



**Lews Castle College**

*Creating the University of the Highlands and Islands*

**ANNUAL REPORT  
TO THE BOARD OF MANAGEMENT AND THE  
AUDITOR GENERAL FOR SCOTLAND  
ON THE EXTERNAL AUDIT FOR THE  
YEAR ENDED 31 JULY 2009**

**NOVEMBER 2009**

**Wylie<sup>+</sup> Bisset, LLP**

Chartered Accountants  
Business & Tax Advisers

**168 Bath Street  
Glasgow**

Date of commencement of Final Visit	26/10/2009
Date of Draft Report to College	26/11/2009
Date of Meeting re Draft Report	By email
Date of College Responses	30/11/09
Date of Presentation of Report	30/11/09

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## **GLOSSARY OF TERMS**

Annual Report	-	Report
Lews Castle College	-	The College "LCC"
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

## 1. INTRODUCTION

- 1.1. Wylie & Bisset were appointed as the External Auditors of Lews Castle College with effect from 1 August 2006 for a period of 5 years until 31 July 2011. Wylie & Bisset LLP succeeded Wylie & Bisset during 2008 and will undertake the remainder of the appointment.
- 1.2. The Annual Report has been prepared following the conclusion of our audit of the financial statements of Lews Castle College for the year ended 31 July 2009
- 1.3. Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in March 2007
- 1.4. Paragraph 19 of the 'Code' states that the auditor's objectives are to:
  - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
  - Review and report on the College's corporate governance arrangements as they relate to:
    - The College's review of its systems of internal control
    - The prevention and detection of fraud and irregularity
    - Standards of conduct, and the prevention and detection of corruption
    - Its financial position; and,
  - Review aspects of the College's arrangements to manage its performance.
- 1.5. The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6. The responsibilities of Wylie & Bisset LLP with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7. Our audit report on the financial statements for the year ended 31 July 2009 is unqualified.

- 1.8. The Annual Report covers the following areas as set out in the Code:
- a) Internal Controls and audit approach
  - b) Internal Audit
  - c) Corporate Governance
  - d) Value for Money
  - e) GMAP visits
  - f) Prevention and detection of fraud and irregularities
  - g) Management letter – 2008
  - h) Management letter – 2009
- 1.9. Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10. Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11. This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13. Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

*Wylie + Bisset LLP*

Wylie & Bisset LLP

## **2. INTERNAL CONTROLS AND AUDIT APPROACH**

- 2.1. We have reviewed in the course of our audit the key elements of the College's systems of internal financial controls including the following areas;
- a) The College's medium and short term planning processes including budgets;
  - b) The College's review of key performance indicators, financial and management accounts;
  - c) The College's controls over income and expenditure;
  - d) The College's financial controls and procedures;
  - e) The input from the Audit Committee and the Finance Committee;
  - f) The College's internal audit service.
- 2.2. In carrying out our audit work we have taken into account the following:
- a) The Code of Audit Practice issued by Audit Scotland;
  - b) The Code of Audit Practice issued by SFC;
  - c) Guidance issued by Audit Scotland;
  - d) Guidance issued by SFC;
  - e) The College's internal control procedures;
  - f) The College's Corporate Governance procedures;
  - g) The College's approach to Value for Money;
  - h) The financial memorandum between SFC and the College.
- 2.3. In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:
- a) Reviewing previous financial statements;
  - b) Reviewing internal audit plans and reports;
  - c) Discussions with senior management and staff at the College;
  - d) Completing appropriate audit programmes;
  - e) Carrying out analytical review procedures;
  - f) Carrying out substantive and compliance audit tests on a judgemental basis;
  - g) Reviewing the minutes of the principal College committees.
- 2.4. Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 9 & 10.
- 2.5. The audit recommendations are included in the appropriate sections of this report.
- 2.6. The recommendations have been graded as either High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

### **3. FINANCIAL STATEMENTS**

- 3.1. The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.
- 3.2. The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

#### **AUDIT REPORT**

- 3.3. We are pleased to record that there are no qualifications in our audit report on the College's 2008/09 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

#### **FINANCIAL PERFORMANCE**

- 3.4. The income and expenditure account shows an operating surplus for the year of £17k (2008 - £146k). Excluding the movements in relation to the pension liability under FRS17 the income and expenditure account would show an operating surplus of £53k (2008 - £110k).
- 3.5. In 2008/09 the College forecast for an operating surplus of £115k through the College Financial Return. The actual surplus for the year was £17k. The College has currently budgeted for a £4k operating surplus in 2009/10.
- 3.6. The balance brought forward on the consolidated income and expenditure reserve as at 1 August 2008 was £798k in deficit. The balance on the income and expenditure reserve at 31 July 2009 is £745k in deficit.
- 3.7. In July 2009 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2007/08.



