes fraud prevention and detection seriously and has reliable controls in place to ensure that potential areas for fraud are detected and dealt with.

9. MANAGEMENT LETTER – 2005

- 9.1 The management letter for the year ended 31 July 2005 was issued by Wylie & Bisset following the audit for the year.
- 9.2 Of the seven recommendations set out in the management letter three recommendations are currently still under review and have been repeated in this year's management letter.
- 9.3 There are two recommendations graded as "High" priority in this area.

10. MANAGEMENT LETTER – 2006

- 10.1 The recommendations following the audit for the year ended 31 July 2006 are set out in Appendix D.
- 10.2 There were three recommendations graded as “High” priority in this area.

APPENDIX A

CORPORATE GOVERNANCE

APPENDIX B

VALUE FOR MONEY

APPENDIX B

VALUE FOR MONEY

Background	Recommendation	Priority	Management Response	Responsibility/Timescale
<p>1. The College has a Value for Money strategy and is seeking best value for public expenditure.</p>	<p>We recommend that a matrix/spreadsheet be considered to summarise the College's VFM strategy.</p> <p>The matrix would cover the following areas:</p> <ul style="list-style-type: none"> a) Key financial systems; b) Areas outside the accounting system; c) Areas where savings > costs; d) All significant income and expenditure headings; e) Reporting lines for each area; f) The review period for each VFM area. <p>The matrix/spreadsheet would have a "comments" column which would highlight the up to date VFM work in each area.</p>	<p>Medium</p>	<p>Recommendation accepted. While the college conducts at least one Value for Money exercise annually via the Internal Auditors there are a number of areas (including catering, cleaning, purchasing, photo-copying) which have already been addressed. However there is no one report which summarises these and highlights planned future areas for examination.</p>	<p>Asst Principal (Finance) No later than June 07</p>

APPENDIX C

PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

APPENDIX C

PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Background	Recommendation	Priority	Management Response	Responsibility/Timescale
<p>The College does not have a formal documented policy and/or strategy regarding their arrangements for preventing and detecting fraud and corruption.</p>	<p>It is recommended that the policy and strategy be implemented as soon as possible.</p>	<p>High</p>	<p>The recommendation is accepted but the College does not agree that this merits a “high” rating. While there is no written policy, management is in no doubt as to how it would deal with suspected fraud and corruption. (Disciplinary procedures, involvement of external auditors and probable involvement of the police).</p>	<p>Asst Principal (Finance) No later than June 2007</p>

APPENDIX D

MANAGEMENT LETTER – 2006

APPENDIX D

EXTERNAL AUDIT MANAGEMENT LETTER 2006

Background	Priority	Recommendation	Management Response	Responsibility/Timescale
<p>1. <u>Fixed Assets</u> A detailed Fixed Assets Register is being implemented to ensure proper asset management and control, but there is no detail of the cost of the assets or depreciation.</p>	<p>High</p>	<p>It is recommended that the Fixed Assets system be implemented to include the cost of the respective asset. Also data of cost and depreciation of the Fixed Assets Register should be linked and reconciled to the data on the nominal ledger accounts.</p>	<p>The recommendation is accepted but this is not regarded as a “high” rating by the College. As noted earlier, the College is aware of this and has included the effect in its revenue budget for 2006/07.</p>	<p>Estates Manager –July 07 Finance Manager–July 07 Asst Principal (Finance) for year end accounts 06/07</p>

**APPENDIX D
EXTERNAL AUDIT MANAGEMENT LETTER 2006 (Cont'd)**

Background	Priority	Recommendation	Management Response	Responsibility/ Timescale
<p>2. <u>Corporate Governance</u> The College does not have a formal documented policy and/or strategy regarding their arrangements for preventing and detecting fraud and corruption.</p>	<p>High</p>	<p>It is recommended that the policy and strategy be implemented as soon as possible.</p>	<p>The recommendation is accepted but the College does not agree that this merits a "high" rating. While there is no written policy management is in no doubt as to how it would deal with suspected fraud and corruption. (Disciplinary procedures, involvement of external auditors and probable involvement of the police).</p>	<p>Asst Principal (Finance) – no later than June 2007</p>

APPENDIX D

EXTERNAL AUDIT MANAGEMENT LETTER 2006 (Cont'd)

Background	Priority	Recommendation	Management Response	Responsibility/ Timescale
<p>3. <u>Annual Internal Audit Report</u> The report has been reviewed and there are no major issues which would affect our audit opinion. There are eleven Grade 2 and nine Grade 3 recommendations for all audit areas under review in 2005/2006. It was noted that from the operational audit plan of 2005/2006 no report was done for Personnel Management, Faculty/Section review and Value for Money and these have been carried forward to the following year.</p>	<p>Low</p>	<p>In order that the college can gain the full benefit of the Internal Audit contribution for the proper, economic and efficient use of resources, it is recommended that the audit plan is undertaken in the year in which it relates to.</p>	<p>Recommendation accepted. This is normally the case. 2005/06 was an exceptional year in that some work was delayed (at no fault of the Internal Auditors). The work has been carried out during August to November 2006 and will be reported on in the usual way.</p>	<p>The SMT will ensure this does not happen again.</p>

