HENDERSON LOGGIE
Chartered Accountants

Coatbridge College

Annual Audit Report for 2011/12 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2012/02

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Contents

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Executive Summary

Financial Statements

- On 7 February 2013 we issued an audit report with an unqualified opinion on the financial statements of the College for the year ended 31 July 2012 and on the regularity of the financial transactions reflected in those financial statements. Refer to paragraph 9 on page 5.

- There were a significant number of adjustments identified during the audit process, including four prior period adjustments and eight material current year adjustments. Following discussion with management, it was agreed to make adjustments for the majority of these items which had an impact of reducing the surplus by £0.167 million. A further eight potential misstatements items were not adjusted for, and if adjusted would have increased the surplus by £0.020 million. Other presentational and disclosure items were also amended.

- The College has shown a surplus for the year of £0.256 million (2010/11 - £1.489 million restated), and had an income and expenditure account balance (including the Pension Reserve) of £4,823 million at 31 July 2012 (31 July 2011 - £6.326 million restated).

- Phase two of the College's estates redevelopment has nearly been completed and during 2011/12 there was £6.140 million of capital expenditure. At 31 July 2012 the College's land and buildings were revalued.

Corporate Governance

- The College's Corporate Governance Statement confirms that the College complies with all of the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2012.

- No material weaknesses in the accounting and internal control systems were identified during the 2011/12 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. However the number of audit and accounting adjustments that were required does highlight a weakness in the accounts preparation process. Some areas were also identified from our interim testing during 2011/12 where controls could be further improved to bring them more into line with good practice. These have been discussed with management.

- We did not identify any matters of concern relating to the College's corporate governance arrangements regarding the prevention and detection of fraud, or standards of conduct and the prevention and detection of corruption.

- The College also has an on-going process for identifying, evaluating and managing its significant risks.

Performance

- The College management and committee structure includes mechanisms to monitor and manage financial and non-financial performance which are considered appropriate.

- Education Scotland published a very positive report on the further education provision of the College in July 2012. The report gave four clear confidence statements with no caveats and no main points for action. It also identified a number of strengths, three examples of excellent practice, and one of sector leading and innovative practice.

Outlook

- Together with the other colleges in the Lanarkshire region Coatbridge College has agreed to form a Federation. The publication of the ***Post-16 Education (Scotland) Bill*** in November 2012 details the planned legislative change which will direct the regionalisation of Scotland's college sector. The Bill proposes the creation of a new fundable body, governed by a regional board. A Regional Outcome Agreement with the SFC has been finalised for 2012/13. Action currently being taken includes the publication of a 2013-2015 Strategic Action Plan for the Federation.

- The funding position will remain challenging with reductions continuing until 2014/15.

Introduction

Background

1. 2011/12 was the first year of our five year appointment as external auditors of Coatbridge College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance.

2. The audit framework is outlined in our Strategic Planning Memorandum and 2011/12 Annual Audit Plan, issued in draft on 27 June 2012 and finalised on 3 September, which was considered and approved by the Audit Committee in October. The scope of the audit was to:

   - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;

   - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and

   - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include;

   - compliance with legislation and financial regulations;

   - fixed assets transactions, including consideration of any impairment, revaluation of land and buildings and the potential impact on the financial statements; the estates development strategy implementation; on-going estate improvements and maintenance; and compliance with relevant financial reporting standards;

   - recoverability of debtors;

   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;

   - compliance with Financial Reporting Standard (FRS) 17 Retirement Benefits and provision for pension liabilities for early retirals; and

   - compliance with the SORP on Accounting for Further and Higher Education.

Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

5. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.

6. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

Acknowledgement

7. Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.

Audit Opinion

8. On 7 February 2013 we issued an audit report with an unqualified opinion on the Financial Statements of the College for the year to 31 July 2012 and on the regularity of the financial transactions reflected in those financial statements. This issue was outwith the control of the College and Henderson Loggie, and centred on finding evidence to support the change of accounting date from 31 March, as prescribed in primary legislation, to 31 July.

9. The issue was considered at a national level between Audit Scotland and the Scottish Government. Following provision of further information to all college auditors the issue was resolved on 21 January through the acceptance by all auditors that sufficient evidence was available to show that an order to change the date had been made. This allows an unqualified opinion to be given.

