



SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW



Cumbernauld College

**Annual Report to the Board of Management
and the Auditor General for Scotland
2007/08**

16 December 2008



Cumbernauld College

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Executive Summary

Finance

Our audit of Cumbernauld College is now complete and our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.

The College has reported a surplus of £73,000 in 2007/08 (£79,000 in 2006/07). The budgeted surplus shown on the 2007 Financial Forecast Return submitted to the Scottish Funding Council was £103,000.

The latest Financial Forecast Return shows the College forecasting an operating surplus of £66,000 in 2008/09, and operating surpluses for 2009/10 and 2010/11 of £86,000 and £74,000 respectively.

The College is financially secure and the balance sheet as at 31 July 2008 is showing net assets of £11.022m including a bank balance, net of overdraft, of £682,000.

The College has changed its accounting policy in respect of the Strathclyde Pension Scheme and is now accounting for this scheme as a defined benefit scheme in accordance with Financial Reporting Standard 17 – Retirement Benefits.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key provisions of the 2006 Combined Code on Corporate Governance during 2007/08 apart from the Chairman of the Board of Management also being the Chairman of the Remuneration Committee. This non-compliance has been disclosed in the Corporate Governance Statement within the financial statements. We have reviewed the College's statement and can confirm that this is in line with the Scottish Funding Council's guidance and is not inconsistent with the findings of our audit.

We did not identify any significant areas of concern from our review of the College's corporate governance arrangements for risk management, the prevention and detection of fraud and irregularity, standards of conduct or prevention and detection of corruption.

Conclusion

This report concludes the 2007/08 audit of Cumbernauld College. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Finance Manager. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Introduction

1. This report summarises the findings from our 2007/08 audit of Cumbernauld College. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 12 September 2008. The main focus of our external audit has been on the financial statements and governance arrangements.
2. Our plan summarised the following key audit issues for 2007/08:
 - Audit and accounts timetable
 - Strathclyde Pension Fund liabilities – change to FRS 17 and SORP
 - Operating and Financial Review
 - Combined Code on Corporate Governance 2006
3. This report includes our findings in relation to these key issues. The report also includes a follow-up of issues identified during last year's audit as well as issues which will affect our audit in future years.
4. This report will be submitted to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Finance

5. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and also to consider the College's governance arrangements in relation to its financial position.

Auditors' opinion

6. 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 as at 31 July 2008 and of its expenditure and income for the financial year. We are also required to include a regularity assertion in our audit report stating whether, 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 the Scottish Funding Council (SFC).
7. Our audit is now complete and we have issued an unqualified audit opinion on the truth and fairness of the financial statements and on the regularity of transactions.
8. We will now submit the signed financial statements to Audit Scotland who will pass them to the Scottish Government for laying before the Scottish Parliament.

