Scott-Moncrieff

# West Lothian College

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

December 2010

# West Lothian College

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

# Executive Summary

## Finance

Our audit of West Lothian College ("the College") is complete and our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.

The College has reported a surplus of £1,046,000 in 2009/10 (2008/09: £559,000), against a budgeted surplus of £631,000. The College's 2009/10 financial outturn position is favourable compared to the outturns being reported across the wider FE sector.

Surpluses are being projected for the next three years, of £649,000 in 2010/11, £199,000 in 2011/12 and £372,000 in 2012/13. Excluding 2010/11 the College is forecasting that surpluses will be below the 5% of income target set by the College. This is reflective of the increasingly challenging funding environment in which the College will be operating.

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). This has had a substantial impact on the College's actuarial valuation and is expected to significantly reduce the College's pension liabilities going forward. There is also a one-off adjustment in favour of the College of £840,000 arising from this change, £697,000 of which relates to FRS17 (reflected in the College's Statement of Recognised Gains and Losses in the year), with the remainder being reflected within the early retirement provision.

## 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 SFC's guidance and is not inconsistent with our understanding from the audit.

The College undertakes an annual review of the progress made against strategic objectives. This has fed into the development of the 2010-2013 Corporate Plan which has been developed taking into account the external environment and opportunities and risks facing the College. These have been used alongside future funding scenarios to set out the new Corporate Aims for the short and medium term. We are pleased to note the extent to which the College is proactively analysing and responding to the future funding challenges it faces.

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 West Lothian 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 Assistant Principal, Finance and Resources. 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***
***14 December 2010***

# Introduction

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

2. Our plan summarised the following key audit issues for 2009/10:

   - Financial position
   - Lothian pension fund liabilities
   - Early retirement liabilities
   - SFC funding - fee waiver

3. This report includes our findings in relation to these key issues as well as our follow-up of issues identified in previous years.

4. The report is also addressed 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 give an opinion on 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 Scottish Funding Council (SFC).

7. Our audit is now complete and our audit opinions on the truth and fairness of the accounts and on the regularity of transactions are 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

**The College reported strong financial results for the year to 31 July 2010, particularly relative to the sector as a whole**

9. The College reported a surplus for the year to 31 July 2010 of £1,046,000, against a budgeted surplus of £631,000.

10. The College reported a surplus of £559,000 in 2008/09. The improved financial performance in the current year stems from continued tight cost control on the part of the College, driven by the intention to reduce the accumulated negative income and expenditure reserves arising from the PFI buy out in 2006/07. For example, the College has been able to earn additional revenue in year without significantly adding to its cost base.

11. Table 1 below reconciles the College's 2009/10 budget to the final outturn position for the year.

**Table 1 - Budget to actual reconciliation**

| | £'000 |
|---|---|
| **Surplus per original budget** | **631** |
| *Movement:* | |
| Additional income | 394 |
| Early retirement provision movement | 77 |
| Salaries overspend | (126) |
| Operating costs underspend | 237 |
| Unfunded bursary costs | (314) |
| Other smaller variances | 147 |
| **Actual surplus per financial statements** | **1,046** |

**Additional income**

12. During 2009/10 the College recognised an additional £503,000 in revenue funding from Scottish Funding Council (SFC) compared to the original budget. Funding to support a response to the economic downturn amounted to £321,000 and £186,000 was received in relation to the Skills Utilisation project. The College did not have any sufficient knowledge of these allocations to include them in the original budget.

13. Offsetting this increased income was the reduction in the total fee waiver income recognised within the year. SFC issue indicative fee waiver allocations each year, but final allocations are not confirmed until the February after the financial year end. SFC has generally funded such 'additional' claims in previous periods. However, from 2010/11 onwards, SFC is introducing a new 15% threshold, effectively limiting the maximum amount over and above the initial allocation that can be claimed by a College. The College has reflected this 15% threshold in 2009/10 to ensure income is being recognised prudently. We agree with this approach.

**Early Retirement Pension Provision**

14. The College uses the services of Hymans Robertson LLP to estimate the early retirement pension provision. This will generally lead to a variance from original budget as the provision requires an assessment of market conditions as at 31 July each year. Future price inflation assumptions were impacted by the change from the Retail Prices Index to the Consumer Prices Index as an inflationary measure (see paragraph 41 for details of the FRS 17 impact), reducing the College's

early retirement liabilities by £180,000. This reduced the net charge recognised to £19,000, £77,000 below the original forecast.