10. We are required to undertake audit work from the Balance Sheet date up to the date of signing the accounts and this was undertaken in the period up to 7 February 2013. One post balance sheet event was identified which required changes to the Operating and Financial Review and notes to the accounts in relation to the potential merger with Motherwell and Cumbernauld Colleges (refer to Outlook Section on page 18).

Audit Completion

11. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. Table 1 summarises the three key elements of the audit process.

Table 1: Key elements of the audit process

Completeness of draft financial statements
A set of draft financial statements was received four working days before the start of the final audit visit, with updated figures received when we arrived on site. These were of a reasonable standard however a large number of misstatements were identified by either the College or ourselves which were mostly adjusted for. There were also a number of presentational changes made as part of the audit process.

Quality of supporting working papers
In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. The majority of items on this list were received and these were generally of a suitably high standard, although some differences were noted between financial statement balances and working paper balances for fixed assets and deferred capital grants. We also noted a number of instances where the balances in the financial statements did not agree to the balances in the trial balance. These differences have been satisfactorily explained and adjusted where necessary.

Response to audit queries
A large number of audit queries were raised, most of which were dealt with in a timely manner during our audit visit. However a number of queries were outstanding at the end of the audit fieldwork and at the time of our planned wrap-up meeting. Resolution of these delayed completion of the audit process to the initial timetable.

R1 in the Action Plan recommends that a debrief meeting be held to identify lessons learned with a view to improving the accounts preparation and audit process for 2012/13.

12. The Finance team has operated during the year with temporary staff and is currently further reduced in number. This has an impact on the team's ability to undertake segregation of duties in the operation of controls and had an impact on the accounts preparation and audit process during 2011/12. New software to alleviate the cash and banking position is currently being tested with a view to an automatic reconciliation process being in place by the end of January 2013. Following discussion at the audit committee on 17 December the committee agreed to recommend a review of the finance team resources.

Corporate Governance Statement

13. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

14. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control reflects the process and report where the statement is not consistent with our knowledge of the body and report if the statement does not comply with SFC requirements.

15. The College's corporate governance statement for 2011/12 states the College complies with all of the provisions of the UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2012.

16. From our audit work and our review of the College's statement we have no issues to report within our audit opinion.

Audit and Accounting Adjustments and Confirmation

17. A significant number of audit and accounting adjustments were identified during the audit which, following discussion with management, were agreed to be adjusted in arriving at the final position, These included prior year adjustments which are noted in Table 2 and discussed in paragraphs 19 to 22 of this report. Note 35 in the notes to the accounts also includes information about the impact of these adjustments.

18. Table 3 sets out the audit and accounting adjustments affecting the current year. This includes six trivial items which were also adjusted and which are included at the bottom of the table. Material items are discussed in paragraphs 23 to 30. The overall impact of these adjustments on the financial statements has been to decrease the reported surplus for the year by £0.167 million

Table 2: Prior Year Audit adjustments-

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
Material audit adjustments				
Prior Period Adjustments:				
Designated reserve opening balance 1/8/11			1,600	
General reserve opening balance				1,600
Correction of disclosure of designated reserve to comply with SORP (see paragraph 19 below)				
Pension liability opening balance 1/8/11			552	
Pension reserve opening balance				552
Correction of pension liability to remove double counting of unfunded pension liabilities (see paragraph 20 below)				
General reserve 1/8/11			151	
Provision for liabilities and charges 1/8/11				151
Uplift to adjust FRS 12 enhanced pension figures with actuary's valuation (see paragraph 21 below)				
Deferred Capital Grant opening balance			137	
General Reserve opening balance				137
Alignment of deferred capital grant opening balance with deferred capital grant supporting documentation (see paragraph 22 below)				
Total Prior Year adjustments			**2,440**	**2,440**
Overall impact on General Reserve increase £1,586 Million				
Impact on Pension Reserve increase £0.552 Million				
Designated Reserve reduces to Zero as now included within General Reserve				

19. Four material prior period adjustments were made as disclosed in Table 2 above. The first of these relates to the designated reserve the College has disclosed in previous financial statements. The SORP states that designated reserves are a matter for internal college management and should not be disclosed separately. This adjustment was made to bring the College in line with the SORP requirements.

