Scott-Moncrieff

Coatbridge College

Annual Report to the Board of Management and the Auditor General for Scotland 2010/11

December 2011

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Executive Summary

Finance

Our audit of Coatbridge 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 reported a surplus of £1,539,000 in 2010/11 (£1,654,000 in 2009/10 - restated). The budgeted surplus shown on the 2010 Financial Forecast Return submitted to the Scottish Funding Council was £693,000.

The 2011 Financial Forecast Return shows the College forecasting an operating surplus of £86,000 in 2011/12.

The College is financially secure and the balance sheet as at 31 July 2011 reports net assets of £28.280m, including bank and cash of £5.455m.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the UK Corporate Governance Code throughout the period. 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 of the College's governance arrangements based on the information gathered as part of our normal audit work.

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 2010/11 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
14 December 2011

Introduction

1. This report gives a summary of the findings from our 2010/11 audit of Coatbridge College ("the College"). The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 7 October 2011. Our audit has focused on the financial statements and governance arrangements at the College.

2. Our plan summarised the following key audit issues for 2010/11:
   - Estates strategy – phases 1 and 2
   - Valuation of land and buildings
   - Strathclyde Pension Fund Liabilities
   - Voluntary severance agreements

3. This report sets out our findings in relation to these key issues and also includes a follow-up of issues identified in our previous annual reports.

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. This section of the report summarises our findings in relation to the College's financial performance for the year and its position at 31 July 2011. We also discuss any significant issues identified during our audit.

6. 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 College's governance arrangements in relation to the College's financial position.

Auditors' opinion

7. 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 2011 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).

8. Our audit is now complete and we have issued unqualified audit opinions on the truth and fairness of the accounts and on the regularity of transactions.

9. 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

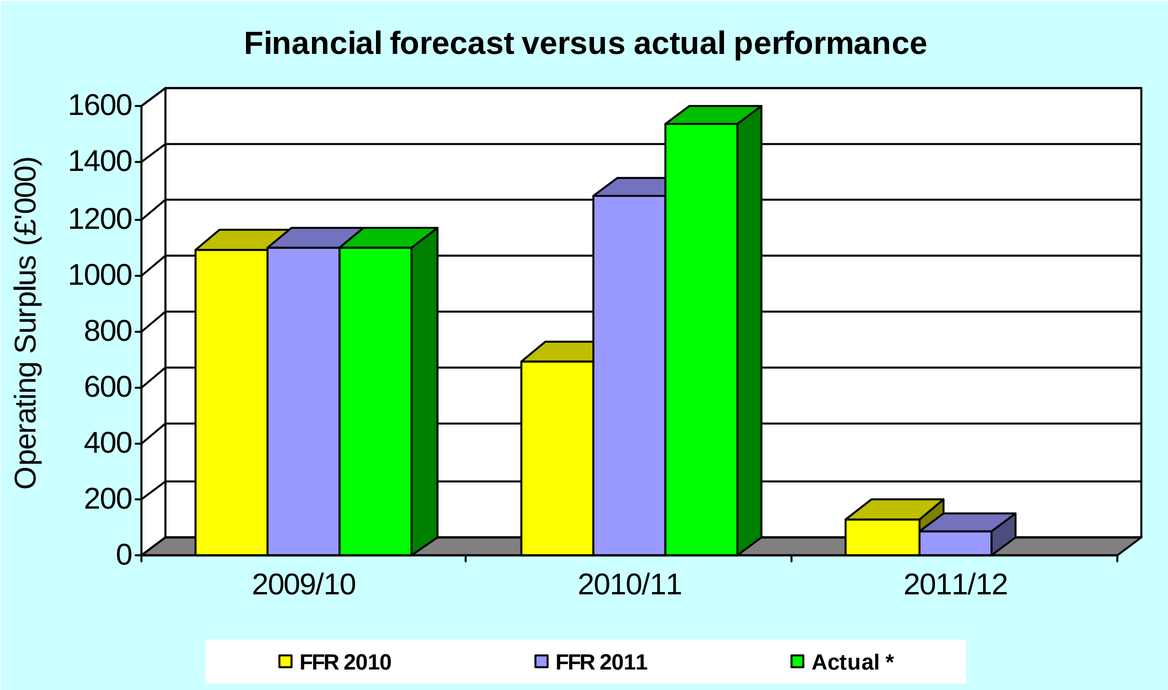
10. The College reported an operating surplus for the year to 31 July 2011 of £1,539,000.