Financial position

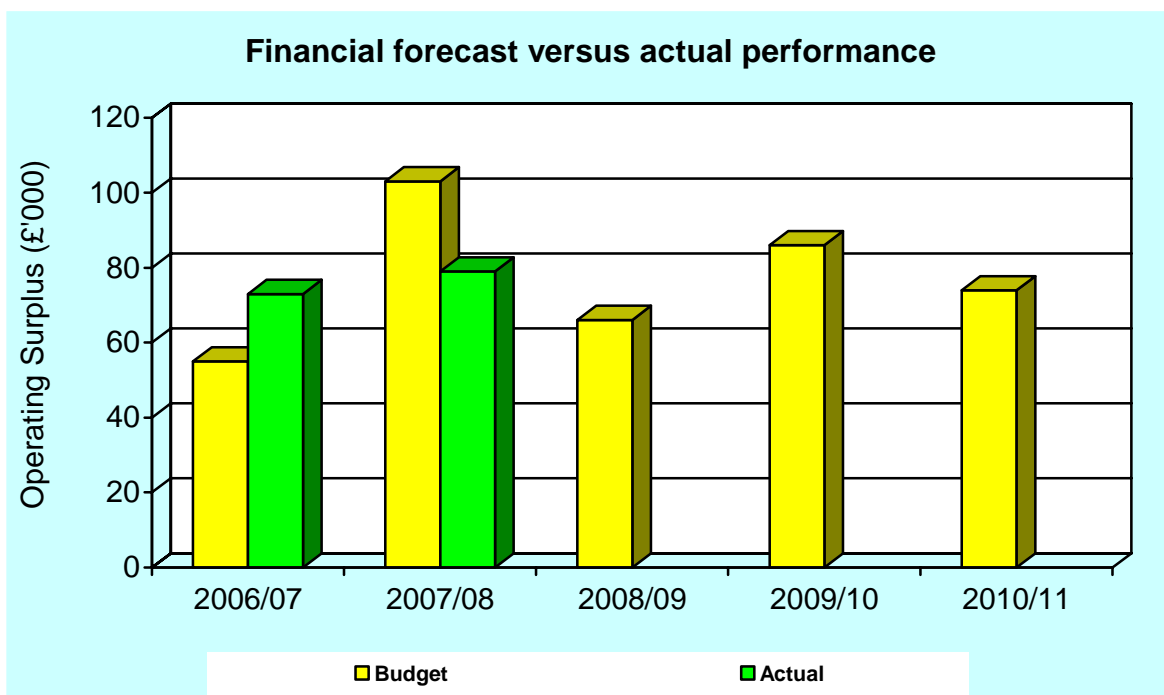
9. The College reported an operating surplus for the year to 31 July 2008 of £73,000. The College had originally budgeted for an operating surplus of £103,000 within the 2007 Financial Forecast Return (FFR) submitted to the Scottish Funding Council, the variance in surplus between the actual results and the budgeted results was therefore £30,000, or 0.3% of total income.
10. A reconciliation between the forecast surplus and the actual surplus is set out below:

	£
Surplus per initial budget	103,000
FRS 17 adjustment (see paragraph 26 & 27)	34,000
Total of other insignificant variances	(64,000)
Actual surplus per financial statements	73,000
Variance to original budget	(30,000)
Variance as percentage of total income	0.3%

11. The College is financially secure and the balance sheet as at 31 July 2008 is showing net assets of £11.022m including a bank balance, net of overdraft, of £682,000.

Financial forecasts

12. 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.
13. The graph below compares the actual results for 2007/08 with the budgeted forecasts available at the start of the academic year and shows the latest predictions for 2008/09 onwards as reported within the 2008 FFR.



14. The College is forecasting a surplus in the latest Financial Forecast Return (FFR) submitted to the SFC of £66,000 in 2008/09. The forecast surplus for 2009/10 and 2010/11 are £86,000 and £74,000 respectively.

Financial planning and monitoring arrangements

15. 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 financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the College's operations and use of resources.
16. Budgets are prepared prior to the submission of the FFR which is approved by the Resources & General Purposes Committee. This committee meets four times a year. Management accounts showing actual against budget, as well as a projected forecast are presented to each Resources &

General Purposes Committee. The College has a history of delivering year-end surpluses which are within 1% of the budget at the start of the year.

17. In our opinion the College has very effective financial management arrangements in place.

Financial reporting framework

18. The principal elements of the College's financial reporting framework are:

- Accounts Direction issued by the Scottish Funding Council
- Further Education / Higher Education Statement of Recommended Practice (FE/HE SORP) 2007

FE/HE SORP 2007

19. A revised SORP was issued in July 2007 and was applicable for the first time to the College's 2007/08 financial statements. The main changes from the previous SORP were as follows:-

- The Board of Management Report has been extended to meet the requirements of an Operating & Financial Review which includes more detailed analysis of the College's financial and non-financial performance.
- Changes in the required disclosure of defined benefits pension schemes. The new disclosures are shown in Note 25 to the financial statements.

20. We are pleased to confirm that the College's 2007/08 financial statements comply with the Accounts Direction and FE/HE SORP 2007 in all material aspects.

