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City of Glasgow College

Annual audit report to the Board of Management of

City of Glasgow College

and the Auditor General for Scotland

Year ended 31 July 2011

20 December 2011

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Board of Management of Glasgow Metropolitan College (known as City of Glasgow College) and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

This report summarises our work for the year ended 31 July 2011, the final year of our five-year appointment as the College's auditors. It also provides information required by ISA (UK and Ireland) 260: *Communication with those charged with governance*.

We wish to record our appreciation of the continued co-operation and assistance extended to us by City of Glasgow College staff during the course of our work.

Financial statements and accounting	Page
Merger accounting in line with FRS 6 has been adopted. There were no other significant changes made to the accounting policies during the year.	5
A number of technical accounting matters were considered during the audit process covering merger accounting, the accounting for pensions, fixed asset valuations and voluntary severance costs. An exceptional accelerated depreciation charge of £42.8 million in respect of existing assets, partially offset by an accelerated release of deferred capital grants of £7.1 million, was incurred following the Scottish Government's approval on 29 November 2011 of £193 million towards a new campus.	5
We have issued unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in them.	7
We encountered some delays in the audit process. A complete draft report and financial statements were not received until 1 November 2011; previous versions received were incomplete primarily in respect of North Hanover Street campus information.	7
Use of resources	
The financial statements report a surplus for the year before exceptional items of £1.3 million. The surplus was lower than the prior year, on a like-for-like basis, due to one-off items in 2009-10 relating to the change from RPI to CPI for the determination of pension liabilities and the revaluation of the fixed assets at the Cathedral Street campus. Following the net impairment to fixed assets of £35.7 million, the reported result for the year was a deficit of £34.4 million. The impact on the income and expenditure reserve was mitigated by a transfer from the revaluation reserve of £35.7 million.	9
A deficit of £1.1 million is currently forecast for the 2011-12 financial year, which is higher than the approved £0.5 million deficit budgeted. This is due to a forecast reduction in overseas income. Management are reviewing ways to correct this position.	10
The College has started to consider the impact of future funding reductions and is currently modelling the effects of this.	11
Governance	
The College has been implementing new policies and procedures and a new governance framework during the 2010-11 financial year as a result of the merger. The corporate governance statement confirms the existence of a comprehensive framework of internal control.	12
Key financial controls are operating effectively, with the exception of journals authorisation. We raised 10 recommendations in respect of matters identified as part of our audit work, which have been communicated separately to management and the audit committee.	13
Internal audit completed their plan and did not report any significant findings.	12
Arrangements to prevent and detect fraud are embedded in internal controls.	12

Service overview

The College was formed following the merger of three colleges in September 2010, with a merger implementation plan established as a tool to monitor progress. Additional funding has been received to cover some merger-related costs, and a campus redevelopment project is currently being considered.

The City of Glasgow College was formed following the merger on 1 September 2010 of the three partner colleges: Central College of Glasgow, Glasgow Metropolitan College (which has acted as legal 'host') and Glasgow College of Nautical Studies. 2010-11 represents the first year of operation of the merged College.

- **College education provision**
  Twelve new schools have been formed within the College, covering art and design, food hospitality and tourism, sport, business and enterprise, computing, creative industries, community, care and social science, hair and beauty, languages and English for speakers of other languages, construction and build environment, engineering, energy and science and nautical studies.

  In line with the College's plans for the future and the campus redevelopment, the College was planning to deliver 210,000 funded weighted student units of measurements ("wSUMs") in the new campus, across the 12 schools.

  An annual engagement review was undertaken during the year by Education Scotland (HM Inspectorate of Education). While the intention of the review was to allow much of the information gathered to be used as a base line for future visits, the review highlighted that the College was developing its overarching learning and teaching strategy; was well advanced in its development of student engagement strategy and actively sought the views of students on it; that the College has communicated regularly and clearly with staff on the merger process and staff felt engaged by the process; and that the College quality strategy had been developed in line with that outlined in the merger proposal document.

- **Merger implementation plan**
  The College has a merger implementation plan, which contains 145 key tasks for the merger process. This plan is monitored on a weekly basis by the senior management team with the status of each task updated, and tasks flagged when they become overdue. This is considered best practise and allows management to closely monitor progress of this complex project.

