Scott-Moncrieff

Coatbridge College

Annual Report to the Board of Management and the Auditor General for Scotland 2009/10

December 2010

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Executive Summary

Finance

Our audit of Coatbridge College is now complete and our audit opinion on the truth and fairness of the financial statements and the regularity of transactions is unqualified.

The College reported a surplus of £1,100,000 in 2009/10 (£786,000 in 2008/9). The budgeted surplus shown on the 2009 Financial Forecast Return submitted to the Scottish Funding Council was £1,089,000.

The 2010 Financial Forecast Return shows the College forecasting operating surpluses of £693,000 in 2010/11, £130,000 in 2011/12 and £12,000 in 2012/13.

The College is financially secure and the balance sheet as at 31 July 2010 reports net assets of £23.161m including bank and cash of £3.080m.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the 2008 Combined Code on Corporate Governance during 2009/10. We have reviewed the College's statement and can confirm that this is in line with the Scottish Funding Council's guidance and is not inconsistent with our understanding from the audit.

We did not identify any areas of concern from our review of the College's corporate governance arrangements in so far as they relate to prevention and detection of fraud and irregularity, or standards of conduct and prevention and detection of corruption.

Conclusion

This report concludes the 2009/10 audit of Coatbridge College. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Director of Finance. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff
15 December 2010

Introduction

1. This report summarises the findings from our 2009/10 audit of Coatbridge College. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 8 September 2010. The main focus of our external audit has been on the financial statements and governance arrangements.

2. Our plan summarised the following key audit issue for 2009/10:
   - Estates strategy – phase 1

3. This report sets out our findings in relation to this key issue. The report also includes a follow-up of issues identified during our previous audit.

4. This report will be submitted to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Finance

5. In this section we summarise the key aspects of the College's reported financial position and performance to 31 July 2010. We also outline significant financial issues identified during the course of our audit. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and to consider the governance arrangements in relation to the College's financial position.

Auditors' opinion

6. We are required to give an opinion as to whether the financial statements present a true and fair view of the financial position of the College as at 31 July 2010 and of its expenditure and income for the financial year. We are also required to include a regularity assertion in our independent auditors' report stating whether, in all material respects, expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with the Scottish Funding Council (SFC).

7. Our audit is now complete and our audit opinion on the truth and fairness of the financial statements and on the regularity of transactions is unqualified.

8. The signed financial statements will now be submitted to Audit Scotland, who will pass them to the Scottish Government for laying before the Scottish Parliament.

Financial position

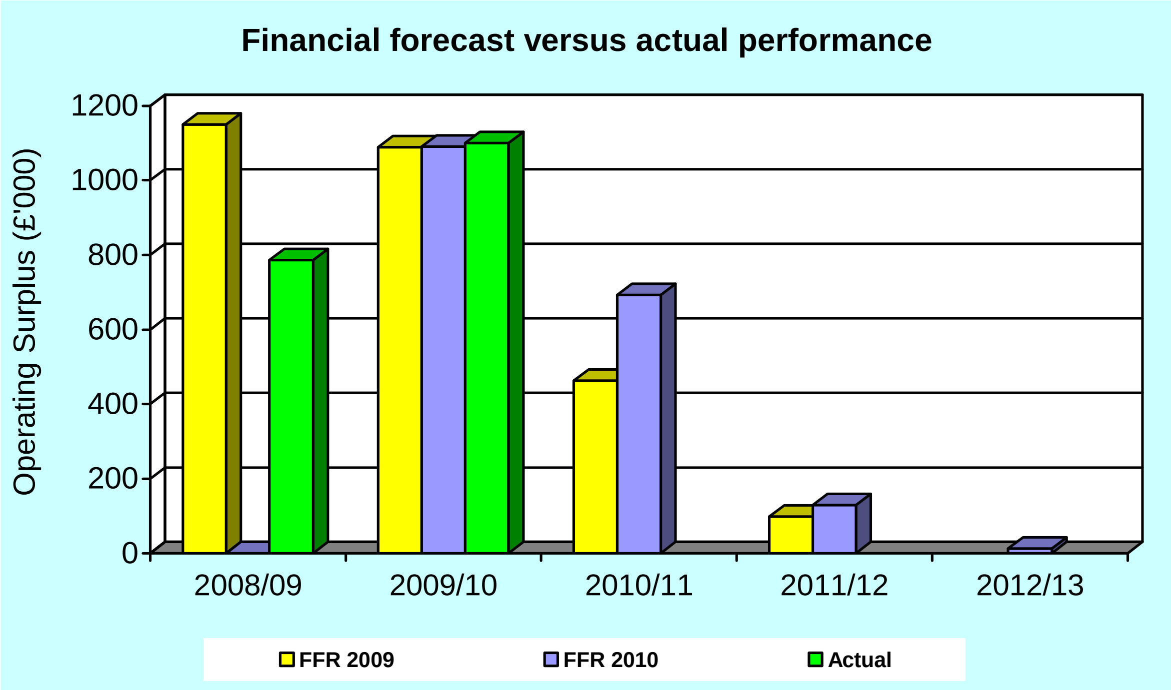
9. The College reported a surplus for the year to 31 July 2010 of £1,100,000.

