SCOTT-MONCRIEFF
EDINBURGH AND GLASGOW

Coatbridge College

Annual Report to the Board of Management and the Auditor General for Scotland 2008/09

December 2009

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Executive Summary

Finance

Our audit of Coatbridge 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 reported a surplus of £786,000 in 2008/09. The budgeted surplus shown on the 2008 Financial Forecast Return submitted to the Scottish Funding Council was £857,000 and the negative variance of £71,000 was mainly due to the FRS 17 adjustment.

The 2008/09 surplus, along with that achieved in 2006/07 and 2007/08 will be used to fund the College's contribution to its estates strategy which commenced in June 2009 and is scheduled to be completed in January 2011.

The 2009 Financial Forecast Return shows the College forecasting operating surpluses of £1,089,000 in 2009/10, £463,000 in 2010/11 and £99,000 in 2011/12.

The College is financially secure and the balance sheet as at 31 July 2009 reports net assets of £13.294m including bank and cash of £1.966m.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the 2008 Combined Code on Corporate Governance during 2008/09 apart from the Chairman of the Remuneration Committee also being the Chairman of the Board of Management. 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 from our audit. This issue has been addressed with effect from 7 October 2009.

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

Conclusion

This report concludes the 2008/09 audit of Coatbridge 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 Director of Finance. 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.

Scott-Moncrieff
16 December 2009

Introduction

1. This report summarises the findings from our 2008/09 audit of Coatbridge College. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 6 August 2009. 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 2008/09:
   - Estates strategy
   - Valuation of land and buildings
   - Strathclyde Pension Fund liabilities
   - Organisational development
   - Combined Code on Corporate Governance 2008

3. This report sets out our findings in relation to these key issues. This report also includes a follow-up of issues identified during our previous year's audit as well as issues which will be affecting 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

Responsibilities

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.

Audit 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 2009 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 then pass them to the Scottish Government for laying before the Scottish Parliament.

Financial position

9. The College is reporting a surplus for the year to 31 July 2009 of £786,000. This surplus is reported following an adjustment for £37,000 in respect of the correction of the year end VAT debtor. The table below illustrates the impact of audit adjustments identified on the surplus reported for the year:-

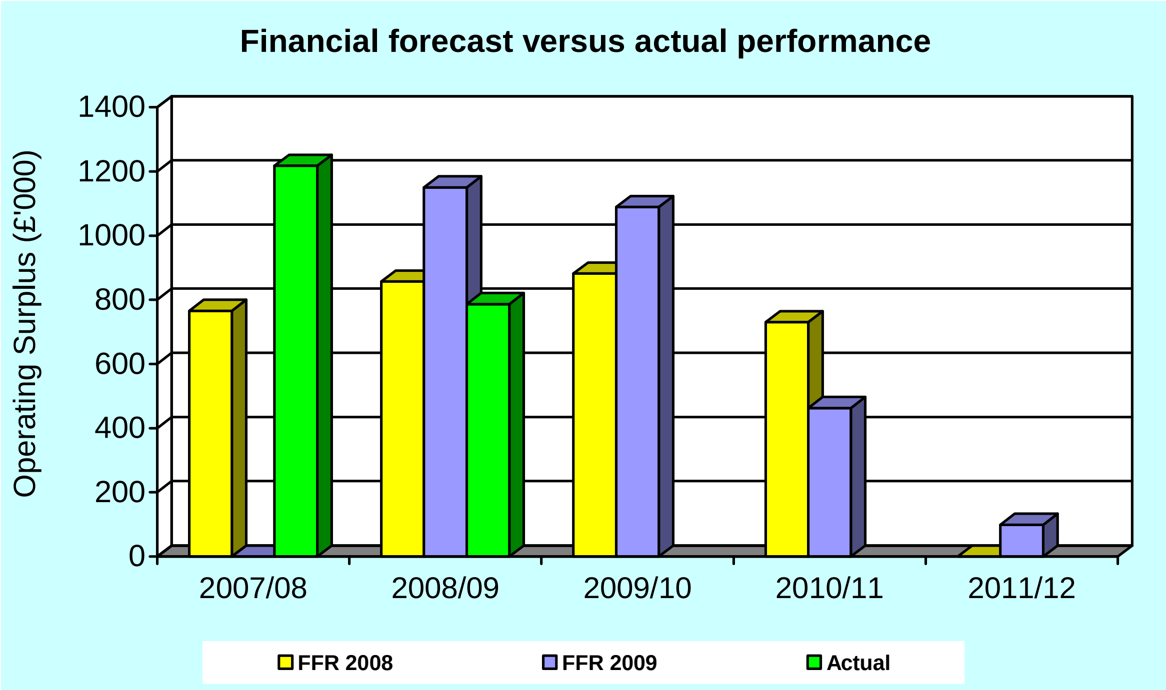
	£
Surplus per draft accounts presented for audit	823,000
VAT Debtor adjustment	(37,000)
Surplus per annual accounts	**786,000**

