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John Wheatley College

Annual audit report to the Board of Management of

John Wheatley College

and the Auditor General for Scotland

Year ended 31 July 2011

20 December 2011

Contents

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	Page
Executive summary	2
Introduction	3
Financial statements and accounting	4
Use of resources	6
Governance	9
Appendix one – action plan	11

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 John Wheatley 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 College staff during the course of our work.

Financial statements and accounting	Page
Draft financial statements and supporting work papers which were complete, of a high standard, and provided in line with the agreed timetable.	6 and 7
We [have issued] unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in them.	-
Two disclosure adjustments were made to the draft financial statements and there are no unadjusted audit differences.	-
Accounting policies are appropriate for the underlying operations.	4 and 5
Use of resources	
The College reported a surplus of £155,000, exceeding its budgeted surplus of £10,000 mainly due to income being higher than anticipated, cost savings, and pension accounting entries.	4
We assessed management's response to Audit Scotland's national reports; in the majority of areas, management has discussed, in detail, these reports at Board level and taken reasonable action to mitigate risks and improve processes at a local level.	-
The College plan for 2011-13 covers the financial plans and forecasts a balanced budget. The College has effectively managed decreasing resources to date by controlling expenditure. This concept continues to underpin future plans.	8
Governance	
With the exception of the change in principal, there have been no other significant changes in governance arrangements. The statement of the responsibilities of the board of management and corporate governance statement continue to confirm the existence of a comprehensive framework of internal control.	9
Arrangements to protect against and detect fraud are embedded in internal controls.	9
Internal audit did not report any significant weaknesses and concluded positively in the internal control framework.	9
The operating and financial review provides a very comprehensive account of the College's activities and exceeds the requirements of SORP 2007.	-

Service overview

WSUMs have increased from 2009-10, despite a cut in Scottish Funding Council funding.

The College continues to provide as many courses as possible to the local community.

Like others, the College is considering its position in respect to the Scottish Government's pre-legislative paper on post 16 education.

- **Student numbers / Weight Student Units of Measurement ("WSUMs")**
  Despite a reduction in Scottish Funding Council funding in 2010-11 the College has delivered a slight increase of 379 in WSUMs, compared to 2009-10. The activity target set by the Scottish Funding Council has been consistent in 2010-11, at 35,697. In addition, the 'Investing in Recovery' European funded project required the College to provide an additional 1,478 WSUMs. The College delivered 40,498 WSUMs in 2010-11; 9% greater than the Scottish Funding Council activity level. Reasons for the increase include the care leavers pilot, in which the College assisted young people coming out of care, and the College's work with the Glasgow East Learning Network and pre-vocational teaching part funded by local partners.

- **Course provision**
  The economic downturn has resulted in more unemployment, particularly in school leavers, and the College is expecting to continue to see an increase in demand for courses. The College has continued to provide as many courses as possible to the local community and management restructuring has allowed the College to continue to deliver the same level of activity.

  The College continued to expand its education provision in 2010-11. Examples include delivering classroom based elements of the BBC's apprenticeship programme to creative media apprentices and also the College's continued partnership with local schools.

- **Campus developments**
  The College operates from two campus buildings – the East End and Easterhouse. Each campus provides local residents with access to educational resources such as libraries and childcare in each campus. Capital spend has been limited to ongoing maintenance following construction and major refurbishment in previous years.

- Future plans
  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. The College is considering this paper along with the Scottish Government's 'Scottish Spending Review 2011 and Draft Budget 2012-13'. This sets out fiscal plans for the next three years, stating that the further education sector will receive a 6% reduction in funding in 2012-13.

  The paper has been considered fully by the board of management and the College has prepared a draft response to the consultation exercise, which will be finalised in December 2011. The College has communicated with staff through a joint consultative committee and the College planning event, in relation to the potential implications of these developments.

Accounting policies, financial statements preparation and audit process

There have been no changes to the College's accounting policies.

The audit plan anticipated significant risks around accounting for financial performance, economic climate, corporate governance, pension liability, compliance with tax authorities and valuation of buildings.

No audit adjustments were required and the audit was concluded in a timely manner.

Accounting policies			
There have been no changes in accounting policies from 2009-10 to 2010-11.			

