

Scottish Further and Higher Education Funding Council

Annual report on the 2010/11 audit



Prepared for Scottish Further and Higher Education Funding Council and the Auditor General for
Scotland

September 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

We have given an unqualified opinion on the financial statements of Scottish Further and Higher Education Funding Council (SFC) for 2010/11. This is our last year of the current five year appointment as auditors and from 2011/12 the auditor for SFC will be Grant Thornton.

The Council operated within the cash allocations provided by the Scottish Government and is permitted to carry forward limited balances. SFC took steps to manage its own running cost-base through re-organisation and office mergers, recruitment restrictions and a small number of workforce reductions under a voluntary exit scheme.

Outlook

The forward outlook is the main area of note, due to the reduction in resource available for allocation to further and higher education in 2011/12. The SFC provides funding to Colleges and Universities on an academic year basis (to 31 July each year). The SFC therefore manages some of the risk of significant year-on-year changes in Scottish Government funding, as its own commitments extend beyond the financial year.

At 31 March 2011, the SFC had committed grant funding to the end of the academic year (31 July 2011) of £534 million or 34% of Scottish Government funding in 2011/12 of £1.57 billion: The 2011/12 budget is a reduction of £215 million or 12% (in nominal terms) from 2010/11. The capital budget of £91million is less than half of the 2010/11 budget.

In November 2010 the Scottish Minister wrote to SFC acknowledging this significantly reduced level of funding and setting out his priorities. Grant letters to institutions are normally issued in March but with these significant budget reductions, SFC issued letters with planning assumptions to institutions in December 2010 to provide additional lead time for them to plan for changes.

The Scottish Government is currently undertaking separate reviews of college and higher education governance. As SFC is the principal regulator for FE sector and HE institutions, any changes may impact on SFC's own governance arrangements in the future. The outcome of both reviews is expected towards the end of the year.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of the Scottish Further and Higher Education Funding Council (SFC). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of SFC.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that SFC understands its risks and has arrangements in place to manage these risks. The Council and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to SFC and the Auditor General and should form a key part of discussions with audit committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by SFC's Audit and Compliance Committee.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of SFC for 2010/11 give a true and fair view of the state of the body's affairs and of its comprehensive net expenditure for the year.
11. SFC is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

Regularity

12. As required by the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Remuneration report and statement on internal control

13. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements.
14. We also confirm that we have no issues to report to you on the statement of internal control and its compliance with Scottish Government guidance.

Accounting issues

Accounts submission

15. We received the first draft of the accounts on the agreed date of 3 May. However, there were some delays with provision of final figures and supporting schedules compared to the original timetable for a few areas, for example grant commitments were received on 21 June and European funding details were received on 9 June (due to Scottish Government advice). We concluded our audit within the agreed timetable and provided our opinion to the Audit and Compliance Committee on 7 July as timetabled. The report and accounts were signed by the Chief Executive on 28 July.

Presentational and monetary adjustments to the unaudited accounts

16. Two unadjusted errors were identified during the audit, where if adjustments were made these would have a net effect of increasing operating costs by £561,000 (net assets would decrease by £561,000). These errors were immaterial to the accounts as a whole.

Prior year adjustments

17. All central government bodies have been affected by the removal of the cost of capital in the 2010/11 FReM. This change is identified in the accounting policies and appropriate amendments have been made to the prior year statements.

EMA accounting

18. SFC currently accounts for Education Maintenance Allowances by showing expenditure and funding within the Statement of Comprehensive Net Expenditure and Statement of Taxpayers' Equity. SFC could be considered to be acting as an agent for the Scottish Government, as the Scottish Government sets the funding rules. This could affect future disclosures in the Statement of Financial Position. Finance staff have agreed to investigate this aspect of disclosure of EMA funding and expenditure during 2011/12.

Refer Action Plan No.1

Whole of government accounts/ consolidation packs

19. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. We received the consolidation pack on 31 August, which was later than the deadline date of 29 July 2011. We expect that the audited return will be completed by 30 September 2011.

Outlook

20. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. Most grants and donated assets should be recognised as income, but grants from a sponsoring department to an NDPB

should be credited to general reserves. This is unlikely to affect the SFC as the Statement of Financial Position does not include deferred grants or donated asset balances.

21. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
- IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value.
22. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.

Audit appointment for 2011/12

23. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for SFC will be Grant Thornton. As this is the last year of our audit appointment, we would like to acknowledge the good working relationship that existed during our current appointment term with SFC and thank officers and members of the board and committees for their assistance during the last five years. We will be meeting with the incoming external auditors, Grant Thornton, as part of a managed changeover process.