10. The College's Balance Sheet as at 31 July 2009 is reporting total reserves of £13.294 million, with £2.287 million within the general reserve and a healthy cash balance of £1.966 million.

Financial forecasts

11. 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.

12. The graph below compares the actual results for 2008/09 with the FFR forecasts and shows the latest predictions within the 2009 FFR.



13. As shown above, the College is expecting to report surpluses in 2009/10, 2010/11 and in 2011/12.

14. The College's original budget for 2008/09 per the 2008 Financial Forecast Return (FFR) showed a surplus of £857,000.

15. A reconciliation between the forecast surplus and the actual surplus is set out below:

	£
Surplus per initial budget	**857,000**
I&E effect of 2008/09 FRS 17 adjustment **(paragraph 18)**	(89,000)
Miscellaneous items	18,000
Actual surplus per financial statements	**786,000**
Variance from original budget	**(71,000)**
Variance as percentage of total income	**1%**

16. The College continues to develop the portfolio of activity that it delivers, the supporting infrastructures and make improvements to the efficiency and effectiveness of services, all leading to increasing income and reducing expenditure. This approach has provided the College with a platform to take advantage of opportunities presented.

17. The FFR is an estimate of future trends and therefore relies on assumptions on rates of change in income and expenditure and changes to external influences. Those assumptions are agreed with the Board of Management and the SFC. The College is conscious of the timing of preparing the FFR on an annual basis and the need for both the Finance Committee and the Board of Management to agree the assumptions. This process ultimately has an inherent delay and also impacts on the periods used for the forecasting. The 2008 FFR was completed based on nine months activity to the end of April, thus omitting a quarter of the year from information gathering. The completion of all future FFRs, including the 2009 FFR, has now been delayed by a month to allow more time for information to be gathered and the return to be prepared, in order to improve reporting.

18. 2007/08 was the first year that the College accounted for the Strathclyde Pension Scheme as a defined benefit scheme in accordance with FRS 17. As a result when the 2008 FFR was prepared, the Board of Management had not considered the effect this change in accounting policy would have on the figures in the financial statements, or on the FFR.

19. In all cases the College will take a prudent approach to potential income streams, but targets are continually reviewed and agreed by the Board of Management.

Financial planning and monitoring arrangements

20. 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.

21. Budgets are devised at the start of the year and approved by the Board of Management, after consideration by the Finance Committee, and are updated during the year to take account of new information. The Finance Committee meets four times a year, and management accounts showing forecast year end positions against budget are presented to each Finance Committee meeting.

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

Financial reporting framework

23. 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

24. We are pleased to confirm that the College's 2008/09 financial statements comply fully with the Accounts Direction and FE/HE SORP 2007 in all material aspects.

