INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

Glasgow Metropolitan College

Annual audit report to the Board of Management of Glasgow Metropolitan College and the Auditor General for Scotland

Audit: Year ended 31 July 2008
15 December 2008

AUDIT

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Executive summary

Financial commentary

The College achieved a surplus of £1,201,000, compared to a forecast surplus of £136,000 and a surplus of £829,000 in the previous year.

The financial statements report retained general reserves of £30.5 million and the Scottish Funding Council classifies the College as financially secure.

The 2008-09 financial plan projects a surplus of £77,000.

Governance and risk management

The corporate governance statement does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding.

Internal audit concluded that the College "has an adequate framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives."

There is a formal process to record, distribute and monitor action in response to key guidance and circulars.

The operating and financial review provides a comprehensive account of the College's activities and meets the requirements of SORP 2007.

Financial statements audit

We issued an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008.

Management provided draft financial statements and supporting working papers, which were complete and of a good standard, in line with the agreed timetable.

The College has changed its accounting policy in respect of its participation in the Strathclyde Pension Fund during 2007-08 to adopt defined benefit accounting in accordance with FRS 17. This change in accounting policy has been treated as a prior year adjustment and the relevant presentational and disclosure requirements included in the financial statements. The College has a net pension liability of £560,000 as at 31 July 2008.

Following a full valuation of the College's land and buildings in 2007-08, a revaluation gain of £9.8 million was accounted for in these financial statements.

Introduction

Audit framework

2007-08 was the second year of our five-year appointment as external auditors of Glasgow Metropolitan College ("the College"). This report to the Board of Management of the College and the Auditor General for Scotland summarises our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice*, the scope of the audit was to:

- provide an opinion on the College's financial statements and, as required by relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland), the College's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the College's audit committee.

Financial reporting framework

The statement of recommended practice: accounting for further and higher education (2007) ("the SORP") was published in July 2007. The revised SORP required to be adopted for accounting periods ending on 31 July 2008.

Basis of information

External auditors do not act as a substitute for the Board of Management's own responsibilities for putting in place proper arrangements to account for its stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the principal, to make arrangements to secure Best Value.

Acknowledgement

Our audit has continued to bring us into contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during our audit fieldwork.

Financial commentary

- The College achieved a surplus of £1,201,000, compared to a forecast surplus of £136,000. The restated surplus for the year ended 31 July 2007 was £964,000.
- The financial statements report retained general reserves of £30.5 million and the Scottish Funding Council classifies the College as financially secure.
- The 2008-09 financial plan projects a surplus of £77,000.

This section of our report summarises the main features of the financial statements and key movements from the prior financial year.

The financial statements report a surplus for the year of £1,201,000, an increase of 24.6% compared to 2006-07 and £1,065,000 higher than the forecast outturn of £136,000. The surplus is equivalent to 4.6% of total revenue. The College is in a strong financial position with retained general reserves of £30.5 million and is classified as financially secure by the Scottish Funding Council.

Income

Income for the year has risen by £1.6 million compared to 2006-07, equivalent to a 6.4% year on year increase. The main components of this increase were:

- a £569,000 movement in the recurrent grant from the Scottish Funding Council (including fee waiver) as a consequence of higher student numbers and an increase in specific grant funding of £198,000;
- £204,000 through the release of deferred capital grants;
- £232,000 in tuition fee income as a consequence of higher student numbers; and
- £242,000 on investment income from balances invested during the year.

	2007-08	*2006-07 restated*	Movement		2007-08	*2006-07*
	£'000	*£'000*	£'000	%	%	*%*
Scottish Funding Council grants	18,497	*17,699*	798	5	71	*73*
Tuition fees and education contracts	4,087	*3,920*	167	4	16	*16*
Other operating income	2,514	*2,254*	260	12	10	*9*
Investment income	796	*466*	330	71	3	*2*
Total income	**25,894**	***24,339***	**1,555**	**6**	**100%**	***100%***

Expenditure

Overall, total expenditure has increased by £1.3 million (5.4%), which is in line with the increase in income. Individually significant movements were:

- a £624,000 increase in expenditure on wages and salaries primarily as a result of pay inflation and movements in staff numbers;
- an increase of £135,000 in depreciation costs as a consequence of the capital expenditure incurred; and
- other operating expenditure increased by £517,000. This was due primarily to increased teaching support costs and higher activity in relation to student support and specific projects. This included £72,000 of costs incurred in relation to mergers in 2007-08 which was charged to other operating expenditure.