20. The second of the material adjustments, including a prior period element, relates to the College's liability for staff who received early retirement with enhanced pension payments. The actuary valued these amounts and these were incorrectly included in the FRS17 liability as these liabilities had already been provided for under FRS 12 within provisions. This adjustment removes these amounts from the FRS 17 figures.

21. The third adjustment accounts for the change in the method for calculating the FRS 12 provision to use the actuary's figures instead of the SFC actuarial tables. The change adjusts the prior period early retirement pension provision opening balance and the charge for the current and prior year. Paragraph 43 contains more information about this change in approach.

22. The fourth prior period adjustment relates to a historic difference that was noted between the deferred capital grants amount disclosed in the prior year financial statements and the spreadsheet supporting this balance. It was confirmed that this difference has existed for at least five years and it was agreed to amend this so that the balances were the same.

Table 3: Audit and accounting adjustments

Current Year Adjustments:				
Material adjustments				
Depreciation		187		
Deferred Capital Grants				9
Property expenditure	10			
Income		9		
Land & Buildings				6
Accumulated depreciation			3	
Revaluation Reserve			198	
Being overstatement of depreciation on buildings and other depreciation adjustments (see paragraph 23)				
General Reserve			171	
Revaluation Reserve				171
Adjustment due to error in calculation of difference between depreciation based on historical cost and depreciation based on revaluation (see paragraph 24)				
Land and buildings			17	
Equipment			59	
Income	184	13		
Deferred capital grants				140
Deferred income				30
Accumulated Depreciation				13
Expenditure	13	77		
Adjustment for certain capital items being initially recognised in the Income and Expenditure Account (see paragraph 25)				
Deferred Capital Grants			162	
Accrued income				90
Accruals and Deferred income				72
Adjustment for differences between deferred capital grants balance and accounting system deferred capital grant balances (see paragraph 26).				
Income	176			
Accruals and Deferred Income				176
Non recognition of student support funds received for 2010/11 and 2011/12 economic downturn funding as funds have not been spent and require repayment (see paragraph 27)				
Expenditure	117			
Income		117		
Recognition of HE childcare funds in the Income & Expenditure Account in line with late SFC guidance (see paragraph 28)				
Accumulated Depreciation			913	
Equipment				913
Adjustment to remove computer equipment which had been disposed of (see paragraph 29)				

Accumulated Depreciation – Equipment			223	
Revaluation reserve			127	
Fixed Assets – Equipment				350
Adjustment to remove equipment which is included in buildings valuation and then adjust the revaluation reserve for this (see paragraph 30)				
Sub-Total- material audit adjustments	**500**	**403**	**1873**	**1970**
Income	90			
Accrued income				90
Reversal of journal raised for expected partial exemption VAT refund as amount not certain				
SFC loan funding receivable			81	
Long term loan				81
Increasing loan balance to agree to external confirmation				
Accruals and Deferred Income			51	
Expenditure		51		
Being reduction of student support fund deferred income balance as further expenditure was identified as having been used for bursary expenditure-				
Income	24			
Accruals and Deferred Income				24
Adjustment to not recognise English as Second Language SFC funding for 2011/12 as the grant criteria were not met-				
Pension costs	14			
Accruals				14
Provision for strain cost for staff member who received voluntary severance which was paid after year end-				
Property expenditure	25			
Prepayments				25
Adjustment to correct error in opening prepayment				
Deferred capital grants			20	
Income		20		
Adjustment to align deferred capital grant release in financial statements to supporting calculations				
***Reclassification entries**:*				
Trade creditors			46	
Trade debtors				46
Adjustment for grossing up of debtor and creditor balances for rates				
European income	52			
SFC income		52		
Correction of split of economic downturn funds to agree with documentation provided from SFC				
Expenditure	49			
Interest income		49		
Reallocation to move FRS17 net interest income from expenditure into interest income				

Exceptional staff costs	8			
Staff costs		8		
Correction to reallocate part of voluntary severance payment classified as payroll cost				
Other income	370			
Education contract income		370		
Reclassification of education contract income from other income				
Trivial Items (amalgamated)				
Deferred Capital Grants			2	
Pension provision			5	
Deferred Income			5	
Expenditure		3		
Income (made up of three adjustments)		9		
Trivial items				
Subtotal other adjustments, reclassifications and trivial items	**632**	**562**	**210**	**280**
TOTAL OF ALL ADJUSTMENTS	**1,132**	**965**	**2,083**	**2,250**
Income and Expenditure Movement	**167**			

23. The College had calculated depreciation during the year but the final depreciation figure did not agree to the final calculations. An adjustment was made to bring the depreciation charge into line with the final depreciation calculations.