**Salaries**

15. During 2009/10 salary costs incurred by the College were £126,000 above budget. This overspend is primarily due to costs incurred within the Creative Centre, the result of a higher reliance on temporary staff than initially anticipated. This area of overspend is currently being reviewed in more detail by the Creative Centre and the Assistant Principal, Finance and Resources.

**Operating costs**

16. The College generated savings against budget of £237,000 in relation to operating costs for supplies and services. During the year service managers agreed to focus on generating savings within this area in response to overspends within student bursary funds (discussed further below). Savings were generated particularly in relation to ICT costs, coupled with the College as a whole not requiring use of any of the £100,000 contingency within the original budgets to cover unforeseen expenditure.

**Student funds activity**

17. The bursary allocation received in 2009/10 was lower than the level of expenditure incurred by the College. As with fee waiver, SFC has previously funded any 'additional' claims which are over and above the initial bursary allocations. However, the current economic climate and the rise in the level of such claims across the sector as a whole has increased the uncertainty over the SFC response to this situation for 2009/10. During the year the College decided that, rather than reduce the level of funding provided to students, it would absorb these costs. Accordingly, unfunded bursary costs of £314,000 have been recognised in 2009/10.

18. The College has identified the need to limit the impact of bursary underfunding in future years and has introduced new funding arrangements to limit the level of financial support being provided to students as well as incorporating an element of overspend within the 2010/11 budget. The funding arrangements include providing students with EMA support rather than bursary support (if the student qualifies for both). The overall aim of College management is to support all students who require assistance, whilst making the most of what is becoming an increasingly pressured funding pot. We will continue to monitor the impact that bursary support has on the College during 2010/11.

## Balance sheet

### The College continues to report a negative reserve position, reflecting the impact of the 2006/07 PFI buyout and early retirement costs

19. The College's Balance Sheet as at 31 July 2010 reported net assets of £9.051m (2009: £7.708m). This consists of deferred capital grants of £19.230m, offset by a negative Income and Expenditure

reserve balance of £8.177m (2009: £9.116m) and a negative pension reserve of £2.002m (2009: £2.514m). Table 2 analyses the Income and Expenditure reserve in more detail below, highlighting the adverse impact on the reserve of the 2006/07 PFI buyout and early retirement costs. This demonstrates that the College's negative Income and Expenditure reserve balance does not reflect the historic performance of the College's trading activities, which have consistently generated surpluses over the last few years.

**Table 2 - Income and Expenditure reserve**

| | **£'000** |
|---|---|
| I&E - Trading activities | 827 |
| I&E - Early retirement provision | (3,464) |
| I&E - PFI Voluntary termination | (5,540) |
| **Total I&E reserve** | **(8,177)** |

*Source: 2009/10 Annual accounts*

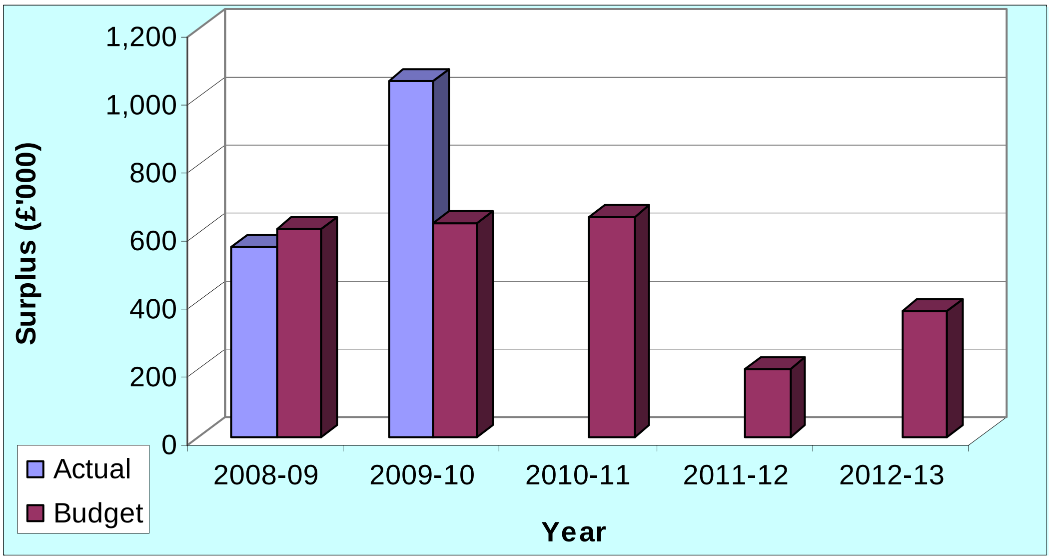
20. The College's 2010 Financial Forecast Return predicts that this negative reserve balance will reduce to £7.740m in 2010/11 through continued trading surpluses.