Financial position

Financial results 2010/11

24. SFC is funded on a financial year, for the year to 31 March 2011, but it distributes funds to institutions on an academic year basis (i.e. from August to July each year). The level of expenditure in any financial year depends on the expenditure profiles of the relevant two academic years, which straddle the financial year (see Exhibit 1). Expenditure in any financial year can be higher or lower than the level of funding provided for that year. The overall position for 2010/11 was a deficit of £2.9 million (2009/10 surplus £2.1 million, 2008/09 deficit £3.7 million).

Exhibit 1: Overlap of financial and academic years



25. In the financial year 2010/11, SFC paid out grants of £1,904 million (2009/10: £1,914 million). The significant movements compared to the previous financial year are identified below in Exhibit 2. Total expenditure reduced by £8.3million (0.4%), but income reduced even further by £13.25 million - primarily due to £9m less income from the Department for Business, Innovation and Skills.

Exhibit 2: Expenditure movements between 2009/10 and 2010/11

Element	2010/11 (£m)	2009/10 (£m)	Movement (£m)
Recurrent grants to HE	1,063	1,045	+18
Capital grants to HE	114	166	-52
Recurrent grants to Colleges	522	488	+34
Other payments to Colleges	205	215	-10
SFC Running costs	10.5	10	+0.5
Total Expenditure	1,914.5	1,924	-9.5

26. The SFC provides grant commitments to higher and further education institutions for the academic year still to expire (to 31 July 2011). The element of grant for the period from April 2011 to July 2011 is identified as "contracted grant". This is disclosed in Note 16 to the accounts and demonstrates a commitment to fund a further £534 million (2009/10 £617 million) at 31 March that must be borne from 2011/12 Scottish Government grant in aid funding. The risk of managing significant changes in funding from the Scottish Government is borne, in part, by the SFC due to the commitment to universities and colleges in the current academic year.

Budgetary control

27. The Quality, Equalities and General Purposes Committee are provided with outturn versus budget information at their quarterly meetings. This covers both grants and running costs.
28. For 2010/11 the total running costs budget was £9.8 million. As at 31 December 2010, the projected outturn was £9.6 million, but in the last quarter SFC had to manage uncertainties on final reorganisation costs (including dilapidation) and severance liabilities and the final outturn was £9.637 million, 98% of budget.
29. The projected financial year-end out-turn for programme grants to universities and colleges (excluding capital) was £1.6 billion at 31 January 2011, in line with the budget and the financial statements.

Financial position at 31 March 2011

30. At 31 March 2011 total reserves decreased by £2.9 million (10%) to £25 million, from the previous year as shown at Exhibit 3. The institution advances reserve represents revenue advances to colleges and universities and has decreased by £2 million. The general reserve has decreased too and seems significant, but the total represents only 3 days-worth of annual expenditure.

Exhibit 3: Reserves

Description	31 March 2011 £ million	31 March 2010 £ million	31 March 2009 £ million	31 March 2008 £ million
Institution advances reserve	8.6	10.8	10.1	9.0
General reserves	16.3	17.0	15.6	20.3
TOTAL	24.9	27.8	25.7	29.3

Source: Scottish Further and Higher Education Funding Council Annual Report and Accounts

Funding clawback

31. The SFC claws back funding where institutions have under enrolled beyond a threshold against funded places or where student support actual spend varies from estimate. Financial penalties are also imposed on institutions if they exceed their indicative student numbers by more than 7-10% (depending on the priority of the course). The actual clawback is not determined until after the academic year. The amount of clawback represents less than 0.4% of programme funding, showing that generally students were enrolled in accordance with planned numbers.

Capital investment

32. Capital funding to the college and university sectors in 2010/11 totalled £219 million (£274 million in 2009/10). This funded major capital projects at 14 colleges and 3 universities. The major capital projects were delivered within the total budget. SFC also provided formula capital funding, representing over 30% of the total, to all colleges and universities to be used to maintain and upgrade their estate and equipment base.
33. In recognition of the level of future capital funding need in the college and university sectors, SFC introduced a loan support scheme which sourced funding from commercial banks for estate projects, supported by a guarantee provided by the SFC. After an in-depth risk appraisal was carried out and Scottish Government approval received, the Council provided a £10.8 million guarantee for a loan from a commercial bank to Coatbridge College.
34. Pipeline projects at three sites will be progressed by the Scottish Futures Trust, in partnership with SFC, using the non-profit distributing model of financing.
35. The SFC also proposes to review formula capital funding in order to better target funds to need from 2012/13.