3.8. The key performance indicators relative to the College in 2007/08 are as follows:

	2007/08 LEWS CASTLE COLLEGE	2007/08 SECTOR AVERAGE
Operating Surplus as a % of income	2.3%	1.3%
The Reserves (designated reserves plus Income & Expenditure reserves) as a % total of income	(12.4%)	22.9%
Historical cost surplus as a % of income	2.3%	8.9%
The liquidity ratio (current assets: current liabilities)	1.0	1.7
The days cash to expenditure ratio	35	116
Unit cost of WSUM	355	228
WSUM's per FTE teaching staff	299	373
Staff costs as % of total expenditure	65%	65%
Premises cost as % of total expenditure	7%	9%
Total funding grant as a % of total income	66%	72%
Recurrent Grant as a % of total income	55%	63%
Total education Contracts and Tuition Fees as a % of total income	10%	16%
Total other income as a % of total income	23%	10%
European Income as a % of total income	0.1%	2.1%

- 3.9. These show that for the majority of KPIs, the College's financial performance is largely in line with the sector average. Where variances are noted these are considered appropriate and in line with expectation given the College's remote location.
- 3.10. In 2010 the SFC is due to publish comparisons of the financial performance of colleges based on 2008/09 PIs. The College will continue to keep the inter-college comparisons produced by SFC under review.

#### **SUBMISSION OF ACCOUNTS**

- 3.11. The accounts were submitted for audit on 26th October 2009. The financial pages of the accounts submitted for audit at this date were substantially complete with revised drafts, incorporating the OFR and revision to financial information were available soon after. Working papers provided have generally been of a good standard and queries arising from the audit have all been resolved. Key staff members were readily available for consultation throughout the audit process.

#### **ISSUES ARISING**

- 3.12. During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance & Corporate Services and the Management Accountant. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.

**Accounting Policies:** In accordance with FRS18 the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts.

**Capital expenditure:** During the year ended 31 July 2009, the College expended £162k on capital expenditure

**FRS 17:** The College participates in the Highland Council Pension Scheme and this is treated as a defined benefit scheme. At 31 July 2009 the college had a pension liability of £827k (2008 a liability of £147k).

**SSAP 24 Provision:** The college is accounting for SSAP 24 provision using an interest rate of 2.5% which is in line with SFC guidance.

**Basis of Preparation – Going Concern:** The College makes reference to the accumulated deficit within its accounting policies. This area should be reviewed on an annual basis to ensure the accounting policy note is still relevant. We have not considered an emphasis of matter with regard to this situation to be necessary.

## 4 INTERNAL AUDIT

### Objective and Approach

- 4.1. Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2. The College's internal auditors for 2009 were CIB Services
- 4.3. The College's internal audit strategic and operational plans are set out for the year ending 31 July 2009 in the Audit Needs Assessment.
- 4.4. In the course of the year ended 31 July 2009 the following internal audit reports were issued:
  - a) Systems (September 09)
  - b) Income and Debtors (May 09)
  - c) Payroll (September 09)
  - d) Purchases and Creditors (May 09)
  - e) Treasury Management (September 09)
  - f) Income and Expenditure – Projects (October 09)
  - g) Risk Management (October 09)
  - h) Corporate Governance (October 09)
  - i) Contractors and Procurement (October 09)
  - j) Building and Facilities Maintenance Programme (October 09)
  - k) Systems (September 08)
  - l) Income – An Cotan (October 08)
  - m) Visit – Barra Outreach Centre (March 09)
  - n) Financial Controls (October 08)
- 4.5. The Internal Audit Annual Report was issued in October 2009
- 4.6. An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and review of the Internal Audit reports. Based on this work, we concluded that the internal audit function is operating effectively and hence that we could place formal reliance on work of Internal Audit with regard to our assessment of the overall control environment operating at the College. This has allowed us to reduce our overall testing of the main systems and controls in place at the College although has not allowed a reduction in specific audit transaction testing.