Financial statements preparation

21. We are grateful to the Finance Manager and the finance staff for their assistance and support during the course of the audit. We found the draft financial statements and supporting working papers to be of a very high standard. The audit was completed in line with the timetable and all reporting deadlines will be met.

22. In addition, we found that the College had adequate resource available in the Finance Department to ensure it meets the College's financial management and reporting needs going forward.

Adjustments to draft accounts

23. There were two adjustments posted by the College following the submission of the draft accounts for audit :

<u>Journal</u>	<u>£</u>	<u>£</u>	<u>Net Effect on I&E £</u>
1	Dr Income & Expenditure Reserve	£190,063	
	Cr Revaluation Reserve		£190,063
	<i>Being adjustment to correct the historic over release of the revaluation reserve to income and expenditure reserve</i>		-
2	Dr Pension reserve	£343,000	
	Dr Income & Expenditure Account Reserve	£34,000	
	Dr Staff costs	£8,000	-£8,000
	Cr Pension liability		£309,000
	Cr Finance costs		£42,000
	Cr Pension reserve		£34,000
	<i>Being adjustments required to disclose the SPF as a defined benefit scheme</i>		
	Affect on I&E account of adjustments - increase in surplus		£34,000

24. All other adjustments related to presentational and disclosure adjustments.

25. There were no potential adjustments identified during the course of the audit, which were not processed through the financial statements.

Strathclyde Pension Fund liabilities – change to FRS 17 and SORP

26. The College has elected to change its accounting policy in respect of the Strathclyde Pension Fund, which will now be accounted for as a defined benefit scheme. A prior year adjustment was required to incorporate the pension liability into the financial statements. The actuarial valuation prepared by Hymans Robertson LLP showed that the pension fund had a net deficit of £822,000 at 31 July 2006, a deficit of £228,000 at 31 July 2007 and a deficit of £537,000 at 31 July 2008. These valuations are now reflected within the financial statements and details are disclosed within note 25.

27. The impact of implementing FRS 17 therefore being to reduce the College's net assets at 31 July 2008 by £537,000 from £11,559,000 to £11,022,000, and to increase the surplus for the year by £34,000, from £39,000 to £73,000.

Review of accounting systems

28. One of the objectives of our audit was to review the accounting systems and internal controls operating at the College to ensure they formed an adequate basis for the preparation of the financial statements. We identified no major internal control weaknesses and, in our opinion, accounting systems are generally well designed and operating effectively. Please refer to the **action plan** for details of two control improvements detected during audit fieldwork.

Governance

29. It is the College's responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:
- the College's review of its systems of internal control, including reporting arrangements;
 - the prevention and detection of fraud and other irregularities;
 - standards of conduct and arrangements for the prevention and detection of corruption;
 - the College's financial position.
30. We reported on the College's financial position in the Finance section of this report. This section includes our comments on other aspects of the College's governance arrangements.

Corporate Governance Statement

31. Colleges are required to include in their financial statements a statement covering the responsibilities of their board of management in relation to corporate governance. The statement should describe the ways in which the College has complied with good practice, including the arrangements for risk management, and report on the College's compliance with the Combined Code on Corporate Governance.
32. The College's Corporate Governance Statement for 2007/08 explains that the College was compliant with all provisions of the 2006 Combined Code throughout the period, except for the fact that the Chairman of the Board of Management is also the Chairman of the Remuneration Committee. This exception is clearly disclosed within the Corporate Governance Statement of the financial statements. The College considers it appropriate to maintain this position as the Remuneration Committee does not determine remuneration for Board members but only for senior management. As a result the College considers that it remains compliant with the principles of the Combined Code.
33. We reviewed the Corporate Governance Statement by:
- checking the statement against Scottish Funding Council guidance;
 - considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control;
 - assessing whether disclosures in the statement are consistent with our knowledge of the College.
34. We are satisfied that the statement is consistent with the Scottish Funding Council's guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Combined Code 2006

35. A revised Combined Code on Corporate Governance was issued in June 2006, which superseded 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 has stated compliance with the 2006 code for the first time in its 2007/08 financial statements.
36. We recommended in our 2006/07 Annual Report that the College reviewed its corporate governance arrangements against the 2006 code and are pleased to report that the College has completed this assessment.
37. Internal audit conducted a review of Corporate Governance arrangements in place at the College in 2007/08. Five recommendations were raised by the internal auditors which have now been implemented by the College. Internal audit concluded that, overall, the College has a sound governance framework in place.

