

# **FORTH VALLEY** **COLLEGE**

**ANNUAL REPORT  
TO THE BOARD OF MANAGEMENT AND THE AUDITOR  
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR  
THE YEAR ENDED 31 JULY 2007**

**NOVEMBER 2007**

**Wylie & Bisset  
CHARTERED ACCOUNTANTS  
168 Bath Street  
Glasgow**

|  |                   |
|--|-------------------|
| <b>Date of commencement of Final Visit</b> | <b>22/10/2007</b> |
| <b>Date of Draft Report to College</b>     | <b>19/10/2007</b> |
| <b>Date of Meeting re Draft Report</b>     | <b>20/11/2007</b> |
| <b>Date of College Responses</b>           | <b>24/11/2007</b> |
| <b>Date of Presentation of Report</b>      | <b>28/11/2007</b> |

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## **GLOSSARY OF TERMS**

|  |   |             |
|--|---|-------------|
| Annual Report  | - | Report      |
| Forth Valley   | - | The College |
| Governance and Management Appraisal and Policy Directorate | - | 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 Forth Valley College with effect from 1 August 2006 for a period of 5 years until 31 July 2011.
- 1.2 The Annual Report has been prepared following the conclusion of our audit of the financial statements of Forth Valley College for the year ended 31 July 2007.
- 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 March 2007.
- 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 A and in the "Independent Auditors' Report" in Appendix B.
- 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 B.
- 1.7 Our audit report on the financial statements for the year ended 31 July 2007 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 – 2006
  - h) Management letter – 2007
- 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*

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 SFEFC (SFC as of 3<sup>rd</sup> Oct 2005);
  - 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 Sections 9 & 10.
- 2.5 The audit recommendations are included in the appropriate sections of 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 Section.

### **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 2006/07 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 an operating surplus for the year of £674k (2006 - deficit £3.380k). The 2006 deficit figure was mainly due to a large pension provision charge of £2,878k.
- 3.5 In 2006/07 the College forecast for an operating surplus of £520k through the College Financial Return. The College has currently budgeted for a £626k operating surplus in 2007/08.
- 3.6 In 2008 the SFC is due to publish comparisons of the financial performance of colleges based on 2006/07 PIs.
- 3.7 In July 2007 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2005/06. The indicators of Forth Valley College for 2005/2006 compared to the sector average is as follows:-



**PERFORMANCE INDICATORS**

|  | 2005/06<br>Forth Valley<br>College | 2005/06<br>Sector Average |
|--|------------------------------------|---------------------------|
| Operating Surplus as a % of income   | (11.9%)                            | 0.8%                      |
| The Reserves (designated reserves plus Income & Expenditure reserves) as a % total of income | (3.8%)                             | 10.5%                     |
| Historical cost surplus as a % of income   | (10.7%)                            | 1.9%                      |
| The liquidity ratio (current assets: current liabilities)                                    | 1.2                                | 1.3                       |
| The days cash to total expenditure ratio   | 30                                 | 58                        |
| Unit cost of WSUM  | 239                                | 216                       |
| WSUM's per FTE teaching staff  | 416                                | 361                       |
| Staff costs as % of total expenditure  | 57%                                | 65%                       |
| Premises cost as % of total expenditure  | 9%                                 | 10%                       |
| Total funding grant as a % of total income   | 76%                                | 71%                       |
| Recurrent grant as a % of total income   | 62%                                | 61%                       |
| Total Education Contracts and Tuition Fees as a % of total income                            | 18%                                | 16%                       |
| Total other income as a % of total income  | 5%                                 | 12%                       |
| European Income as a % of total income   | 0.7%                               | 3.7%                      |

## SUBMISSION OF ACCOUNTS

- 3.8 The accounts were submitted for audit on 8th November 2007. Working papers provided have generally been of a reasonable standard and queries arising from the audit have all been resolved. There were some delays in the audit process but understand the position in light of staff resourcing issues. Key staff members were readily available for consultation throughout the audit process.

## ISSUES ARISING

- 3.9 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Management Accountant & the Finance Manager. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.
- 3.10 **Accounting Policies:** In accordance with FRS18 the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts.
- 3.11 **Campus Development:** The College is currently in the process of planning new builds; £94k of costs relating to this have been prepaid during 2006/07.