Areas of HIGH audit risk			
	Value (£'000)		
Area	2011	2010	KPMG comment
Financial performance	-	-	The College has exceed the approved budgeted surplus for 2010-11; the forecast management account surplus increased to £30,000 from £10,000 for the period to 31 March 2011. This is due to the College receiving more funding that anticipated in 2010-11, including European funding. The actual surplus in the management accounts amounted to £87,000 for 31 July 2011, also due to more funding being received than originally forecast and further cost savings. The College has budgeted effectively to match their income and expenditure to result in a modest surplus in 2010-11. The College exceeded its prior year performance in relation to WSUMs and is committed to deliver as much activity as possible to address the needs of the local community.
Economic climate	-	-	The budget monitoring process analyses the impact of funding cuts during 2011-12; the College is forecasting a £1,000 surplus in 2011-12. The budget anticipates a WSUMs reduction of 4% to 34,218. The College does not have a large commercial income stream and is not significantly exposed to commercial and international business risk, due to the current economic climate this means that there is not an anticipated significant change in this income stream. The College incurred voluntary severance costs of £178,000 in 2010-11 and has restructured both the academic management structure and strategic management team structure.
Corporate governance	-	-	We have considered the Accounts Direction in relation to the UK Corporate Governance Code, and the corporate governance statement provided by the board of management. The pilot of the sector specific CIPFA code of corporate governance has not been actioned any further, due to a decision by Scotland's colleges not to use the issued draft. Our controls testing found no weaknesses in the system of internal controls and our review of the risk register confirmed our understanding of the risk management process at the College. We reviewed governance processes around the change in principal in 2010-11. The process was designed and operated effectively, but management should implement a formal process to monitor, and potentially limit, annual leave carried forward from one year to the next.

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

Areas of HIGH audit risk

Area	Value (£'000) 2011	Value (£'000) 2010	KPMG comment
Pension liability	841	683	Our actuarial colleagues considered the underlying assumptions of the key drivers of the FRS17 valuations. We concluded that these assumptions were within acceptable ranges and management confirmed that they appropriately reflected the College's circumstances. We substantively tested the pension liability and all other pension disclosures in the finance statements.
Compliance with tax authorities	-	-	It is consistent with our understanding that the College has no significant non-business activities that could present increased tax risks. We liaised with our tax compliance colleagues and have not identified any significant matters relevant to the audit which have not been appropriately reflected.
Valuation of buildings	22,391	20,559	The College revalued both the Easterhouse campus and the East End campus during 2010-11. The East End Campus had an interim valuation in 2009-10; in 2010-11 the College synchronised the revaluation dates of both assets to the same date. The main element of the revaluation movement related to the Easterhouse campus. We obtained third party confirmation from the external valuer and have substantively tested management's interpretation of the external valuer's assessment, subsequent accounting treatment and disclosure.

Preparation of financial information

- Draft financial statements and supporting documentation were provided on 22 September 2011, in line with the agreed timetable.
- Finance staff responded to our questions quickly and provided high quality information to support the financial statements.
- Overall, management continues to adopt an efficient approach to preparing the financial statements.

Audit conclusions

- There are no adjusted and unadjusted differences arising from the audit.
- There are no matters to be brought to your attention regarding our independence or non-audit fees.
- We have issued an unqualified opinion on the financial statements and the regularity of transactions reflected therein.

Financial position

Financial planning arrangements are robust and mechanisms exist to plan and monitor financial position and forecast outturn.

The financial statements report a surplus for the year of £155,000, a decrease of £159,000 on the position recorded in the previous year. Pension credits account for £253,000 of the £314,000 surplus in 2009-10 and £68,000 of the £155,000 in 2010-11. The remainder of the unplanned surplus in 2010-11 is primarily due to income receivable being higher than planned. The College's income and expenditure account is summarised opposite, with the key movements in relation to the previous year being:

Income

- A reduction in Scottish Funding Council grants of £297,000; a decrease of 3%. The reasons for the decrease in Scottish Funding Council income were the reduction in release of deferred capital grants (£34,000), a reduction in further education childcare grant income (£80,000), a reduction in funding for the care leavers pilot project (£50,000) and a reduction in the Scottish Funding Council capital maintenance income recognised in the income and expenditure account (£118,000). This was due to the completion of much of the campus refurbishment project in the prior year. The Scottish Funding Council also reduced allocations in respect of several other smaller funding streams.
- These reductions were partly offset by an increase in tuition fee income from the Glasgow East Regeneration Agency ("GERA") funding to provide construction courses.

Expenditure

- Staff costs increased by 4%. This is due to £178,000 in voluntary redundancy costs, implementing a 1% wage increase and the prior year FRS 17 adjustments.
- Operating costs declined by £341,000 (10%) due to two main reasons. Firstly, a decline in premises costs of £158,000 due to retendering contracts and no longer leasing a property in Cambuslang. Secondly, a £215,000 decline in agency costs, due to the completion of a major project to design and implement new health and safety processes and procedures in early 2010-11.

	2010-11 £'000	2009-10 £'000
Income		
Scottish Funding Council grants	9,442	9,739
Tuition fees	335	238
Other income	812	958
Investment income	24	7
	10,613	10,942
Expenditure		
Staff costs	6,803	6,498
Other operating costs	2,947	3,288
Depreciation and impairment	708	789
Interest payable	-	53
	10,458	10,628

The outturn for the year is consistent with the budget approved by the board of management at the beginning of the year and the monitoring returns made to the Scottish Funding Council.

