SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Cumbernauld College

Annual Report to the Board of Management and the Auditor General for Scotland 2006/07

28 February 2008

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1 Summary

Finance

- Our audit opinion on the financial statements and the regularity of transactions is unqualified.
- The financial statements show that the College has a surplus for the year of £54,000, against a budgeted surplus of £55,000 projected within the FFR 2006.
- The College has changed its accounting policy during the year in relation to the recognition of income in respect of courses which span the year-end period. This change in policy was required to conform to the requirements of the Urgent Issues Task Force Abstract 40 - Revenue Recognition (UITF 40). As a result of this change in policy a prior year adjustment was required. The previously stated 2005/06 surplus of £60,000 has been restated to show a surplus of £151,000.
- The College has failed to meet the Scottish Funding Council deadline of 31 December 2007 for submission of audited financial statements, due to a number of factors which are detailed within this report.

Governance

- The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the 2003 Combined Code on Corporate Governance during 2006/07. A revised Combined Code on Corporate Governance was issued in 2006 and is applicable from 2007/08. We have agreed with the College that it will review its current corporate governance arrangements against the 2006 Code.
- We have identified no significant weaknesses in the course of our audit in relation to the College's normal governance arrangements, including those for risk management.

Conclusion

We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing and Ethical Standards.

This report has been prepared for the sole use of Cumbernauld College, the Auditor General for Scotland and Audit Scotland. We would like to thank all members of College management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff **28 February 2008**

2 Introduction

2.1 Audit Appointments

The Auditor General for Scotland is responsible for reporting to the Scottish Parliament on how public bodies spend public money, manage their finances and achieve value for money in the use of public funds. In discharging this responsibility the Auditor General appoints auditors to Scotland's FE Colleges and sets the terms of their appointment.

The Auditor General for Scotland has appointed Scott-Moncrieff as external auditor of Cumbernauld College ('the College') for the five year period 2006/07 to 2010/11.

This annual report summarises our 2006/07 audit of the College and highlights the key issues arising from our work.

2.2 Independence and ethical standards

Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires external auditors to inform the Audit Committee on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We can confirm that we have complied with the APB Ethical Standards throughout the audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way.

2.3 Key risks

Our audits are risk based. This means that we focus our resources in the areas of highest risk to the College. The key audit issues identified for the 2006/07 audit were summarised in our external audit plan previously presented to the Audit Committee. The main audit issue identified related to the adjustments required to ensure that the College's financial statements conformed to the Urgent Issues Task Force Abstract 40 - Revenue Recognition (UITF 40) (see section 3.5);

This report includes our findings in relation to this key risk.

2.4 Scope of the audit

Our audit work can be classified under the two headings of Finance and Governance. The main audit objective for each of these areas is summarised below.

2.4.1 Audit areas and audit objectives

Audit area	Audit objective
Governance	To review the College's governance arrangements in relation to: • systems of internal control and risk management, • the prevention and detection of fraud and irregularity, • standards of conduct and prevention and detection of corruption.
Finance	To provide an opinion on the truth and fairness of the College's financial statements and on the regularity of transactions. To review the College's financial standing and financial management arrangements.

The remainder of this report sets out the results of our work in 2006/07 under the headings of Finance and Governance. The action plan in section 5 details the recommendations we have made.

3 Finance

3.1 Introduction

We are required to audit the financial statements in accordance with International Standards on Auditing and to 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;
- whether they have been prepared in accordance with relevant legislation and applicable accounting standards;
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers and the Financial Memorandum with the Scottish Funding Council. This is referred to as the regularity opinion.

We are also required to review the College's governance arrangements in relation to the financial position.

3.2 Accounts Direction

The College was required, in preparing its annual accounts, to comply with directions given by the SFC. The Accounts Direction states that "colleges and universities are required to provide their 2006-07 financial statements, together with the associated audit reports, to us by 31 December 2007".