24. An accounting adjustment is required each year to remove the impact of calculating depreciation on a revalued basis (rather than on a historical cost basis) from the Income and Expenditure Reserve. The figure used in the first version of the financial statements was the same figure as the prior year and had not taken into account the previous revaluation and an adjustment was made to correct this.

25. The College received some contributions from organisations to help pay for the courtyard and courtyard stage. These contributions had been treated as income and an adjustment has been made to transfer these to deferred capital grants (where contributions have been received) or deferred income (where contributions have yet to be received). Furthermore, some items relating to the estates refurbishment were expensed however these were found to be of a capital nature and an adjustment has been made to capitalise them, with deferred capital grant funding being applied for these.

26. It was found that a number of entries for capital grants had been incorrectly processed in the financial system and adjustments were made to correct for these in order to ensure the deferred capital grant figure agreed to supporting documentation.

27. Funding was received in 2010/11 and 2011/12 for economic downturn funding (ESF Priority funding) which included the provision of extra WSUMs and extra student support funds (bursaries, childcare and discretionary funds). The College has not spent all of the funds that it received for student support funds and an adjustment has been made to not recognise the income received as this will have to be paid back to the SFC.

28. The initial SFC Accounts Direction guidance stated that HE childcare funds should be treated as an agency arrangement and this income and expenditure should not be included in the financial statements. Subsequently amended guidance was issued stating that these funds should be treated within the income and expenditure account and the College has adjusted for these.

29. The note to the accounts was adjusted to remove £0.913 million from both cost and aggregate depreciation for computer equipment that the College no longer has.

30. Fixed assets – equipment included items that had also been included in the revaluation of the buildings, leading to double counting, therefore an adjustment was made to remove this.

31. A number of potential audit adjustments were identified which management decided not to adjust. These have been listed in Table 4 below and the total of these items is below our materiality level. The effect of adjusting for these items would be to further increase the surplus for the year by £0.020 million.

Table 4: Unadjusted audit items

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
Expenditure	12			
Accruals				12
Purchase invoices not accrued for at year end				
Bad debt expense	47			
Provision for bad debts				47
Being potential understatement of bad debt provision due to long outstanding debtors-				
Pension expense	14			
Pension liability				14
Being difference between actual employer pension payments and payments forecast by the actuary in their FRS17 pension liability report				
VAT expense	2			
VAT liability				2
Being accrual for VAT payable at year end				
Fixed Assets			46	
Expenditure		46		
Depreciation	15			
Accumulated Depreciation				15
Possible capitalisation of software purchases				
Deferred capital Grants			35	
Income		35		
Being calculated release of deferred capital grants in line with auditor calculations				
General reserve			15	
Revaluation reserve				15
Overstatement of release of revaluation reserve to general reserve in relation to historical cost depreciation on land				
Revaluation reserve			29	
Depreciation		29		
Calculated overstatement of depreciation on land and buildings				
Total	**90**	**110**	**125**	**105**
Income and Expenditure account impact		**20**		

32. A number of other disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

Confirmations and Representations

33. We confirm that at the date of this report, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

34. In accordance with auditing standards, we obtained representations from the College on material issues.

Financial Position

35. SFC circular SFC/31/2009, issued on 16 October 2009, defines a sustainable college as one which 'continually develops the quality of its learning activities to meet the changing needs of its customers, society and the economy, controls its costs, and year on year secures sufficient income to resource its planned activities and enable a level of current and future investment necessary to maintain its assets.'

36. Table 5 provides a summary of the College's planned and actual financial results, based on the formal returns submitted by the College to the Funding Council.