## 4 INTERNAL AUDIT

### **Objective and Approach**

- 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 for 2007 were Baker Tilly.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2007 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2007 the following internal audit reports were issued:
- a) Risk Management
  - b) Budgeting
  - c) Payroll/HR interface
  - d) Fee Waiver Grant Income
  - e) Human Resources
  - f) Student Database
  - g) Enrolment/Attendance
  - h) IT Disaster Recovery Strategy (Draft Stage)
- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment.
- 4.6 The Internal Audit annual report from the College's internal auditors concluded that 'Reasonable Assurance' could be taken from the internal audit work. However, additional efforts should be directed to the areas identified in Appendix B as high priority in order to strengthen the College's risk management, control and governance processes.

### **Opinion**

- 4.7 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with the Internal Audit providers. 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 2006/07 as detailed at 4.4.

## **5 CORPORATE GOVERNANCE**

### **Objective and Approach**

- 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 bespoke checklist. We also reviewed the following:
- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2007;
  - b) The College's Corporate Governance strategy;
  - c) The minutes of meetings of key College committees issued during the year.

### **Opinion**

- 5.2 Based on our review the College appears to operate appropriate Corporate Governance procedures and management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff.

### **Recommendations**

- 5.3 The recommendations in this area are contained in Section 10.

There were no High Priorities noted.

## **6 VALUE FOR MONEY**

### **Objective and Approach**

- 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.

### **Opinion**

- 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.

### **Recommendations**

- 6.3 There are no recommendations in this area.

## **7 GMAP VISITS**

- 7.1 The College has submitted two GMAP returns during the year ended 31 July 2007.
- 7.2 There was a GMAP visit in 2007 to discuss college returns.
- 7.3 We recommend that any reports from future GMAP visits should be forwarded to us so that they can be reviewed as part of our audit work.

## **8 PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES**

### **Objective and Approach**

- 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 bespoke 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 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.

### **Opinion**

- 8.5 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.

### **Recommendations**

- 8.6 The recommendations in this area are contained in Section 10.

There were no High Priorities noted.

## 9 MANAGEMENT LETTER – 2006

- 9.1 The management letter for the year ended 31 July 2006 was issued by KPMG following the audit for that year.
- 9.2 The College Response set out in the management letter has been updated.
- 9.3 Points 5.6 and 8 have been acted upon and the others are being carried forward.
- 9.4 There was one recommendation graded as “High” priority in this area.

| Background  | Recommendation   | Priority | College Response   | Responsibility /Timescale                                   |
|---|--|----------|--|---|
| <p><b>1. Fixed asset revaluation</b><br/>                     Whilst the College obtained a valuation of the former Falkirk College land and buildings on 31 July 2005 at the time of the merger, this has not been reflected in the financial statements. The 31 July 2003 valuation is therefore still being used for the land and buildings of the former Falkirk College in the 2005-06 financial statements.<br/>                     FRS 15 only requires a full valuation every five years. However, redevelopment plans within the College’s estates strategy leads to a risk that book values are no longer appropriate.</p> | <p>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 fixed plant. This will ensure that the book value at 31 July 2007 is accurately stated in accordance with FRS 15 and the SORP.</p>     | High     | <p>This work will be undertaken during 2006/07.</p> <p><b>Updated response</b><br/>                     Substantial work has taken place in 2006/07 in order to complete the full business case for the College’s estate strategy. A full revaluation will take place at 31 July 2008.</p>   | <p>Director of Estates Development</p> <p>Early 2007</p>    |
| <p><b>2. Preparation of financial statements</b><br/>                     Audit Scotland’s protocol sets out an expectation that the audited bodies will produce a full set financial statements supported by full working papers at the start of the audit of the financial statements. This did not happen in 2005-6.</p>   | <p>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.</p> |          | <p>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.</p> <p><b>Updated response</b><br/>                     Additional staffing resources were put in place and all efforts were made to attempt to ensure that this did not recur.</p> | <p>Director of Corporate Services</p> <p>September 2007</p> |



