Central College

Annual Audit Report to the Board of Management and Auditor General for Scotland

Audit for the year ended 31 July 2010

CENTRAL COLLEGE
GLASGOW

BDO

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The contacts at BDO in connection with this report are:

Robert Ralston	Alistair Hewitson
Partner	Senior Manager
Tel: 0141 249 5214	Tel: 0141 249 5202
Fax: 0141 248 1653	Fax: 0141 248 1653
robert.ralston@bdo.co.uk	alistair.hewitson@bdo.co.uk

EXECUTIVE SUMMARY

Financial Highlights

The College achieved a surplus of £206k (2009 £50k) on its income and expenditure account for the year prior to FRS17 adjustments for the Strathclyde Pension Scheme (SPF). On 22 June 2010 the Chancellor announced a change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI). In accordance with the treatment recommended by Hymans Robertson LLP, the effect of this change has been taken through income and expenditure account as a negative past service cost of £362k. The net effect of the FRS17 adjustments in total is a credit of £327k (2009 debit of £5k) to income and expenditure account. A revaluation of the main college properties during the year resulted in an increase of £2.997m in property valuations being taken to reserves. The financial statements disclose total reserves of £10.165m (2009 £6.057m). The 2010/11 financial forecast return anticipates a surplus of £18k, excluding adjustments in relation to FRS 17.

Corporate Governance

From our review of Corporate Governance arrangements within Central College ("the College"), we believe the Corporate Governance statement to be neither misleading nor inconsistent with other information made available to us during the course of the audit process. The Corporate Governance statement does not disclose any significant weaknesses in the systems of internal control. Internal audit (Deloitte) concluded that "On the basis of work undertaken in the year ended 31 July 2010, we consider that the College has an adequate framework of control over the systems we examined during the year".

The Operating and Financial Review provides a comprehensive account of the College's activities and meets the requirements of the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ("SORP 2007").

No management letter points have been raised regarding Corporate Governance arrangements.

Financial Statement Audit

We have completed our audit work in respect of the financial statements of the College and are satisfied that they present a true and fair view of its financial position for the year ended 31 July 2010. Following approval of the financial statements by the Board of Management on 8 December 2010 our audit report will express unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2010 and (ii) regularity.

In preparing the Financial Statements on a going concern basis, the Board of Management is satisfied that the SFC will provide sufficient funding to enable the College, as part of the new merged City of Glasgow College, to operate for at least 12 months from the date of signing the Financial Statements.

Management provided draft financial statements and supporting working papers in line with the agreed timetable and they were complete and of a good standard.

The 2009/10 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.

OVERVIEW, SCOPE AND INDEPENDENCE

Overview

• The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of Central College ('the College') for the year ended 31st July 2010.

• This report covers those matters we believe to be material in the context of our work. It was prepared from general information obtained during the audit process, including management accounting information and discussion with management and staff of the College. It has been prepared solely for the use of the College and the Auditor General for Scotland and should not be shown to any other person without our express permission in writing. We do not accept responsibility for this report to any other person and we hereby disclaim any and all such liability. We do not, in preparing this report, accept or assume responsibility for any other purpose or to any other person to whom it is shown or into whose hands it may come save as expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so at entirely their own risk.

• 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 2010. 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.

Significant Accounting and Audit Issues

Detailed on pages 16 to 18 are the key accounting and audit issues identified during our work:

- Gap in college title deeds
- SUMs achievement
- New Campus Glasgow
- Property valuation
- FRS 17 – CPI

Unadjusted Audit Differences

We are required by International Standard on Auditing (UK & Ireland) 260 to bring to your attention audit adjustments that we have identified and which the Board of Management is required to consider. A schedule of such adjustments is included in Appendix 1. We have not included items under £1,300 which we consider to be clearly trivial. Total unadjusted audit differences identified by our audit work would not affect the surplus of £533k or net assets of £16.47m. The Board will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole.