10. The College is financially secure and the balance sheet as at 31 July 2010 is showing net assets of £23.161m, including a bank balance of £3.080m.

Financial forecasts

11. The College submits annual Financial Forecast Returns (FFRs) to SFC for the current year and the next three years. SFC uses the FFRs to assess the financial performance of individual Colleges and of the sector as a whole.

12. The following graph compares the actual results for 2009/10 with the FFR forecasts and sets out future projections as contained within the 2010 FFR.



13. As shown above, the College is expecting to report surpluses in 2010/11, 2011/12 and in 2012/13.

14. The College's original budget for 2009/10 per the 2009 FFR showed a surplus of £1,089,000.

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

	£
Surplus per initial budget	**1,089,000**
I&E effect of 2009/10 FRS 17 adjustment **(paragraph 16)**	(56,000)
Miscellaneous items **(paragraph 17)**	67,000
Actual surplus per financial statements	**1,100,000**
Variance from original budget	**11,000**
Variance as percentage of total income	**0.08%**

16. The Board of Management can not, with reasonable certainty, quantify the annual effect of FRS 17 on the figures in the financial statements, or on the FFR, and as such no impact was anticipated at the time the FFR was prepared.

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

18. In all cases the College will take a prudent approach to budget setting, and following the economic downturn budget holders were encouraged to deliver efficiencies where possible.

Financial planning and monitoring arrangements

19. The College has a responsibility to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the College's financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the College's operations and use of resources.

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

21. In our opinion the College has effective financial management arrangements in place, and has taken steps to proactively analyse and respond to the future funding challenges posed by the current economic climate.

Financial reporting framework

22. The principal elements of the College's financial reporting framework are:
    - Accounts Direction issued by the Scottish Funding Council
    - Further Education / Higher Education Statement of Recommended Practice (FE/HE SORP) 2007

23. We are pleased to confirm that the College's 2009/10 financial statements comply fully with the Accounts Direction and FE/HE SORP 2007 in all material aspects.

Financial statements preparation

24. We are grateful to the Director of Finance, the Finance Manager and the finance staff for their assistance and support during the course of the audit.

25. We found that the College had adequate resources available in the Finance Department to meet the College's financial management and reporting needs.