  As at the beginning of October 2011, although there are a number of tasks with an 'overdue start' flag, there are a high number of tasks with 'overdue finish' flags, particularly under the master finance, payroll, procurement and information systems area. These include agreeing banking arrangements, developing computerised finance system, updating the financial procedures manual, payroll procedures and systems development, development of computerised procurement system (PECOS) and related policies and IT policies. The 'master finance' area is currently 77% complete, payroll 90% complete, procurement 56% complete and information systems 80% complete. There are very few tasks with 'overdue finish' flags out with the finance area, and management need to address this area to ensure that there is no impact on College finances.

  During our audit we were informed that the College did not operate its process level transactions from August to October 2011, due to the change of system and relocation of finance staff. Invoices were only processed, paid or sent out from the beginning of October 2011. Although it is recognised that August and September are relatively quiet months for a College, management need to ensure there are no knock-on effects for the rest of the year.

- **Governance**
  A shadow board was in place in advance of merger completion. From 1 September 2010 a board of management was formed (legally the continuation of Glasgow Metropolitan College) and during the 2010-11 financial year there was further recruitment of additional board members. The director of planning and development is currently working with the vice-principals to develop a complete college wide governance framework. Significant progress has been made on this throughout the year.

  The College has a policy and procedure protocol, and the director of planning and development has identified key strategies for each department. Current policies and procedures in place have been considered against these strategies, and a mapping process is being carried out to ultimately merge level two policies and procedures(for example fee waiver and treasury management) in to overarching level one policies (for example the finance policy).

Service overview (continued)

- **Merger funding, voluntary severance and harmonisation**
  The Scottish Funding Council ("SFC") awarded the College up to £8.5 million of additional funding, for merger-related costs, divided between specific areas of expenditure; voluntary severance up to £4.3 million, harmonisation costs up to £1.8 million, information technology up to £1 million, and specified other areas. The harmonisation and voluntary severance elements are paid on receipt of claims made by the College, with the other elements of funding paid as per an agreed payment profile.

  During the year, £3.7 million of voluntary severance costs were recognised, of which £2.4 had been claimed and received by year end. Harmonisation costs of £0.1 million had also been claimed. Funding for other areas had been received in line with the agreed payment profile, with the College having recognised £1.4 million of other operating costs.

- **Campus redevelopment**
  In advance of the College's establishment, a business case had been submitted to SFC putting the case for rationalisation of the then four colleges over 11 sites into a twin site campus based around Cathedral Street and Riverside. Initial project development and design work was undertaken through New Campus Glasgow between 2008 and 2010, however, on merger of the three colleges, there became no need for a separate entity to take forward the project. New Campus Glasgow has therefore been wound down.

  Updated reviews of the existing estate of the now merged College has identified significant backlog maintenance demands over a fragmented site, which provides limited opportunities to improve the utilisation of existing buildings and floorspace.

  The campus redevelopment project was taken forward in the year with approval of an updated business case by the board of management in April 2011. This project will see a new build campus over two sites, Cathedral Street (City) and Riverside. It is expected that there will be 100% new build at the City campus and 83% new build at Riverside, resulting in an overall new build of 96%.

  Following SFC approval, the business case was submitted to the Scottish Government for final consideration with approval of the project provided on 29 November 2011. As a result of this formal decision, the board of management recognised that uncertainty over the College's plans for its existing buildings had reduced and that indications of impairment that had existed at the year end had crystallised. Consequently an impairment review was undertaken to reflect the revised useful economic lives of the existing buildings which resulted in an exceptional accelerated depreciation charge of £42.8 million. The College has also identified a need to replace the existing halls of residence on the Riverside campus.

  Both of these projects require the College to contribute to the capital cost from its existing cash and investment balances. This will impact on the strength of the College's net current assets position in the medium term.