Financial statements preparation

25. We are grateful to the Director of Finance, the interim 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.

26. 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 during the audit

Actual adjustments

27. Five adjustments were posted as a result of the audit work performed:-

1)	Dr Income	£36,949	
	Cr VAT Debtor		£36,949
	Being the amendment to the VAT debtor at 31 July 2009		
2)	Dr Other Debtors	£36,501	
	Cr Other Taxation and Social Security		£36,501
	Being reallocation of VAT debtor from creditors		
3)	Dr Prepayments	£194,250	
	Cr Accrued income		£194,250
	Being re-classification of debtors		
4)	Dr Land and Buildings Accumulated Depreciation	£2,638,000	
	Cr Land and Buildings Cost		£2,638,000
	Dr Land and Buildings Cost	£315,000	
	Dr Equipment Cost	£127,113	
	Cr Land and Buildings Accumulated Depreciation		£442,613
	Being reallocation of revaluation adjustments for disclosure purposes		

5)	Dr Land and Buildings Cost	£121,719	
	Cr Expenditure		£121,719
	Dr Depreciation Charge	£3,043	
	Cr Land and Buildings Accumulated Depreciation		£3,043
	Dr Income	£121,719	
	Cr Deferred Capital Grant		£121,719
	Dr Deferred Capital Grant	£3,043	
	Cr Income		£3,043

Being capitalisation of Rok Phase 1 Valuation 3 and the associated depreciation on the valuation, the deferral of the associated grant and the release of said grant

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

Potential adjustments

29. No potential adjustments to be reported.

Review of accounting systems

30. 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. Please refer to the action plan for details of control improvements detected during audit fieldwork.

Other issues arising from the audit

31. In order to assist College members' understanding of the financial statements and our audit, we have summarised the issues below that we believe are of particular significance in 2008/09.

Estates strategy

32. The capitalisation treatment of costs, and grants received has been confirmed as accurate from the audit work that has been performed.

33. In June 2009 the college decanted from the South Building to Strathclyde Business Park, which has resulted in the inclusion of an additional operating lease commitment in note 26 of the financial statements in respect of the lease of Duart House.

Valuation of land and buildings

34. An interim valuation of land and buildings was conducted by James Barr, Chartered Surveyors, in August 2009 which resulted in an increase to the value of land and buildings of £4.665 million. As a result of the audit adjustments identified, the revaluation has been accurately reflected within the financial statements.

Strathclyde Pension Fund liabilities

35. The College accounts for the Strathclyde Pension Fund, as a defined benefit scheme. The actuarial valuations prepared by Hymans Robertson LLP showed that the pension fund had a net deficit of £591k at 31 July 2008 which increased to a deficit of £2,058k at 31 July 2009. These valuations are reflected within the financial statements and details are disclosed within note 23.

36. We have reviewed the College's accounting for the pension liability and ensured that it complies with the requirements of FRS 17.

Organisational Development

37. The College has incurred exceptional staff costs during the year in relation to staff restructuring of £149,000.

Combined Code on Corporate Governance 2008

38. As described in the next section, we are satisfied that the College has complied with the Combined Code on Corporate Governance 2008 for the year to 31 July 2009.

Governance

39. 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.

40. 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

41. 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.

42. The College's Corporate Governance Statement for 2008/09 explains that the College was compliant with the 2008 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 recognises that this is contrary to the provisions of the 2008 Combined Code, but considers it appropriate to maintain this position due to the adoption of the Association of Scottish Colleges (ASC) Guide for College Board Members. This issue has been addressed with effect from 7 October 2009.

43. 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.

44. 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 2008

45. An updated Combined Code on Corporate Governance was issued in June 2008, which superseded the Code issued in 2006. The Combined Code 2008 is applicable for reporting years beginning on or after 28 June 2008 and therefore the College has stated compliance with the 2008 code for the first time in its 2008/09 financial statements.

46. The College reviewed its corporate governance arrangements against the 2008 code. The only area of non-compliance is that the Chairman of the Board of Management is also the Chairman of the Remuneration Committee, and this fact is clearly disclosed within the Corporate Governance Statement in the financial statements.