The College has failed to comply with the Accounts Direction as the 31 December deadline was not met. The accounts are due to be signed on 28 February 2008.

The College has complied with the Accounts Direction in all other respects.

3.3 Statement of Recommended Practice – SORP 2003

The purpose of the SORP on Accounting for Further and Higher Education is to ensure that the financial statements of colleges and universities are prepared on a comparable and consistent basis.

The SORP takes account of best accounting practice, the requirements of the Funding Council, the accounting provisions of the Companies Act and other relevant legislation. The current SORP was issued in 2003.

We are pleased to report that the 2006/07 annual accounts of the College comply with the FE/HE SORP 2003 in all material respects.

3.3.1 SORP 2007

A revised SORP was issued in July 2007 and is applicable to the 2007/08 annual accounts. The revised SORP has been prepared on the assumption that Further and Higher Education institutions will not be adopting International Financial Reporting Standards (IFRSs) in the near future and has been based on UK Generally Accepted Accounting Principles (UK GAAP).

The main impact of the revised SORP is the requirement for Colleges to include an Operating and Financial Review (OFR) to accompany its annual accounts. An OFR is intended to be more detailed and forward looking than the current Report of the Board of Governors. To minimise disruption during the year end audit process, we recommend that the College prepares its OFR well in advance of the 2007/08 accounts preparation process. **See action plan 5.2.1.**

3.4 Auditors' report – unqualified opinion

We are required to give an opinion as to whether the financial statements present a true and fair view of the financial position of the College at 31 July 2007 and of its expenditure and income for the financial year.

We are also required to include a regularity assertion in our audit report stating that, in all material respects, expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with SFC.

We are pleased to report that we have issued an unqualified audit opinion on the financial statements and on the regularity of transactions.

3.5 UITF 40 - change in accounting policy

UITF 40 provides guidance on whether revenue should be recognised as contract activity progresses or on contract completion. UITF 40 highlights that "a seller may obtain right to consideration when some but not all of its contractual obligations have been fulfilled. Where a seller has partially performed its contractual obligations, it recognises revenue to the extent that it has obtained the right to consideration through its performance."

Where courses spanned the year-end, the College had in previous accounting periods accounted for this activity by capitalising the costs (predominantly payroll costs) within prepayments, as these costs were considered to be work in progress. These costs were then recognised as expenditure in the following year when the SUM income was received.

We have agreed with the College that, rather than capitalising costs, UITF 40 requires income from spanning activity to be recognised to the extent that it was earned at 31 July.

In order to comply with this guidance a change of accounting policy was required and in turn resulted in the need to re-state the prior year's results. Financial Reporting Standard 3 – Reporting Financial Performance (FRS 3) requires changes in accounting policy to be accounted for as a prior year adjustment. As a result, the College's 2005/06 Income and Expenditure Account and Balance Sheet have been restated in the College's 2006/07 annual accounts (see note 33 to the financial statements).

The effect of this restatement on the 2005/06 Income and Expenditure Account was:

Restatement of 2005/06 Income and Expenditure Accounts	£000s
Surplus as previously stated	**60**
Adjustment in respect of UITF 40	91
Surplus as restated	**151**

3.6 Financial Standing

The College has a responsibility to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the College's arrangements for financial planning, budgetary control and financial reporting.

3.6.1 Financial position and performance

The financial statements show that the College has incurred a surplus of £54,000 for the year to 31 July 2007, against a budgeted surplus of £55,000 as set out in the Financial Forecast Return (FFR) submitted to the SFC in 2006. The 2007 FFR, submitted to the SFC in August 2007, projected a revised surplus for 2006/07 of £297,000 as illustrated by the graph in **section 3.6.2.** When this FFR was prepared the College had predicted that the spanning adjustment (**see section 3.5**) would have a sizeable effect on the surplus for the year 2006/07. Following the audit of the FES return by the internal auditors, it was identified that the SUMs figures used to calculate the spanning adjustment, as generated from the new CMIS system, could not be relied upon. A full audit of the system and the SUMs data was undertaken as a result of these issues being identified. As can be seen from the surplus reported by the College within the 2006/07 financial statements the actual impact of the spanning adjustment was not as significant as initially predicted.