OVERVIEW, SCOPE AND INDEPENDENCE
Continued...

Key areas	Summary
Scope	The accounting rules and regulations applying to Further Education Colleges are specifically laid out in various documents as discussed on page 8 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. We can confirm that 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. The audit of Central 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.
Independence	Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to "those charged with governance". In our view this term refers to the Board of Management and we confirmed our independence to them in a letter on 20 April 2010. Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our Conduct of Professional Services Manual. In addition, we have issued supplementary written guidance and embedded the requirements of the Standards in our internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We confirm that the firm complies with the APB Ethical Standards and, in our professional judgment, is independent and objective within the meaning of those Standards. In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

AUDIT FRAMEWORK

Audit Framework

Audit Framework

BDO LLP was appointed by Audit Scotland as external auditor to the College for 5 years covering the financial years 2006/07 to 2010/11. This year was the fourth of the five-year appointment. This report to the College Board of Management and Auditor General for Scotland provides our opinion and highlights issues arising from our work in relation to our audit work for 2009/10 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 .

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 in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.

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 economic, 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.

AUDIT FRAMEWORK
(Continued…)

Audit Framework

Auditor's 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.

AUDIT FRAMEWORK (Continued…)

Audit Framework

College Guidance

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. Our audit procedures identified no factors that would lead us to believe that the college does not comply with the terms and conditions of the Financial Memorandum.

Accounts Direction

In preparing its annual Financial Statements 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

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 are, in general, in compliance with the requirements of the 2007 SORP.

FINANCIAL HIGHLIGHTS

CENTRAL COLLEGE GLASGOW

Key areas	Summary
Financial Highlights	• **Income and Expenditure Account:** The College achieved an operating surplus of £533k, 4.0% of total income in respect of the year-ended 31 July 2010 (2008/09: £45k and 0.3%, Forecast: £37k and 0.3%). This increase represented a £488k increase on the prior year and a £496k increase on forecast. The main reason for the increased surplus compared to the original budget relates to the incorporation of the FRS 17 adjustments for the Strathclyde Pension Fund which resulted in a credit to income and expenditure account of £327k. • **Balance Sheet:** The financial statements report net assets at 31 July 2010 of £16.47m, reflecting an increase of £5.38m over 2009. The increase is attributable to the £533k surplus generated in the year, an increase in deferred capital grants of £1.39m as at 31 July 2010 and an actuarial gain in respect of the pension scheme of £578k. In addition the land and buildings were revalued by James Barr Chartered Surveyors at £13.030m, which resulted in a £3m upward valuation. The balance on the Revaluation Reserve carried forward as at 31 July 2010 is a surplus of £8.1m (31 July 2009: £5.2m). •**Prior year adjustment:** In 2008-09, the College accounted for its participation in the Strathclyde Pension Fund on a defined contribution basis under FRS17. The College has changed its accounting policy during the year and is now accounting for the Strathclyde Pension Fund on a defined benefit basis. The change in accounting policy has been accounted for as a prior year adjustment and the comparative figures have been restated accordingly.
Cash Flow	During 2009/10, the College experienced a net inflow of cash of £463k (2008/09: outflow of £854k).
Financial Forecast	The initial 2009/10 financial plan forecasted a surplus of £37k. The difference between that which was the forecast and the surplus achieved can primarily be explained by the impact of the FRS 17 pension credit in respect of past service cost. . The forecast of income, expenditure and cash balances for the College for 2010/11 shows that both income and expenditure are expected to fall in 2010/11, resulting in a surplus of £18k (excluding adjustments for FRS 17).