| Background  | Recommendations  | Priority | College response  | Responsibility /Timescale                              |
|---|--|----------|---|--|
| <p><b>3. Anti fraud and corruption policy</b><br/>                     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.</p> <p>There is a risk that the 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.</p>                                   | <p>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 policy is given priority to ensure that systems of internal control are effectively supported by sound and up to date formal standing documentation.</p>   | N/A      | <p>Consideration will be given to the preparation of anti-fraud and corruption policy as part of the review of policies currently being undertaken.</p> <p><b>Updated response</b><br/>                     The College continues to review all standing policies and procedures and the relevant financial policies and procedures will be documented by 31 July 2008.</p> | <p>Director of Corporate Services</p> <p>July 2007</p> |
| <p><b>4. Fixed asset register</b><br/>                     During 2005-06 there have been a large number of adjustments to the value of the land and buildings arising from:</p> <ul style="list-style-type: none"> <li>• the acquisition process;</li> <li>• revaluation adjustments; and</li> <li>• additions and disposals.</li> </ul> <p>The fixed asset register has not been updated to fully updated to reflect these adjustments, which may impact on the estates strategy and the accuracy of fixed asset management information in future accounting periods.</p> | <p>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.</p> <p>This will ensure that management have an accurate source of information on their fixed asset portfolio in which to base the estates strategy and the 2006-07 financial statements.</p> |          | <p>This work will be undertaken during 2006/07.</p> <p><b>Updated response</b><br/>                     A Fixed Asset Register will be completed by 31 July 2008.</p>   | <p>Director of Corporate Services</p> <p>July 2007</p> |

| Background   | Recommendations   | Priority | College response   | Responsibility /Timescale                                |
|--|---|----------|--|--|
| <p><b>5. Authorised signatory list</b><br/>A number of personnel changes took place in 2005-06. During the course of our audit work we noted that some of the 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.</p> | <p>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.</p>   | N/A      | <p>Agreed</p> <p><b>Updated response</b><br/>This task has been completed and the list of authorised signatories is continually reviewed to reflect changes</p>  | <p>Director of Corporate Services</p> <p>July 2007</p>   |
| <p><b>6. Management accounts: acquisition &amp; merger accounting</b><br/>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.</p>  | <p>Whilst we understand that the finance committee was happy with the information provided, we recommend that where significant 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.</p> |          | <p>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.</p> <p>We note your views and will consider all future similar transactions individually in order to ensure that transparency, control and reporting requirements are met.</p> | <p>Director of Corporate Services</p> <p>As required</p> |

| Background  | Recommendations  | Priority | College response  | Responsibility /Timescale   |
|---|--|----------|---|---|
| <p><b>7. Year end cut off procedures</b><br/>                     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 College accruals and prepayments identification processes.</p>  | <p>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.</p>   | N/A      | <p>These three transactions were posted after the review of the cut-off procedures and relate to capital formula funding for 2006/07.</p> <p>We take all appropriate steps to ensure transactions are processed in the correct accounting period and this is reflected in written memos and procedures.</p>   | <p>Director of Corporate Services<br/><br/>                     July 2007</p>   |
| <p><b>8. Banking arrangements</b><br/>                     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 unrepresented cheques on one bank reconciliation dated back more than six months and should have therefore been written back to the ledger.</p> | <p>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.</p> |          | <p>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 procedures.</p> | <p>Director of Corporate Services<br/><br/>                     As required</p> |

| Background   | Recommendations   | Priority   | College response  | Responsibility /Timescale                                  |
|--|---|------------|---|--|
| <p><b>9. Governance arrangements</b><br/>                     Audit Scotland has issued reports on financial difficulties and governance failures at other further education colleges in Scotland. It is important that these matters arising from these reviews are considered by management to ensure compliance with expected standards of governance and financial management.</p> | <p>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.</p>   | <p>N/A</p> | <p>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.</p> | <p>Director of Corporate Services<br/><br/>As required</p> |
| <p><b>10.Accounting for pension schemes</b><br/>                     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.</p>  | <p>Whilst we recognise that there was considerable uncertainty over the assumptions and 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.</p> |            | <p>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.</p>                | <p>Director of Corporate Services<br/><br/>August 2007</p> |

## 10 MANAGEMENT LETTER – 2007

10.1 The recommendations following the audit for the year ended 31 July 2007 are set out below.

10.2 The recommendations have been graded as follows:

**High Priority** Recommendations addressing significant control weaknesses which should be implemented immediately.

**Medium Priority** Recommendations addressing significant control weaknesses which should be addressed in the medium term.