Financial position (continued)

	2011 £'000	2010 £'000
Tangible fixed assets	22,682	21,275
Stocks	22	19
Debtors	348	368
Cash at bank and in hand	1,336	839
Creditors: amounts falling due within one year	(1,371)	(1,082)
Net pension liability	(841)	(683)
Net assets	22,176	20,736
Deferred capital grants	16,544	17,060
Revaluation reserve	5,047	3,110
General reserve	585	566
Total	22,176	20,736

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The significant movements in the balance arise from:

- An increase in fixed assets of £1,407,000 due to the revaluation of the Easterhouse and East End campuses, offset by depreciation charges. The Easterhouse campus accounts for the majority of this movement. The revaluation reserve increased by £1,937,000 due to the upwards revaluation of both the Easterhouse and East End campuses during 2010-11.
- An increase of £497,000 in cash can mainly be accounted for by £502,000 of capital funding received and not spent at 31 July 2011.
- Deferred capital grants decreased by £516,000 due to the release of some of these grants to offset depreciation charges.
- Creditors increased by £289,000 mainly due to an increase of accruals and deferred income of £342,000. Within the accruals and deferred income is £502,000 unspent Scottish Funding Council capital grants. Trade creditors reduced by £43,000 partly due to decreasing operating costs.

Financial position (continued)

Financial forecasts

The college plan for 2011-14 sets out the financial and operational context for the strategic objectives and priorities for the financial years 2011-12 to 2013-14.

The College relies heavily on Scottish Funding Council funding. The recent pre-legislative paper; 'Government's Post-16 Education plans and a sector response to the Spending Review' and the Scottish Government 'Scottish Spending Review 2011 and Draft Budget 2012-13' increases uncertainty over availability of funding and the future structure of the further education sector.

2011-12 financial forecast

The 2011-12 financial forecast is for the College to achieve a surplus of £1,000. The College uses a zero-based budgeting approach based on a number of key assumptions and contextual issues. The table below summarises forecast income and expenditure for 2011-12 financial year. Management is aware that they will have to make cuts in 2011-12 and beyond in the ever changing environment and is currently considering how to achieve savings for 2012-13 and beyond. Savings have been achieved in previous years, but the high proportion of relatively fixed staff and estates costs means that identifying new savings each year becomes increasingly difficult.

The College aims to achieve efficiency savings through some reductions in staff costs and also reductions in some of the more bespoke courses that the College has previously provided.

	Budget £'000
Income	9,228
Expenditure	9,227
Forecast surplus	1

Corporate governance framework and supporting arrangements

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

Corporate governance framework	The College applies the principles set out in the UK Corporate Governance Code. This allows the College to maintain an integrated governance framework to provide an appropriate structure for maintaining decision making, accountability, control and behaviour.
Statement of the responsibilities of the Board of Management	The statement of responsibilities of the board of management provides details of the purpose of the framework of internal control, along with an analysis of the major components of this system. We made a number of minor recommendations to enhance the statement and ensure full compliance with guidance issued by the Scottish Funding Council.
Internal controls	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively.
Internal audit	Internal audit had submitted all of their audit reports for the year including the annual audit report. These reports found controls at the College were good, but reported some recommendations that would enhance existing controls. The annual internal audit report concluded that "*in our opinion John Wheatley College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work*".
Fraud and irregularity	The board of management has a sound system to consider all correspondence and guidance from the SFC and other regulatory or advisory bodies relevant to both its strategic and operational roles. The College has an approved fraud and defalcation policy. Management did not identify any instances of fraud or irregularity during the year. During our audit of the financial statements we did not identify any known or suspected instances of fraud or irregularity.

We have read the board of management's operating and financial review; we did not identify any material inconsistencies with the financial statements or underlying documentation.

Appendix

Action plan

We report two recommendations to ensure that there is evidence of operation of two key controls.

Ref	Issue and risk	Recommendation and risk	Management response
1	The monthly payroll movements report is signed as checked by the payroll team. Best practice requires that this report is signed as prepared and reviewed by two independent parties to ensure segregations of duties. There is a risk that fraud or error is not identified and resolved in a timely manner.	Evidence of independent preparation and review will document effective operation of this key control.	The College will ensure that the payroll exceptions report is reviewed by a member of SMT. **Responsible officer**: Doreen Sneddon, Human Resources Manager **Implementation deadline**: December 2011
2	The College has an established process for receiving and actioning Scottish Funding Council circulars, but management does not maintain a formal register of these circulars. There is a risk of omission or that management is unable to demonstrate easily action taken in response to specific circulars.	Management should enhance existing process by establishing a register of circulars that includes a brief summary of action taken and the responsible officer.	Recommendation not accepted. The College is of the opinion that it already has robust processes in place to ensure that all Scottish Funding Council circulars are reviewed and actioned as appropriate. The Scottish Funding Council maintain a publication list of all circulars issued.

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