FINANCIAL HIGHLIGHTS
Income and Expenditure Account

Income

- The table below summarises the main sources of income for 2009/10 and 2008/09.
- The College's WSUMs target for 2009/10 was 48,731 and the College delivered 49,851. As a result, the College will not be liable to repay any recurrent grant to the Scottish Funding Council in 2010/11.
- A significant proportion of income is received from the Scottish Funding Council, the proportion of income from this source was 72% for 2009/10 and 73% for 2008/09.
- Total SFC Grant income is normally in the region of 73% of total income (2007/08: 72%), based on the 2008/09 statistics for colleges in this category.
- An increase in SFC grant income of £238k. This is a result of an additional £309k of core grant, £85k of estates capital funding and release of deferred capital grants £133k partly off-set by the absence of/reductions in other one-off grants obtained in 2008/09.
- A decrease in investment income of £100k as surplus funds have earned lower returns due to depressed interest rates.

Income and Expenditure Account	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Scottish Funding Council Grants	9,694	9,361	333
Tuition Fees and Education Contracts	3,167	2,922	245
Other Income	458	468	(10)
Investment Income	48	148	(100)
Total Income	**13,367**	**12,899**	**468**
Expenditure (see analysis on next page)	**(12,834)**	**(12,854)**	**20**
Surplus	**533**	**45**	**488**

FINANCIAL HIGHLIGHTS
Income and Expenditure Account (continued…)

Expenditure

Total expenditure decreased by £20k (0.9%), in comparison to 2008/09, to £12.83m. The table below summarises the main categories of expenditure for 2009/10 and 2008/09. The most significant movements are as follows:

- an increase in staff costs of £32k. This is due to pay increases being offset by FRS 17 credit of £426k , £362k of which results from the change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI). In accordance with the treatment recommended by Hymans Robertson LLP, the effect of this change has been taken through income and expenditure account as a negative past service cost.; and
- a reduction in overheads of £182k as cost savings were implemented to compensate for additional payroll costs incurred before impact of FRS17 adjustment noted above.
- an increase in interest payable due to the £99k finance cost associated with the defined benefit pension scheme (compared to £49k in the prior year).

Expenditure Analysis	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Staff Costs	9,625	9,593	32
Other Operating Expenditure	2,540	2,722	(182)
Depreciation & impairment	570	490	80
Interest Payable	99	49	50
Total Expenditure	**12,834**	**12,854**	**(20)**

FINANCIAL HIGHLIGHTS
Balance Sheet

CENTRAL COLLEGE GLASGOW

The balance sheets shows an increase of £5.38m in net assets as at 31 July 2010 compared to the previous year end. Significant movements include:

- A increase in tangible fixed assets of £4.3m as a result of various factors: there were fixed asset additions of £1.7m, less the depreciation charge for the year of £468k and an impairment adjustment of £102k in respect of the Marines Skills Centre. James Barr Chartered Surveyors revalued the land and buildings which resulted in a £3m uplift in the valuation of the main college properties.
- An increase in debtors of £269k. This is a result of an increase in trade debtors of £129k and increase in prepayments and accrued income of £213k being netted off against a reduction in the European funding accrued income by £100k.Trade debtors include £101k due from New Campus Glasgow regarding re-charged salaries (2009 –Nil). The increase in prepayments and accrued income is principally due to £242k due from SFC in connection with merger costs (2009-Nil). The reduction in the European funding balance is due to arrears from preceding periods being cleared and new funding reducing.
- An increase in cash of £463k primarily as a result of increased, and unbudgeted income to the College.
- An increase in creditors due within one year of £356k. This is a result of a £93k increase in taxation and social security due to the July HMRC liability being higher than usual as it included pay increase arrears and one off payments included in July 2010 payroll. Accruals have increased by £252k mainly as a result of additional deferred income in respect of economic downturn grant of £121k and regeneration project income of £149k. Other creditors have increased by £50k as a result of increased bursary funds. These increases in creditors have been offset by a small decrease of £39k in trade creditors.
- A decrease in the pension liability of £905k, which has been brought about by actuarial gains and past service gains resulting from using CPI in FRS 17 calculations.