Risk management

47. Risk management is important to the establishment and regular review of systems of internal control. We have reviewed the College's risk management arrangements as part of our audit work on corporate governance.

48. The College has a risk management policy and a risk register in place which identifies the risks facing the College and the actions necessary to mitigate these risks. The senior management team discuss all risks on a monthly basis and present regular updates to the Audit Committee on any actions required. The Board of Management will review the risk register on an annual basis once the senior management team have performed their annual review of the risks facing the College.

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

Internal audit

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

51. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate.

Internal audit's annual opinion statement

52. 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.

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

Prevention and detection of fraud and irregularity

54. 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.

55. The College has an anti- fraud policy and whistle blowing policy in place. There were no frauds identified during the year.

56. 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. All relevant guidance is presented to the Board of Management meetings ensuring that all those concerned have access to adequate and relevant information.

57. 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

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

59. 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.

60. 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.

61. We are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

Looking Forward

Financial position

62. The SFC 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. Coupled with increasing cost pressures this will result in limited financial resources for the Further Education sector.

Estates project

63. In June 2008 the College commenced the estate refurbishment project which will include improvements to the entire South building and development of a central atrium linking the two existing buildings to make the refurbished areas of the campus DDA compliant and fit for purpose. Work is anticipated to be completed by January 2011.

64. The cost of the project is estimated to be £22.3m, and SFC has confirmed capital grant support of £20m, with the remaining £2.3m being funded by the College itself.

65. We will continue to review the College's capitalisation treatment of costs and grants in relation to this work during the 2009/10 audit.

Appendix 1 – Action Plan

66. Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2008/09. These are the issues that we believe need to be brought to the attention of the College.

67. 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.

Grading

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

Grade 5	Very high risk exposure - Major concerns requiring Board attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Issues from our 2008/09 audit

Action point	Para ref	Issue identified and recommendation	Management response
1 **Journal authorisation**	**N/A**	It was noted during audit testing that there are instances where journals are being signed as prepared and authorised by the same individual. We recommend that segregation of duties is enforced to ensure all journals are authorised by an individual distinct from the preparer. ***Grade 2***	**To be actioned by:** Director of Finance **No later than:** Immediate
2 **Register of interests**	**N/A**	The Secretary to the Board should ensure that procedures are in place to ensure that a register of interests form is completed timeously by all board members and, that procedures are in place to pursue the non-completion of such documentation. ***Grade 1***	**To be actioned by:** The Secretary to the Board **No later than:** Immediate

Follow-up of issues from previous external audit

Follow-up point	Original recommendation	Update at December 2009
1 **Timetable – FFR preparation**	The process for preparation of the annual FFR currently takes place in April, to ensure that the final return can be presented to the Finance Committee and the Board of Management prior to final submission to SFC in June. We recommend that the return is presented to the Finance Committee only in June of each year. This will provide the Finance Department with more time and hence more information which will further strengthen the budgetary function.	The preparation of the FFR has now been delayed by a month to allow more time to obtain information that will result in the figures being more accurate. **Action agreed**
2 **Month end reconciliations**	It was noted during audit testing that the year-end sales and purchase ledger listings did not agree to the balances within the respective nominal ledger control accounts. We recommend that these listings be reconciled to the nominal ledger as part of the month end procedures and any differences should be investigated and adjusted where appropriate.	Month end reconciliations are now being prepared by the Finance Department, which has been confirmed by year end testing at the final audit. **Action agreed**
3 **Journal preparation**	Interim audit testing revealed that documentation to support the raising of the journal is not always attached to the journal sheet. We would recommend that supporting documentation be retained with the journal sheet in order to strengthen the control process.	Supporting documentation is now being attached to journals, which has been confirmed by the audit work that has been carried out. **Action agreed**
4 **Bank reconciliations**	The bank account in the name of North Lanarkshire Social Work Individual Needs should be incorporated into the nominal ledger and periodic bank reconciliations should be performed.	Bank reconciliations for this account are still not being prepared. **Finance Manager, Immediate**

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