Audit adjustments

Actual adjustments

26. During the course of the audit the following adjustments to the financial statements were identified:-

Journal	I&E Account Dr	I&E Account Cr	Balance Sheet Dr	Balance Sheet Cr
Prepayments and accrued income			4,731	
Trade creditors				4,731
Being adjustment in respect of debit balances in the trade creditor listing				
Premises costs	3,297			
VAT creditor				3,297
Being reallocation of year-end VAT creditor				
Bad debt provision (BS)			6,285	
Bad debt charge (I&E)		6,285		
Being adjustment in respect of over provision of sales ledger doubtful debts				
Exceptional staff costs	554,000			
STRGL – I & E reserves				554,000
Being adjustment in respect of change from RPI to CPI (paragraph 35)				
Deferred grant release (BS)			35,700	
Fixed assets - accumulated depreciation				35,700
Depreciation charge for year	35,700			
Deferred grant release (I&E)		35,700		
Being correction of depreciation charged on certain items of IT equipment and related adjustment to grant release				
Fixed assets - buildings			525,361	
Accruals				193,786
Retention on capital works > 1 year				331,575
Being capital accrual in respect of phase 1, inclusive of retention				
Depreciation charge for year	13,134			
Fixed assets - accumulated depreciation				13,134
Deferred grant release (BS)			13,134	
Deferred grant release (I&E)		13,134		
Being depreciation on assets capitalised (see above) and related adjustment to grant release				
Fixed assets - buildings			33,022	
Fixed assets - equipment			39,259	
Fixed assets - equipment			59,966	
Premises costs		132,247		
Being capital items identified from review of premises costs nominal codes – action plan point 1				

	I&E Account		***Balance Sheet***	
Journal	***Dr***	***Cr***	***Dr***	***Cr***
Depreciation charge for year	33,901			
Fixed assets - accumulated depreciation				33,901
Deferred grant release (BS)			33,901	
Deferred grant release (I&E)		33,901		
Being depreciation on assets capitalised (see above) and related adjustment to grant release				
Income	657,608			
Deferred grant received (BS)				657,608
Being adjustment to deferred grants to reconcile to funded fixed asset additions in the year				
Accrued income			525,361	
Income		525,361		
Being accrual of income in relation to capital costs incurred during the year				

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

	£
Surplus per draft accounts presented for audit	1,651,000
Reallocation of year-end VAT creditor	(3,000)
Over provision of sales ledger doubtful debts	6,000
Capital items identified from review of premises costs codes – ***action plan point 1***	133,000
Increase in grants deferred in respect of capital projects	(658,000)
Increase in accrued income in respect of estates project	525,000
Amendment to FRS 17 accounting (RPI/CPI movement) (***paragraph 35***)	(554,000)
Surplus per financial statements	**1,100,000**

Potential adjustments

28. No potential adjustments to be reported following the processing of the above entries.

Review of accounting systems

29. As part of our audit we assessed the accounting systems and internal controls operating at the College to ensure they formed an adequate basis for the preparation of the financial statements. Please refer to the action plan for details of control improvements detected during audit fieldwork.

Other issues of particular significance for the 2009/10 audit

30. In order to assist College members' understanding of the financial statements and our audit, we have summarised issues below which we believe are of particular significance to the 2009/10 financial statements, which have not already been discussed fully in our report.

Estates strategy – phase 1

31. Following a number of adjustments processed through the financial statements as a result of our audit work (*paragraph 26*), we can confirm that the capitalisation of costs, and grants received in relation to phase 1 of the estates project are accurate.

Post balance sheet events

32. On 8 November 2010, the College was notified that the main contractor in respect of the phase 1 works, ROK plc, had been placed into administration. We have considered the disclosures contained within the financial statements, and find these to be adequate.

Pension Fund liabilities

33. The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF).

34. The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with Financial Reporting Standard 17 – *Retirement Benefits* (FRS 17), the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

35. The SPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in its balance sheet. In 2009/10, the College reported a liability in respect of the SPF of £1.391m. This was a significant reduction from the balance as at 31 July 2009 of £2.058m. The main reason for the reduction in the pension fund liability was that on 22 June 2010, the Chancellor of the Exchequer's Budget Statement outlined that future pension increases were to be linked to the Consumer Prices Index (CPI) rather than Retail Prices Index (RPI). There is a one-off adjustment in 2009/10 in favour of the College of £554,000 arising from this change which has been reflected in the College's Statement of Recognised Gains and Losses in the year.

36. We reviewed the College's accounting for the pension liability and confirmed that it complies with the requirements of FRS 17 and the FE/HE SORP, and that disclosure is consistent with the actuarial valuation report.