## **5 CORPORATE GOVERNANCE**

### **Objective and Approach**

- 5.1. A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was carried out using a bespoke checklist. We also reviewed the following:
- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2009;
  - b) The College's Corporate Governance strategy;
  - c) The minutes of meetings of key College committees issued during the year.

### **Opinion**

- 5.2. Based on our review the College appears to operate appropriate Corporate Governance procedures and management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff. However, a specific weakness was noted with regard to attendance at committee meetings. This has given rise to a recommendation within section 10.

### **Recommendations**

- 5.3. A recommendation has been made in this area.

## **6 VALUE FOR MONEY**

### **Objective and Approach**

6.1. We have reviewed the College's Value for Money systems including the following:

a) The College's strategy in this area;

### **Opinion**

6.2. Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources.

### **Recommendations**

6.3. There are no recommendations in this area.

## **7 GMAP VISITS**

- 7.1. The College has submitted one GMAP return during the year ended 31 July 2009 as follows:
  - a) College Financial Return.
- 7.1. There were no GMAP visits during the year.
- 7.2. We recommend that any reports from future GMAP visits should be forwarded to us in order that they can be reviewed as part of our audit work.

## **8 PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES**

### **Objective and Approach**

- 8.1. The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures
- 8.2. An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a bespoke checklist.
- 8.3. In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
  - a) The monitoring and compliance with financial procedures;
  - b) The College's strategy to prevent and detect fraud and other irregularities;
  - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 8.4. We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

### **Opinion**

- 8.5. Overall we concluded that management takes fraud prevention and detection seriously and has reliable controls in place to ensure that potential areas for fraud are detected.

### **Recommendations**

- 8.6. There were no specific recommendations made in this area, however it should be noted that all recommendations have an implicit impact on the prevention and detection of fraud and irregularities.

## 9 MANAGEMENT LETTER – 2008

- 9.1. The management letter for the year ended 31 July 2008 was issued by Wylie and Bisset following the audit for that year. These have been followed up as part of our 2009 audit procedures with additional recommendations made as appropriate.

These recommendations have been graded as follows:

**High Priority** Recommendations addressing significant control weaknesses which should be implemented immediately.

**Medium Priority** Recommendations addressing significant control weaknesses which should be addressed in the medium term.

**Low Priority** Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the college matches current good practice.

### 9.2. ESF Projects

- 9.2.1. **2008 Observation:** It was noted that there are several ESF projects in which Lews Castle College are part of, although, they are not the lead partner. The finance department and the Head of Finance and Estates were not aware that the college had agreed to take part in these projects. It was also not able to quantify the amount that was due to the college for these projects at the year end audit.
- 9.2.2. **2008 Recommendation:** We recommend that the college put a system in place where all ESF projects which the college agrees to take part in must be approved by the Head of Finance and Estates.
- 9.2.3. **2009 Update:** The College have been in contact with UHI to try to quantify the amount that is due to the college for these projects but has so far been unsuccessful. Note that the lack of knowledge of the projects within LCC may result in them not maintaining appropriate records to support any ESF claim for funding and hence result in a clawback of funding resulting in additional non recoverable cost to the College.
- 9.2.4. **Further action required:** The college should continue to correspond with UHI to quantify the amount due to the college and the College's obligations in relation to these projects.
- 9.2.5. **Priority - High**
- 9.2.6. **Management Response:** Agreed
- 9.2.7. **Responsibility:** Director of Finance & Corporate Services
- 9.2.8. **Timescale:** 31 July 2010



### 9.3. Accounting for Projects

- 9.3.1. **2008 Observation:** There is one project run by the college for which the income and expenditure is recorded through balance sheet codes resulting in the income and expenditure not being recorded through the statement of income and expenditure.
- 9.3.2. **2008 Recommendation:** We recommend that income and expenditure is recognised separately in the profit and loss statement and not netted off in balance sheet codes.
- 9.3.3. **2009 Update:** The college continued to record the income and expenditure through the balance sheet codes for this project. We understand that the project is due to end in November 2009. This has resulted in a proposed adjustment to the income and expenditure of £27k and 37k respectively being excluded from the draft accounts (£10k deficit). An adjustment to correct this has been proposed.
- 9.3.4. **Further action required:** We recommend that should the college be involved in any such future projects they recognise the income and expenditure in the profit and loss statement.
- 9.3.5. **Priority - High**
- 9.3.6. **Management Response:** The position at 31<sup>st</sup> July 2009 for OfTTI was a debtor of £4k and this will be claimed from CnES in due course. It is agreed that this system will not be used for future such projects.
- 9.3.7. **Responsibility:** Director of Finance & Corporate Services
- 9.3.8. **Timescale:** 31 July 2010