Risk management

38. Risk management is important to the establishment and regular review of systems of internal control. We review the College's risk management arrangements as part of our audit work on corporate governance.
39. The College has a Risk Management Policy and Risk Management Procedures in place. The College has a risk register in place, which is subject to regular review and update by the Risk Management Group. Recently implemented procedures now ensure that risk management is reported as a standing item at each meeting of the Audit Committee. An up to date, electronic, full risk register is made available to members prior to each Audit Committee meeting. The Board consider all high level risks on a bi-annual basis.
40. Internal audit conducted a review of the Risk Management arrangements in place in 2007/08. The recommendations raised by internal audit have since been implemented by the College. Internal audit concluded that, overall, the College has a substantial risk management framework in place, which is consistent with our own conclusions.

Internal audit

41. Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by Wylie & Bisset. In the previous year 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 SFC's Code of Audit Practice.

42. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate. During 2007/08 we have placed reliance on the following internal audit reports:

- Corporate Governance
- Risk Management
- Budgetary & Financial Controls
- SUMS
- Purchasing and Payments

Internal audit's conclusion

43. Internal audit has concluded in its annual report that management has substantial assurance that the internal controls and governance frameworks which it operates are sufficient to ensure the effective and efficient operation of the organisation.

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

Prevention and detection of fraud and irregularity

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

46. The College has a fraud policy and a whistle blowing policy in place. These policies identify the appropriate persons to contact in the event of any fraud or irregularity. There were no frauds identified during the year.

47. All SFC and other guidance and regulations are received by the Principal's secretary. All relevant regulatory information is distributed to the appropriate members of staff. A database is held of all SFC circulars and responsible officers. All relevant guidance is presented to the Board of Management meetings ensuring that all those concerned have access to adequate and relevant information.

48. We are pleased to report that we identified no issues of concern in relation to the arrangements for the prevention and detection of fraud or with regard to the legality of transactions.

Standards of conduct

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

50. 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 Government.

51. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over ordering and procurement and disposal of assets.
52. We are pleased to report that we identified no issues of concern in relation to standards of conduct and prevention and detection of corruption.

Looking Forward

Financial position

53. The Scottish Funding Council has provided significant increases in funding to the Scottish Further Education sector in the past decade. The Spending Review and indications from the Scottish Government are that there will be no further significant increases in the short to medium term. In addition, there is reduced opportunity for European grant income available to the sector. Coupled with increasing cost pressures, this will result in limited financial resources for the Further Education sector.

Combined Code 2008

54. The Financial Reporting Council (FRC) issued an updated Combined Code in June 2008. The updated code is applicable to accounting periods beginning on or after 28 June 2008. The updated code includes two amendments from the 2006 code. The first amendment is in relation to FTSE 100 companies and does not apply to the College. The second amendment is to allow the Chairman to be a member of, but not chair, the Audit Committee where the Chairman was considered independent on appointment. The College's 2008/09 Corporate Governance Statement should state compliance with the 2008 code and we will review this as part of our 2008/09 audit.

Loss of charitable status

55. The Office of the Scottish Charity Regulator (OSCR) previously published the results of the pilot scheme to review charitable status of a selection of charities including John Wheatley College in Glasgow. OSCR concluded that the charity test was not met because of the ability of Scottish Ministers to direct or otherwise curtail the College's activities. The Scottish Government has since announced its intention to protect the charitable status of Scottish FE Colleges and an order has been laid before the Scottish Parliament to this effect.