Table 5: Comparison of planned and actual financial results (V8 figures)

	2010/11 Actual £000 Restated	2011/12 Planned £000	2011/12 Actual £000	2012/13 Planned £000
Financial outturn Surplus	1,489	103	256	118
Income and expenditure reserves (incl pension reserve)	6,326	6,982	4,823	7,377
Cash balances	5,455	320	1,628	504

Source: Audited financial statements and Financial Forecast Return (FFR)

37. Overall, College income in 2011/12 has decreased by £2.223 million (16.2%) over 2010/11 and expenditure has decreased £0.990 million (8.1%) over 2010/11.

38. The major movement in income was the significant reductions in SFC funding (£2.1 million), with much of this relating to receiving less grant in aid and funding for capital projects (mainly due to the SFC-funded phase one of the capital project being largely completed in 2010/11). Expenditure decreased largely due to reduced staff costs (£0.5 million) and reduced expenditure on premises costs relating to capital projects (£0.7 million).

2011/12 SUMs Outturn

39. The College's outturn against its 2011/12 SUMs target is shown in table 6.

Table 6: 2011/12 SUMs outturn

	2010/11	2011/12
SUMS target	39,174	39,896
SUMS actual	44,029	40,630
Excess	4,855	734

Source: Audited SUMs returns

40. The audit of the SUMs return for 2011/12 was carried out by Wylie + Bisset LLP who concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

41. The 2012/13 SUMs target has been revised downward to 34,370 as a result of the funding position notified by the SFC in March 2012.

FRS 17 Retirement Benefits

42. In 2011/12 the College accounted for its participation in the local government pension scheme as if it were a defined benefit scheme. This is consistent with the accounting treatment adopted in previous years.

Provisions

43. The College has a provision in its balance sheet for £0.547 million (31/07/11 - £0.552 million, restated) relating to pension costs from early retirements awarded to former employees. The College has used an independent actuary to value the provision as at 31 July 2012. Previously the College applied SFC actuarial tables to calculate the provision required. This change in approach has led to the prior year adjustment discussed above. We concluded that, subject to the adjustment advised in paragraph 21, the provision has been correctly calculated, included and disclosed in the financial statements.

Capital Projects

44. The first phase of the College's estate redevelopment project was completed in 2010/11 and phase 2 has almost been completed. During the year £6.140 million was spent on capital items which were funded from college reserves, loan funding and deferred capital grants.

45. As part of the audit we ensured that capital expenditure had been correctly treated and that the accounting entries for the valuation of the land and buildings were appropriate.

Corporate Governance

46. The College is responsible for ensuring that governance arrangements follow the three fundamental principles of openness, integrity and accountability and that these arrangements are in place to ensure the proper conduct of its affairs. Mechanisms to monitor the adequacy and effectiveness of these arrangements should also be in place.

47. Our responsibility, as noted in the Code of Audit Practice, is to review and report on audited bodies' corporate governance arrangements as they relate to:

- Bodies' reviews of corporate governance and systems of internal control, including reporting arrangements
- The prevention and detection of fraud and irregularity
- Standards of conduct and arrangements for the prevention and detection of corruption
- The financial position of audited bodies

48. Comments on the College's financial position and the Corporate Governance Statement are covered in the Financial Statements section of this report.

49. We have considered the College's governance arrangements through formal review of documents and procedures and informal observation of the operation of committee arrangements and the relationships between Board members and staff. In particular we have considered arrangements for risk management and reporting to committees. We did not identify any areas of concern regarding the College's governance arrangements.

Systems of Internal Control

Control Environment

50. No material weaknesses in the accounting and internal control systems were identified during the 2011/12 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. The number of journal entries that were required does however highlight a weakness in the accounts preparation process as discussed earlier.

51. Some areas were identified from our interim testing during 2011/12 where controls could be further improved to bring them more into line with good practice. These have been discussed with management. Areas for improvement included:

- System access and user rights
- Increased segregation of duties in bank reconciliation process
- Till receipt evidence for cash banked.

Internal Audit

52. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Wyllie + Bisset LLP provided internal audit services to the College in 2011/12. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate. We have also considered the adequacy of the provision and are content that the audit service is of good quality.

53. The annual internal audit report issued in May 2012 did not identify any issues that affect our audit conclusions.

Risk Management

54. Risk management is important for the development and on-going review of systems of internal control.

55. The College has a Risk Management Policy and Strategy and risk management procedures are in place that are actively monitored and reported on. This includes an on-going process for identifying, evaluating and managing its significant risks.

