INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

Langside College

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

Audit: Year ended 31 July 2008
22 December 2008

AUDIT

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Notice: About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the *Code*').

This report is for the benefit of only the Board of Management of Langside College and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other that the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary

Financial commentary

The College reported an operating surplus before exceptional items of £388,000. After exceptional items related to accelerated depreciation on the exiting College buildings, the deficit for the year was £3,082,000. The corresponding result for the year ended 31 July 2007 was a surplus of £868,000.

The College's general reserves at 31 July 2008, including designated reserves, have decreased to £5,515,000 (2007: £8,597,000) as a result of a release from the revaluation reserve following the accelerated depreciation charge. The College is classed as financially secure.

The 2008-09 financial plan projects a surplus of £100,000.

Governance and strategy

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 in place "*a framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives.*"

The commencement of the College new build project represents a major undertaking for management and staff. A number of elements of good practice have been identified in respect of formal monitoring of the project and reporting to relevant College committees.

The College has prepared an operating and financial review of the College's activities to meet the requirements of SORP 2007.

Financial statements

We issued an audit report expressing a qualified opinion on the financial statements of the College for the year ended 31 July 2008. Our audit opinion was qualified in respect of the adjustments and disclosures that would be required to comply with FRS 17 *Retirement benefits*. In all other respects our opinions were unqualified.

Following approval of the College redevelopment project by the Scottish Funding Council, the College has charged accelerated depreciation on its existing buildings to reduce their carrying value to reflect their reduced remaining economic life.

There were delays experienced in the conduct of the audit as a result of unfilled vacancies within the finance function for a significant part of the year, with draft financial statements not being made available for the commencement of the audit fieldwork. This resulted in an extended audit process, with an additional week of fieldwork required to complete the audit.

Introduction

Audit framework

2007-08 was the second year of our five-year appointment as external auditors of Langside College ("the College"). This report to 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 College's arrangements to achieve Best Value
  - other aspects of the College's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

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.

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 accountable officers, 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 work in the discharge of our responsibilities.

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Financial commentary

- The College reported an operating surplus before exceptional items of £388,000. After exceptional items related to accelerated depreciation on the exiting College buildings, the deficit for the year was £3,082,000. The corresponding result for the year ended 31 July 2007 was a surplus of £868,000.
- The College's general reserves at 31 July 2008, including designated reserves, have decreased to £5,515,000 (2007: £8,597,000) as a result of a release from the revaluation reserve following the accelerated depreciation charge. The College is classed as financially secure.
- The 2008-09 financial plan projects a surplus of £100,000.

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

The income and expenditure account for the year shows a deficit of £3,082,000 (2006-07: surplus £858,000). The deficit arises as a result of accelerated depreciation charged on a proportion of the existing assets of the College arising from decisions relating to estates re-development plans. Without this charge the result would be a surplus of £388,000, representing 3% of total income (2006-07: £868,000 and 6%). The result for the year has been affected by the following factors.

Income

Total income increased by £3,227,000 (22%) from 2006-07. The most significant movements were:

- £2,630,000 release of deferred capital grants to correspond with the accelerated depreciation charge;
- £682,000 increase in grants awarded by the Scottish Funding Council; and
- £40,000 increase in investment income due to increased bank balance during the year.

The following table identifies the sources of income in 2006-07 and 2007-08.

	2007-08	*2006-07*	Movement		2007-08	*2006-07*
	£'000	*£'000*	£'000	%	%	*%*
Scottish Funding Council grants	13,780	*10,566*	3,214	30	77	*73*
Tuition fees	2,394	*2,151*	243	11	14	*15*
Other grant income	336	*568*	(232)	(41)	2	*4*
Other operating income	976	*1,014*	(38)	(4)	6	*7*
Endowment and investment income	216	*176*	40	23	1	*1*
Total income	**17,702**	***14,475***	**3,227**	**22**	**100%**	***100%***

Expenditure

Overall, total expenditure has increased by £7,177,000 (53%). The most significant movements were:

- £6,100,000 of accelerated depreciation was charged on a proportion of the fixed assets as a result of the future demolition of the old college building;
- staff costs increased by £382,000 as a result of inflationary increases; and
- an increase in operating expenses of £547,000 due to increased teaching expenses, marketing cost and the settlement of additional utility charges.

