



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

John Wheatley College

Annual audit report to the Board of Management and
Auditor General for Scotland
Year ended 31 July 2009

8 December 2009

AUDIT

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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 John Wheatley 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 than 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.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Financial commentary

The College achieved a surplus of £51,000 during 2008-09 compared to a forecast surplus of £50,000 and a surplus of £46,000 in the prior year. The financial statements report retained general reserves of £984,000 and the Scottish Funding Council classifies the College as financially secure. The 2009-10 financial plan forecasts a surplus of £50,000 and includes consideration of sensitivity analysis.

Governance and risk management

Management and the audit committee continue to demonstrate their commitment to best practice through self-review and evaluation of corporate governance arrangements and audit committee performance.

The corporate governance statement is consistent with our understanding of the organisation and does not disclose any significant weaknesses in the system of internal control. There is a formal process in place to record, distribute and monitor action in response to key guidance and circulars.

Internal audit concluded that *“the procedures in place are working adequately and effectively and the College has strong Corporate Governance controls in place”*.

The operating and financial review provides a very comprehensive account of the College’s activities.

The Board of Management report and operating financial review includes a detailed self-assessment of the College’s arrangements to achieve Best Value against the Scottish Government’s nine principles of Best Value.

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 2009. 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.

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

No adjustments were made to the draft financial statements and there were no unadjusted audit differences.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. This, and supplementary planning guidance issued by Audit Scotland, specifies a number of objectives for our audit.

Audit framework

This was the third of our five-year appointment by the Auditor General for Scotland as external auditors of John Wheatley College. This report to the College's Board of Management and the Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

We outlined the framework under which we operate, under appointment from Audit Scotland, in the audit plan overview discussed with the Board of Management's audit committee on 20 May 2009.

In accordance with Audit Scotland's Code, the scope of our work for 2008-09 was to:

- provide an opinion on the College's financial statements and, as required by the relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland):
 - 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; its financial position
 - aspects of the College's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

Responsibilities of the Board and auditors

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 the stewardship of resources made available to its 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 College principal, to make arrangements to secure Best Value.

Acknowledgement

Our audit work has again brought us into contact with a range of College staff. We wish to place on record our appreciation of the cooperation and assistance extended to us by staff during the discharge of our responsibilities. We also note the continued high quality of the College's preparation for the audit and co-operation of the chief finance officer and his team.

Service overview; overall position for year; income

- The College achieved a surplus of £51,000 compared to a forecast surplus of £50,000 and a £46,000 surplus in the year ended 31 July 2008.
- The financial statements report retained general reserves of £984,000 and the Scottish Funding Council classifies the College as financially secure.
- The 2009-10 financial plan forecasts a surplus of £50,000.

Service overview

The financial statements report a surplus for the year of £51,000, an increase of 11% compared to 2007-08 and £1,000 higher than the projected outturn anticipated in management accounts during the year. At 31 July 2009 there are retained general reserves of £984,000.

Income

Income for the year has risen by £1,466,000 compared to 2007-08, an increase of 16%. As the undernoted table demonstrates, most of the increase has arisen in Scottish Funding Council grants. This is attributed to several reasons. There has been increased activity in terms of the WSUMS; in 2007-08 the target level was 34,697 which was increased to 35,697 in 2008-09, an increase of 2.9%, accounting for a £261,000 increase in income. This also led to an increase in the childcare funds the College received of £121,000. In 2008-09 the College started a new project, the Care Leavers' Project, for which it received a grant of £350,000. This project was aimed at students who had missed large periods of school due to having to care for relatives and to get them back into education. There was also a large increase of £368,000 in capital grants which were set against the increased refurbishment costs the College incurred during 2008-09.

A further reason for this increase in income is the increase in tuition fees of £270,000. This is mainly due to the Glasgow East Regeneration Agency ("GERA") work. A large proportion of this money was received at the end of the 2007-08 financial year and was carried forward into 2008-09, accounting for the increase.