## Financial forecasts

### Operating surpluses are being forecast between 2010/11 and 2012/13 however these are below the College's target of 5% of income

21. 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. Diagram 1 below compares the actual results for 2009/10 with FFR forecasts and sets out future projections.

**Diagram 1 - Actual performance and FFR Forecasts**




*Source: Annual Accounts and College FFR returns to SFC*

22. As shown above, the College is expecting to make a large surplus in 2010/11. However, the level of surpluses forecast between 2011/12 and 2012/13 are significantly lower, as the College has incorporated the cuts facing the public sector into its financial forecasts. While the actual impact on the FE sector has yet to be clarified the College has adopted a fairly prudent estimate of future income from SFC. Key assumptions incorporated within the College's 2010 FFR are as follows:

- Salary costs will increase by 1% in 2010/11 then remain static for the next two years
- Fee Waiver and Childcare grants remain at 2010/11 levels across the next three years, and Student Funds overspend is limited to £100k per annum
- No change in pension liabilities or early retirement provision
- European Social Fund grants to reduce to £160,000 per annum
- Other income generating activity increasing by 5% per annum.

23. The assumptions used within the College's financial forecasts are considered reasonable, although we note that the 5% increase in other income generating activity may prove a challenge in the current economy.

24. The College has hitherto had a stated aim of achieving a 5% 'surplus-to-income' target. The College has forecast that over the next few years it is unlikely to consistently meet this target, primarily due to the funding and financial operating environment. This will slow the rate at which the College reduces its negative Income and Expenditure reserve.

## Financial planning and monitoring arrangements

### The College continues to have good financial management arrangements in place

25. 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.

26. Budgets are devised and approved at the start of the year and are updated during the year to take account of new information. Management accounts are discussed by the Senior Management Team on a regular basis and presented to each of the quarterly Finance and General Purposes Committee and Board meetings for review.

27. In our opinion the College continues to have good 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 statements preparation

28. We are grateful to the Assistant Principal, Finance and Resources, to the Finance Manager and to the finance staff for their assistance and support during the course of the audit. We again found the draft accounts and supporting working papers to be of a very high standard.

29. We found that the College has sufficient resources available in the Finance Department to meet the College's financial management and reporting needs.

## Audit adjustments

30. During the course of our audit a small number of adjustments to the financial statements were identified. The table below outlines the impact of the adjustments on the outturn position. The majority of the changes made were of a presentational and disclosure nature with only one unadjusted misstatement of £11,000, reflecting debit balances with the creditors listing. As the College has not made this adjustment, we will append this to our letter of representation.

**Table 3 – Adjustments identified during the audit impacting on the outturn**

| | £'000 |
|---|---|
| **Surplus per accounts originally presented for audit** | **1,743** |
| *Adjustments identified during the audit:* | |
| Amendment to FRS 17 accounting (CPI/RPI movement): see paragraph 41 for further details | (697) |
| **Actual surplus per audited accounts** | **1,046** |

31. We also made adjustments to the College's fixed asset accounting, reflecting the work undertaken in upgrading Terrace 4 during 2009/10. All the adjustments were agreed with College management, with the impact of the changes offset by movement within deferred capital grants.

## Review of accounting systems

32. 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.

### Debtor matching

33. Income received by the College is matched to debtor balances on the exchequer system, to accurately reflect the balance outstanding at individual debtor level. However, at year end, a number of payments received had not been matched appropriately to individual debtor balances within the system. Whilst this does not impact on the overall balance outstanding, there is a risk that the College does not appropriately pursue balances outstanding. We therefore recommend that all individual payments are matched to debtor balances.

***Action plan point 1***

### Year end "cut-off" adjustments

34. We identified a number of invoices that were received or issued around the year end that were not posted to the correct year. We also noted instances where invoices received before the year end wholly relating to 2010/11 were recognised as both a creditor and a debtor. This was also noted during our 2008/09 audit, although the issue appears to be on a notably smaller scale this year.

35. Whilst we do not consider this to have a material impact on the College's financial statements we recommend that the College reviews both income and expenditure transactions around the year end to ensure that these are allocated to the appropriate financial year.

***Follow up action plan point 2***

### Capitalisation of expenditure

36. Further to the issue we raised in our 2008/09 report, we identified further asset additions in 2009/10 that, in our opinion should not qualify as capital additions. Whilst these are not considered material to the financial statements we reiterate our previous recommendation that the College should review invoices which include capital works in more detail to reach a reasonable split between what is capitalised and what is expensed.