Revaluation of fixed assets

56. The College is due to carry out a revaluation of fixed assets as at 31 July 2009. We will review this as part of our 2008/09 audit, including the potential impact on the College's asset base in view of the general downturn in property values.

Appendix 1 – Action Plan

57. Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2007/08. These are the issues that we believe need to be brought to the attention of the College.
58. 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.

Priority rating

59. 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.

Issues from our 2007/08 audit

Action point	Para ref	Issue identified and recommendation	Management response
<p>1</p> <p>Fixed Asset Register</p>	<p>N/A</p>	<p>The College keeps detailed records on an annual basis of all asset additions, but the fixed asset register does not contain this information.</p> <p>The register reports the costs and depreciation for a group of assets. e.g. £274k of fixtures and fittings purchased in 2006/07 are referred to as "New build".</p> <p>There is a risk that assets will be disposed of or scrapped, but the register and accounting records are not updated.</p> <p>The College has the information to allow the construction of such a database, and we would recommend that such an exercise is undertaken.</p> <p>Once a detailed register is in operation the College should perform periodic physical verification checks to ensure that the assets listed are still owned by the college.</p> <p>Priority 2</p>	<p>Revised Fixed Asset Register format to be agreed through liaison with Internal and External Auditors.</p> <p>To be actioned by: Finance Manager</p> <p>No later than: March 2009</p>
<p>2</p> <p>Purchase Order Requisition Authorisation</p>	<p>N/A</p>	<p>During audit testing, it was identified that a purchase order requisition to the value of £50,000 was not signed as authorised by the Principal. The College's financial procedures state that orders in excess of £5,000 require the authorisation of the Principal.</p> <p>We recommend that all finance staff are reminded of the authorisation limits to ensure that authorisation is sought from the appropriate person.</p> <p>Priority 3</p>	<p>Finance Manager will emphasise to staff the importance of adhering to College policies and procedures. Although the Purchase Order highlighted by External Audit was not signed off by the Principal it had been subject to the College Tendering process and the proposed capital works had been approved by Resource & General Purposes Committee.</p> <p>To be actioned by: Finance Manager</p> <p>No later than: January 2009</p>

Follow-up of issues from previous year's external audit

Follow-up point	Original recommendation	Update at December 2008
<p>1</p> <p>Audit timetable</p>	<p>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.</p>	<p>A timetable was prepared and submitted to the Board of Management for approval in advance of the year-end.</p> <p>This provided clear guidance for staff and we recommend that this practice continues.</p> <p>Action taken as agreed</p>
<p>2</p> <p>Student activity information</p>	<p>Progress in relation to the implementation of the SIM action plan should be reported to the Board of Management until all actions have been completed.</p>	<p>Confirmed, all actions have now been completed.</p> <p>Action taken as agreed</p>
<p>3</p> <p>Business continuity planning</p>	<p>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.</p> <p>Staff continuity in relation to the Finance team should be considered, with adequate cover in place should staffing levels be affected over key periods.</p>	<p>During the year a part time accountant was recruited to provide additional support within the finance team.</p> <p>Staffing resource within the finance department is considered to be adequate.</p> <p>Action taken as agreed</p>
<p>4</p> <p>Combined Code 2006</p>	<p>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.</p> <p>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.</p>	<p>A self assessment exercise was performed in 2008.</p> <p>Action taken as agreed</p>

Follow-up point	Original recommendation	Update at December 2008
<p>5</p> <p>Chair of Remuneration Committee</p>	<p>The Combined Code 2006 requires that, where the Chair of the Board of Management and the Chair of the Remuneration committee are the same person, this should be disclosed in the Corporate Governance Statement.</p>	<p>See point 4 above.</p> <p>Action taken as agreed</p>
<p>6</p> <p>Authorisation procedures</p>	<p>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.</p> <p>These instances involved both the authorisation of journal sheets and “green slips”.</p> <p>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.</p>	<p>Audit testing has confirmed that authorisations procedures have improved substantially with only a few instances noted during this year’s audit.</p> <p>Refer to point 2 of the current year’s action plan</p>

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