	2008-09	2007-08	Movement	Movement
	£'000	£'000	£'000	%
Scottish Funding Council grants	9,411	8,260	1,151	14%
Tuition fees and education contracts	559	289	270	93%
Other operating income	902	831	71	9%
Investment income	23	49	(26)	(53)%
Total	10,895	9,429	1,466	16%

Expenditure

Expenditure

In line with the increase in income, expenditure has also risen from £9,383,000 in 2007-08 to £10,844,000. Individually significant movements included:

- An increase of £678,000 (12%) in staff costs. This is due to both an increase in staff numbers due to higher levels of student activity, a pay rise from 1 August 2008, and an increase in pension contributions.
- A £780,000 (27%) rise in other operating costs. This is attributable to several reasons. Firstly, there was an increase in premises costs of £64,000 due to increased utility costs resulting from higher usage, higher charges and a billing error in the prior year. There was also £13,000 remedial work carried out on a server room due to damage. Revenue costs increased by £294,000 due to the main refurbishment of the Easterhouse campus which took place during 2008-09. Another contributing factor to the increase is the rise in agency staff costs of £191,000 resulting from the arrangements with the GERA project as an element of the student training required additional supervision. Finally, childcare expenditure increased by £112,000 due to the increased childcare activity causing a rise in both income and expenditure.

	2008-09	2007-08	Movement	Movement
	£'000	£'000	£'000	%
Staff costs	6,456	5,778	678	12%
Other operating expenses	3,644	2,864	780	27%
Depreciation	744	741	3	0%
Total	10,844	9,383	1,461	16%

The balance sheet shows an increase of £25,000 in net assets as at 31 July 2009 compared to the previous year end. Significant movements include:

- £210,000 increase in debtors. Within this movement was an increase in trade debtors of £138,000 due to a delay in payment from GERA as payment was delayed until the service level agreement was in place. An increase in prepayments and accrued income of £87,000 further contributed to the overall debtors movement.
- Decrease of cash and short term investments of £1,065,000. This was due to both an exceptionally high cash balance in the prior year due to timing of payments, and the rise in debtors and fall in creditors at the year end.
- A fall in creditors of £1,009,000. The main cause of this decrease is the fall in accruals and deferred income of £854,000. This is due to there not being large accruals at 31 July 2009 for the Haghill Campus as these have now been paid. At 31 July 2008, there was an accrual for £173,000 for the new build at Haghill and an accrual of £115,000 for the refurbishment at Easterhouse. Both of these have now been paid. In 2007-08 the College received large grants from the Scottish Funding Council and GERA, which were not spent during the year, and classified as deferred income. £179,000 and £188,000 grants were carried forward into 2008-09, but these amounts have now been spent.

	2009	2008	Movement	Movement
	£'000	£'000	£'000	%
Tangible fixed assets	21,514	21,610	(96)	(0)%
Stock	12	13	(1)	(8)%
Debtors	481	271	210	77%
Cash and short-term investments	301	1,366	(1,065)	(78)%
Creditors: amounts falling due within one year	(764)	(1,773)	1,009	57%
Provisions for liabilities and charges	(136)	(134)	(2)	1%
Net assets	21,378	21,353	25	0%

The following table summarises the 2009-10 financial forecast.

	£'000
Income	10,380
Expenditure	(10,330)
Forecast surplus for the year ending 31 July 2010	50
Cash balance at 31 July 2009	301
Forecast cash balance at 31 July 2010	563
Forecast movements in cash during 2009-10	262

The surplus forecast for 2009-10 is consistent with the actual surplus achieved in 2008-09, anticipating a decrease of only £1,000. Income is expected to fall by £515,000, of which £226,000 represents a decrease in funding from the Scottish Funding Council, £105,000 represents a fall in tuition fees, £171,000 relates to other income and £13,000 of investment income.

Expenditure is forecast to fall by £514,000 in line with income. This decrease includes £497,000 staff costs, £1,039,000 other operating expenditure and £28,000 depreciation. The planned increase in cash reflects a fall in debtors of £210,000 and an increase in trade debtors of £66,000.

Comprehensive scenario planning (with variables in excess of 10%) completed in the summer of 2009 will assist management in taking timely and effective action in response to changes in funding allocations, but significant changes are likely to require 'difficult decisions' to be made.

- 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 of the processes followed by the College.
- 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 very comprehensive account of the College's activities and exceeds the requirements of SORP 2007.
- The Board of Management report and operating and financial review includes a comprehensive self-assessment of the College's arrangements to achieve Best Value against the Scottish Government's nine principles of Best Value.

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 publicly-funded bodies.

Through the College 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 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 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.

Governance arrangements

The Board of Management comprises 16 full members and four co-opted members with relevant skills and expertise in capital and building management 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 is 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 Executive, Financial Control, Audit, Personnel and Staffing, Capital and ICT and Academic and General Purpose. Each committee is formally constituted and has its own formal 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.

In line with best practice the audit committee formally evaluated its performance during the year and identified a small number of areas for improvement, which have been subsequently taken forward.