***Follow up action plan point 3***

37. We identified no other reportable control weaknesses during our audit of the accounting systems. In general, the College's systems of internal financial control appear to be adequate, well designed and operating effectively and are commensurate with the level and extent of arrangements in place at other Colleges.

## Other issues of particular significance for the 2009/10 audit

38. 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.

### Pension Fund liabilities

39. The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Lothian Pension Fund (LPF) for the non-teaching staff.

40. 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.

41. The LPF 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 LPF of £2.002m. This was a significant reduction from the balance as at 31 July 2009 of £2.514m. 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). As CPI will generally be lower than RPI this change in assumption reduces the College's future pension liability. There is a one-off adjustment in 2009/10 in favour of the College of £840,000 arising from this change, £697,000 of which relates to FRS17 (reflected in the College's Statement of Recognised Gains and Losses in the year), with the remainder being reflected within the early retirement provision.

42. 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.

### Early retirement provision

43. The College has previously offered early retirement to staff. The College makes monthly payments to the pension fund to cover any shortfall arising from the decision to grant early access to retirement benefits. In line with Financial Reporting Standard 12 – *Provisions, Contingent Liabilities and Contingents Assets* (FRS 12), the College recognises a liability for the future payments in relation to these early retirements. The provision for early retirement was £3.464m as at 31 July 2010. Whilst this was broadly consistent with the provision as at 31 July 2009 of £3.494m, the current year's liability would have been higher if the change in benefit indexation from RPI to CPI had not been introduced. This change affects price increase assumptions and has reduced the liability as at 31 July 2010 by £0.180m.

44. We reviewed the College's accounting treatment of its liabilities arising from early retirements and confirmed that this was properly reported in the financial statements.

# Governance

45. 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

46. 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

### Governance arrangements at West Lothian College remain strong

47. Colleges are required to include in their annual accounts a statement covering the responsibilities of their Board of Management in relation 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.

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

49. We reviewed the Corporate Governance Statement by:

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

50. We are satisfied that the statement is consistent with SFC's guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work. The College's governance arrangements remain strong and compare favourably when compared against those in other Colleges.

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

51. 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 annual accounts. The “comply or explain” provision is retained in this new version of the code.

52. 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 annual accounts. 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 2***

## Corporate planning

53. The College’s 2010-2013 Corporate Plan has been developed following the Board’s annual review of performance against its strategic objectives. The plan has been developed taking into account the external environment and opportunities and risks facing the College. These have been used alongside future funding scenarios to set out the new Corporate Aims for the short and medium term.

## Risk management

### The College has sufficient and appropriate risk management systems in place

54. Risk management is important to the establishment and regular review of systems of internal control. The College’s financial statements outline the principal risks and uncertainties of the College and sets out the mitigating controls in place to address these risks.

55. During the year the College had a strategic risk register in place, maintained by the Principal who, along with senior management, reviewed and updated the risk register on a regular basis via Senior Management Team meetings. The full strategic risk register is reported to the Audit Committee, with the Committee given the opportunity to comment on the register as part of its review. Operational risk is also considered as part of planning processes within departments.

56. During 2009/10 the College developed a risk and opportunity register which is aligned to the new Corporate Plan. The focus of the new register is to not only ensure that the College is managing all high level risks facing the College but also to ensure that the College is active in identifying and acting upon areas of opportunity to the College.

57. Overall, the College has sufficient and appropriate risk management systems in place.

## Internal audit

58. Internal audit is a key component of the Board's corporate governance arrangements. The Board's internal audit service is provided by BDO Stoy Hayward. We have considered the internal audit arrangements and concluded that there is an effective service which complies with relevant sector guidance.

59. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate. For 2009/10 we reviewed the following internal audit reports and integrated the findings with our own external audit work:

- Corporate Social Responsibility
- European Funding
- Curriculum Development
- Staff Recruitment and Retention
- Partnership Working

### Internal audit 2009/10 conclusion

60. BDO Stoy Hayward have concluded in their annual report that *"based on the reviews undertaken during 2009/10, in our opinion West Lothian College has a sound framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives. In our opinion West Lothian College has, based on the areas examined in 2009/10 and in previous years, proper arrangements to promote and secure value for money".*

61. We are grateful to BDO Stoy Hayward for their assistance during the course of our audit work.

## Prevention and detection of fraud and irregularity

62. We are required to consider the arrangements made by management for the prevention and detection of fraud and irregularity. We also consider the arrangements that the College has in place to ensure compliance with all relevant guidance and regulations.

63. The College has a fraud prevention policy (including fraud response plan) and whistle blowing policy in place. The College has identified a fraud liaison officer and a whistle-blowing officer. There were no frauds identified during the year.