**Low Priority** Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the college matches current good practice.

| Background  | Recommendations  | Priority | College response  | Responsibil<br>/Timescale                                 |
|---|--|----------|---|---|
| <p><b>1. Preparation of financial statements</b><br/>                     Audit Scotland's protocol sets out an expectation that the audited bodies will produce a full set financial statements supported by full working papers at the start of the audit of the financial statements. This did not happen in 2006-7. Not all lead schedules had been prepared, many of the schedules that were prepared did not have comparative figures.</p>                                  | <p>We recommend that the College plans the finalisation and internal review of the financial statements for 2007-08 in line with Audit Scotland's expectations.</p> <p>We would note that for this year we understand that there were staff resourcing issues.</p> | Medium   | <p>The College will prepare Accounts to 31 January 2008 in statutory format which will provide the basis for the full year's statutory accounts and working papers. This will ensure that comparatives are available and also that members of staff with new roles gain a better understanding of the requirements.</p> | <p>Director of Corporate Services</p> <p>31 July 2008</p> |
| <p><b>2. Corporate Governance</b><br/>                     The Combined Code on Corporate Governance requires that the chairman should hold meetings with the non-executive members without the executives present. Led by the senior independent member, the non-executive members should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate. This is not done at the College.</p> | <p>We recommend that the non-executive directors meet periodically without the chairman in order to appraise his performance.</p>  | Medium   | <p>Noted and will be considered by the Board</p>  | <p>Director of Corporate Services</p> <p>31 July 2008</p> |

| Background  | Recommendations  | Priority      | College response   | Responsibility /Timescale   |
|---|--|---------------|--|---|
| <p><b>3. Corporate Governance</b><br/>                     The Registers of Interests are duly kept but it would appear that for some of the items the updates were well before 31 July 2007.</p>   | <p>It is recommended that the College ensures that the Registers are updated to 31 July, so that any appropriate disclosures are not missed in the financial statements.</p>   | <p>Medium</p> | <p>The College will continue to update the register annually but a request for confirmation of Interests will be issued on 31 July to ensure that all details are current.</p>             | <p>Director of Corporate Services<br/>                     31 July 2008</p> |
| <p><b>4. Anti fraud and corruption policy</b><br/>                     We have identified that there is no anti fraud and corruption policy in place.<br/><br/>                     There is a risk that the 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.</p> | <p>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 2007-08. We recommend that this policy is given priority to ensure that systems of internal control are effectively supported by sound and up to date formal standing documentation.</p> | <p>Medium</p> | <p>This policy is included as part of the staff handbook and is also mentioned within the Disciplinary Policies and Procedures. However, for clarity a separate policy will be issued.</p> | <p>Director of Corporate Services<br/>                     31 July 2008</p> |
| <p><b>5. Financial procedures</b><br/>                     The College have two separate financial procedures relating to periods prior to merger. With the merger there should be one harmonised set of financial procedures applicable to the College.</p>  | <p>We understand that the financial procedures are being consolidated and prepared now and should be available in the near future.</p>   | <p>Medium</p> | <p>This process is ongoing and will be completed by 31 July 2008.</p>  | <p>Director of Corporate Services<br/>                     31 July 2008</p> |