In addition to creating problems with the completion of the SUMs return and the FFR, the errors in data being provided by CMIS caused problems in the preparation of the annual accounts. This experience highlights the importance of accurate and timely information on student activity for managing the College's financial position and performance.

We appreciate that the College is taking these issues extremely seriously and are addressing them as a matter of urgency. An action plan has been developed in response to the internal audit report "Collection of 2006-2007 Student Activity Data – November 2007". We recommend that progress in respect of the implementation of this action plan is reported to the Board of Management until all actions have been completed. **See action plan 5.2.2.**

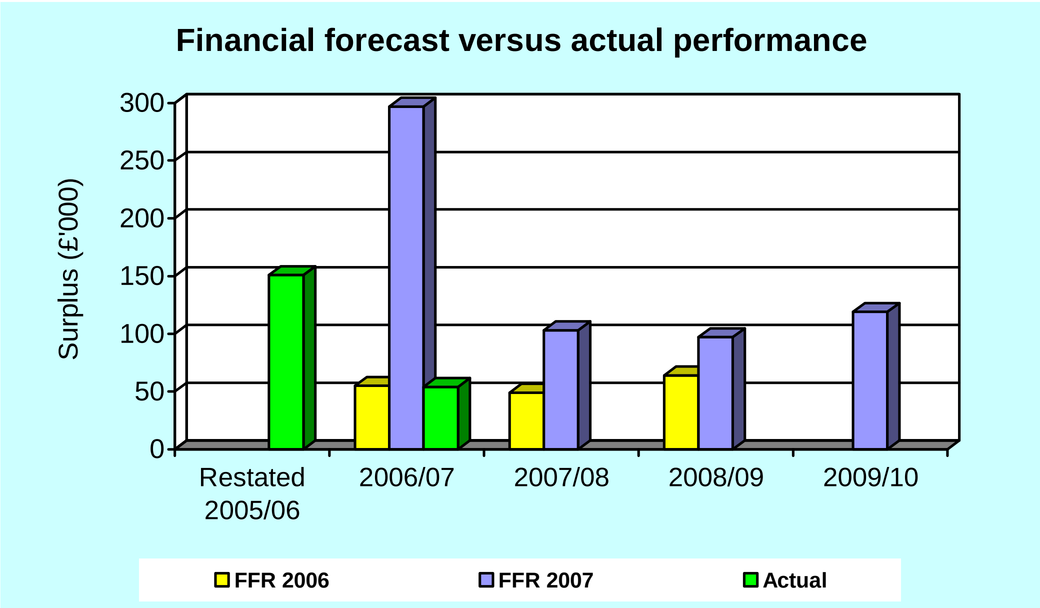
3.6.2 Financial planning and reporting

Budgets are devised prior to the start of the year and are presented at that time to the Resources and General Purposes Committee, which in turn reviews the information and recommends them to the Board for approval.

Management accounts are discussed by the Senior Management Team on a monthly basis. These reports include actual results for the month, actual for the period to date, budget for the period, budget for the period to date, the projected year-end budgeted results and previous year actual results. A commentary is also included for members. A summarised version of this report is then presented quarterly to the Resources and General Purposes Committee. Once fully considered by the committee, the management accounts are then recommended to the Board for approval.

The College submits annual Financial Forecast Returns (FFRs) to SFC detailing the expected results for the current year and the next three years. SFC uses the FFRs to assess the financial performance of individual colleges and of the sector as a whole.

The graph below compares the actual results for 2006/07 with the FFR forecasts and shows the latest predictions within the 2007 FFR.



As shown above, the College is expecting to achieve consistent surpluses over the next three years.