- **Future funding issues**
  In September 2011, the Scottish Government released a pre-legislative paper; 'Government's Post-16 Education plans and a sector response to the Spending Review'. This paper considers the regionalisation of the college sector and reforming of funding within Scotland, with an emphasis on the Scottish Government not being able to afford a system of individual institutions serving overlapping areas. It is currently being considered by the College along with the Scottish Government's 'Scottish Spending Review 2011 (published on 21 September 2011) and Draft Budget 2012-13'. This sets out fiscal plans for the next three years, stating that further education would have reduced funding in the future with SFC receiving a 6% reduction in funding in 2012-13. The detailed funding announcement at an institution level is not expected from the SFC until January 2011. Even with the scale of the College in terms of resources and its level of learner provision, the likely level of cuts will pose real challenges.

  The College has considered the implications of the reduction in future funding and the options available to it in respect of reducing costs, and redesigning course provision and other services in order to address the projected budget deficits from 2012-13 onwards.

Accounting policies, financial statements preparation and audit process

The College has followed the requirements of FRS 6 *Acquisitions and mergers* in accounting for the merger. There have been no significant changes to accounting policies.

The audit plan anticipated significant risks around accounting for the merger, pensions, voluntary severance and the fixed asset valuation.

Accounting policies

Merger accounting has been adopted by the College in line with FRS6. The majority of accounting policies from the legacy colleges had been aligned with each other in preparing the 2009-10 individual financial statements and therefore no significant changes were necessary. The accounting presentation for unfunded pensions in respect of the Cathedral Street campus was adjusted for the 2010-11 financial year.

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Merger accounting	-	-	At the time the merger took place during the financial year, management prepared a paper for the audit committee considering the appropriate accounting treatment to be adopted to ensure compliance with FRS 6 *Acquisitions and mergers*, as well as the SORP. Based on this analysis, it was considered appropriate to adopt merger accounting. We worked with the finance team to ensure the financial statements complied with the disclosure requirements of FRS 6. FRS 6 treats all organisations involved in the merger on an equal footing, is applied without restatement of net assets to fair value and includes the results of each for the whole of the accounting period. ■ Restatement of prior year comparatives are complete and accurate. ■ No adjustment to the financial statements was necessary, although additional disclosures were included in respect of the basis of accounting note. ■ Financial statements disclosures in this respect are complete and accurate.
Pensions	(1,551)	(2,928)	Individual reports have been obtained from the Strathclyde Pension Fund ("SPF") actuaries, providing a valuation of each of the three colleges' share of assets and liabilities in the SPF on an FRS 17 basis. In preparing the reports, the actuaries had amended the basis of reports from the prior year in order to exclude unfunded liabilities for former members of staff within either the SPF or the Scottish Teachers' Superannuation Scheme. This was on the expectation that such liabilities would be accounted for elsewhere in the College financial statements. While these liabilities are accounted for within the College's provision for liabilities, we asked management to discuss the FRS 17 reports with the actuaries to identify more clearly the adjustments made by them in preparing the reports. ■ Following receipt of revised FRS 17 reports, the income and expenditure account was adjusted by £190,000, increasing the surplus for the year. A corresponding entry was made through the statement of total recognised gains and losses, and so there was no impact on the balance sheet position of the College. ■ Financial statements disclosures in this respect are materially complete and accurate.

Accounting policies, financial statements preparation and audit process (continued)

