Langside College

Annual audit report to the Board of Management of Langside College and the Auditor General for Scotland

Year ended 31 July 2011

16 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 Langside 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.

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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 Langside College staff during the course of our work.

Financial statements and accounting	
There were no changes to accounting policies in the year. These continue to be appropriate for the underlying operations.	Page 4
Accounting matters were considered in respect of financial performance, the economic climate, recoverability of debtors and accounting for pension liabilities. Audit adjustments were processed in respect of underpaid pension contributions and release of deferred income.	Pages 4 and 5
We have issued unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in them.	Page 5
Draft financial statements were provided for audit on 11 October 2011, in advance of the agreed start date of the audit on 17 October. Supporting documentation was available on request to back up the information provided for audit. The timing of the audit in 2010-11 represents a significant advance in timetable from prior years, demonstrating management's commitment to improving the financial reporting capability of the finance team.	Page 5
Use of resources	
The College delivered a surplus of £101,000, in line with the forecast outturn during the year.	Page 6
The College completed the final phase of its campus development project in year. The increased annual depreciation charge is offset by release of deferred capital grants received through the funding arrangement from the Scottish Funding Council.	Page 7
While the detailed funding announcement at an institution level is not expected from the Scottish Funding Council until January 2012, the College has undertaken an initial impact assessment and concluded that the impact of the College is likely to be of order £1.2 million reduction in funding in 2012-13. The College uses its sustainable curriculum planning model to determine underlying provision and will review its activity levels as one means of responding to the lower funding available.	Page 8
Governance	
There have been no major changes to the overall governance framework, although the restructuring exercise has altered the composition of the strategic management team. 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.	Page 9
Internal audit did not report any significant weaknesses and concluded positively on the internal control framework.	Page 9
Management have in place procedures for the receipt and monitoring of guidance and circulars received from the Scottish Funding Council. Arrangements to protect and detect fraud are also embedded in internal controls.	Page 9

Service overview

The level of provision has increased over 2009-10. The College provides 18% more activity than its WSUMs target from the Scottish Funding Council. This is partly funded by European grant funding, but principally through the College's own investment.

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

- **Course provision and learning**
  The College continues to have a diverse learning population, with the majority of learners from the south-east of Glasgow and surrounding areas. This catchment includes areas of high unemployment and a number of the most heavily deprived communities in the west of Scotland. Approximately 25% of students are from a non-UK background, with about 40% of students under 25 years of age.

  The College was the subject of an independent review by HM Inspectorate of Education, which reported in August 2011. The result of this review identified a number of significant strengths and concluded that overall "the college has in place high quality learning and teaching services". The report noted that the College is making good progress against its corporate plan "2010-13: *Learning….to make a difference",* with service and faculty teams identifying and monitoring progress against operational targets.

  HM Inspectorate of Education also reported that the restructuring completed during 2011 "*has produced a strong focus on collegiality*" at both strategic and operational levels, allowing a positive impact on partnership working between College functions.

- **Student numbers / Weight Student Units of Measurement ("WSUMs")**
  The College continues to provide delivery of activity levels in excess of its target WSUMs level. For 2010-11 the College has delivered 65,188 WSUMs, an increase of 688 WSUMs compared to 2009-10, and in excess of the 56,422 within the College's WSUMs return for the year. The activity target set by the Scottish Funding Council for 2010-11 was 55,202. Additional WSUMs have been required to be delivered as part of the College's continuing European grant funding.

  It is the College's intention to continue providing significant subsidy in provision of student activity levels where possible, however, it is recognised that this will be challenging in the existing funding environment.

- **Campus developments**
  The College operates principally from its redeveloped Langside campus, which was completed at the start of the 2010-11 financial year, with the final phase of assets under construction transferred fully into operational assets. Additional provision is still provided from the Rutherglen campus, while activity at other community locations has recently been relocated to the main campus. Capital spend is now focused primarily on ongoing lifecycle maintenance costs following the recent construction, for which capital formula funding is being applied.

- **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 detailed funding announcement at an institution level is not expected from the Scottish Funding Council ("SFC") until January 2012. The proposed reform for the further education sector in Scotland, has resulted in uncertainty about future funding and service delivery for the College.

  The College has made early preparation to be able to adjust to the forthcoming challenges of the reduction in available funding.

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, recovery of debtors, pension liability and compliance with tax authorities.

Adjustments were made to the draft financial statements provided for audit in respect of matters identified by management in the preparation for the audit.

There was one unadjusted audit difference, which management have concluded is not material to the overall result for the year.

The audit has been conducted on an advanced timescale compared to prior years.

Accounting policies

There have been no changes in accounting policies from 2009-10 to 2010-11. The College correctly accounted for the Strathclyde Pension Fund on a defined benefit basis in accordance with FRS17.