64. All SFC and other guidance and circulars are received by the Principal's Office. All relevant regulatory information is distributed to the appropriate members of staff. A database is held of all SFC circulars and responsible officers dealing with the relevant circular.

65. 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

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

67. 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.

68. 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.

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

# Looking Forward

## Financial position

70. 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.

## International financial reporting standards

71. 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.

72. 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.

73. We will continue to monitor developments in this area and ensure that the College continues to follow the appropriate accounting standards. We will also continue the dialogue we have opened with College finance management regarding the implications of the move to IFRS for the College.

# 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 Board 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**

| No | Title | Issue identified | Risk and recommendation | Management comments |
|---|---|---|---|---|
| 1 | **Debtor matching**<br><br>**(Para 33)** | Income received by the College is matched to debtor balances on the exchequer system, to accurately reflect the balance outstanding at individual debtor level. However, at year end, a number of payments received had not been matched appropriately to individual debtor balances within the system. | Whilst this does not impact on the overall balance outstanding, there is a risk that the College does not appropriately pursue balances outstanding.<br><br>We therefore recommend that all individual payments are matched to debtor balances.<br><br>**Grade 2** | This is normal process but due to pressures with the enrolment process this had not been completed for a small number of accounts.<br><br>**Responsible officer:** N/A<br><br>**Implementation date:** N/A |

| No | Title | Issue identified | Risk and recommendation | Management comments |
|---|---|---|---|---|
| **2** | **Corporate Governance Code**<br>**(Para 52)** | 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 annual accounts.<br><br>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.<br><br>**Grade 3** | Agreed.<br><br>**Responsible officer:** Clerk to the Board<br><br>**Implementation date:** 2010-11 |

**Follow-up of previous external audit recommendations**

| No | Title | Original recommendation and management response | Update at September 2010 by Scott Moncrieff |
|---|---|---|---|
| 1 | **Commercial income contracts** | **Original Recommendation**<br><br>Whilst appreciating the need for pragmatism on the College's part, signed contracts should be in place at the outset of all commercial agreements.<br><br>**Management response**<br><br>Agreed. All reasonable steps are taken to have signed contracts in place. However, where signed contracts have not been obtained there are effective credit control processes operating to ensure that funds due are received. | We have confirmed during our audit that contracts were in place or are the process of being agreed where these were considered appropriate, based on the value and terms of the agreement.<br><br>**Satisfactory** |

| No | Title | Original recommendation and management response | Update at September 2010 by Scott Moncrieff |
|---|---|---|---|
| 2 | **Year-end cut off** | **Original Recommendation**<br><br>The College should ensure that all issues with the non-pay expenditure interface with the ledger are resolved with the software provider as soon as possible.<br><br>This should ensure staff have enough time to review period end invoices and assign these to the correct period in future.<br><br>**Management response**<br><br>Agreed. An interim process has been identified for bringing invoices into the finance system. Discussions are ongoing with the systems providers to reach a resolution as quickly as possible. | Whilst the College has rectified issues relating to the non-pay expenditure interface with the ledger, we still found issues regarding the allocation of invoices received and issued around the year end.<br><br>Whilst we do not consider these to be material to the financial statements we recommend that the College ensure that transactions around the end of the financial year are reviewed in detail to ensure that they are allocated to the appropriate financial period.<br><br>**Responsible officer:** Finance Manager<br><br>**Implementation date:** July 2011 |

| No | Title | Original recommendation and management response | Update at September 2010 by Scott Moncrieff |
|---|---|---|---|
| **3** | **Capitalisation of expenditure** | **Original Recommendation**<br><br>Whilst there is often an element of professional judgement in identifying what is capital and what is revenue spend, the College should review invoices which include capital works in more detail to reach a reasonable split between what is capitalised and what is expensed in the year.<br><br>**Management response**<br><br>Agreed. This will be addressed as part of a planned review of the capital process. | During our 2009/10 audit we found further asset additions that, in our opinion, do not qualify as capital additions. Whilst these are not considered material to the financial statements we reiterate our recommendation raised during 2008/09 that the College should review invoices which include capital works in more detail to reach a reasonable split between what is capitalised and what is expensed.<br><br>**Responsible officer:** Assistant Principal, Finance & Resources and Finance Manager<br><br>**Implementation date:** 2010-11 |

**Scott-Moncrieff (www.scott-moncrieff.com), one of Scotland's leading independent professional services firms, provides industry-focused audit, tax, business advisory and corporate consulting services for commercial, public, not-for-profit and private clients.**



Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.