The following table identifies the key elements of expenditure in 2006-07 and 2007-08.

	2007-08	*2006-07*	Movement		2007-08	*2006-07*
	£'000	*£'000*	£'000	%	%	*%*
Staff costs	10,488	*10,106*	382	4	50	*74*
Restructuring costs	112	*(32)*	144	450	1	*1*
Other operating expenses	3,487	*2,940*	547	19	17	*21*
Depreciation and impairment	6,697	*593*	6,104	1029	32	*4*
Total expenditure	**20,784**	***13,607***	**7,177**	**53**	**100%**	***100%***

Balance sheet

The College reported a decrease of £440,000 in net assets during the year. The balance sheets at 31 July 2008 and 2007 are summarised as follows:

	2007-08	*2006-07*	Movement	
	£'000	*£'000*	£'000	%
Fixed assets	13,576	*14,566*	(990)	(6.8)
Current assets				
Debtors	1,887	*1,227*	660	53.7
Investments	1,912	*1,258*	654	52.0
Cash	4,364	*3,702*	662	17.9
Creditors due within one year	(4,329)	*(2,892)*	(1,437)	(49.7)
Net current assets	**3,834**	***3,295***	**539**	**16.4**
Creditors due after more than one year	(102)	*(61)*	(41)	(67.2)
Provisions for liabilities and charges	(1,394)	*(1,446)*	52	3.6
Net assets	**15,914**	***16,354***	**(440)**	**(2.7)**
Deferred capital grants	10,399	*7,757*	2,642	34.1
General reserves, including development reserve	3,005	*2,873*	132	4.6
Revaluation reserve	2,510	*5,724*	(3,214)	(56.1)
Total	**21,353**	***21,680***	**544**	**6**

Significant movements during the year include:

- a decrease in the fixed asset base of £990,000 due to normal depreciation plus the accelerated depreciation of £6,100,000 offset by additions, principally on the redevelopment project, of £5,707,000;
- an increase in deferred capital grants of £2,642,000 as a result of funding provided during the year by the Scottish Funding Council for works relating to the College campus redevelopment; and
- an increase in working capital balances of £539,000 with an increase in debtors of £660,000, increase in cash and investments held of £1,316,000, offset by an increase in creditors at the year end of £1,437,000. These movements are related to the ongoing campus redevelopment project.

Financial forecasting

The financial forecast return submitted to the Scottish Funding Council in June 2007 forecast a surplus of £50,000 to 31 July 2008. This return, however, was before the College obtained the formal approval of its redevelopment project and so no account had been taken of the need to charge accelerated depreciation with the 2007-08 financial statements. This has significantly affected the results for the year as described above.

2007-08 financial forecast

The following table summarises the 2008-09 financial forecast.

	£'000
Income	15,026
Expenditure	(14,916)
Forecast surplus for the year ending 31 July 2009	**100**
Cash and investments balance at 31 July 2008	6,276
Forecast cash and investments balance at 31 July 2009	6,512
Forecast movement in cash during 2008-09	**236**

While these results are more in line with the normal recurring income and expenditure of the College, the major campus redevelopment project will require considerable attention to be spent in monitoring and recording of costs. It will be important for the College to ensure continued focus on routine financial control while this major project is ongoing.

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 in place *"a framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives."*
- The commencement of the College new build project represents a major undertaking for management and staff. A number of elements of good practice have been identified in respect of formal monitoring of the project and reporting to relevant College committees.
- The College has prepared an operating and financial review of the College's activities to meet the requirements of SORP 2007.