Financial planning to support priority setting and cost reductions

Organisational restructure

36. In 2010/11, SFC restructured its departments, which included Funding and Finance merging to come under the Finance and Corporate Resources Group. As part of the reorganisation SFC moved from two offices into one office, terminating the lease on 95 Haymarket Terrace. While one-off costs of dilapidation (£40,000) and office refurbishment (£471,000) were incurred in 2010/11, there will be future savings on leases and accommodation costs, which together currently cost over £1.1 million per annum.

Workforce reduction

37. As part of reorganisation during 2010/11 two members of staff left under a voluntary exit scheme against a total staff complement of 119. Staff costs make-up more than 60% of total running costs and SFC are considering not filling vacant posts to help manage their running costs budget.

Procurement

38. Procurement Capability Assessments (PCAs) were developed to promote the sharing of best practice and continuous improvement across the Scottish public sector. The objective of the PCA is to assist organisations to improve their structure, capability, processes and ultimately performance, by attaining the best standards that are appropriate to the scale and complexity of their business. The PCA assesses capability in key areas against common criteria and standards which will allow public bodies to identify where best practice already exists, where there are gaps and where continuous improvements and efficiencies can be implemented.
39. SFC has been reviewed under the Procurement Capability Assessment programme most recently in February 2011. Overall SFC has improved from an overall procurement status of 'developing' towards meeting standards to 'conformance'; there have been improvements across all categories but further work is required on contract and supplier management and in embedding developments e.g. ensuring sustainability criteria are included in procurement decisions. The overall PCA "score" is still low at 28% reflecting the relatively low level of SFC procurement activity. SFC is investigating having an overall target and strategy to deliver and report against which would better support procurement initiatives.

Use of consultants

40. Spend on consultants for 2010/11 was at its lowest in three years: £1.023 million (2009/10: £1.280 million and 2008/09: £2.625 million). The majority of spend on consultants relates to capital projects, primarily on the Glasgow colleges' project. At its September 2010 meeting the Quality, Equalities and General Purposes Committee asked to be notified of the use SFC are making, or intend to be making in the near future, of consultants. With the 2011/12 capital budget at 50% of 2010/11 levels, consultancy costs are expected to decrease for another year.

Partnership working

41. SFC work with many bodies at Scottish and UK level e.g. enterprise companies and UK research councils but one of its key partners is Skills Development Scotland. SFC's Skills Committee collects, monitors and evaluates skills' needs and on the supply of, and demand for learning and training solutions. The Skills Committee advises both SDS and SFC. In addition two Board members of SFC sit on the Board of SDS, helping to bring a shared understanding at a strategic level. To support SDS, in 2010/11 the Chair of SFC took on the role of interim chair in SDS until a new Chair is appointed.
42. Advanced Procurement for Universities and Colleges (APUC) Limited provides cost reduction and increased buying power across further and higher education sectors and reports that it achieved savings of over £13 million in the 2009/10 academic year.

Outlook

2011/12 budget

Exhibit 4: 2011/12 Resource budget

Budget area	Budget £ million
Recurrent funding for further education colleges	544.7
Recurrent funding for higher education institutions	926.2
Capital grants	91.0
SFC Running costs	8.4
TOTAL	1,570.3

Source: Scotland's Spending Plans and Draft Budget 2011/12 - November 2010

43. The budget for 2011/12 is £1,570 million. Recurrent funds for FE colleges have decreased by 5.8% and funding to HE institutions has decreased by 6%; from 2010/11. The capital budget of £91 million is less than half of the 2010/11 combined budget. In November 2010 the Scottish Minister wrote to SFC acknowledging this significant reduced level of funding and set out his priorities. For the FE sector this included
 - maintaining volume of activity
 - to support collaboration, mergers and efficiencies
 - implementation of the senior phase of Curriculum for Excellence
44. For HE institutions some of the priorities were:
 - maintaining student numbers
 - protecting excellence in research
 - continuing to increase the impact of research on economic development in Scotland

- supporting collaboration, mergers and efficiencies
45. Grant letters to institutions are normally issued in March but with these significant budget reductions SFC issued letters with planning assumptions to institutions in December 2010 to provide additional lead time for them to plan for changes to curriculum, delivery and recruitment.
46. The SFC 2010/11 running cost budget is also lower than in previous years, by 11%. Although the previous year's budget included one-off costs for reorganisation, savings on running costs are required. As part of the 2011/12 budget planning process senior directors discussed with all budget holders their priorities, operational plans, aligned budgets and workforce requirements.