11. The College is financially secure and the balance sheet as at 31 July 2011 is showing net assets of £28.280m, including a bank balance of £5.455m.

Financial forecasts

12. The College has returned the 2011 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC). SFC uses the FFR to assess the financial position and performance of individual colleges and the sector as a whole. SFC has confirmed funding for 2011/12, but, unlike previous years, the College has not been asked to provide three year projections given uncertainty over the financial position of the sector as a whole. The result has been that the College has not been able to budget in the same level of detail as before beyond 2011/12. Instead, scenario planning has been undertaken to model the impacts of various funding settlements. Given the College's recent financial performance and strong balance sheet this is not expected to pose a major risk in the short term, however the College should seek to formalise its medium term plans as soon as it receives clarity on funding from SFC.

13. The following graph compares the actual results for 2010/11 with the FFR forecasts and sets out future projections as contained within the 2011 FFR.



**2009/10 actual figures have been adjusted to remove the exceptional gain relating to FRS 17 CPI/RPI restatement, to provide "like-for-like" comparison*

14. As shown above, the College is expecting to report a surplus in 2011/12 of £86,000.

15. The College's original budget for 2010/11 per the 2010 FFR showed a surplus of £693,000.

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

	£
Surplus per initial budget	**693,000**
I&E effect of 2010/11 FRS 17 adjustment **(paragraph 17)**	**57,000**
Increase in other SFC grants **(paragraph 18)**	**1,131,000**
Increase in other operating expenses – premises **(paragraph 18)**	**(763,000)**
Increase in depreciation charge **(paragraph 19)**	**(163,000)**
Increase in higher education tuition fees **(paragraph 20)**	**96,000**
Increase in other European income **(paragraph 21)**	**539,000**
Decrease in other income **(paragraph 22)**	**(111,000)**
Miscellaneous items **(paragraphs 23 and 24)**	**60,000**
Actual surplus per financial statements	**1,539,000**
Variance from original budget	**846,000**
Variance as percentage of total income	**6.18%**

17. 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. A budgeted cost of £43,000 was anticipated at the time the 2010 FFR was prepared, whilst the actual impact was a £14,000 gain.

18. At the time when the 2010 FFR was being prepared, funding for the revenue costs associated with phase 1 had not been finalised with SFC, and projections in relation to both income and operating expenses (premises) were based on the information available at that point in time.

19. The forecast depreciation charge was contingent upon the level of progress made in respect of the construction on phases 1, 2a and 2b. Construction has progressed well, and is in advance of expectations, hence the reported variation in the charge.

20. An increase in tuition fees against budget was experienced following higher than anticipated student retention rates.

21. The College received additional European funding beyond expectations in respect of the CPP project, ERDF and SFC ESF funding.

22. The College had budgeted for receipt of £100k of income in respect of the Courtyard development. This programme has been rescheduled to take place in year 2011/12.

23. 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.

24. 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

25. As part of our audit, we considered 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 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.

27. 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

28. 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

29. We are pleased to confirm that the College's 2010/11 financial statements comply fully with the Accounts Direction and FE/HE SORP 2007 in all material aspects.

Financial statements preparation

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

31. 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

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

		Income & Expenditure Account		Balance Sheet	
		Dr	***Cr***	***Dr***	***Cr***
1	Debtors amount falling due after one year			7,423,970	
	Debtors amount falling within one year				7,423,970
	Being adjustment to correct ageing disclosure of SFC loan debtor				
2	Income – European Funds	297,000			
	Income – SFC other		297,000		
	Being reallocation of income streams to correct disclosure				

33. None of these adjustments impacted on the College's surplus for the year.

34. All other adjustments related to presentational and disclosure issues.

Potential adjustments

35. Eleven potential adjustments were noted as a result of the audit work performed, but have not been adjusted in the financial statements:-