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 its Principal, the Board of Management of the College 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 and four co-opted members, who were invited to join the board based on their individual skills. There are a number of standing committees, including property & estates, staffing, finance, audit and development, 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.

The College's nine shared corporate values and aspirations are contained within the 2006-09 corporate strategy and state that the College will be:

- an organisation which is ethical and well governed;
- an inclusive community resource;
- a stepping stone to work;

- a bridge to higher learning;
- a beacon of sound educational principles;
- an organisation known for fairness, respect and equality of opportunity;
- a sustainable organisation which is confident and enthusiastic about its future;
- an organisation where high performance is valued and students and staff are encouraged to maximise their full potential; and
- fully committed to Lord Nolan's seven principles of good governance.

Risk management

The College maintains a risk register that is the responsibility of the Board. The risk register is subject to annual review by College managers and then by the Board. The College also has in place a business continuity plan that is reviewed periodically.

The strategic management team receives reports setting out key performance and risk indicators and considers possible control issues. Risk awareness training has been provided to staff of the College to embed risk management within operational units. The Board of Management's agenda includes a regular item for consideration of risk and control and receives reports thereon from the strategic management team and the audit committee.

During 2007-08 a specific risk register and risk management programme has been established in relation to the redevelopment programme.

Systems of internal control

Corporate governance statement

Management have established an internal controls assessment framework, complementing the risk management and internal audit arrangements. The assessment of internal control is informed by the strategic management team who have responsibility for the development and maintenance of the internal control framework, the work of internal audit, and comments made in reports by external audit. The audit committee is also responsible for providing assurance to the board of management relating to corporate governance.

The corporate governance statement for 2007-08 provides details of the internal control environment and risk and control framework. Management highlight that the College is committed to exhibiting best practice in all aspects of corporate governance.

The College has made a fully compliant corporate governance statement. We are required to review this to assess whether the description of the process adopted by the College in reviewing the effectiveness of the system of internal control is consistent with our understanding of the process and report any inconsistencies in our opinion. We are not required to provide an opinion on the College's system of internal control.

We have reviewed the corporate governance statement and consider it consistent with our understanding of the process followed by the College during the year.

Internal audit

The approved internal audit programme for 2007-08 has been completed and the internal auditors have concluded that the College has in place "*a framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives.*"

Internal audit monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to management and the audit committee. Management is responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow up reviews to ensure that such recommendations have been implemented.

The College maintains an audit action plan documenting any high grade recommendations that are identified by internal audit. The Principal is responsible for the implementation of agreed audit recommendations and the internal auditors undertake periodic follow-up reviews to report on progress.

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 also conducted testing of the design and operation of controls over significant risk points in terms of major financial systems. Subject to minor weaknesses reported through our report to those charged with governance, controls are designed appropriately and operating effectively.

Governance and the new build project

We reviewed the governance arrangements established to manage the project within the College, through discussion with relevant College staff, including finance, estates, the secretary to the Board and the project manager and sponsor.

The College has established a monitoring and reporting framework up to the property and estates committee. This committee, who are responsible for the management of the new build, has members with both accountancy and construction expertise and is attended by construction and property management consultants. This Committee reports regularly to the Board on the new build. The College has agreed a "design and build" fixed price contract to reduce the College's financial exposure to time-delays and cost overruns (incurred by fault of the contractor).

Staff involvement has been included through the creation of the New Estates User Group which has helped to identify the requirements of the new build from different staff perspectives.

We have reviewed reports on the new build which indicated progress and actual costs incurred. We also discussed the funding of the new build and verified that the College had a contingency plan by way of a £1m loan option. We obtained the letter from the Scottish Funding Council which indicated the grant available for the new build. Testing within fixed assets and our regularity testing provided assurance that this money was being spent appropriately.

In addition, the contract between the College and contractor was obtained and reviewed for any onerous terms, of which none were found.