### 9.4. Fixed Assets

- 9.4.1. **2008 Observation:** The college does not keep a register of fixed assets which reconciles to the financial statements.
- 9.4.2. **2008 Recommendation:** We recommend that the procedures that the college maintains a fixed asset register for all assets held.
- 9.4.3. **2009 Update:** The college has a fixed asset register which reconciles to the financial statements. However, it is noted that this does not include an inventory listing detailing the locations of the assets. We understand that the IT department have such a list for their equipment.
- 9.4.4. **Further action required:** We recommend that the college prepares an inventory listing showing the location of the assets held by the college.
- 9.4.5. **Priority - Medium**
- 9.4.6. **Management Response:** This will be done retrospectively by 31<sup>st</sup> July 2010 and such a system will commence from 1<sup>st</sup> August 2009 as a routine procedure.

9.4.7. **Responsibility:** Director of Finance and Corporate Services

9.4.8. **Timescale:** 31<sup>st</sup> July 2010

#### 9.5. Internal audit

9.5.1. **2008 Observation:** For the 12 areas that the 2008 programme of work had planned to review only 3 reports were available for us at the year end audit and they were still in draft format. Although a plan has been prepared for the 2009 programme of work an annual report has yet to be prepared.

9.5.2. **2008 Recommendation:** We recommend that the internal audit work planned is carried out and reports are prepared on a timely basis.

9.5.3. **2009 Update:** For the 15 areas that the 2009 programme of work had planned to review, 10 reports were available for us at the year end audit; 2 reports were deferred due to one substantially overlapping with another report issued during the year and one report not having significant activity during the year, and 3 reports were outstanding.

9.5.4. **Further action required:** The internal audit work has covered the majority of reports which it planned to consider and there was a substantial improvement from 2008, however, reports were generally prepared later than planned. We recommend that management seek commitment to the agreed timetable from the internal auditor and chase reports on a timely basis in order to prevent undue delay.

9.5.5. **Priority - Medium**

9.5.6. **Management Response:** We will agree a realistic plan with Internal Audit and monitor.

9.5.7. **Responsibility:** Director of Finance & Corporate Services

9.5.8. **Timescale:** 31<sup>st</sup> July 2010

#### 9.6. Purchase invoices

9.6.1. **2008 Observation:** Purchase invoices under query are not posted to the purchase ledger, as it is the colleges' policy to only include items once they have been approved for payment.

9.6.2. **2008 Recommendation:** We recommend that purchase invoices are posted to the purchase ledger when received to ensure all invoices are logged onto the system and that recorded liabilities are complete.

9.6.3. **2009 Update:** There has been no change to the procedure adopted, however the College plans to implement our recommendation when their Access system is upgraded. This has not yet been installed.

9.6.4. **Further action required:** The College should implement the recommendation when the system is upgraded but if there is to be a delay to this process, the college should consider posting purchase invoices onto the current system.

9.6.5. **Priority - Medium**

9.6.6. **Management Response:** To be in place by the end of January 2010.

9.6.7. **Responsibility:** Director of Finance & Corporate Services

9.6.8. **Timescale:** January 2010

## 9.7. Student Support Fund

9.7.1. **2008 Observation:** It was noted that Student Support Fund bank accounts are not held within the main ledger.

9.7.2. **2008 Recommendation:** We recommended that Student Support Funds bank accounts should be maintained within the main ledger.

9.7.3. **2009 Update:** The college are looking into a new system which will integrate with their current student records system and allow the college to record payments made to students. They feel that, currently, it is too difficult to record the students payments through the access system. This gives rise to the risk that assets and liabilities of the college are incorrectly stated within the accounts.

9.7.4. **Further action required:** The college should investigate the best way to bring all student support fund bank accounts onto the accounting system.