The lack of resource within the Finance Department has impacted on the production of management accounts for 2007/08. We recommend that these resource issues are addressed as soon as possible. **See action plan 5.2.3.**

3.7 Annual accounts and audit process

The deadline for the submission to SFC of FE college audited annual accounts is 31 December. The accounts were approved by the Board of Management on 28 February 2008 and therefore the College has failed to meet the deadline.

The failure to meet this deadline was a direct result of the following factors:-

- Staff shortages and unforeseeable absences within the Finance team
- Problems identified during the audit of the FES return linked to the introduction during the year of a new electronic administration system (**see section 3.6.1 and 5.2.2**).
- Potential weaknesses in the accounts production process
- Change in accounting treatment relating to compliance with UITF 40
- Change in working practices as a result of change in Auditors

On commencement of the audit in November 2007 draft accounts were not available as all figures had not been finalised. This resulted in the audit team having to revisit the College on a further three occasions. We received draft accounts and supporting papers on 31 January 2008, with the final draft version of the statutory accounts being received on 6 February 2008.

Once received in full, the working papers and the statutory accounts prepared by the College were of a very high standard, requiring changes only to reflect the appropriate disclosure with regards the prior year adjustment and the revaluation conducted in the year. We appreciate the problems experienced in 2007, however we note from the previous auditors' annual report delays also occurred in the preparation of the 2005/06 financial statements.

In future years we recommend that the College develops and adheres to an internal timetable which ensures that the financial statements and all of the supporting documentation is complied in time for the start of the audit. We will require draft accounts one week before the start of the audit and we will defer the audit if the draft accounts are not available. **See action plan 5.2.1.**

4 Governance

4.1 Introduction

It is our responsibility to review the College's governance arrangements in relation to:

- systems of internal control and risk management,
- the prevention and detection of fraud and irregularity,
- standards of conduct and prevention and detection of corruption.

It is also our responsibility to review the College's governance arrangements in relation to its financial position. This is reported in Section 3 – Finance.

4.2 Corporate Governance Statement

4.2.1 Requirement for a Corporate Governance Statement

Colleges are required to include a statement on their corporate governance arrangements within their annual accounts. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and reports on the College's compliance with the Combined Code.

We are required to report whether the College's Corporate Governance Statement complies with the requirements of the SFC.

4.2.2 The College's Corporate Governance Statement for 2006/07 – fully compliant

The College's Corporate Governance Statement for 2006/07 explains that the College was fully compliant with the 2003 code throughout the period.

Internal audit conducted a review of the College's risk management systems during the year, concluding that the College's procedures in this area were strong.

4.2.3 Unqualified Audit Opinion

We have reviewed the Corporate Governance Statement included within the annual accounts. Our audit opinion on this statement is covered by our auditors' report and is unqualified in this respect.

4.2.4 Combined Code 2006

A revised Combined Code on Corporate Governance was issued in June 2006, which supersedes the Code issued in 2003.

The Combined Code 2006 is applicable for reporting years beginning on or after 1 November 2006 and therefore the College is encouraged to adopt the revised code for its 2007/08 annual accounts. While we do not anticipate any problems in the College complying with the 2006 Code, we recommend that the College reviews its corporate governance arrangements against the new Code in preparation for making its Corporate Governance Statement in 2007/08. **See action plan 5.2.4.**

The 2006 Combined Code contains a provision (B.2.1) which requires that the Board Chairman should not chair the remuneration committee, although the Board Chairman is allowed to be a member of the committee. This provision is designed to support the principle that "no director should be involved in deciding his or her own remuneration".

We note that the Board Chairman currently chairs the Remuneration Committee but receives no remuneration of any kind. In our view, the College could continue with its current arrangements, as long as these arrangements are disclosed in the Corporate Governance Statement in 2007/08. **See action plan 5.2.5.**

4.3 Risk management

Risk management is important to the establishment and regular review of systems of internal control. We have reviewed the College's risk management arrangements.