End Year Flexibility

47. As part of efforts to reduce national borrowing levels, the UK Government has announced the replacement of End Year Flexibility with a more restrictive budget exchange arrangement from 2011/12. The Scottish Government is in dialogue with HM Treasury about the ultimate implications for the Scottish Budget, including the extent to which it can carry forward any unspent funding from 2010/11 to future years.

Governance and accountability

48. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
49. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
50. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
51. In this part of the report we comment on key areas of governance.

Corporate governance

Committees

52. The Council has seven sub-committees to advise it on specific responsibilities or undertake specific functions (two of which are committees established under statute: the Skills Committee and Research and Knowledge Exchange Committee). The Council meets six times each year and considers the organisation's performance with feedback provided by its seven specialised committees. SFC Annual Report and Accounts provides details on the remit of each committee.
53. In October 2010 three members left the Council and by December 2011 another four members will leave, most of whom served on the Council since 2005 or longer. The Scottish Government is responsible for appointing new Council members and there is a concern that any delay in appointment may affect the functioning of the existing committee arrangements.

Refer Action Plan no. 2

Internal control

54. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial

systems and controls of audited bodies as a whole. However, the extent of this work is also informed by our assessment of risk and the activities of internal audit.

55. We seek to rely on the work of internal audit wherever possible and we concluded that the internal audit service provided by KPMG operates in accordance with government internal audit standards. We carried out a detailed review of internal audit files and relied on work on funding to institutions, Horizon Fund and college strategic funds and budgetary control (running costs).
56. Internal Audit's annual report on the audit concluded that, based on their work undertaken in 2010-11 and recommendation being implemented, SFC's systems provided a reasonable basis for maintaining control and that the control framework provides reasonable assurance regarding the effective and efficient achievement of strategic objectives.
57. Our testing on systems of internal control focused on the main accounting ledger, payroll, grants payable, trade payables and cash. Results from our testing were generally satisfactory apart from minor control weaknesses identified in trade payables based on existing financial procedures, which were out-of-date. SFC's Procedures are being reviewed to ensure they reflect the new arrangements following re-structuring and to ensure they are commensurate with the level of risk for certain types of transactions.

Prevention and detection of fraud and irregularities

58. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
59. SFC has appropriate arrangements in place including policies on whistleblowing, codes of conduct for staff and members and details for investigating suspected cases of fraud or corruption. There were no reported cases of fraud in 2010/11.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

60. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in SFC are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

61. The Scottish Government is currently undertaking separate reviews of college and higher education governance. These reviews are of particular relevance to SFC since they are the principal regulator for FE sector and HE institutions. The 2009-12 Corporate Plan for SFC states (outcome 7) that they will "support the development of the college and university sectors with well led and run, financially sound colleges and universities". While the reviews

are on college and higher education governance, any significant changes may impact on how SFC organises its own governance arrangements in the future. SFC is responding to the reviews and the outcome of both reviews is expected towards the end of the year.

Best Value, use of resources and performance

62. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
63. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
64. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
65. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
66. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
67. This section includes a commentary on the Best Value/ performance management arrangements within SFC. We also note any headline performance outcomes/ measures used by SFC and any comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

68. Our 2009/10 Annual report noted that SFC was implementing the action plan from internal audit's best value report. In 2010/11 Internal audit carried out follow-up work on their best value report recommendations and updated the Audit and Compliance Committee in November 2010 that appropriate action was being taken.
69. In March 2011, the Scottish Government issued new guidance for accountable officers on best value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.

70. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
71. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting)
72. SFC should review the March 2011 guidance on Best Value.

Refer Action Plan No. 3

Performance management

73. SFC's Corporate Plan 2009-12 is implemented by the Council's executive. In June 2010 the executive moved away from an organisation-wide operational plan and instead replaced it with a 'bottom-up' process that leads to the development of business plans by each of the six organisational groups and the executive draws on these to produce a top-level 'Critical Programme'. It identifies the major work programmes across the organisation and the key actions that are critical to the success of the Council; this is a rolling programme that is updated quarterly to reflect changing priorities.
74. The Quality, Equalities and General Purposes Committee reviews progress against the corporate plan on a quarterly basis and comments on the format and content of the reports, seeking additional information as considered necessary.

Stakeholder engagement

75. During 2009-10, the Council commissioned an independent survey of its stakeholders to gain their views on the Council's effectiveness and performance. The summary findings (April 2010) record that respondents considered SFC keeps them well informed of its activities, with staff at institutions regularly using the SFC website and highly rating written communication. However, feedback noted that respondents looked for an increased understanding of their sectors by all SFC staff and would like earlier involvement and increased partner involvement in consultation.
76. In February 2011 the Council reviewed the scope of SFC's collaboration with its key strategic stakeholders, particularly with those bodies that SFC is working on priority areas for policy development.

