



South Lanarkshire College
Report to the Board
and the Auditor General for Scotland

Year ended 31 July 2009

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1 Executive Summary

Introduction

- The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of South Lanarkshire College ('the College') for the year ended 31 July 2009.
- The matters raised in this report, are only those which have come to our attention arising from or relevant to our work that we believe need to be brought to your attention. Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.
- This report has been prepared solely for the use by the Board of Management of South Lanarkshire College and the Auditor General for Scotland.
- We have completed our audit work in respect of the financial statements for the year ended 31 July 2009 and will be issuing an unqualified audit opinion for the year.

Scope of Work

- The accounting rules and regulations applied to Further Education Colleges are specifically laid out in various documents as discussed in section 3 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents.

Corporate Governance Arrangements

- The corporate governance statement within the College's financial statements states that the College has been fully compliant with guidance on corporate governance for the year ended 31 July 2009. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Compliance with Scottish Funding Council ('SFC') Accounts Direction

- We can confirm in preparing the financial statements the College has complied with the Accounts Direction for Scotland's colleges and universities issued under circular SFC/35/2008.

Conclusion

- The audit of South Lanarkshire College was performed 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. This report has been issued to College management and will be considered by the Audit Committee.

Acknowledgement

- The 2008/09 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

2 Introduction

Purpose of Report

- This report has been prepared in connection with our audit of the financial statements of the College for the year ended 31 July 2009. This report summarises the principal matters that have come to our attention during the course of the audit.
- The contents of the report should not be taken as reflecting the view of BDO LLP except where explicitly stated as being so. To a certain extent, the content of this report comprises general information which has been provided by, or is based on discussions with, the management of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.
- One of the purposes of this report is to record features of the year's activities, the way they are treated in the financial statements and the comments thereon provided to audit staff by the College's staff.

Audit Bodies

- The Auditor General, a royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish public spending bodies to account for the proper, efficient and effective use of public money.
- Audit Scotland is an independent statutory body which was set up in April 2000 to provide assistance and support to the Accounts Commission and to the Auditor General for Scotland in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Government, Further Education Colleges and other public bodies.

- BDO LLP was appointed by Audit Scotland as external auditor to South Lanarkshire College for 5 years covering the financial years 2006/07 to 2010/11. This report summarises our audit work for 2008/09 and details how the requirements of the Statement of Responsibilities and the Code of Audit Practice have been met by the College and by BDO LLP

College Responsibilities

- The College is publicly accountable for the conduct of business and the stewardship of funds under its control. The College's Board of Management is therefore responsible for:
 - establishing adequate corporate governance procedures;
 - ensuring funds from the SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which the SFC may from time to time prescribe;
 - ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
 - safeguarding the assets of the College and taking reasonable steps to prevent and detect fraud and other irregularities;
 - securing the economical, efficient and effective management of the College's resources and expenditure;
 - maintaining proper accounting records and preparing financial statements which give a true and fair view of the financial position of the College at the year-end and its income and expenditure for the year.

Auditors' Responsibilities and Approach

- We are required to report to the Board of Management of the College and to the Auditor General for Scotland on the financial statements of the College. Our responsibilities are to:
 - provide an opinion, to the extent required by the relevant authorities, on the financial statements 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 requirements of Audit Scotland's Code of Audit Practice (March 2007), regarding the College's corporate governance arrangements relating to:
 - the College's review of its systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct, and prevention and detection of corruption
 - its financial position.
 - obtain an understanding of the accounting and internal control systems in place in the College sufficient to allow the audit to be planned and an effective audit approach developed.
- Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.

3 Scope of Work

- We took reasonable steps to plan and carry out the audit to ensure that the above responsibilities were met and that we complied with the requirements of Audit Scotland's Code of Audit Practice.
- In essence the scope of our work is similar to that applied to a limited company audit, however, the accounting rules and regulations applying to Further Education Colleges are specifically laid down in various documents as detailed below.