The College has a risk register in place, which is subject to a bi-annual review and update by the risk management team. The risk register is reported to the Audit Committee on a bi-annual basis, at which point all risks are given consideration, whilst the Board of Management consider all high level risks on a bi-annual basis.

Internal audit also conducted a review of the College's risk management systems during the year, concluding that the College's procedures in this area were strong.

We have concluded that the College appears to have robust risk management systems in place.

4.4 Internal audit

Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by Wylie & Bisset.

As required by the Code of Audit Practice we undertook a review of the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and performed in accordance with the Code of Audit Practice. The review concluded that the internal audit service provided to the College was in compliance with the Code of Audit Practice.

4.4.1 Reliance on internal audit

To avoid duplication of effort and ensure an efficient audit process we planned our audit work to place reliance wherever possible on the work of internal audit.

During 2006/07 we have reviewed the following internal audit reports:

- Corporate governance
- Risk management
- Computer systems
- Income collection and credit control
- Personnel and payroll
- Previous year follow up report
- Collection of 2006-07 Student Activity Data

We are grateful to Wylie & Bisset for their assistance during the course of our audit work.

4.5 Prevention and detection of fraud

We are required to consider the arrangements made by management for the prevention and detection of fraud. Fraud is defined as deception made for personal gain and irregularity is defined as transactions which do not comply with Scottish Ministers guidance. We consider the arrangements made by management in the following ways:

- We examine the financial instructions issued by the College to ensure that they deal adequately with fraud and provide a framework for exercising strong internal control,
- Our systems based audit is planned so as to provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud,
- We focus on specific areas of high risk for potential fraud and review the arrangements in place in these areas,
- We review the Technical Bulletins produced by Audit Scotland with regard to fraud reports and ensure that the College has arrangements in place to prevent similar frauds occurring,
- We review the extent and adequacy of the internal audit function within the College.

We are pleased to report that we identified no issues of concern in relation to the arrangements for the prevention and detection of fraud.

4.6 Standards of conduct, integrity and openness

We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption.

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the Scottish Executive.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over registers of interest and disposal of assets.

We are pleased to report that our audit identified no issues of concern in relation to standards of conduct and the prevention and detection of corruption.

5 Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2006/07.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

5.1 Priority rating

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action.
Priority 2	Medium risk, significant observations requiring reasonably urgent action.
Priority 3	Low risk, minor observations which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of senior management.

5.2 Issues from our 2006/07 Audit

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.1 **Audit timetable**	The College did not meet the audit and accounts timetable which was agreed with Senior Management and the Audit committee. It is appreciated that there were a number of reasons resulting in the delays, many of which were out-with the control of the College.	There is a risk that the SFC deadline may not be achieved in future years, attracting criticism from SFC and Audit Scotland. In addition, non-compliance with the agreed audit timetable reduces audit efficiency and may result in increased audit fees. In respect of the 2007/08 audit, fieldwork will not commence until all working papers and the draft statutory accounts are available. As a result of the 2007 SORP which is applicable to the 2007/08 annual accounts, the College is required to prepare an Operating and Financial Review (OFR) to accompany its annual accounts. The College should prepare a detailed timetable for the 2007/08 accounts preparation process, including the preparation of its OFR, which is reflective of audit and accounts submission deadlines and which should be approved by Senior Management. ***Priority 1***	***Responsible Officer:*** Finance Manager ***Implementation Date:*** March 2008 ***Management Comment:*** Agreed, timetable will be prepared and submitted to Board of Management for approval