Areas of HIGH audit risk			
	Value (£'000)		
Area	**2010**	**2011**	**KPMG comment**
Voluntary severance	-	3,667	A voluntary severance scheme was undertaken during the year. Initially only costs relating to members of staff who had left by 31 July 2011 had been reflected in the financial statements. This did not, however, meet the requirements of FRS 12 *Provisions, contingent liabilities and contingent assets*, as it was determined that a constructive obligation had arisen at the time members of staff had signed an offer acceptance letter. ■ Staff costs were decreased by £0.7 million, with total costs of £3.7 million (in respect of voluntary severance for 103 members of staff) shown as an exceptional item on the face of the income and expenditure account. Through merger funding available to support the College in its restructuring, an accrual for additional grant funding of £2.6 million was also recognised. The impact on the surplus for the year was £0.4 million, as a result of an element of severance costs which were not covered by the additional funding agreed with SFC. ■ Financial statement disclosures were enhanced in respect of higher paid staff emoluments to include those who received severance payments during the year.
Fixed asset valuation	67,426	23,895	Our audit plan highlighted the need for management to consider evidence of impairment of fixed assets up until the date of signing of the financial statements. The progression of the campus redevelopment project provided an indication of impairment which, under FRS 11 *Impairment of fixed assets and goodwill*, needed to be considered by management in determining whether the carrying value of the tangible fixed assets was correct as at 31 July 2011. The board of management had approved the business case for a new campus and submitted this to SFC and the Scottish Government for approval before 31 July 2011, thus creating uncertainty over the future lives of the buildings. Subsequent to the year end, on 29 November 2011, the Scottish Government announced that £193 million of funding had been approved towards the building of a new campus for the College. The College will therefore be disposing of or demolishing all its existing buildings within the next five years as part of the plans for the new campus. In advance of the formal announcement by the Scottish Government, management had considered the information available to them and prepared an analysis of the estimated impairment of the fixed assets. This was to enable the impairment to be reflected appropriately in the financial statements once further information became available. As a result of the impairment: ■ An exceptional accelerated depreciation charge of £42.8 million was made in the year. This was partially offset by exceptional additional release of deferred capital grants of £7.1 million. ■ As a result of this net charge of £35.7 million, the College incurred an in-year deficit after exceptional items of £34.4 million. Before these adjustments, the underlying result for the year was a surplus of £1.3 million. ■ The impact on the general fund was mitigated by a £35.7 million transfer from the revaluation reserve in respect of the impairment adjustment.

Accounting policies, financial statements preparation and audit process (continued)

Draft financial statements were not provided at the start of the on-site fieldwork. A comprehensive auditor's file was not provided.

Although it is recognised that 2010-11 presented unique challenges in respect of systems and procedures, overall, management's approach to preparing the financial statements has scope for improvement.

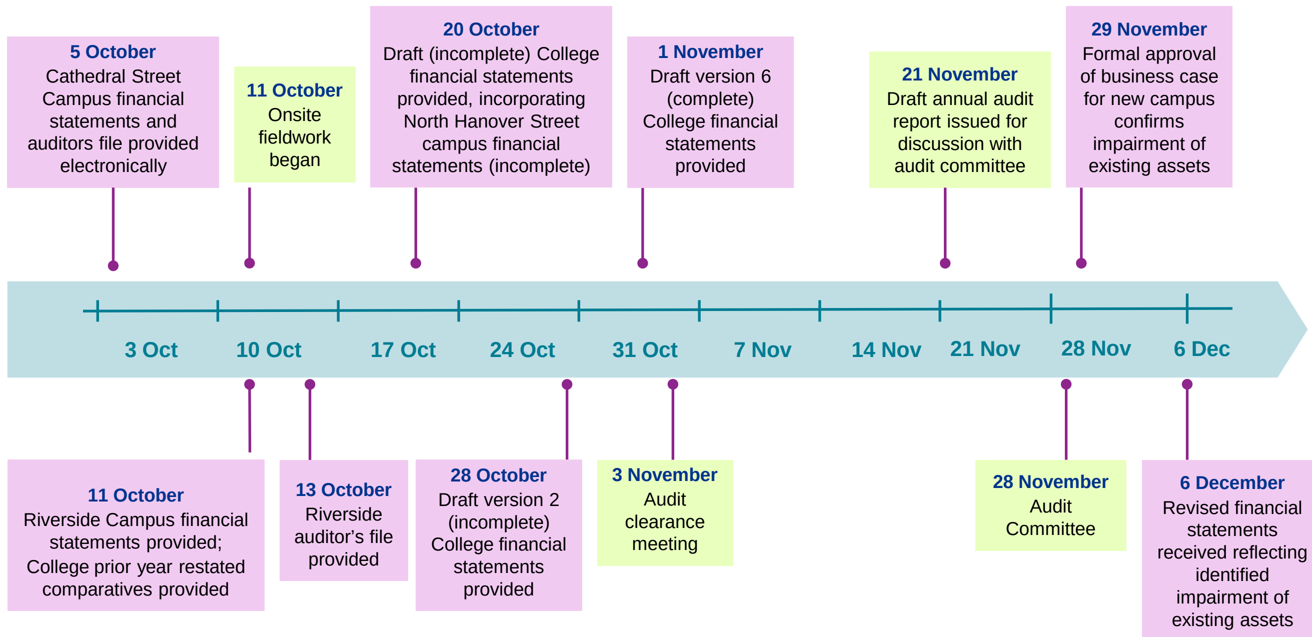
Area	Comments
Financial statements preparation process	We issued a 'prepared by client' request setting out a list of required analyses and supporting documentation in advance of the final financial statements audit. The timeline below indicates key dates during the audit, highlighting the delays encountered with receipt of the financial statements and appropriate supporting documentation. Management asserted that complete College financial statements would be available by 14 October 2011. No complete comprehensive 'prepared by client' file was received for the North Hanover Street campus. This was raised in our governance report to Glasgow Metropolitan College in 2009-10, and although supporting documentation was provided for a limited number of balance sheet captions, we were required to seek the information rather than it being readily available within a set of audit working paper files. Management responded to most queries were timely and therefore this caused only slight delays. It would have been beneficial for both the audit team and finance staff if this information had been made available from the start of the audit. A number of versions of the financial statements were received, with small changes made to each version; this caused some extra work. ❶ Resulted in delays
Corporate governance statement	The corporate governance statement was provided on 28 October 2011 with the board of management report. No issues or changes were required to be made. ❸ Efficient
Board of Management Report	The operating and financial review was provided on 28 October 2011 and was incomplete; no financial review had been included. A revised board of management report was requested from management. The board of management report was reviewed in line with the requirements of the SORP and the requirements of the Accounts Direction. A number of minor changes were suggested. ❷ Scope for improvement