Areas of HIGH audit risk

Area	Value (£'000) 2011	Value (£'000) 2010	KPMG comment
Financial performance	-	-	The College outturn for the year is in line with the expectations through the year as reported through its management accounts. A slightly lower than expected outturn has been achieved, principally as a result of adjustments identified on finalising the draft financial statements for audit. Core recurrent grant from SFC is in line with prior year, with the increase in total SFC grants over 2009-10 as a result of the increased release of deferred capital grants on completion of the new campus. 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 surplus in 2011-12 of £72,000. In respect of other grant and operating income, the two main components of these have, and continue to be, European grant funded income and the recovery of salaries obtained through the College's partnership arrangement with the Scottish Institute for Residential Childcare. The College does not, therefore, have a heavy reliance on commercial income streams and so has a lower exposure to commercial and international business risk. The College did, however, suffer a reduction in other contracts income during 2010-11, reducing significantly from £469,000 to £71,000. The College incurred voluntary severance costs of £689,000 in 2010-11, with 24 members of staff leaving the employment of the College. This represented about 8% of the prior year full time equivalent staffing complement, and has resulted in a restructuring of both the academic management structure and strategic management team structure.
European funding debtor	794	492	Balances in relation to European Social Fund funding for the years 2009-10 and 2010-11 had not been paid as at 31 July 2011, increasing recoverability risk. We performed additional procedures to understand the detail of claims made during the year, and the level of cash received since the balance sheet date. This has provided evidence of payment of claims made in respect of 2010-11, but 2009-10 claims were still outstanding pending further validation checks being undertaken in November 2011. We obtained additional evidence up to the date of signing of the financial statements to support the carrying value of the debtor. We have discussed with management the need to be aware of the risks of non-collection of all the outstanding balances. To this end, management have recognised only 90% of the claimed income, pending the result of the verification checks visit.

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

Areas of HIGH audit risk			
	Value (£'000)		
Area	2011	2010	KPMG comment
Pension liability	849	1,624	Our actuarial colleagues considered the underlying assumptions of the key drivers of the FRS17 valuations. We substantively tested the pension liability and all other pension disclosures in the finance statements. During the year, the College has considered its disclosure of unfunded pensions liabilities in respect of former employees who were members of the Strathclyde Pension Fund. It has decided that these should be disclosed within the provision for liabilities line along with unfunded liabilities in respect of staff who are members of the Scottish Teachers Superannuation Scheme ("STSS"). Accordingly, a reclassification of £134,000 has been shown within the financial statements.
Compliance with tax authorities	-	-	It is consistent with our understanding of the College that there are no significant non-business activities at the College. We liaised with our tax compliance colleagues and have not identified any significant matters relevant to the audit which have not been appropriately reflected.

Preparation of financial information

- Draft financial statements were provided for audit on 11 October 2011, in advance of the agreed start date of the audit on 17 October. Supporting documentation was available on request to back up the information provided for audit.
- Finance staff responded to our questions quickly and provided high quality information to support the financial statements.
- The timing of the audit in 2010-11 represents a significant advance in timetable from prior years, demonstrating management's commitment to improving the financial reporting capability of the finance team. A review of the finance function has been undertaken to increase this capability further going forward.

Audit conclusions

- There was one unadjusted difference arising from the audit. Management have concluded that they consider that it is not material to the overall result for the year. The unadjusted and adjusted differences were discussed with the audit committee on completion of our audit work. One of the adjustments arose from an error identified by management in respect of the level of employer contributions paid over to the STSS. We understand that management have reviewed the controls in operation around the payroll system to ensure accuracy of contributions payable in future.
- There are no matters to be brought to your attention regarding our independence or non-audit fees. Non-audit fees have been payable in respect of certification of education maintenance allowance claims and student support funds only.
- We have issued unqualified opinions 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 £101,000, a decrease of £512,000 on the position recorded in the previous year. The underlying surplus in 2010-11 excluding the restructuring costs of £689,000 was £790,000 (2009-10: deficit of £62,000 excluding non-recurring past service credit of £723,000 and restructuring costs of £28,000).

As at 31 July 2011, there are general reserves of £2,448,000 which includes a pension liability of £849,000.

The College's income and expenditure account is summarised opposite. Income for the year has increased by £769,000 and expenditure for the year has increased by £1,281,000 when compared to 2009-10, with the key movements in relation to the previous year being:

Income

- The increase in SFC grants is principally due to the increase in deferred capital grants of £857,000 released following completion of the new campus. Core recurrent grant funding has, however, remained in line with prior year.
- There has been a £310,000 drop in tuition fees and education contracts, as a result of a reduction of £398,000 in income from other contracts.