	2007-08	*2006-07 restated*	Movement		2007-08	*2006-07*
	£'000	*£'000*	£'000	%	%	*%*
Staff costs	17,023	*16,336*	687	4	69	*70*
Other operating expenses	5,709	*5,213*	496	10	23	*22*
Depreciation	1,961	*1,826*	135	7	8	*8*
Total expenditure	**24,693**	***23,375***	**1,318**	**6**	**100%**	***100%***

Balance sheet

The College reported an increase of £10.4 million in net assets during the year. The balance sheets at 31 July 2008 and 2007 are summarised in the following table:

	2007-08	*2006-07 restated*	Movement	
	£'000	*£'000*	£'000	%
Fixed assets				
Tangible assets	30,451	*20,878*	9,573	46
Investments	1	*1*	-	-
Current assets				
Stock	12	*12*	-	-
Debtors	1,121	*1,760*	(639)	(36)
Cash and short-term investments	10,372	*7,022*	3,350	48
Creditors due within one year	(4,097)	*(2,653)*	(1,444)	(54)
Net current assets	**7,408**	***6,141***	**1,267**	**21**
Provisions for liabilities and charges	(1,180)	*(1,059)*	(121)	(11)
Pension liability	(560)	*(250)*	(260)	(104)
Net assets	**36,120**	***25,711***	**10,409**	**40**
Deferred capital grants	5,591	*5,693*	(102)	(2)
Revaluation reserve	22,338	*13,036*	9,302	71
Restricted reserves	57	*58*	(1)	(2)
Pension reserve	(560)	*(250)*	(260)	(104)
Income and expenditure account	8,134	*6,924*	1,210	17
Total	**36,120**	***25,711***	**10,409**	**40**

Explanations for significant balance sheet movements during the year include:

- the revaluation of the College's land and buildings as at 31 July 2008, resulting in an valuation increase of £9.8 million;
- a reduction in debtors of £639,000 due to better debt recovery and timing of transactions; and
- an increase in creditors of £1.4 million primarily Scottish Funding Council grants carried forward.

Financial forecasting

The financial forecast return submitted to the Scottish Funding Council in June 2007 forecast a surplus of £136,000 to 31 July 2008. The actual outturn was a surplus of £1,201,000. This table summarises the movements during the year.

	£'000
2007-08 forecast outturn per the financial plan	**136**
Additional Scottish Funding Council grants	12
Additional tuition fees	72
Additional other income	353
Additional investment income	296
Reduction in operating expenditure	332
2007-08 actual outturn at 31 July 2008	**1,201**

Analysis of the reconciliation between the forecast and actual outturn identified that the key factors behind the difference were in relation to increased investment and other income and reduced operating expenditure. Investment income has been significantly greater as a result of the College's high bank and investment balances and high interest rates during 2007-08. Other income contained significant deferred grants released. The reduction in operating expenditure included a significant saving in depreciation due to assets reaching the end of their useful lives and staff cost savings due to high staff turnover.

The following table summaries the 2008-09 financial forecast.

	£'000
Income	26,385
Expenditure	(26,308)
Forecast surplus for the year ending 31 July 2009	**77**
Cash balance at 31 July 2008	10,372
Forecast cash balance at 31 July 2008	7,220
Forecast movement in cash during 2008-09	**(3,152)**

The 2008-09 forecast surplus of £77,000 reported to the Funding Council in June 2008 is a significant reduction to the 2007-08 results. The College continues to monitor the expected out-turn and reported an expected £283,000 surplus for the year to the November 2008 finance and estates committee meeting. The decreased surplus from 2007-08 is due to a reduction in investment income, which contributed £636,000 to the 2007-08 surplus, an expected decrease in grant funding and increased costs in 2008-09 relating to staff, utilities and depreciation charges. The increased depreciation charges are expected due to the valuation exercise at 31 July 2008.