77. SFC is preparing the next corporate plan and has committed to stakeholder engagement in 2011 as part of the planning process. As an example, breakfast events aimed at businesses operating in the Scottish Government's key economic sectors, and themed around recent SFC investments, are currently being planned.
78. Council members and the Chief Executive continue their programme of visiting all colleges and universities as part of their strategic dialogue meetings with management and student representatives.

Overview of performance in 2010/11

79. The 2010/11 Annual Report describes SFC's main activities linked to the seven priority outcomes in the Corporate Plan 2009-12. These include:
 - The completion of three major investments in the college estate in 2010/11 (Langside, Anniesland and Aberdeen)
 - The creation of the new City of Glasgow College through merging three city centre colleges
 - Further investment of £14.3 million in supporting collaborations between business and universities to improve resultant economic benefits
80. The Critical Programme for 2010/11 included an objective to develop a performance management framework aimed at measuring and demonstrating the contribution that SFC and colleges and universities make to the Scottish Government's National objectives. The Annual Report now includes a range of key performance indicators (KPIs) which, while compiled from a range of internal and external sources, relate to SFC's statutory duties and responsibilities. These identify:
 - Colleges student provision (WSUMS) exceeded target by 3.3%
 - University student provision (FTE) exceeded target by 7.8% (but the target had been reduced from the previous year)
 - The Scottish share of external research income was slightly down compared to total UK research income and compared to total Scottish income of HE bodies.
 - Financial sustainability measures across FE and HE generally improved slightly in 2009/10
 - The quality of estate across the sector generally improved in terms of condition and functionality, although there was an increase in the small percentage of college buildings considered inoperable.
 - Running cost expenditure has remained under 0.5% of programme expenditure since 2006/07.

National performance reports

81. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are set out in Exhibit 55.

Exhibit 5: A selection of National performance reports 2010/11

- | | |
|------------------------------------------------------------------------|-------------------------------------------------------------|
| • Management of the Scottish Government's capital investment programme | • The role of boards |
| • Scotland's public finances: responding to the challenges | • Role of boards: a summary for non-executive board members |
| • The cost of public sector pensions in Scotland | • Improving energy efficiency: a follow-up report |

Source: www.audit-scotland.gov.uk

Management of the Scottish Government's capital investment programme

82. SFC do not undertake capital investment programmes themselves but due to their funding and monitoring role, the Audit and Compliance Committee considered the results of the report in light of their own monitoring arrangements. SFC reviewed all the recommendations in the report and discussed them with their sponsor branch. In addition SFC attended a meeting of the Scottish Government's Infrastructure Investment Board (IiB) to discuss the organisation's approach to governance surrounding capital projects.

The role of boards

83. The Audit and Compliance Committee considered the findings from the study with various elements of the report discussed with the Chair of the Council about aspects that could be applied to SFC. While SFC considered that in general all of the points raised in the Role of Boards document had been addressed external consultants have now been appointed to review Council effectiveness and provide independent comment.

Outlook

84. SFC's current Corporate Plan covers the period 1 April 2009 - 31 March 2012 and in June 2011 officers discussed with the Council a strategic approach to development of its next plan covering the period 2012 - 2015.

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	17 November 2010	24 November 2010
Review of internal controls	29 June 2011	7 July 2011
Report on financial statements to those charged with governance	29 June 2011	7 July 2011
Audit opinion on the 2010/11 financial statements	29 June 2011	7 July 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	18	<p>SFC could be considered to be acting as an agent for the Scottish Government for the funding of Education Maintenance Allowances. SFC currently accounts for expenditure and funding within financial statements but does not set the funding rules.</p> <p>There is a risk that these transactions may not be accounted for appropriately, although it forms part of SFC's cash funding total.</p>	Finance staff will investigate the disclosure of EMA funding and expenditure for 2011/12 financial statements.	Assistant Director - Finance and Corporate Resources Group	31 March 2012
2	53	<p>In October 2010 three members left the Council and by December 2011 another four members will leave, most of who served on the Council since 2005 or longer.</p> <p>There is a concern that any delay in appointing new members to the SFC may affect the functioning of the existing committee arrangements</p>	Action for Scottish Government		
3	72	Revised best value guidelines were issued in March 2011 and the accountable officer has a duty to take a systematic approach to self-evaluation	Although this has not been previously communicated to SFC, it will be considered as part of the corporate planning process	Senior Director of Institutions and Corporate Services	31 March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		and continuous improvement. This process is yet to be fully described/ developed within the SFC and there is a risk this cannot be demonstrated.	underway.		