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FINANCIAL HIGHLIGHTS
Balance Sheet (continued…)

Balance Sheet Category	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Fixed Assets	15,771	11,673	4,098
Stock and Debtors	1,048	779	269
Cash	2,467	2,004	463
Creditors: Amounts falling due within 1 year	(1,508)	(1,152)	(356)
Pension Liability	(1,303)	(2,208)	905
Net Assets	**16,475**	**11,096**	**5,379**

FINANCIAL HIGHLIGHTS Financial Forecasts

Financial Forecasting

- The initial 2009/10 financial plan forecasted a surplus of £37k. The table below shows the reconciliation between the forecast outturn and the actual amount generated during the course of the year. The main reasons for the movement from the forecast to the actual outturn were as follows:
    - increase in SFC grant income partly related to the unbudgeted economic downturn grant being received during the course of the year.
    - higher number of students than originally budgeted which in turn generated higher levels of fees.
    - cost savings resulting in lower than expected overheads.
    - FRS 17 adjustments impacting on the income and expenditure account.

Forecast vs. Actual	31 July 2010 £'000	31 July 2009 £'000
Forecast outturn per budget	**37**	**24**
Increase in SFC grant income	274	405
Increase (/decrease) in other income	344	265
Decrease / (increase) in payroll costs	(277)	27
(Increase) in other operating expenditure	(172)	(663)
Actual outturn at year end	**206**	**58**
FRS 17 adjustments	**327**	**(13)**
Actual outturn at year end (including FRS 17 adjustments)	**533**	**45**

FINANCIAL HIGHLIGHTS
Financial Forecasts (continued…)

Financial Forecasting

- The table below summarises the forecast income, expenditure and cash balances for the College for 2010/11.
- Both income and expenditure (before FRS 17 adjustments) are expected to fall in 2010/11, resulting in a reduced surplus. The reduction in income will be due to the sector-wide cut in SFC grant funding in addition to a fall in tuition fee income. College expenditure will have to be closely monitored, in particular staff costs, in order to achieve the forecasted surplus.

Forecast Income, Expenditure and Cash Balances for 2010/11	£'000
Income	13,179
Expenditure	(13,161)
Forecast surplus for the year ending 31 July 2011	**18**
Cash balance at 31 July 2010	2,467
Forecast movement in cash during 2010/11	264
Resulting cash balance at 31 July 2011	**2,731**

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters

CENTRAL COLLEGE GLASGOW

Gap in College Title Deeds

- There is a gap in the College titles for a small area of land within the Allen Glen's campus. It is likely that ownership will only be clarified as and when the site is disposed of. Some clarification has come from a recent report by Pinsent Masons which notes that the piece of land is owned by the owners of the areas fronting the road, i.e. Central College and Glasgow Metropolitan College (both of whom are now part of the City of Glasgow College).

BDO Conclusion

•This is not considered to be a significant issue and is likely to be resolved on construction of the City of Glasgow College campus

SUMs Achievement

- SFC require the College to achieve total SUMs within 2% of its target for the year to avoid being in a clawback position.

BDO Conclusion

The College's audited certificate to SFC shows a WSUMs total for the year to 31 July 2010 of 49,851. This figure is in excess of its target for the year of 48,731 and accordingly there should be no clawback of SFC grant for non achievement of SUMs target.

Events after the balance sheet date

- Following Ministerial approval, Central College, Glasgow College of Nautical Studies and Glasgow Metropolitan College merged on 1 September 2010 to create the City of Glasgow College, the largest college in Scotland.

BDO Conclusion

- This post balance sheet event has been correctly reflected in the financial statements of Central College.