		Income & Expenditure Account		Balance Sheet	
		Dr	***Cr***	***Dr***	***Cr***
1	Premises costs	2,084			
	VAT creditor				2,084
	Being incorporation of year-end VAT creditor				
2	Fixed assets - buildings			189,020	
	Accruals				189,020
	Being capital accrual re phase 2 for work to 31 July 2011				
3	Accrued income			189,020	
	Deferred capital grants				189,020
	Being accrual and deferral of grant funding income to match capitalisation of costs above				
4	Depreciation charged in year	4,726			
	Accumulated depreciation				4,726
	Release of deferred capital grants			4,726	
	Release of deferred capital grants		4,726		
	Being depreciation on assets capitalised (see above) and related adjustment to grant release				
5	Bad debts	41,587			
	Trade debtors				41,587
	Being increase in bad debt provision				
6	Staff Development - courses	5,785			
	VAT not recoverable	1,013			
	Accruals				6,798
	Being under-accrual of consultancy fees				

		Income & Expenditure Account		Balance Sheet	
		Dr	***Cr***	***Dr***	***Cr***
7	Expenditure - Be all you can be project	18,044			
	Accruals/Other creditors				18,044
	Being money repayable to Langside College				
8	Income - First Foot Forward	10,815			
	Accruals/Other creditors				10,815
	Being money repayable to the British Council				
9	Income	10,571			
	Accrued income				10,571
	Being over-accrual of European income				
10	Accrued income			22,189	
	Income – SFC other		22,189		
	Being under-accrual of interest income re SFC Loan				
11	FRS 17 - Payroll costs	5,000			
	General reserve				5,000
	Being adjustment to disclose (Losses)/Gains on curtailments per FRS 17 report against surplus rather than actuarial gains				

Affect on Income & Expenditure Account of the above noted potential adjustments – decrease in surplus of £72,710.

Review of accounting systems

36. During our audit work we have considered the College's accounting systems and internal controls. Please refer to the action plan for details of control improvements detected during audit fieldwork. In general, the College's systems of internal financial control appear to be adequate, well designed and operating effectively.

Other issues of particular significance for the 2010/11 audit

37. 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 2010/11 financial statements, which have not already been discussed fully in our report.

Estates strategy – phases 1 and 2

38. We can confirm that the capitalisation of costs, and grants received in relation to phases 1 and 2 of the estates project are materially stated, but would draw your attention to potential adjustments 2, 3 and 4 – paragraph 35.

Valuation of land and buildings

39. We can confirm that the valuation of the land and buildings conducted by James Barr, Chartered Surveyors, as at 31 July 2011 has been accurately reflected within the financial statements. The land and buildings have been valued at £22,600,000, resulting in a reduction in the value of the

estate of £5,045,000, which has been reflected through the revaluation reserve, and reported through the Statement of Total Recognised Gains and Losses.

Strathclyde Pension Fund Liabilities

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

41. 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.

42. 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 2010/11, the College reported a liability in respect of the SPF of £884,000.

43. In 2009/10, there was also a one-off pension adjustment of £554,000 in favour of the College, which was reflected in the Statement of Recognised Gains and Losses (STRGL). This transaction was required because on 22 June 2010 the Chancellor of the Exchequer's Budget Statement confirmed that future pension increases were to be linked to the Consumer Prices Index (CPI) rather than Retail Prices Index (RPI).

44. The College's 2009/10 treatment - to take the adjustment through the STRGL - was based on the Draft Urgent Issue Task Force Note 48 (UITF 48) which was issued to inform the accounting for this change. It was only after the accounts were signed that the Final UITF 48 was updated and issued. The Final UITF 48 was changed in such a way as to indicate that accounting for the adjustment through the STRGL was not the most appropriate treatment in the College's circumstances.

45. As a result, the College has processed a prior year adjustment to account for the RPI/CPI move through the College's Income and Expenditure Account. This is why the 31 July 2010 column on the Income and Expenditure Account and certain notes are labelled as "restated". This has been treated as a prior period adjustment arising from a change in accounting policy. We have confirmed that the College has made the appropriate accounting entries and disclosure in the financial statements. It is this matter which has led to the College restating its 2009/10 surplus to £1,654,000 (previously disclosed as £1,100,000) within the comparative column of the 2010/11 accounts.

Voluntary severance agreements

46. We can confirm that the liabilities recognised in respect of severance agreements entered into by the year-end are complete.

Governance

47. 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.

48. 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

49. 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 UK Corporate Governance Code.

50. The College's Corporate Governance Statement for 2010/11 states that the College was fully compliant with the UK Corporate Governance Code throughout the period.

51. 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.

52. 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.