Financial Memorandum

- This memorandum sets out the terms and conditions under which the Scottish Funding Council will make payments to the Board of Management of Colleges of Further Education out of funds made available by the First Minister of Scotland. We can confirm the College fully complies with the terms and conditions of the memorandum.

Accounts Direction

- In preparing its annual accounts the College is required to comply with the directions of the Scottish Funding Council (SFC). The Accounts Direction is designed to ensure that disclosures in the financial statements of all colleges follow best practice. We can confirm the College's financial statements comply with the Accounts Direction.

Guidance on Audit

- Audit Scotland's Code of Audit Practice (March 2007) sets down Audit Scotland's requirements for both internal and external audits. In carrying out our audit work we are also required to comply with International Standards on Auditing (UK and Ireland) and to take cognisance of any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board. We also comply with

relevant ethical standards and guidance issued or adopted by the relevant professional accountancy bodies and any supplementary guidance issued by Audit Scotland.

Statement of Recommended Practice (SORP)

- We can confirm that the financial statements of the College, and in particular the operating and financial review, are in general in compliance with the requirements of the 2007 SORP: Accounting for Further and Higher Education.
- Additional guidance on the content of the Operating and Financial Review (OFR), the inclusion of which is recommended within the 2007 SORP, was issued by the Scottish Funding Council on 2 October 2009. This guidance states that it would be helpful if a core set of performance indicators could be incorporated within the OFR to meet best practice and facilitate comparisons between the performances of different colleges. Two colleges have been identified as providing examples of good practice. South Lanarkshire College has not included this level of detail in its OFR. The college may wish to consider how it can best implement the recommendations within this guidance going forward in order to present data that best reflects the key performance indicators being measured against targets set.

4 Audit Findings

Preparation of Financial Statements

- The required working papers were ready for audit on 5 October 2009 as per the agreed timetable. The financial statements were made available on 6 October 2009. The information provided was of good quality.

Audit Opinion

- We are satisfied that the financial statements of the College present a true and fair view of its financial position as at 31 July 2009. Following approval of the financial statements by the Board of Management on 10 December 2009, our audit report expresses unqualified opinions on (1) the financial statements of the College for the year ended 31 July 2009 and (2) regularity.

Financial Commentary

- This section summarises the main financial features and key movements from the prior year.

Income and expenditure account

- The College made an operating surplus of £5k, 0.04% of total income (2007/08: surplus of £79k and 0.6%) in respect of the year ended 31 July 2009. The sector average for 2007/08 was 1.14%.

Income

Total income decreased by £74k (0.6%). The decrease is primarily due to the fall in investment income received in the year. Due to the well publicised fall in base rate interest, the bank interest received in the year has fallen by £117k to £133k. The net return on pension assets / liabilities has also fallen by £68k to £21k in 2009. These decreases are partially offset by increased grant funding due to the increased number of students attending the college.

- The table below summarises the main sources of income for 2008/09 and 2007/08.

	2008/09	2007/08	2008/09	2007/08
	£'000	£'000	%	%
Scottish Funding Council Grants	9,511	9,494	78%	78%
Tuition Fees and Education Contracts	1,743	1,817	14%	15%
Other Income	714	551	6%	4%
Investment Income	154	334	1%	3%
Total Income	12,122	12,196	100%	100%

- A significant proportion of income is received from the Scottish Funding Council at 78% of total income. From review of the 2007/08 Scottish Funding Council performance indicators, the College is slightly more dependent on SFC Grants than other colleges delivering similar numbers of WSUMs. Total Funding Council Grant income is normally in the region of 74%, based on the 2007/08 statistics for colleges in this category.

Expenditure

- Total expenditure of £12,117k was similar to that incurred in 2007/08. Significant movements within categories of expenditure are detailed below:
 - An increase in staff costs of £326k due to salary increases;
 - The college is experiencing significant cost pressures in relation to the provision of utilities as a result of having to supply electricity and gas to a larger building;
 - A fall in interest payable as the College had bridging loan interest of £289k in 2007/08 in connection with the College building.
- The table below summarises the main classes of expenditure for 2008/09 and 2007/08.