Governance

37. It is the College's responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:

- the College's review of its systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and other irregularities;
- standards of conduct and arrangements for the prevention and detection of corruption;
- the College's financial position.

38. We reported on the corporate governance arrangements in relation to its financial position in the Finance section of this report. This section includes our comments on other aspects of the College's arrangements.

Corporate Governance

Current governance arrangements

39. Colleges are required to include in their financial statements a statement covering the responsibilities of their Board of Management in relation to corporate governance arrangements. The statement should describe the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and report on the College's compliance with the Combined Code.

40. The College's Corporate Governance Statement for 2009/10 explains that the College was fully compliant with the 2008 Combined Code throughout the period.

41. We reviewed the Corporate Governance Statement by:

- checking the statement against Scottish Funding Council guidance;
- considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control;
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

42. We are satisfied that the statement is consistent with the Scottish Funding Council's guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

In 2010/11, the College will have to report against revised Corporate Governance standards

43. A new Corporate Governance Code was published in June 2010 and will apply to financial years beginning on or after 29 June 2010. The UK Corporate Governance Code, formerly known as the Combined Code, sets out standards of governance for listed companies. The Code is also applicable to publicly funded bodies that are required to prepare an annual statement on internal control or corporate governance for inclusion in their financial statements. The "comply or explain" provision is retained in this new version of the code.

44. We recommend that the College reviews its corporate governance arrangements against the new Code in preparation for making its Corporate Governance Statement in its 2010/11 financial statements. We have undertaken an analysis of the key changes applicable to education bodies and will be sharing this guidance with College management to help inform this assessment. ***Action plan point 4***

Risk management

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

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

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

Internal audit

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

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

Internal audit's annual opinion statement

50. Internal audit has concluded in its annual report that management has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives.

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

Prevention and detection of fraud and irregularity

52. We are required to consider the arrangements made by management for the prevention and detection of fraud and irregularity. Fraud is defined as deception made for personal gain and irregularity is defined as transactions which do not comply with Scottish Ministers guidance.

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

54. All SFC and other guidance and circulars are received by the Principal's secretary. All relevant regulatory information is distributed to the appropriate members of staff. All relevant guidance is presented to the Board of Management meetings ensuring that all those concerned have access to adequate and relevant information.

55. We are pleased to report we identified no issues of concern in relation to the arrangements for the prevention and detection of fraud, with regard to the legality of transactions or in relation to compliance with relevant guidance and regulations.

Standards of conduct

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

57. Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the Scottish Government.

58. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over ordering and procurement and disposal of assets.

59. We are pleased to report that our audit identified no issues of concern in this area.

Looking Forward

Financial position

60. There is increasing uncertainty over the level of future funding that will be provided to the sector and indications from the Scottish Government are that there will be no significant increases in future funding. Coupled with increasing cost pressures this will result in limited financial resources for the sector. Whilst College management have been making plans to react and respond to this situation, the true impact has yet to be confirmed and the College's assumptions underpinning its response have yet to be tested. Whatever the outcome, all indications are that the coming years will prove a time of more restraint for the FE sector than compared with recent periods.

Estates project

61. In June 2009 the college decanted from the South building to Strathclyde Business Park in order to allow the demolition work of part of the South building to commence in early July. The works were progressing in line with the timetable, until 8 November 2010 when the main contractor, ROK plc, was placed into administration (*paragraph 32*). The College is in the process of appointing a new main contractor, and currently expect the project to be delayed by approximately 4 weeks.

62. £11.3m of funding for the project is via capital grants from SFC, with a loan facility of £8.9m secured with Lloyds TSB following the College agreeing to become a pilot site for the SFC loan fund arrangement. The remaining funding required of £1.2m will be met by the College.

63. In line with the requirements of Financial Reporting Standard 15 a full valuation of the estate will be required as at 31 July 2011.

International financial reporting standards

64. The College's financial statements are currently prepared on the basis of UK accounting standards (UK GAAP) which the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) Board believes continues to be appropriate for Colleges.