Prevention and detection of fraud and irregularity

The College's financial regulations detail measures put in place to prevent instances of fraud. The College has a whistle blowing policy in place to encourage staff to bring suspected frauds to notice and to ensure that prompt and effective action is taken. Significant frauds would be reported to the appropriate board committee. 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. 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 a qualified opinion on the financial statements of the College for the year ended 31 July 2008. Our audit opinion was qualified in respect of the adjustments and disclosures that would be required to comply with FRS 17 *Retirement benefits*. In all other respects our opinions were unqualified.

- Following approval of the College redevelopment project by the Scottish Funding Council, the College has charged accelerated depreciation on its existing buildings to reduce their carrying value to reflect their reduced remaining economic life.

- There were delays experienced in the conduct of the audit as a result of unfilled vacancies within the finance function for a significant part of the year, with draft financial statements not being made available for the commencement of the audit fieldwork. This resulted in an extended audit process, with an additional week of fieldwork required to complete the audit.

Audit opinion

On 17 December 2008 we issued an audit report expressing a qualified opinion on the financial statements of the College for the year ended 31 July 2008. Our audit opinion was qualified in respect of the adjustments and disclosures that would be required to comply with FRS 17 *Retirement benefits*. In all other respects our opinions on the financial statements and regularity of transactions was unqualified.

Qualified audit opinion

Paragraph nine of FRS 17 states that '*Where more than one employer participates in a defined benefit scheme the employer should account for the scheme as a defined benefit scheme*'. This indicates that there is a presumption that a defined benefit scheme will be accounted for on a defined benefit basis unless one of the two possible exemption criteria – employers' contribution rates or underlying assets and liabilities – is met.

The Board of Management believes that the College cannot identify its share of assets and liabilities in the Fund on a reasonable and consistent basis and that the College is therefore entitled to use the multi-employer exemption permitted by FRS 17, which allows a defined benefit scheme to be accounted for as it was a defined contribution scheme. The Board of Management considered information available during the year, but continues to account for the College's participation in the Strathclyde Pension Fund ("the Fund") on a defined contribution basis.

In our view, the College's share of the underlying assets and liabilities in the Fund can be identified on a consistent and reasonable basis based on the actuarial information available to the Board of Management and its participation should therefore be accounted for as a defined benefit scheme. Our audit opinion is qualified in respect of the adjustments and disclosures that would be required to comply with FRS 17. We qualified our audit report on the financial statements of the year ended 31 July 2007 with regard to the same disagreement. In all other respects our opinion is unqualified. Our opinion on the regularity of transactions is also unqualified.

Fixed assets

The College received confirmation from the Scottish Funding Council in October 2007 that funding would be made available to support the construction of a new building on the Langside campus.

Discussions were held with finance in advance of submission of the College's financial forecast return to the Scottish Funding Council. These agreed that the accelerated depreciation to write-down the carrying value of the College buildings which will be replaced as part of the project should be charged in full in 2007-08. The carrying value of these buildings has therefore been reduced to reflect their reduced remaining economic life.

Regularity

There were no issues arising from the regularity audit. We reviewed the minutes of the College's key committees, including the board of management and audit committee meetings. From these, we have established that the College has procedures in place to ensure discussion of key guidance from the Scottish Funding Council, as well as other relevant laws and regulations.

Management representations obtained from the Principal included our standard representation that during 2007-08 the College had complied with all necessary laws and regulations.

Report to those charged with governance

At the audit committee meeting on 9 December 2008 we discussed our "report to those charged with governance" which is required under International Auditing Standard 260. This dealt with relevant aspects of the College's financial statements production process, amendments to draft financial statements during the audit process, the treatment of uncorrected audit differences and the content of the representation letter from the principal to us.

We reported that delays were experienced in the completion of the audit as a result of unfilled vacancies within the finance function for a significant part of the year, with draft financial statements not being made available for the commencement of the audit fieldwork. This resulted in an extended audit process, with an additional week of fieldwork required to complete the audit.