Governance and risk management

- The corporate governance statement does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding.
- Internal audit concluded that *"the corporate governance arrangements within the Council are reasonable and conform in the main with good practice."*
- There is now a formal process to record, distribute and monitor action in response to key guidance and circulars.
- The operating and financial review provides a comprehensive account of the College's activities and exceeds the requirements of SORP 2007.
- The Board of Management report includes narrative on the significant future challenges of the College including appointment of a new principal, merger discussions with Stow College and the development of the New Campus Glasgow project whilst reflecting on the achievements of 2007-08.

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through the principal, the Board of Management is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Code requires auditors to review and report on the College's corporate governance arrangements as they relate to:

- the College's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

Management is responsible for establishing arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice.

Governance arrangements

The Board of Management has 16 full members, with a range of skills and experiences including capital and building management, marketing and accounting and finance. Following adverts in the national press and the consequent Board of Management selection process, a number of new members joined the Board of Management during the year. Management are aware of the requirement to ensure appropriate and timely induction for new members to ensure they fully understand their role.

There are seven standing committees, including finance and estates, staffing, performance review and remuneration and audit, each of which is formally constituted and has its own terms of reference. This comprehensive governance structure – which includes non-executive, student and academic representation – is demonstrative of best practice and exceeds the minimum requirements of the Scottish Funding Council. The committee structure provides the Board of Management with the mechanisms to ensure appropriate oversight and monitoring of financial and academic activities.

Risk management

The College's approach to risk management is based on guidance produced by the Chartered Institute of Public Finance and Accountancy ("CIPFA") for the further and higher education sectors in Scotland. The College's risk management strategy is owned by the Board of Management and all its standing committees. A risk register has been established and is amended if discussion identifies previously unforeseen risks.

The College's audit committee meets regularly during the year to review the College's response to identified risks. The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. Risks are identified, prioritised and assessed according to likelihood and consequence; where there is no existing mitigating control in place measures are taken to address and mitigate the risk.

Systems of internal control

Corporate governance statement

The statement for 2007-08 provides details of the processes and controls established by the Board of Management to comply with the combined code of corporate governance (2003). Management highlight that the College is committed to exhibiting best practice in all areas of corporate governance. The corporate governance statement is informed by the results of internal consideration of the arrangements in place.

Internal audit completed a review of the College's corporate governance controls and procedures during the year and concluded that *"the corporate governance arrangements within the Council are reasonable and conform in the main with good practice."* No "grade one" recommendations were made in their report to the audit committee, with 13 less significant recommendations made.

The College has made a fully compliant corporate governance statement. We are not required to provide an opinion on the College's system of internal control; however, we have reviewed the corporate governance statement and consider it consistent with our understanding of the process followed by the College during the year.

Regularity

The Board of Management considers all incoming correspondence relevant to its strategic management role from the Scottish Funding Council and other regulatory or advisory bodies, including organisations such as the Association of Scottish Colleges and Audit Scotland. Relevant communication is also considered by the audit committee. This allows management to demonstrate the College's approach to considering incoming guidance and taking action where appropriate. A formal process has been established after an internal audit recommendation.

Internal audit

The approved internal audit programme for 2007-08 has been completed and the internal auditors have concluded that the College "has an adequate framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives." Internal audit presented a review of previous internal audit recommendations to the audit committee on 26 November 2008. They reported good progress on the 76 recommendations raised in 2006-07 and 2007-08 with 72% of recommendations fully implemented. Four recommendations (5%) had not been implemented by management with remained partially implemented, still within timescales or being considered for possible removal as a recommendation.

Internal controls

Drawing on the work of internal audit, in accordance with our plan we undertook detailed testing in relation to both entity-level and key financial controls. We identified no control failures in our work and no significant new recommendations have been noted. Our 2006-07 annual audit report highlighted eleven recommendations. Four of these have been implemented with implementation of the remaining recommendations ongoing. Management should ensure that recommendations are fully implemented. Testing of the design and operation of controls over significant risk points in terms of major financial systems confirms that controls are designed appropriately and operating effectively.