9.7.5. **Priority - Medium**

9.7.6. **Management Response:** Agreed

9.7.7. **Responsibility:** Director of Finance & Corporate Services

9.7.8. **Timescale:** 31<sup>st</sup> July 2010

## 9.8. Accounting for Investments

9.8.1. **2008 Observation:** The college has an investment in Lews Castle College Trading Company and Greenspace Research Limited and 2 sub-subsidiaries which are part of Greenspace Research Limited; however, the investments are not included in the college's trial balance or accounting system.

9.8.2. **2008 Recommendation:** We recommend that the shares are included in the colleges' accounting system to recognise these investments.

9.8.3. **2009 Update:** The investment in Lews Castle College Trading Company is now included in the trial balance, however, the investment in Greenspace

Research Limited is not. We understand that this is due to the company being dormant and that the value of investment is not significant.

9.8.4. **Further action required:** We recommend that the investment in Greenspace Research Limited is included in the college's accounting system with an appropriate offsetting provision if necessary in order that this does not become neglected when preparing the accounts.

9.8.5. **Priority - Low**

9.8.6. **Management Response:** Agreed

9.8.7. **Responsibility:** Director of Finance & Corporate Services

9.8.8. **Timescale:** 31 July 2010

### 9.9. Fixed assets – Disclosure of Scrapped Items

9.9.1. **2008 Observation:** There is £36k of finance lease equipment in fixed assets written down to a net book value of nil. We understand that the college no longer holds these assets.

9.9.2. **2008 Recommendation:** We recommend that as the college no longer holds these assets they should be written off.

9.9.3. **2009 Update:** These assets have now been written off.

9.9.4. **Further action required:** No further action required in relation to the 2008 observation however a similar issue has arisen in 2009. This is considered within section 10.

### 9.10. Petty cash reconciliation

9.10.1. **2008 Observation:** A difference arose in the petty cash reconciliation due to the expenditure for a particular week having not been posted.

9.10.2. **2008 Recommendation:** We recommend that petty cash expenditure is posted on a timely basis.

9.10.3. **2009 Update:** There was no difference in the year end petty cash reconciliation.

9.10.4. **Further action required:** No further action required.

### 9.11. Fixed assets – Capitalisation of Assets

9.11.1. **2008 Observation:** The College has capitalised items below their £5k capitalisation policy but were unable to demonstrate if the costs were related to a larger purchase and therefore correctly capitalised.

9.11.2. **2008 Recommendation:** We recommend that the college capitalises items in line with its accounting policy and can demonstrate the breakdown of costs relating to assets.

9.11.3. **2009 Update:** The college capitalised items below £5k during the year but could demonstrate that the items formed part of a group costing more than £5k.

9.11.4. **Further action required:** No further action required.

## 9.12. Purchase invoices

9.12.1. **2008 Observation:** Purchase invoices with regards to translator fees for the trading company are raised internally as opposed to by the translators.

9.12.2. **2008 Recommendation:** We recommend that purchase invoices are raised by the translators and not internally by the college.

9.12.3. **2009 Update:** Purchase invoices are now raised externally by the translators.

9.12.4. **Further action required:** No further action required.

## 9.13. Bursaries creditor

9.13.1. **2008 Observation:** It was noted that there was a historic bursaries creditor carried forward in the accounts for £10,000. It is not clear whether this represents a valid liability of the College.

9.13.2. **2008 Recommendation:** We recommended that the college investigate this to establish whether the creditor is repayable and release as necessary.

9.13.3. **2009 Update:** Following investigation into the balance, the College have deemed this amount as not representing a valid liability and hence have released the balance.

9.13.4. **Further action required:** No further action required.

## 9.14. Payroll procedures

9.14.1. **2008 Observation:** Payroll input procedures had not been updated since July 2002.

9.14.2. **2008 Recommendation:** We recommended that the procedures are reviewed to ensure any necessary changes are made and to update the details of members of staff who have left.

9.14.3. **2009 Update:** The payroll input procedures have been updated to incorporate the use of leaver forms.

9.14.4. **Further action required:** No further action required.

**9.15. Petty cash**

9.15.1. **2008 Observation:** The college has petty cash floats at the main campus and its 2 outreach centres. Petty cash reconciliations are carried out but they are not signed to evidence either completion nor review.