	2008/09	2007/08	2008/09	2007/08
	£'000	£'000	%	%
Staff costs	8,149	7,823	67%	65%
Other Operating Expenditure	2,952	3,070	24%	25%
Depreciation	946	832	8%	7%
Interest Payable	70	392	1%	3%
Total	12,117	12,117	100%	100%

Balance sheet

- Net assets at 31 July 2009 are £27,659k (31 July 2008: £29,547k). The reduction in net assets is in the main attributable to the increase in the FRS 17 net pensions liability which increased by £1.25m.
- The balance on the income and expenditure account carried forward as at 31 July 2009 is a surplus of £1,404k (31 July 2008: surplus of £1,383k).
- The balance on the pension reserve carried forward as at 31 July 2009 is a deficit of £1,323k (31 July 2008: deficit of £77k).
- The balance on deferred capital grants carried forward as at 31 July 2009 is £27,578k (31 July 2008: £28,241k).

Cash Flow

- During 2008/2009 the College experienced a net outflow of cash of £166k (2007/08 inflow of £307k).

Financial Forecasting

- The 2008-09 financial forecast return forecast a surplus of £117k.

Financial Forecasting	2008/09
	£'000
2008-09 forecast outturn	117
Increase in SFC Grants	889
Reduction in Tuition Fees and Education Contracts	(376)
Increase in Other Income	148
Increase in Investment Income	89
Increase in Staff Costs	(265)
Increase in Other Operating Expenditure	(454)
Increase in Depreciation	(73)
Increase in Interest Payable	<u>(70)</u>
2008/09 actual outturn at 31 July 2009	<u>5</u>

- The following table summarises the forecast income, expenditure and cash balances for the College for 2009/10.

	£'000
Income	11,891
Expenditure	11,840
Forecast surplus for the year ending 31 July 2010	51
Cash balance at 31 July 2009	2,138
Forecast movement in cash during 2009/10	362
Resulting cash balance at 31 July 2010	<u>2,500</u>

- Funding Council Grant income is expected to fall in 2009/10 per the Financial Forecast Return due to the strategic growth program in association with the SFC coming to an end in 2008/09. There will however be additional funds released in relation to the PACE initiative for retraining redundant local employees which will help to counteract this.

Going Concern Basis

- In preparing the accounts on a going concern basis the Board of Management is satisfied that SFC will provide sufficient funding to enable the College to operate for at least twelve months from 10 December 2009.

Performance Indicators

- The Scottish Further Education Funding Council's ('SFEFC') financial security campaign was announced in December 2002, its principal objective being that all colleges would report underlying operating surpluses by the end of 2005-06. Financial security is defined as the ability, on a continuing basis, to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserves. The college must also generate sufficient cash to finance its operations and meet its liabilities; regular operating surpluses would ensure this.
- Under the terms of the financial memorandum between SFC and the College, it is the responsibility of the governing body "*to ensure that the institution strives to achieve best value from its use of public funds from all sources*". It is intended that the financial performance indicators used by the Funding Council, when set alongside other performance data, will support the college in seeking best value.
- The table below has been produced from the data published by the Funding Council in respect of the Financial Statements as at 31 July 2008. The formulae have then been applied to the 2008/09 Financial Statements.

	<u>South Lanarkshire College Factor 2008-09</u>	<u>South Lanarkshire College Factor 2007- 08</u>	<u>Group Average Factor 2007-08</u>	<u>Sector Average Factor 2007-08</u>
Underlying operating surplus % of total income	0.04%	0.6%	2.0%	2.9%
Operating surplus % of total income	0.04%	0.6%	1.6%	1.3%
Designated plus I&E reserves % of total income	0.7%	11.3%	10.6%	22.9%
Historical cost surplus % of total income	0.04%	91.7%	9.4%	8.9%
Current assets: Current liabilities	1.2	1.1	1.8	1.7
Interest Cover	0.1	0.0	4.6	3.9

Grant in Aid Funding

- The College's had a WSUMS target for 2008/09 of 36,998. A final WSUM's figure of 42,808 was achieved and the College will not be required to refund any grant in aid funding.