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KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

New Campus Glasgow

- Central College, along with two other colleges has an interest in New Campus Glasgow Limited a company limited by guarantee which was set up to deliver a new campus for Glasgow's three merging city centre colleges.
- Central College own 1/3 of the land and buildings with the remainder being owned by the other two Colleges involved in the New Campus Glasgow project. Any addition in the year has been accounted for as a fixed asset addition in Central College's financial statements with the related grant element being treated as a deferred capital grant. The accounting treatment among the three colleges is, we believe, consistent.
- The three Colleges merged on 1 September 2010 with additional building works set to begin in 2012. These plans could indicate the need for impairment in the current carrying value of Central College's existing land and buildings. However, as the funding for the project and the impact of the plans on the College's existing land and buildings are still subject to a degree of uncertainty, no impairment provision has been made against these land and buildings at 31 July 2010.

BDO Conclusion

- We agree with management's treatment of its own land and buildings and of its the share of New College Glasgow assets.

Property valuation

- A surplus on revaluation of properties at 31 July 2010 of almost £3m has been recorded in the Statement of Recognised Gains & Losses and as an increase in the Revaluation Reserve. This gives rise to a total revaluation reserve of £8.1m as at 31 July 2010.

BDO Conclusion

- The revaluation of the properties has been correctly accounted for in line with the requirements of FRS 15.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

FRS 17 - CPI

- On 22 June 2010 the Chancellor announced a change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI) which was previously used. The effect of this change on the Central College share of the Strathclyde Pension Fund (SPF) comes through as a negative past service cost of £362k. The key question is whether this credit should be taken through income and expenditure account or taken to the statement of total recognised gains and losses. The Financial Reporting Council issued Urgent Issues Task Force information sheet number 90 entitled 'Accounting implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits' on 13 October 2010. The issue is whether the change gives rise to a different benefit (a change in benefit) or whether a different assumption is being applied to an unchanged benefit (a change in assumption). FRS 17 'Retirement Benefits' requires that a change in scheme liabilities arising from a change in benefit be recognised in the income and expenditure account. In contrast, it requires that a change in the scheme liabilities arising from a change in an assumption is part of actuarial gains and losses which should be recognised in the statement of total recognised gains and losses.
- The College has taken the view that the credit of £362k should be taken to income and expenditure account in accordance with actuarial advice from Hymans Robertson LLP.

BDO Conclusion

In this case the draft guidance is capable of interpretation either way and the accounting treatment hinges in part on whether there is a constructive obligation to pay pension increases linked to RPI in the SPF. We are satisfied that the College's accounting treatment of the past service cost credit of £362k can be supported by reference to the draft UITF guidance and the advice given by Hymans Robertson LLP.

The consultation period for comments on the UITF draft abstract expired on 10 November 2010 and a final UITF document will be issued in due course and will hopefully provide clarity on the issue. If the final document requires that such credits be taken to the statement of total recognised gains and losses rather than the income and expenditure account, then the College accounting treatment will need to be adjusted next year by restating the comparative figures on the income and expenditure account. The balance sheet figures are unaffected.

CORPORATE GOVERNANCE

Corporate Governance

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.

The corporate governance arrangements of an organisation are the means by which strategy is set and monitored, managers are held to account, risks are managed, stewardship responsibilities are discharged and institutional sustainability is ensured. The Code of Audit Practice requires that auditors 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.

The Board of Management is required to report on its compliance with the ***"Combined Code on Corporate Governance (June 2008)"***. Looking forward we would draw your attention to the revised Corporate Governance Code published in June 2010 called ***"The UK Corporate Governance Code"*** and also to the Consultation Draft issued by CIPFA in May 2010 called **"Delivering Good Governance in Scotland's Colleges: A Framework"**.

Board of Management: has five formally constituted committees which have specific terms of reference and act with delegated authority from the Board (including the Audit Committee, Finance and General Purposes Committee, Staffing and Student Affairs Committee, Property Committee and Remuneration Committee).