APPENDIX D

EXTERNAL AUDIT MANAGEMENT LETTER 2006 (Cont'd)

Background	Priority	Recommendation	Management Response	Responsibility/ Timescale
<p>4. <u>Corporate Governance Risk Assessment</u> The College carried out a risk management exercise with review matrix and action plan in March 2003 covering some major risk areas:</p> <ul style="list-style-type: none"> i) student recruitment and activity; ii) financial management and audit; iii) personnel; iv) property and estates; v) governance and strategic management vi) statistic and regulations; vii) external policy context. <p>We understand that the monitoring assessing and reporting on effectiveness are done at the annual BOM seminar.</p>	<p>Low</p>	<p>It is recommended that the review and update of the risk management paper of the BOM seminar be referred to the Audit Committee, so that proper actions can be planned through the development of internal audit reviews and reports for the appropriate areas of risks.</p>	<p>This matter will be given consideration.</p>	<p>The SMT feel this is a matter for the full board rather than the Audit Committee and the review and update from the BOM seminar will be presented to the next full meeting of the Board. Secretary to the Board – by September annually</p>

APPENDIX D

EXTERNAL AUDIT MANAGEMENT LETTER 2006 (Cont'd)

Background	Priority	Recommendation	Management Response	Responsibility/ Timescale
<p>5. <u>Value for Money</u> The College has a Value for Money strategy and is seeking best value for public expenditure.</p>	<p>Medium</p>	<p>We recommend that a matrix/spreadsheet be considered to summarise the College's VFM strategy.</p> <p>The matrix would cover the following areas:</p> <ul style="list-style-type: none"> a) Key financial systems; b) Areas outside the accounting system; c) Areas where savings > costs; d) All significant income and expenditure headings; e) Reporting lines for each area; f) The review period for each VFM area. <p>The matrix/spreadsheet would have a "comments" column which would highlight the up to date VFM work in each area.</p>	<p>Recommendation accepted. While the College conducts at least one Value for Money exercise annually via the Internal Auditors there are usually a number of areas (including catering, cleaning, purchasing etc) which are also addressed regularly as contracts expire. However, it is accepted that there is no one report which summarises these and highlights planned future areas for examination.</p>	<p>Asst Principal (Finance) – by June 2007</p>

APPENDIX D

EXTERNAL AUDIT MANAGEMENT LETTER 2006 (Cont'd)

Background	Priority	Recommendation	Management Response	Responsibility/ Timescale
<p>6. <u>Trade Creditors</u> During our audit tests to ensure completeness of liabilities at the year end, it was noted that the college do not carry out a monthly reconciliation of the Purchase Ledger Balance to the supplies statement. The level of Trade Creditors is about £743K.</p>	Medium	It is recommended that for <u>major</u> balances of the purchases ledger and turnover accounts, a formal reconciliation be made monthly to the suppliers statements and late invoices be properly accrued.	Recommendation accepted although the College does formally reconcile the top 20 (in turnover terms) suppliers at the moment.	Finance Manager monthly
<p>7. <u>Bank Reconciliation</u> At the time of the audit it was noted that the College was late in reconciling the main bank account.</p>	Medium	It is recommended that the bank reconciliation exercise be carried out timeously.	While this recommendation is accepted it must be noted that the College experienced unusual difficulty this year due to software problems outwith our control and this caused several weeks of additional work for College staff.	Finance Manager monthly
<p>8. <u>Unfunded Pensions – FRS 17 liability</u> The liability for the unfunded pensions provided by Hymans Robertson using data from the college amounts to £1,582K, which figure the college has consistently used. Hymans Robertson also produces another set of higher liability for FRS 17 purposes.</p>	Low	We are agreeable to the fact that the £1,582K has been used, as it reflects the proper liability of the college and is consistent with the previous years.	Noted.	

APPENDIX D

EXTERNAL AUDIT MANAGEMENT LETTER 2006 (Cont'd)

Background	Priority	Recommendation	Management Response	Responsibility/ Timescale
<p>9. <u>Input VAT</u></p> <p>The college is currently carrying out construction work. The college can register for “Option to Tax” and claim all the related input VAT on the construction. However because of the partial exemption status, the “Lennartz Mechanism” may have to be operated.</p>	<p>Low</p>	<p>Consideration should be given to taking VAT advice.</p>	<p>Recommendation accepted. The College has considered taking VAT advice, has decided to do so and is in the process of appointing a firm of consultants.</p>	<p>Depute Principal – once the project has been given full approval.</p>

APPENDIX E

**STATEMENT OF RESPONSIBILITIES OF THE BOARD OF
MANAGEMENT**

APPENDIX F

INDEPENDENT AUDITORS REPORT