Audit conclusions

- A summary of adjusted audit differences arising from the audit was discussed with management and the audit committee. There were no unadjusted audit differences.
- There are no matters to be brought to your attention regarding our independence or non-audit fees.
- We have issued unqualified opinions on the financial statements and the regularity of transactions reflected therein.

Note: ❶ Resulted in delays ❷ Scope for improvement ❸ Efficient

Financial statements preparation and audit process (continued)



Financial position

The financial statements report a surplus before exceptional items of £1.3 million, a decrease from the prior year of £1.4 million.

Exceptional items in the year of £35.7 million related to impairment of fixed assets produced a reported deficit of £34.4 million.

While the fixed assets net book value reflects the impairment in the year, the College retains a strong net current asset position of £22.3 million on its balance sheet , in advance of the capital investment projects which it is committed to.

The financial statements report a surplus for the year before exceptional items of £1.3 million. This is a decrease of £1.4 million on the combined position of the three legacy colleges recorded in the previous year on a similar basis.

The College's income and expenditure account is summarised opposite, both before and after the exceptional items, with the key movements in relation to the previous year being:

- Expenditure of £3.7 million relating to the voluntary severance scheme. Of this, £0.4 million related to costs incurred solely by the College, with the rest being met by corresponding merger funding from SFC.
- In 2009-10, the outturn figure for the year for the legacy colleges had past service credits linked to the pension movement from the change in the inflation measure from RPI to CPI (£2 million). A similar changes did not arise in 2010-11.
- An increase in depreciation compared to the prior year is due to the Cathedral Street campus having re-valued fixed assets as at 31 July 2010. This resulted in a higher carrying value and significantly lower useful economic life, combining to provide a higher depreciation expense for the year.

Following the impairment of the fixed assets, the reported result for the year was a deficit of £34.4 million. The exceptional items relate to the accelerated depreciation charge of £42.8 million offset by accelerated release of deferred capital grants of £7.2 million. In addition, £3.7 million of exceptional restructuring costs were reported, matched by additional merger funding provided by grant from SFC.