| Background   | Recommendations  | Priority | College response  | Responsibility /Timescale                           |
|--|--|----------|---|---|
| <p><b>6. Fixed asset revaluation (b/fwd from 2006)</b><br/>                     Whilst the College obtained a valuation of the former Falkirk College land and buildings on 31 July 2005 at the time of the merger, this has not been reflected in the financial statements. The 31 July 2003 valuation is therefore still being used for the land and buildings of the former Falkirk College in the 2005-06 financial statements. FRS 15 only requires a full valuation every five years. However, redevelopment plans within the College's estates strategy leads to a risk that book values are no longer appropriate.</p> | <p>Management should revalue the College's land, buildings and fixed plant during 2007-08 by entering into discussion with the proposed valuer at an early date to discuss information requirements, including details of fixed plant. This will ensure that the book value at 31 July 2008 is accurately stated in accordance with FRS 15 and the SORP.</p>   | Medium   | A revaluation is planned for 31 July 2008.  | Director of Estates Development<br><br>31 July 2008 |
| <p><b>7. Fixed Assets</b><br/>                     The college has schedules to support the fixed assets figures in the nominal ledger. However for the year 2007, all the additions were shown as one figure and the supporting schedules did not have details of the assets but only the amounts.<br/><br/>                     Also the college did not carry out a physical check of the assets during the course of the year.</p>   | <p>It is recommended that the college invest in a comprehensive fixed assets register including inventory register – with location depreciation rates etc – so as to have a more effective management control of the fixed assets.<br/><br/>                     It is recommended that during the course of the year the college should physically spot check the assets. The evidence of these checks should be filed and any corrective adjustment to the fixed assets should be implemented.</p> | Medium   | It is planned to set up a comprehensive fixed asset register during the current financial year.<br><br>This will be done during the current financial year. | Director of Corporate Services<br><br>31 July 2008  |
| <p><b>8. Fixed assets</b><br/>                     During the course of the audit we identified revenue expenses that had been capitalised in error. Admittedly as they are also grant funded there is no impact on the income and expenditure account.</p>  | <p>We recommend that the fixed asset listing is reviewed on a monthly basis to ensure that fixed assets are allocated correctly.</p>   | Low      | This is part of the standard month end procedures for 2007/08.  | Director of Corporate Services                      |

| Background  | Recommendations   | Priority | College response  | Responsibility /Timescale   |
|---|---|----------|---|---|
| <p><b>9. Fixed Assets</b><br/>                     The college is negotiating for a Full Business Case with the SFC in relation to Estates Strategy.</p>  | <p>If Full Business Case is formally approved by the SFC, consideration should be given to depreciate the relevant assets over their <u>shorter</u> remaining lives.</p>  | Medium   | <p>This will be considered once the outcome of the Full Business Case is known.</p>   | <p>Director of Corporate Services/Director of Estates Development</p>       |
| <p><b>10. Trade creditors</b><br/>                     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 £455K.</p>   | <p>It is recommended that for <u>major</u> balances of the purchases ledger and major turnover accounts, a formal reconciliation be made monthly to the suppliers statements and late invoices be properly accrued.</p> | Medium   | <p>Reconciliations already take place but these will be formalised and records retained. The accounts are prepared on a commitments basis therefore any late invoices are already reflected in the accounts as accrued commitments.</p> | <p>Director of Corporate Services<br/>                     31 July 2008</p> |
| <p><b>11. Fee waiver debtor</b><br/>                     During the course of the audit work we identified that the fee waiver debtor was incorrectly stated. The debtor in the accounts was based on a wrong estimate as 100% of the income had been received.</p>   | <p>We recommend that all balance sheet ledgers are reconciled on a monthly basis and reviewed by the Head of Financial Services.</p>  | Medium   | <p>This is part of the standard month end procedures for 2007/08.</p>   | <p>Director of Corporate Services</p>                                       |
| <p><b>12. Prepayments/Accruals</b><br/>                     During the course of the audit we identified instances of net expenditure amounting to £154K which had not been properly accounted for. They related to sales invoices, expense invoices and payroll costs. Whilst £129K of these have been corrected, these errors illustrate potential deficiencies in the college accounts and prepayments identification process.</p> | <p>Management should review the year end cut off procedures to ensure that all income and expenditure is properly accounted for in the financial statements.</p>  | Medium   | <p>Year end cut off procedures are documented and will be rigorously applied.</p>   | <p>Director of Corporate Services<br/>                     31 July 2008</p> |



| Background  | Recommendations  | Priority      | College response   | Responsibility /Timescale  |
|---|--|---------------|--|--|
| <p><b>13. Financial statements</b><br/>                     During our audit fieldwork it was noted that the allocation of certain balances are not applied consistently. for example, payroll accrual has been allocated to accruals in 2007 but to other creditors in 2006.</p> | <p>We recommend that the balances be allocated in a consistent manner in order to assist with the preparation and audit of the financial statements.</p> | <p>Medium</p> | <p>2007 allocations will be the basis of all future year's allocations. The preparation of half year statutory accounts will ensure that consistency is applied to all treatments.</p> | <p>Director of Corporate Services<br/><br/>                     31 July 2008</p> |
| <p><b>14. Input VAT</b><br/>                     The college is currently carrying out construction work. The college can partially claim all the related input VAT on the construction.</p>  | <p>Consideration should be given to taking VAT advice.</p>   | <p>Low</p>    | <p>This has already been done and preliminary discussions have taken place.</p>  | <p>Director of Corporate Services</p>  |
| <p><b>15. Fixed Assets</b><br/>                     Some items of fixed assets have been categorised as current Assets.</p>   | <p>The proper allocation should be addressed in the current year.</p>  | <p>Low</p>    |  |  |