- ***Composition:*** the Board is comprised of 12 members as at 31 July 2010; hence, the Board has no more than the recommended maximum of 16 members. The skills of the members of the Board include relevant expertise in education, management consultancy, human resources, finance and accountancy. The College representatives include the Principal, a member of the teaching staff, a member of the support staff and a member of the students' body. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor student of the College). The College Clerk to the Board of Management is P. Scott, who meets the best practice requirement that the role is held by an individual who is independent of College management. The recommended maximum period of office for board members of 12 years has been adhered to.
- ***Timing:*** met the recommendation for meeting not less than 4 times during the year, with 4 meetings throughout 2009/10. Therefore, the Board met at sufficiently regular intervals during the course of the year in order discharge its duties effectively.

CORPORATE GOVERNANCE
(Continued…)

Corporate Governance (continued…)

Board of Management (continued…)

- ***Responsibilities:*** It was noted that no one individual has unfettered powers of decision-making. Arrangements are in place to enable the Chairman to hold meetings with the other non-executive governing body members without executives present when deemed appropriate. Protocols are in place to ensure that the impact of senior staff undertaking positions on external governing bodies is fully considered.

- ***Development and Evaluation:*** Management is aware of the importance of ensuring that new Board members are provided with a timely induction and appropriate development programme. The Board reviews its effectiveness and undertakes a formal and rigorous evaluation of its own effectiveness and of its committees at regular intervals.

Audit Committee: is comprised of 4 members as at 31 July 2010. The committee, with all members being non-executives, meets the recommendation that there be at least 2 independent non-executive members. In addition, with one member being a qualified accountant, the Board has satisfied itself that it has met the recommendation that at least one member of the committee has recent and relevant financial expertise. It was noted that the Chair of the Board of Management was not also a member of the Audit Committee and that no member of the Audit Committee was also a member of the Finance Committee.

Remuneration Committee: is comprised of 6 members as at 31 July 2010. It is recommended that if the Chair of the Board of Management is a member of the Remuneration Committee he or she should not chair the committee – the College follows this recommendation.

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.

CORPORATE GOVERNANCE
(Continued...)

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 Deloitte. An assessment was made of the adequacy of the internal audit output and it was concluded that we as external auditors were able to use the work of internal audit in planning our own procedures. Accordingly cognisance was taken of the work of internal audit in the following areas during 2009/10:

- Review of Admissions and Induction Process
- Review of Cash and Treasury management Processes
- Review of IT User Administration
- Follow-Up of previous Internal Audit Recommendations
- SUMs Audit
- Annual Report

On 18 August 2010, Deloitte issued its annual internal audit report for the year ended 31 July 2010. This concluded that, the College has an adequate framework of control over the systems examined during the year.

Risk Management

The Board has responsibility for the identification and management of risks facing the College. A risk assessment matrix of the exposure to risk, and the extent to which these risks are controlled, including implementation of actions to mitigate risk, is updated and presented to the Board of Management annually to review the College's response to identified risks. This identifies, prioritises and assesses risks to the College according to the likelihood and the impact of each risk.

CORPORATE GOVERNANCE
(Continued…)

CENTRAL COLLEGE GLASGOW

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. The College has in place a comprehensive fraud prevention policy, in addition to a more specific whistle-blowing policy. Both of the policies are readily available to staff on the College's intranet and are also published on the College's website. The fraud prevention policy also includes a plan on the response to any frauds identified. No frauds were identified by the College in 2009/10. In addition to the aforementioned policies, the College has also implemented tendering and procurement procedures to mitigate the risk of financial irregularity.

Operating and Financial Review (OFR)

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. Central College has not included detail of key performance indicators in its OFR.