	2010-11 before exceptional items £'000	2010-11 exceptional items £'000	2010-11 £'000	2009-10 £'000
Income				
SFC grants	39,333	10,344	49,677	39,107
Tuition fees and education contracts	13,742	-	13,742	13,558
Other income	4,561	495	5,056	5,018
Investment Income	642	-	642	343
Total Income	**58,278**	**10,839**	**69,117**	**58,026**
Expenditure				
Staff costs	40,069	3,667	43,736	38,672
Other operating expenses	12,719	-	12,719	12,454
Depreciation	4,221	42,826	47,047	3,856
Interest payable	-	-	-	362
Total expenditure	**57,009**	**46,493**	**103,502**	**55,344**
Surplus / (deficit)	**1,269**	**(35,654)**	**(34,385)**	**2,682**

Financial position (continued)

	2011 £'000	2010 £'000
Fixed assets	23,899	67,430
Current assets	30,541	26,438
Creditors	(8,193)	(6,751)
Net current assets	**22,348**	**19,687**
Provisions	(4,446)	(3,042)
Pension liability	(2,928)	(2,813)
Net assets	**38,873**	**81,262**
Deferred capital grants	13,004	19,235
General reserves	19,493	18,489
Restricted reserves	510	510
Revaluation reserve	5,866	43,028
Total	**38,873**	**81,262**

Overall, while the net book value of fixed assets reflect the accelerated depreciation charge in the year, the College retains a strong net current asset position, both in absolute and comparative terms. The significant movements in the balance sheet arise through:

- Significant increase in current assets due to higher cash and short term investment balances (2010-11, £26.8 million; 2009-10, £22.7 million). These balances will be used to provide the College's contribution to the campus redevelopment project and the new halls of residence.
- A debtor of £0.8 million has been recognised as due from SFC in relation to the merger funding to cover the voluntary severance costs which had not been claimed, but related to staff where a constructive obligation had been identified by year end.

Financial forecasts: 2011-12

In June 2011 the board of management approved a budget for the 2011-12 financial year with a deficit of £0.5 million. However, the October 2011 projections were for an operating deficit of £1.1 million.

The main reason for the adjusted budgeted deficit is due to a reduction in projected overseas and related halls of residence income as a result of lower overseas recruitment. Schools of engineering and nautical studies have suffered a shortfall caused by an expected class group of Nigerian students (£0.2 million). The visa processing arrangements of the UK Border Agency have also resulted in lower initial overseas income as students experience delays in receiving appropriate documentation to enter the UK. It is hoped that this shortfall will be recovered later in the academic year.

This also leads to a projected net current assets position of £20.1 million, down £0.6 million from the original budgeted position.

The financial plans for 2011-12 do not include any possible capital expenditure for a replacement of the halls of residence, which is likely to be linked to the progress of the campus redevelopment.

The College is keen to now adjust its focus away from income generation, which is a key area at the beginning of the year through tuition fees, to employee cost projections. Projections will take in to account any savings achieved through the voluntary severance programme, and there will be consideration of any further savings achievable through a second targeted voluntary severance programme during the financial year.

Since the October 2011 projections, the College has identified that they have a higher level of infill overseas students than originally anticipated, and they are projecting that the extra income from this will offset the lost income from discrete groups who did not turn up. Updated forecasts indicate that the College is now closer to a breakeven operating position for the year.

Financial position (continued)

Assumptions

Key planning assumptions were used during the development of the 2011-12 budget. There are nine key assumptions and these are monitored on a regular basis as part of the budget monitoring.

As at October 2011, one assumption had a `red' status, relating to the potential impact of actuarial valuations which can impact the operating surplus/deficit. Due to the market volatility, current losses and changes to pensions policy the College may face increases to its pension liabilities.

The assumption on expenditure related to student funding not exceeding the grants allocated by SFC is at `amber' status due to the College over recruiting full time FE students. It is noted that the College should be able to adjust its January 2012 in-take to re-align student numbers.

Cash flow

The College produces detailed cash flow reports and cash flow projections. The forecast was developed to follow a similar pattern to previous years. Accurate cash flow forecasting can be used by the College due to the predictable nature of the grant funding and tuition fee income it receives.

The College experiences peaks in cash at the beginning of August and in February each year due to the phasing of the SFC grant funding, and therefore this detailed cash flow forecasting is essential to ensure the College is able to operate.

At the end of August 2011, income was down, and expenditure was up, leading to a slightly lower net cash inflow (forecast £2.2 million, actual £2.0 million). This is primarily due to the decrease in income experienced by the College as discussed above.