Corporate Governance Framework and Statement

- The Board of Management has six formally constituted committees which have specific terms of reference and act with delegated authority from the Board.
- We reviewed the College's corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The College has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
- From our review of Corporate Governance arrangements within the College we do not believe the Corporate Governance statement to be misleading or inconsistent with other information made available to us during the audit process.

System of Internal Control

- A review and assessment of the College's corporate governance arrangements was carried out. This assessment included a review of the College's committee minutes and completion of a number of standard checklists. The checklists cover issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct, issues of legality and the College's financial position.
- The College, in accordance with the Accounts Direction, has included in its financial statements, a statement covering the

responsibilities of the Board of Management in relation to corporate governance.

- Our review of the statement concluded that it complies with guidance and is not inconsistent with other information we are aware of from our audit.

Prevention and detection of Fraud and Corruption

- The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment showed the arrangements to be operating satisfactorily. No frauds were identified by the College in 2008/09.

Review of Internal Audit

- 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 systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality.
- Internal audit services are provided by Wylie and Bisset. An assessment was made of the adequacy of the internal audit input and it was concluded that we as external auditors were able to place reliance on the work of internal audit. Accordingly a certain amount of reliance was placed on the work of internal audit in the following areas during 2008/09.
 - Income Collection and Credit Controls
 - Fixed Assets, Estates Management and Inventories
 - Purchasing and Payments
 - Personnel and Payroll
 - Corporate Governance and Risk Management

- Wylie and Bisset have issued the internal audit report for the year ended 31 July 2009. This concluded that the College does have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives.

Misstatements

- Unadjusted misstatements totalling £48k were identified during our audit work which would increase the operating surplus of the College. This amount was not considered to be material and no adjustment was made to the financial statements.

Accounting and Internal Control System Weaknesses

- No internal control weaknesses were identified during the course of our audit.

Qualitative Aspect of the College's Accounting Practice and Financial Reporting

- Our overall assessment, based on our work undertaken, is that the financial procedures of the College are adequate to enable annual financial statements to be produced in the prescribed form.

Component accounting

- The College has implemented fixed asset component accounting in line with FRS 15 – Tangible Fixed Assets. A reallocation was made of £1,012k of building costs into Plant and Equipment and depreciated at 10% per annum. This resulted in an increase in the depreciation charge for the year of £80k.

FRS 17 – Retirement Benefits

- This standard was published in November 2000 introducing significant changes to the way in which colleges should account for defined benefit pension schemes. Full implementation of FRS17 –

'Retirement Benefits' was mandatory from 2005/06 year ends. The College participates in the Scottish Teachers Superannuation Scheme ('STSS') and the Strathclyde Pension Fund ('SPF') which are defined benefit pension schemes. All colleges treat the STSS scheme as a defined contribution scheme as there is general agreement that they are unable to identify their share of the scheme's assets and liabilities.

- In relation to the SPF scheme assets are currently apportioned based on the liability profile though employer assets have been tracked for each employer since 2002. The actuaries provided information on the College's interests in the scheme as at 31 July 2009. Management took the view that this information was sufficiently robust for it to account for its participation on a defined benefit basis.

Early retirement provision

- Included in the balance sheet is a provision for the cost of providing for enhanced pensions. The College recalculated this early retirement provision using the actuarial tables, guidance issued by SFC and an appropriate interest rate.

Recognition of Income - European Social Fund (ESF)

- The College has taken a prudent approach to accounting for ESF income in its income and expenditure account. During the course of our audit work we uncovered no breaches of the conditions attached to the ESF claims and we received assurances from management that this was the case.

5 Internal control systems weakness

Findings from 2009 audit

- No recommendations have been made in 2009.

Recommendations made during 2008 audit process

- No recommendations were made in 2008.

6 Other Matters

- No other matters to note.



BDO LLP

10 December 2009