The College's 2008-11 corporate strategy identifies the values that are core to its operations and sets the tone of the organisation from senior management. The focus has been on public value and the wider social benefits that the College brings to the local community in addition to its base goal of providing education services.

In line with best practice, the College formally evaluated its arrangements against 'the principles of good governance for public bodies' and reported the results to the Board of Management after the year end. This evaluation is discursive in nature, including detailed consideration of the depth of arrangements, and is performed every second year. The Independent Clerk to the Board of Management assesses governance arrangements against the Scottish Executive's On Board toolkit in intervening years. This process is based on a comprehensive checklist, but does not require the same consideration of the depth and nature of processes in place.

Risk management

The College adopts an approach to risk management based on guidance issued 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. The Risk Register is a standing item on the Board of Management meeting agenda and is updated at meetings if additional risks are identified.

The College's dedicated Risk Management Committee meets regularly to review the College's response to identified risks. Reports are distributed to the senior management team which detail key performance indicators and possible control issues which may be identified by early warning mechanisms embedded within the operational units. Risks are identified, prioritised and assessed according to the likelihood and consequence; where there is no mitigating control in place measures are taken to address and mitigate the risk.

Corporate governance statement

The 2008-09 corporate governance statement documents the processes and controls in place at the College and demonstrates the College's continued commitment to best practice in all areas of corporate governance. The College has a well documented and clear management structure that facilitates decision-making on the key areas within the organisation. The corporate governance statement is informed by the results of internal consideration of the arrangements in place. The Board of Management continues to review and implement policies and procedures in line with good practice in order to maintain a robust corporate governance framework and operating culture.

The College has made a fully compliant corporate governance statement. We are required to review this to assess whether the description of the process employed by the College is consistent with our understanding 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 believe it to be consistent with our understanding of the process followed by the College during the year.

College management continues to be supportive of Scotland's Colleges' current work with CIPFA to devise a further education specific code of corporate governance, rather than using the Combined Code which, in some areas, is not relevant to the environment in which the College operates.

Governance and risk management (continued)

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 Scotland's 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.

Internal audit

The approved internal audit programme for 2008-09 has been completed and the internal auditor's reports have been reviewed, which indicate a strong control environment and minimal recommendations. Management has continued to report action taken in response to internal audit recommendations to the audit committee. As at the most recent internal audit visit in March 2009, all "high" grade recommendations had been completed, and 11 of the 17 "medium" priority recommendations were deemed complete.

Internal controls

In accordance with our audit plan, we have drawn on the work performed by internal audit and performed detailed testing of both the entity level controls and finance controls in operation at the College. The testing performed identified no failures of controls and therefore no significant recommendations have been noted. Testing of the design and operation of controls over significant risk points confirms that controls are designed appropriately and are operating effectively.

Prevention and detection of fraud and irregularity

The College's financial regulations details measures put in place to prevent instances of fraud, including a whistle-blowing policy. The College has a fraud policy available to all employees on the intranet, as well as policies and procedures in individual financial and operational areas. The principal writes to all senior and operational managers annually reminding them of their duty to report fraud or mis-use of College resources. Management has not reported any material instances of fraud or irregularity during 2008-09.

Standards of conduct

The College's intranet contains wide-ranging human resource policies and procedures which are readily available for staff to access. It also contains a formal register of interests for recording members of the Board of Management and senior managers' interests. This is considered to be best practice and aids in demonstrating consideration of independence in decision making and the awarding of contracts.

Best Value / value for money

In accordance with the financial memorandum with the Scottish Funding Council, the Board of Management report and operating and financial review includes a comprehensive self-assessment of the College's arrangements to achieve Best Value against the Scottish Government's nine principles of Best Value.

Key findings

- We issued an audit report expressing a qualified opinion on the financial statements of the College for 2008-09. 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.
- Management provided draft financial statements and supporting working papers in line with the agreed timetable. These were complete and of a very high standard.
- No adjustments were made to the draft financial statements and there are no unadjusted audit differences.

Audit opinion

We issued an audit report expressing a qualified opinion on the financial statements of the College for the year ended 31 July 2009. 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.

Financial statements – compilation arrangements

Management provided draft financial statements, which were complete and of a high standard, to us in advance of the audit fieldwork. The standard of documentation prepared by the finance staff to support the financial statements was of a high standard and available to the audit team on the first day of fieldwork.

No adjustments were made to the draft financial statements and there are no unadjusted audit differences.