2012-13 and beyond

As a result of the paper 'Putting Learners at the Centre: Delivering our Ambitions for Post-16 Education', the finance team have been considering the impact on the College's finances. In particular the vice-principal (resources) has presented to managers on 'future funding'.

This has identified the opportunities and threats to the College with the likely reduction in available funding from 2011-12 levels of 7% in 2012-13, 10% in 2013-14 and 14% in 2014-15. Taking in to account the reduced income and other associated impacts on tuition fees and other income, coupled with no change in expenditure, without management action the College could experience an operating deficit of £2.4 million. This is due to the College being strongly reliant on grant income which represents 66% of total income.

College expenditure for 2012-13 and beyond has been carefully analysed. Like most public sector organisations, staff costs make up the largest single expense to the College (being 71% of total expenditure) and so have been identified as a key area for further reduction.

In addition, the College is also considering redesign of teaching provision, which may allow for streamlining of the number of full time further education hours provided, allowing further savings. The College has recently been operating at 3% above its target wSUMs, and therefore there is also scope for the College to lower the wSUMs achieved in future years while remaining in line with their fundable level of activity.

Corporate governance framework and supporting arrangements

Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making.

Corporate governance framework	The College is currently working to fully update its governance framework to ensure an appropriate structure for maintaining decision-making, accountability, control and behaviour. We have considered this progress within our work over the merger process.
Corporate governance statement	The corporate governance statement provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. This statement is in compliance with guidance issued by the Scottish Funding Council.
Internal controls	We tested the design and operation of controls over significant risk points and have considered these on the next page. Two of these matters were identified in respect of the previous year's audit at one of the legacy colleges.
Internal audit	Each campus has utilised their previous internal auditors during the 2010-11 financial year to complete a comprehensive set of internal audit reviews. Internal audit have also completed the external audit of the SUMS figures and the bursary funds. No high graded recommendations were raised during the year.
Fraud and irregularity	We evaluated the procedures and controls related to fraud as being designed and implemented effectively. The College has a number of internal procedures designed to prevent fraud and ensure employees can report suspicions in a confidential and appropriate manner. The College developed an anti-bribery policy during the year and, following an internal audit review, this was updated to ensure best practice. We have obtained representations from management that all known or suspected instances of fraud were disclosed to us during the audit. There were no instances of fraud reported during 2010-11.
Regularity	The College receives a wide range of circulars and communications from the Scottish Funding Council and other regulatory or advisory bodies, including organisations such as Scotland's Colleges and Audit Scotland. In previous years we had identified good practice at Glasgow Metropolitan College where a correspondence register was kept. This has not been continued on merger, and the so College does not currently have a formalised approach to the recording of circulars received and noting the action required with a deadline date and reminder dates.
Audit Scotland reports	We completed returns to Audit Scotland on the consideration of its reports on the role of boards report and the management of the Scottish Government's capital investment programme in 2010-11, providing information on the College's consideration and response to these national reports.

Control environment

Area	Comments
Journals	At the North Hanover Street campus, there is a lack of segregation of duties around journal entries, with journals not authorised once being posted to the system. Adequate controls over journals were in place at the Riverside and Cathedral Street campuses.
Fixed assets	The College is currently using three different fixed asset registers, one for each of the campuses, which have then been consolidated. The fixed asset registers are not comparable, and contain differing levels of information.
Debtors / Creditors	Monthly debtors and creditors reconciliations are performed, and we identified a number of areas of best practice across the College.
Cash and bank	There are a large number of bank accounts which have been inherited from the legacy colleges. Monthly bank reconciliations are performed. We identified one bank reconciliation which had not been authorised at the North Hanover Street campus.
Income	One of the main income streams for the College is tuition fees. On enrolment students must complete an enrolment form which is then processed into the student records system. We identified some enrolment forms which had not been initialled by a member of the student records department to indicate the forms had been appropriately input into the system.
Staff costs	There are dedicated HR and payroll departments for the College, with strong leadership ensuring that adequate controls are in place to mitigate risks.
Non-pay expenditure	Purchases are made through purchases orders, and the College has controls in place to ensure that risks over inappropriate expenditure are mitigated.