## 11 EMERGING ISSUES

### **Charitable Status**

As a result of the pilot review of the charitable status of John Wheatley College in Glasgow completed in May 2007, the charitable status of the College is in doubt. The Office of the Scottish Charity Regulator, OSCR, concluded that John Wheatley College did not meet the charity test set out in the Charity & Trustee Investment (Scotland) Act 2005 because its constitution allows Scottish Ministers to exert control over the College. In addition, the constitution also permitted distribution of charitable funds for non-charitable purposes, which contravenes the Act. OSCR have given John Wheatley College two years to address the situation.

In reality this is not a situation that John Wheatley College can rectify. The solution must come from the Scottish Government. Our current understanding is that Ministers will exempt Scotland's Colleges from the relevant part of the charity test. The legislation already contains a provision by which they can do this.

In the event that the situation is not resolved all Colleges would potentially lose their charitable status, which could result in the loss of VAT exemptions and payment of Corporation tax on surpluses. Based on current information the likelihood of this is extremely remote and accordingly no reference has been made to it in the financial statements.

### **Pension and FRS 17**

Retirement benefits to employees of the College are provided by the Teachers' Superannuation Scheme (Scotland) (STSS) and the Local Government Superannuation Scheme (LGSS). These are defined benefit schemes. Due to the multiemployer nature of the STSS scheme it is not been possible to identify the shares of assets and liabilities applicable to the College, hence the pension cost in the financial statements has been accounted for on a defined contribution basis as permitted by FRS 17.

It is likely that in a future accounting period, these schemes will have to be disclosed as defined benefit schemes which will require incorporation of a related pension scheme asset or liability in the balance sheet of the College.

### **Statement of Recommended Practice (SORP)**

The Statement of Recommended Practice on Accounting in Higher and Further Education Institutions has been updated at July 2007 for accounting periods ending 31 July 2008 onward.

## **APPENDIX A**

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

# **FORTH VALLEY COLLEGE OF FURTHER AND HIGHER EDUCATION**

## **Statement of the Board of Management's Responsibilities**

The Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the SFC's Accounts Direction, the Statement of Recommended Practice on Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management through its designated office holder, is required to prepare financial statements for each financial year, which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Institution will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud;
- secure the economical, efficient and effective management of the College's resources and expenditure.
- ensure sound corporate governance and proper conduct of the College's operations.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above include the following:


- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and whose head provides the Governing Body with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

## FORTH VALLEY COLLEGE OF FURTHER AND HIGHER EDUCATION

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

### Statement of Disclosure to Auditors

So far as the Board of Management is aware, there is no relevant audit information of which the College's auditors are unaware and it has taken all steps that it might have taken as a Board of Management to make itself aware of any relevant audit information and establish that the College's auditors are aware of that information.

Signed..........(Chair)

## **INDEPENDENT AUDITORS REPORT**

# **FORTH VALLEY COLLEGE OF FURTHER AND HIGHER EDUCATION**

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF FORTH VALLEY COLLEGE OF FURTHER AND HIGHER EDUCATION, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND**

We have audited the financial statements of Forth Valley College for the year ended 31 July 2007 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Board of Management, Accountable Officer and Auditor**

The Board of Management and Accountable Officer are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Accountable Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We also report whether in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1<sup>st</sup> January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

# FORTH VALLEY COLLEGE OF FURTHER AND HIGHER EDUCATION

## Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

### Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2007 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

### Regularity

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1<sup>st</sup> January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

Wylie & Bisset

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Wylie & Bisset  
Chartered Accountants and Registered Auditors  
168 Bath Street  
Glasgow G2 4TP

12/12/07

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Date