65. The Scottish Funding Council's expectation is that Colleges will continue to converge with International Financial Reporting Standards (IFRS) as UK GAAP converges with IFRS over the next few years. It appears likely that full implementation will not take place before 2013. Whilst this is some time away, the conversion process requires sufficient and appropriate information to be available to support the production of comparator balances. Effectively, this means work to produce full IFRS-compliant financial statements will begin at least one year before the actual implementation date. In some areas, such as in relation to fixed assets and component accounting, the earlier the work begins the more straightforward the conversion process may be.

66. We will continue to monitor developments in this area and ensure that the College continues to follow the appropriate accounting standards.

Appendix 1 – Action Plan

Our annual report action plan details the financial control weaknesses and opportunities for improvement that we have identified during our audit visit in addition to any reportable matters arising from our review of performance and governance systems.

The action plan details the officers responsible for implementing the recommendations and implementation dates. The College should assess these recommendations for their wider implications before approving the action plan. Following submission of this report to the Audit Committee, we will send a copy to the Auditor General.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Grading

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

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

Issues arising from our 2009/10 audit

Action point	Issue identified and recommendation	Management response
1 **Capitalisation policy**	Following a review of the nominal codes in respect of premises costs, it was noted that £132k of costs indicative of capital spend, remained expensed through the Income and Expenditure Account. These were subsequently capitalised within the financial statements as a result of the audit (*paragraph 26*). The capitalisation policy is disclosed within the financial statements, and with the exception of this incidence, has been appropriately applied. We would recommend that, at a minimum, quarterly review of the nominal codes for premises costs is undertaken to ensure all items of capital expenditure, as defined by the capitalisation policy, are identified and capitalised on a timely basis. **Grade 3**	**To be actioned by:** **Director of Finance** **No later than:** **Immediate**
2 **Opening reserves**	It was noted that the income and expenditure account balances are not cleared from the accounting system to reserves at the end of each year. There is a risk that brought forward reserves could be incorrect, resulting in an incorrect surplus or deficit being reported for the current year. The balances within income and expenditure account codes should always be cleared to reserves at the end of each year and closing balances reconciled to the signed accounts. **Grade 2**	**To be actioned by:** Director of Finance **No later than:** Immediate

Action point	Issue identified and recommendation	Management response
3 **Payroll reconciliation to nominal ledger**	During audit fieldwork it was noted that payroll nominal accounts were not fully reconciled to payroll reports at the year end. Whilst the total per the payroll report agreed in total to the various nominal codes, there is a risk that the split of costs between wages & salaries, social security and pensions are incorrect and therefore reconciling items not identified in a timely manner. **Grade 2**	**To be actioned by:** Director of Finance **No later than:** Immediate
4 **Corporate Governance Code**	The UK Corporate Governance Code, formerly known as the Combined Code, sets out standards of governance, against which publicly funded bodies are required to prepare a corporate governance statement. This replaces the 2008 Combined Code. To mitigate against the risk of non-compliance, we recommend that the College reviews its corporate governance arrangements against the new Code in preparation for making its Corporate Governance Statement in its 2010/11 financial statements. We have undertaken an analysis of the key changes applicable to education bodies and will be sharing this guidance with College management to help inform this assessment. **Grade 2**	**To be actioned by:** Secretary to the Board **No later than:** Immediate

Follow-up of issues from previous year's external audit

Follow-up point	Original recommendation	Update at December 2010
1 **Journal authorisation**	It was noted during audit testing that there are instances where journals are being signed as prepared and authorised by the same individual. We recommend that segregation of duties is enforced to ensure all journals are authorised by an individual distinct from the preparer.	There are still instances of preparation and authorisation of journal entries by the same individual, however, it is noted that larger value journals are independently authorised. **Action taken as agreed**
2 **Register of interests**	The Secretary to the Board should ensure that procedures are in place to ensure that a register of interests form is completed timeously by all board members and, that procedures are in place to pursue the non-completion of such documentation.	Procedures have been implemented during the year to ensure information is gathered on a timely basis. **Action taken as agreed**

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