Systems and IT environment

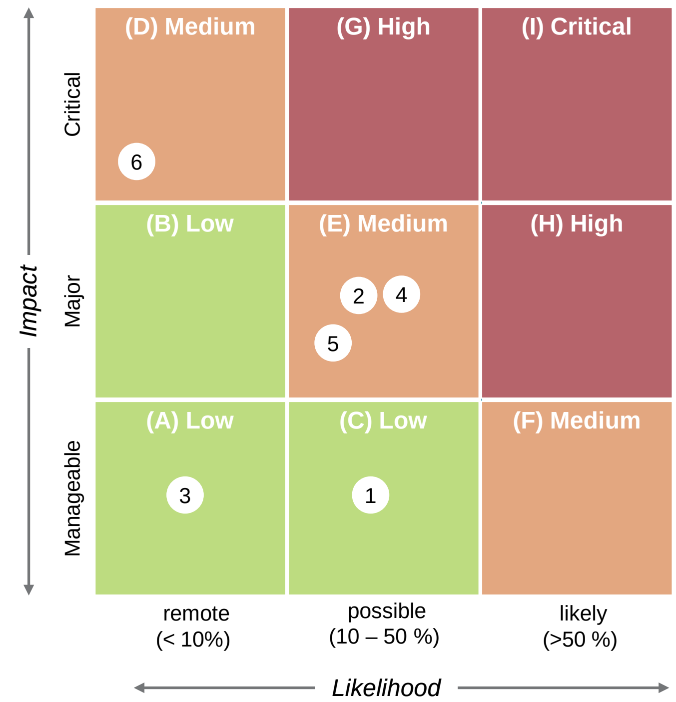
The merger has resulted in significant changes in IT. The new merged system became operational during the 2011-12 financial year.

During 2010-11, although the three legacy colleges had merged, the financial systems had not yet merged into one system. Therefore, during 2010-11, there were three separate financial systems operating; SUN (for Cathedral Street campus finances) and Symmetry (for both Riverside and North Hanover Street campuses).

The operation of three separate systems has lead to implications for financial statement reporting, where three separate trial balances were used and consolidation work had to be completed. For the financial year 2011-12, the College has merged the three systems to form one integrated system using the Symmetry application.

The IT department is led by the IT Director. The College has established a 'merger implementation plan' which is being monitored, on a regular basis, by the IT Steering Group. The implementation plan details the plan and timeframe to merge the different College IT systems and applications. During 2010-11, the College has merged the main network, including the email and telephone systems.

Some of the main risks associated within the IT systems are documented on the next slide. We have considered the likelihood of these risks occurring and the potential impact that they would have on the College if they were to materialise and plotted these on the matrix opposite We made four recommendations to management to enhance the controls over IT within the College.



IT environment

	City of Glasgow College IT risk assessment	
	Area	Key risks to consider
1	Policies and standards	Lack of consistent IT policies and standards across the group seriously hampers consistent working and cost reduction. Part of the 'merger implementation plan' is to combine all relevant IT policies into one policy instead of three.
2	Merger	A fragmented approach to projects prevents a clear view of priorities leading to inappropriate allocation of scarce resources. The College has a merger implementation plan and IT steering group which ensures that the project of merging the College systems is managed appropriately.
3	People	Retention of key skills are eroded faster than expected and recruitment of new and replacement skills slower leading to a deterioration in IT service delivery. The College has a set structure that includes staff roles and responsibilities. The size of the department seems appropriate for the nature and size of the College and management have systems in place for communicating key messages to staff.
4	System implementations	Releases of key new systems (e.g. Symmetry) are not successful/delayed, increasing costs and delaying benefits (e.g. margin control). Again, the merger implementation plan addresses this risk and regular meetings of the IT steering group ensure consistent monitoring of deadlines.
5	Systems access	Comments and recommendations in respect of key risks in respect of systems access have been agreed with management.
6	Disaster recovery	After a disaster, IT systems will need to be restored from a recent back-up. A system is in place to ensure back-ups are taken regularly, however these are not tested to ensure they can be restored successfully.

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