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.2 **Student activity information**	The inadequacy of the procedures and controls in relation to the electronic system for monitoring student activity, which was introduced during the year, created various problems which impacted upon the completion of the SUMs return and the FFR. The errors in the data provided by the system also impacted upon the annual accounts preparation process. This experience highlights the importance of accurate and timely information on student activity for managing the College's financial position and performance.	There is a risk that if the procedures and controls in relation to this system are not applied rigorously that similar issues will arise which could impact on the 2008 audit and accounts process. We appreciate that the College is taking these issues extremely seriously and have started to address these as a matter of urgency. We recognise that an action plan has been developed in response to the internal audit report "Collection of 2006-2007 Student Activity Data – November 2007". However, we recommend that progress in relation to the implementation of this action plan is reported to the Board of Management until all actions have been completed. ***Priority 1***	***Responsible Officer:*** Assistant Principal (Acting) ***Implementation Date:*** July 2008 ***Management Comment:*** A wide range of actions have been implemented, including procedures and controls, as part of the College's MIS action plan. The plan was established in response to weaknesses identified in the processing of student activity data. Progress in relation to the implementation of the MIS action plan has been reported to the Board of Management, via the Audit and Resources & General Purposes Committees, as of February. This will continue until full implementation is achieved.

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.3 **Business continuity planning**	During the year there have been issues with regard to the recruitment and retention of staff to fill the role of the Assistant Finance Manager. As a result, the absence of the Finance Manager during the accounts preparation process impacted upon the year-end process and the production of management accounts in 2007/08, as there was no cover available.	There is a risk that, as the College does not have adequate and workable business continuity plans in place for key members of the Finance team, significant disruption to the College's reporting function may result. Staff continuity in relation to the Finance team should be considered, with adequate cover in place should staffing levels be affected over key periods. ***Priority 1***	***Responsible Officer:*** Principal (Acting) ***Implementation Date:*** April 2008 ***Management Comment:*** The College will review the staffing structure within Finance to ensure that adequate resources are in place.
5.2.4 **Combined Code 2006**	A revised Combined Code on Corporate Governance was issued in June 2006, which supersedes the Code issued in 2003. The Combined Code 2006 is applicable for reporting years beginning on or after 1 November 2006 and will therefore be applicable for 2007/08. The College does not have an up to date comprehensive self-assessment of compliance with the 2006 Combined Code.	Without a self-assessment, there is a risk that the College's statement of compliance with the new Combined Code may be inaccurate in 2007/08. The College should take this opportunity to perform a self-assessment against the requirements of the 2006 Combined Code. The College should retain this self-assessment as a working document to be regularly updated in line with developments in corporate governance. ***Priority 2***	***Responsible Officer:*** College Secretary ***Implementation Date:*** June 2008 ***Management Comment:*** A self-assessment exercise, against the requirements of the revised 2006 Combined Code, will take place at the Strategic Planning Event scheduled for June 2008.

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.5 **Chair of Remuneration Committee**	The Combined Code 2006 stipulates that the Chair of the Board of Management and the Chair of the Remuneration committee should not be the same person.	There is a risk that the College's statement of compliance with the Combined Code may be inaccurate in 2007/08, if this issue is not considered. To ensure compliance we would recommend that either the constitution of the Remuneration Committee is revised or the College discloses its current arrangements in its 2007/08 Corporate Governance Statement. ***Priority 2***	***Responsible Officer:*** College Secretary ***Implementation Date:*** Actioned ***Management Comment:*** The College's Resources & General Purposes Committee has discussed this issue in full and will disclose current arrangements in the 2007/08 Corporate Governance Statement.
5.2.6 **Authorisation procedures**	As a direct result of the issues experienced by the College during the year with regard to the retention and recruitment of an Assistant Finance Manager, it was noted during audit fieldwork that there were numerous instances where the authorisation procedures in place at the College have not been followed. These instances involved both the authorisation of journal sheets and "green slips".	There is a risk that where the authorisation procedures are not followed it could provide the opportunity for errors or other irregularities to occur in the financial ledger. We recommend that the procedures are tightened within the Finance department to ensure that the appropriate authorisation procedures are applied. Further consideration must be given to how such procedures should be adapted when key members of the team are on holiday/absent from work. ***Priority 2***	***Responsible Officer:*** Finance Manager ***Implementation Date:*** March 2008 ***Management Comment:*** Agreed

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