56. Risk management is seen as a Board matter, with the key strategic risks being identified and reported to the Board. We noted that there are clear links drawn between the key risks in the Strategic Risk Register and the College's Strategic Plan.

57. The major estates redevelopment projects have utilised professional project managers who have detailed project risk registers which are monitored and updated on a regular basis.

Fraud and Irregularity, Standards and Conduct, and Prevention and Detection of Corruption

58. During 2011/12 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

59. The College has appropriate arrangements in place regarding the prevention and detection of fraud, including current versions of its Constitution and Articles of Government (incorporating Standing Orders), Financial Regulations and an Anti-Fraud Policy.

60. One fraud was identified during the period from 1 August 2011 up to the date of this report. This related to a third party falsifying supplier details. Internal audit have investigated this matter and provided a list of recommendations to mitigate the risk of this recurring.

61. The College has in place the following procedures/policies in relation to standards of conduct and prevention and detection of corruption.
    - Code of Conduct for the Members of the Board of Management
    - Register of Board Members' Interests
    - Anti-Fraud Policy
    - Anti-Bribery Policy
    - Whistleblowing Policy

62. The arrangements for maintaining standards of conduct and the prevention and detection of corruption are considered to be appropriate.

Performance Audit

63. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

64. No mandatory performance audit studies were identified by Audit Scotland for the College during 2011/12. Audit Scotland's planning guidance identified optional follow-up work on audited bodies' response to *Scotland's public finances – addressing the challenges*, which was published in August 2011; and carrying out Audit Scotland's focused follow-up on *The Role of Boards* report using key audit questions issued by its Performance Audit Group. We were advised by the Director of Finance and Estates that the Scotland's Public Finances report was considered with the Chair of the Finance Committee and the senior management team and it was concluded that there were no actions required by the College, based on the work that is already being carried out and previous preparations for funding cuts.

65. Neither follow-up was undertaken formally, however we have not identified any additional actions in these areas that the College needs to take.

National Performance Reports

66. The other main report relevant to the College is *Scotland's Colleges – current finances, future challenges* issued in October 2012. The report makes recommendations for the Scottish Government, the Scottish Funding Council, and existing colleges and proposed regional boards. In particular the report recommends that "existing colleges and proposed regional boards should:

- ensure that strategic planning for course provision in their areas responds to the national objectives and priorities for post-16 education, and also reflects the needs of local employers and students, and the views of community planning partners
- ensure that planning for course provision is based on robust financial and other resource plans
- learn from the experience of previous college mergers and other sources, such as the Scottish Funding Council's guidance on mergers and the Audit Scotland report *Learning the lessons of public body mergers*, to ensure effective management of their own mergers
- explore opportunities to reduce their costs through economies of scale, joint working and better partnership working. Colleges should develop clear assessments of the workforce skills and attributes needed in future to inform their strategies and procedures for staff changes and reductions."

67. It is clear from discussion with management and a review of information about the regionalisation process that further actions that address these recommendations will be undertaken as the development of the Lanarkshire Region arrangements progress.

Education Scotland Review

68. Education Scotland published a very positive report on the further education provision of the College in July 2012 following a visit in April 2012. The report gave four clear confidence statements with no caveats and no main points for action. It also identified a number of strengths, three examples of excellent practice, and one of sector leading and innovative practice in relation to developing professional skills in health care through a learner-led health clinic.

69. The report is Crown Copyright and can be found at this link:

http://www.educationscotland.gov.uk/Images/CoatbridgeRev06072012_tcm4-726006.pdf

College Performance Arrangements

70. Arrangements for financial and non-financial management are well established in the College, through the operation of the senior management team and the Board and its various committees. This includes budget setting and monitoring structures.

71. The College's Constitution and Articles of Government, including its Scheme of Delegations record the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. These key documents are regularly reviewed. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner.

72. The EFQM and ISO9001 (Quality Management Systems) accreditations have been attained by the College.

73. The College has a procurement strategy in place and undertakes Procurement Capability Assessments through APUC (Advanced Procurement for Universities and Colleges).

74. The College's arrangements for performance management as outlined above are considered to be appropriate.

Outlook

2012/13 and Beyond

75. The Scottish Government's College regionalisation plans are well underway in the sector although various regions are at differing stages in the process. Regional Outcome Agreements with the SFC have been finalised for 2012/13 and the regional allocation of funding is planned for 2013/14.