Expenditure

- Movement in exceptional staff costs reflects the costs associated with severance payments in the year. In 2009-10, staff costs benefitted from a non-recurring past service credit of £723,000. Overall, recurring staff costs show a reduction year on year as a result of savings arising from the restructuring exercise.
- Depreciation has increased due to the completion of the capital project and the finalised assets which were transferred from 'assets in the course of construction' during the year.

	2010-11 £'000	2009-10 £'000
Income		
Scottish Funding Council grants	13,744	12,548
Tuition fees and education contracts	2,046	2,356
Other grant income	550	674
Other operating income	1,084	1,042
Investment Income	60	71
	17,484	**16,691**
Expenditure		
Staff costs	10,853	10,723
Staff costs – Exceptional restructuring costs	689	28
Other operating expenses	3,484	3,639
College subsidy for student funds	-	145
Depreciation	2,280	1,464
Interest and other finance costs	77	79
	17,383	**16,078**
Surplus	**101**	**613**

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	37,971	36,328
Debtors	1,354	2,257
Investments	2,320	2,773
Cash in hand and at bank	2,274	5,038
Creditors: amounts falling due within one year	(2,020)	(5,990)
Creditors: amounts falling due after more than one year	(32)	(47)
Provision for liabilities	(1,545)	(1,341)
Pension liability	(849)	(1,624)
Net assets	**39,473**	**37,394**
Deferred capital grants	35,758	34,338
Income & expenditure reserve including pension reserve	2,448	1,746
Revaluation reserve	1,267	1,310
Total funds	**39,473**	**37,394**

The significant movements in the balance arise through:

- Fixed assets have increased by £1,643,000 as a result of additions in the year of £3,923,000 and depreciation of £2,280,000. The additions represent the final payments in respect of the new build.
- Decrease of £1,269,000 of other debtors in relation to the building of the new campus, as the prior year included significant amounts of funding due to be received from SFC in respect of the campus redevelopment.
- Cash and short term investments have decreased due to the expenditure relating to the new build and severance payments.
- Trade creditors due within one year have reduced by £2,576,000 and accruals by £1,595,000, primarily in relation to capital amounts due at 31 July 2010 while the new build project was nearing completion.

Financial position (continued)

Financial forecasts

2011-12 financial forecast	£'000
Income	14,616
Expenditure	(14,544)
Forecast surplus	72

The 2011-12 budget has been set for a surplus of £72,000. This allows for the full year effect of savings in staff costs as a result of the restructuring exercise undertaken in 2010-11.

2012-13 and beyond

The College relies heavily on SFC 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.

While the detailed funding announcement at an institution level is not expected from SFC until January 2011, the College has undertaken an initial impact assessment and concluded that the impact of the College is likely to be of order £1.2 million reduction in funding in 2012-13.

With the added reduction in available European additionality funding, the College is reviewing its sustainable curriculum planning model to reduce the College-supported activity levels to bring its core delivery in line with its SFC-funded target. This will have a consequential impact on the alignment of teaching sessions with staff capacity.

The configuration of support services is also being considered. Detailed reviews have been undertaken of the finance function, and other support service reviews will be undertaken.

Overall, the College is taking early action to address the significant funding challenges which will be faced going forward.

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. The board of management consists of 17 full members and four co-opted members, including those with relevant skills and expertise in accountancy, human resources and education to oversee the colleges' strategic plans. The board has five standing committees covering audit, finance, development, property and estates and staffing. Each committee is formally constituted and has its own formal terms of reference. The comprehensive governance structure includes non-executive, professional and academic representation. This allows the College to maintain an integrated governance framework to provide an appropriate structure for maintaining decision making, accountability, control and behaviour. In line with best practice, all committees have undertaken self-evaluation during the year, while the College chair and principal have undertaken 360 degree review.
Statement on internal control	The statement of internal control provides details of the internal financial control environment and risk management and control framework. Management highlights that the system of internal financial control is based on a framework of guidance and regular management information, financial regulations, administrative and authorisation procedures, management supervision and a system of delegation and accountability. The statement is informed by officers, the audit and standards committee, and the work of internal and external audit. The content of the statement is consistent with our understanding of Langside College.
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 and highlighted some recommendations to enhance them.
Fraud and irregularity	The College has a fraud policy and procedure which define responsibilities for action and reporting lines in the event of a suspected fraud or irregularity. There is also a whistle blowing policy in place, which is available on the intranet as required by The Public Interest Disclosure Act 1998. 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.
Regularity	The board of management considers all incoming correspondence relevant to its strategic management role from the SFC and other regulatory or advisory bodies, including organisations such as Scotland's Colleges and Audit Scotland. Relevant communication is also considered by the audit committee. The College therefore considers all incoming guidance received from these bodies, and can demonstrate that they take appropriate action when required.

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