Board of management report and operating and financial review

The revised SORP, issued in 2007 and effective for the year ended 31 July 2008 requires an operating and financial review for the first time. Management's proactive approach to development of the report in 2007-08 enabled a draft report to be included with the draft financial statements that had already been approved by the Board members.

The report includes narrative on the significant future challenges of the College including a new principal, merger discussions with Stow College and the development of the New Campus Glasgow project whilst reflecting on the achievements of 2007-08.

Stow College Merger

The College continues to be in negotiations with Stow College with a view to a potential merger, although, if agreed, this in now unlikely to occur until 2009.

New Campus Glasgow

The College continues to work with three other colleges on an estates strategy for the city centre of Glasgow. During 2007-08 the colleges created New Campus Glasgow Limited as a vehicle to further the process. The company currently has two representatives from each College constituting its board. The full business case for the new campus has not yet been approved and there was therefore no significant impact from the project on the financial statements for 2007-08. Going forward the entity will require further consideration as a related party and potential inclusion in the financial statements as an associate body.

Prevention and detection of fraud and irregularity

The College's financial regulations detail measures put in place to prevent instances of fraud, including a whistle-blowing policy. The College has an over-arching anti-fraud policy in addition to policies and procedures in individual financial and operational areas. Management has not reported any material instances of fraud or irregularity in 2007-08.

Standards of conduct

The College has comprehensive human resources policies and procedures which are readily accessible to staff on the intranet. There is also a formal register of interests for recording members of the board of management and senior managers' interests. This is regarded as best practice and assists in demonstrating consideration of independence in decision-making and the awarding of contracts.

Best Value

The 2007-08 planning guidance for further education colleges issued by Audit Scotland indicated that there was no requirement for auditors to undertake performance audit or other Best Value studies during the year.

Financial statements audit

- We issued an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008.
- Management provided draft financial statements and supporting working papers, which were complete and of a good standard, in line with the agreed timetable.
- The College has changed its accounting policy in respect of its participation in the Strathclyde Pension Fund during 2007-08 to adopt defined benefit accounting in accordance with FRS 17. This change in accounting policy has been treated as a prior year adjustment and the relevant presentational and disclosure requirements included in the financial statements. The College has a net defined benefit pension liability of £560,000 as at 31 July 2008.
- Following a full valuation of the College's land and buildings in 2007-08, a revaluation gain of £9.8 million was accounted for in these financial statements.

Audit opinion

On 15 December 2008 we issued an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008.

Financial statements preparation

Management provided draft financial statements, which were complete and of a high standard, in advance of the audit fieldwork. The standard of documentation prepared by the finance department to support the financial statements was of a high standard and available to the audit team on the first day of the fieldwork. A number of adjustments were made to the draft financial statements, the most significant issues are summarised below. There were no unadjusted audit differences.

Retirement benefits

The initial financial statements for the College continued to account for the College's participation in the Strathclyde Pension Fund on a defined contribution basis. Following the meeting of the audit committee on 10 November 2008, the College changed its accounting policy in relation to pension costs and has fully adopted defined benefit accounting in accordance with FRS17 *Retirement Benefits*. This has resulted in a number of adjustments to the draft financial statements in order to comply with the presentational and disclosure requirements of FRS 17. After management challenged the initial assumptions made by the actuary, the revised FRS 17 actuarial valuation provided to the College resulted in a net pension liability of £560,000 at 31 July 2008. A prior year adjustment was also reflected in the financial statements as part of the change in accounting policy.

Fixed asset accounting

The College had its land and building assets independently valued at 31 July 2008. This revaluation resulted in a £9.8 million increase in the carrying value of the fixed assets at the year end. In accounting for the revaluation in the draft financial statements, the depreciation charge had been recalculated based upon achieving the closing valuation rather than in line with the lives applicable to the year. This was adjusted during the audit resulting in an additional release of £200,000 of deferred grants as a result of correcting the depreciation entries.

The valuation was conduced on a component basis providing the College with the information required enabling accounting for its land and buildings on a component accounting basis going forward.