9.15.2. **2008 Recommendation:** We recommend that petty cash reconciliations are performed on a monthly basis for each of the petty cash floats and that they are signed as completed and signed as reviewed.

9.15.3. **31 July 2009 Update:** Petty cash reconciliations have been carried out on a monthly basis and are signed as completed and signed as reviewed.

9.15.4. **Further action required:** No further action required.

## 10. MANAGEMENT LETTER – 2009

10.1 The recommendations arising from the audit for the year ended 31 July 2009 are set out below.

10.2 The recommendations have been graded as follows:

**High Priority** Recommendations addressing significant control weaknesses which should be implemented immediately.

**Medium Priority** Recommendations addressing significant control weaknesses which should be addressed in the medium term.

**Low Priority** Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the college matches current good practice.

### 10.3 Fixed assets – Disclosure of Scrapped Items

10.3.1. **Observation:** When testing the existence of fixed assets we identified assets costing £162k which the college no longer own. We note that the net book value of these assets is nil.

10.3.2. **Recommendation:** We recommend that the college review the fixed asset register and identify which assets they no longer own and dispose of these assets from the accounts.

10.3.3. **Priority – Medium**

10.3.4. **Management Response:** Agreed to prepare this retrospectively and set up ongoing procedure.

10.3.5. **Responsibility:** Director of Finance & Corporate Services

10.3.6. **Timescale:** 31 July 2010

#### 10.4 Attendance at Committee Meetings

10.4.1 **Observation:** We noted that one member of the finance committee had not attended any meetings during the year. We understand that this was due to other commitments.

10.4.2 **Recommendation:** We recommend that the College remind committee members of their obligations to the College and monitor the attendance of committee members in order to identify any further instances on a timely basis. It is for the benefit of the college that committee members regularly attend meetings and in the instance that members are not able to provide the necessary commitment it may be more beneficial for the College to seek to appoint alternate members who may be more able to offer their experience and guidance to the Board.

10.4.3 **Priority** – Medium

10.4.4 **Management Response:** Importance of attending meetings discussed at Committees and Board in December 2009 and will be reported on at Board meetings during 2010.

10.4.5 **Responsibility:** Chair of the Board.

10.4.6 **Timescale:** 31 July 2010

#### 10.5 Operating and Financial Review

10.5.1 **Observation:** We noted that the Operating and Financial Review is not fully compliant with the guidance issued by the Scottish Funding Council.

10.5.2 **Recommendation:** We recommend that the College reviews and updates the financial statements in future years to ensure it is fully compliant with the guidance issued by the Scottish Funding Council.

10.5.3 **Priority** – Medium

10.5.4 **Management Response:** Agreed. This area will be looked at as a matter of priority.

10.5.5 **Responsibility:** Director of Finance & Corporate Services

10.5.6 **Timescale:** Ongoing



## STATEMENT OF THE BOARD OF MANAGEMENT RESPONSIBILITIES

The Board of Management is required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, Heads of academic and administrative departments;

APPENDIX A

- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance and General Purposes Committee;
- Professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose Head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF LEWS CASTLE COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND**

We have audited the financial statements of Lews Castle College for the year ended 31 July 2009 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

**Respective responsibilities of the Board of Management, Accountable Officer and Auditor**

The Board of Management and Accountable Officer are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Accountable Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the information which comprises the Operating and Financial Review, included in the Annual Report, is consistent with the financial statements. We also report whether in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1<sup>st</sup> January 2006 and any other terms and conditions attached to them for the year ended 31 July 2009; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

In addition, we report to you if, in our opinion, the college has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement of Corporate Governance and Internal Control reflects the college's compliance with the requirements of the Scottish Funding Council and report if, in our opinion, it does not. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF LEWS CASTLE COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND (CONTINUED)**

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

**Financial statements**

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder by the Scottish Funding Council, of the state of affairs of the college as at 31 July 2009 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder by the Scottish Funding Council; and
- information which comprises the Operating and Financial Review included with the Annual Report is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF  
MANAGEMENT OF LEWS CASTLE COLLEGE, THE SCOTTISH PARLIAMENT AND  
THE AUDITOR GENERAL FOR SCOTLAND (CONTINUED)**

**Regularity**

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1<sup>st</sup> January 2006 and any other terms and conditions attached to them for the year ended 31 July 2009; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

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