PREPARATION OF THE FINANCIAL STATEMENTS

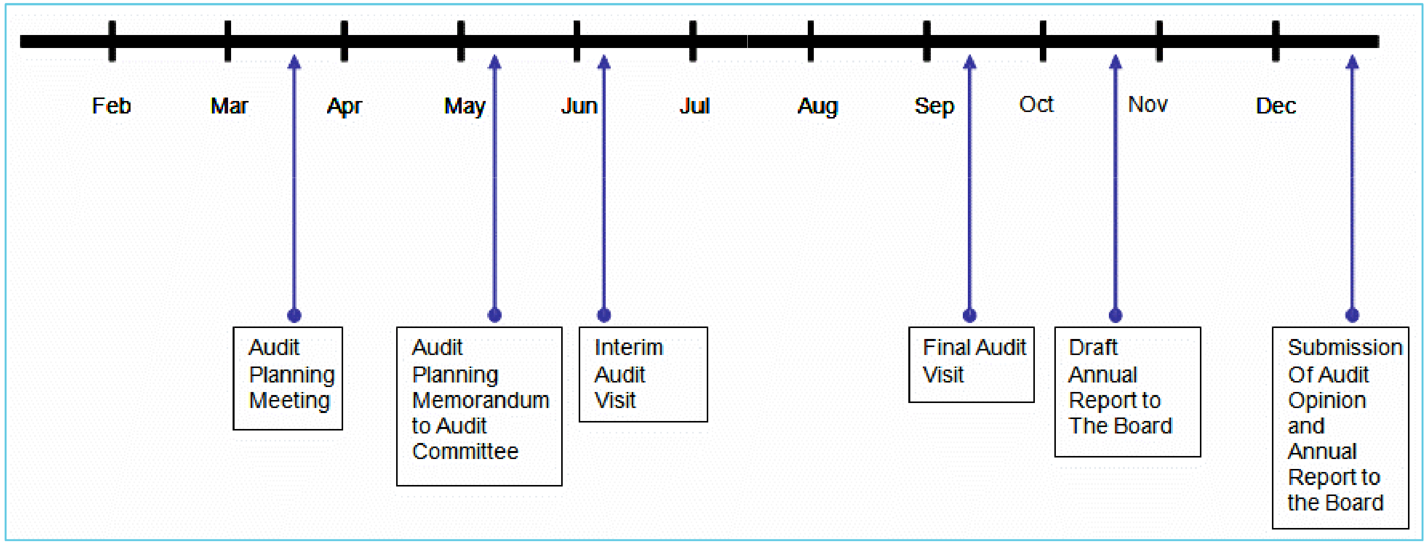
Preparation of the Financial Statements

Our Audit Planning Memorandum, issued to the College in April 2010, outlined the various stages of the audit process, as set out in the timetable below. In relation to the key factors of the production of the financial statements, our assessment was as follows:

Completeness of Draft Financial Statements: We received a set of draft financial statements on 20th September 2010, the first day of audit fieldwork. The draft financial statements were of excellent quality. Most issues were resolved by the end of fieldwork and a revised draft received on 12th November 2010. Any outstanding matters were satisfactorily resolved prior to receipt of the final Financial Statements and audit sign off.

Quality of Supporting Documentation: Prior to the beginning of our audit fieldwork, we issued an "Information to be Prepared by Client" request setting out the required supporting documentation to be in place for the beginning of audit field work. The supporting documentation that was received was of an extremely high standard with little requirement to obtain additional schedules from the Finance staff

Response to Audit Queries: As in prior years, management provided good quality and timeous responses to all of the audit queries that were raised with them.



APPENDIX 1
Unadjusted Audit Differences

Unadjusted Audit Differences

We are required by International Standards on Auditing 260 “Communication of matters to those charged with governance” to communicate all uncorrected audit differences, other than those we clearly believe to be trivial.

Total unadjusted audit differences identified by our audit work would not affect the reported surplus of £533k or reported net assets of £16.47m. The Board of Management will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole. These are set in the table below:

		Income & Expenditure Account		Balance Sheet	
Unadjusted Audit Differences	**£’000**	**DR £’000**	**CR £’000**	**DR £’000**	**CR £’000**
Surplus for the Year before Audit Adjustments	533				
Reversal of invoice cancelled after year end				100	100
Total Adjustments	**(0**	**0**		**100**	**100**
Surplus **for** the Year after Audit Adjustments	533				

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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