Risk management

53. Risk management is important to the establishment and regular review of systems of internal control. The College's annual accounts outline the principal risks and uncertainties of the College and confirm that mitigating controls are in place in response to these risks.

54. 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.

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

Internal audit

56. 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.

57. 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

58. 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.

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

Prevention and detection of fraud and irregularity

60. As part of our audit we consider how the College ensures compliance with all relevant guidance and regulations. This includes a consideration of the College's arrangements for the prevention and detection of fraud and irregularity.

61. The College has an anti-fraud policy and whistle blowing policy in place. There were no frauds identified during the year to 31 July 2011.

62. 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.

63. 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

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

65. 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.

66. 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, procurement and disposal of assets.

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

Looking Forward

Financial position

68. There is increasing uncertainty over the level of future funding that will be provided to the sector. Indications from the Scottish Government are that the reductions in funding experienced in 2010/11 is a trend which is expected to be reflected in funding settlements over the next few years. Coupled with increasing cost pressures, this will result in significant financial challenges for the College and the sector as a whole.

69. SFC has confirmed funding for 2011/12, but, unlike previous years, the College has not been asked to provide three year FFR projections given uncertainty over the financial position of the FE and public sector as a whole. This puts pressure on the College's ability to plan its medium term financial future. It is undoubtedly a significant variable which complicates strategic decision making. However, the history of strong financial performance over the past five years has shown that the College operates on a firm financial footing and it is well placed to meet these future financial challenges when compared to many other FE bodies.

International financial reporting standards

70. The College's financial statements are still 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.

71. Colleges will continue to converge with international financial reporting standards (IFRS) as UK GAAP converges with IFRS. It appears likely that full implementation of IFRS will not take place before 2013/14.

72. As we have previously noted, 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 and we endorse any moves the College may make to work towards IFRS transition in a structured and well-planned way.

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 2010/11 audit

Action point	Issue identified and recommendation	Management response
1 **Fixed assets**	Audit fieldwork has confirmed that the assets reflected in the financial statements are largely in use. There is a risk that following completion of the significant refurbishment works that assets no longer in use or scrapped are not removed from the fixed asset registers and hence from the accounting records. We recommend that fixed assets per the register are physically verified on a periodic basis. Assets identified as no longer in use or scrapped should be removed from the accounting records. As part of the process we recommend that fixed assets are tagged to ensure that it is possible to match the asset noted in the register to the physical item. **Grade 3**	**Management response:** Agreed **Responsible officer:** Director of Finance/ Finance Manager **Implementation date:** 31 July 2012
2 **Reconciliation of income per management accounts to income disclosed in the VAT returns**	During the year bank interest received has been disclosed within box 6 of the VAT returns in error. This type of income is not VATable. There is a risk that incorrect figures are disclosed to HMRC and if there was a VAT visit, HMRC would question the amount of VAT paid given the level of income disclosed in the return. We recommend that the VAT calculation spreadsheet is checked each quarter to ensure that only VATable income streams are included within box 6 of the VAT returns, to ensure that such issues are identified on a timely basis. **Grade 1**	**Management response:** Agreed **Responsible officer:** Finance Manager **Implementation date:** 31 January 2012

Follow-up of previous external audit recommendations

Action point	Original issue identified and recommendation	Update at December 2011
1 **Capitalisation policy** **2009/10**	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 in the 2009/10 annual report*). 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. **Responsible officer:** Director of Finance **Implementation date:** Immediate	As per prior year, project related costs are initially charged to premises costs codes and subsequently reallocated to fixed assets. Premises costs have been reviewed in the current year by the Finance Team, and relevant transfers processed. Issue addressed. **Action taken as agreed.**
2 **Opening reserves** **2009/10**	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. **Responsible officer:** Director of Finance **Implementation date:** Immediate	This matter remains unresolved and requires to be carried forward. **Grade 2** **Responsible officer:** Director of Finance **Implementation date:** Immediate

Action point	Original issue identified and recommendation	Update at December 2011
3 **Payroll reconciliation to nominal ledger** **2009/10**	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. **Responsible officer: Director of Finance** **Implementation date: Immediate**	This reconciliation was made available at the start of audit fieldwork and no issues to note from work performed. Issue addressed. **Action taken as agreed.**
4 **Corporate Governance Code** **2009/10**	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. **Responsible officer: Secretary to the Board** **Implementation date: Immediate**	Issue addressed. **Action taken as agreed.**

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