76. Coatbridge College is part of the Lanarkshire Region, along with Motherwell, Cumbernauld, and South Lanarkshire Colleges.

77. In February 2012 a federation model of working across three of the colleges in the region, excluding Coatbridge College was proposed. The proposed federation then expanded during 2012 to include all four colleges in the Lanarkshire region.

78. Action taken by November 2012 included the publication of an in principle Federation Agreement, a 2013-2015 Strategic Action Plan for the Federation and establishment of a Principals' Forum, Regional Outcome Agreement Group, Regional Monitoring and Review Team and a range of proposed working groups. 'Enabling Funding' was approved by the SFC and a Project Manager appointed to commence in mid December 2012.

79. The publication of the ***Post-16 Education (Scotland) Bill*** in November 2012 details the planned legislative change which will direct the regionalisation of Scotland's college sector. The Bill describes the creation of a new fundable body, governed by a regional board. The four current colleges proposed to remain as individual institutions but with closer joint working for integration of planning; a synergistic approach to delivering support services; optimisation of the delivery of education and training; and ensuring effective, economical and efficient management. Such activities are intended to deliver the long term cost savings which are necessary to maintain and improve levels of service whilst managing a substantial reduction in funding.

80. In January 2013 Cumbernauld and Motherwell colleges announced merger plans. The SFC required that the option to merge was open to the other colleges in Lanarkshire. There has been significant discussion around this but on 25 February the Coatbridge Board decided with regret to withdraw from merger discussions. Work has gone on between Motherwell and Cumbernauld to take the merger proposal forward.

81. The College will have a significant amount of work to undertake during the early part of 2013 in order to explore and agree what the regional arrangements will be as part of the federation.

82. The Scottish Funding Council issued a circular in February 2012 on the indicative college sector financial decisions for 2012-13 and provided indicative allocations for each region. Every college's base teaching grant has been reduced by 8.4%. Student support funding and capital maintenance allocations are to be maintained at the 2011/12 baseline level. The College's indicative allocation for teaching grant for 2012/13 is £6.676 million. The College has also received additional funds to deliver 1839 WSUMs as part of the agreed Regional split in 2012/13. It has also been asked to deliver 292 additional efficiency WSUMs as part of the overall efficiency target for the region in 2012/13

83. A draft budget was issued by the Scottish Government on 2 October 2012 indicated further significant reductions in funding for both 2013/14 and 2014/15. These were partially reversed when, in February 2013 the Cabinet Secretary announced an additional £10 million of college sector funding for 2013/14, and that the 2014/15 budget would equal the revised 2013/14 budget, an increase of £51 million over that previously announced. The SFC will be involved in deciding how this additional £61 million will be spent within the sector Allocations of additional funding may be ring-fenced for specific purposes in which case spending will need careful monitoring to ensure it meets any mandatory criteria.

HENDERSON LOGGIE

Appendix I
Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
11	**Accounts preparation** **R1** A debrief meeting should be held to identify lessons learned from the accounts preparation process, including involvement with external audit, to improve planning for 2012/13 accounts preparation and audit.	B	Agreed	Y	Director of Finance & Estates	Jan 2013

Grade

A	Fundamental issues which require the consideration of the Board of Management or one of its committees.
B	Significant matters which the appropriate members of the Senior Management Team can resolve.
C	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

HENDERSON LOGGIE

Appendix II
Follow-up of 2010/11 Annual Audit Report Recommendations

1. Fixed Assets Audit fieldwork has confirmed that the assets reflected in the financial statements are largely in use. There is a risk that following completion of the significant refurbishment works that assets no longer in use or scrapped are not removed from the fixed asset registers and hence from the accounting records.	We recommend that fixed assets per the register are physically verified on a periodic basis. Assets identified as no longer in use or scrapped should be removed from the accounting records. As part of the process we recommend that fixed assets are tagged to ensure that it is possible to match the asset noted in the register to the physical item.	**Auditor Comment** A number of assets confirmed as disposed were removed from the 2011/12 financial statements, however a full review is still required and no full physical verification check has been done. Certain assets are tagged. **Updated Management Comment** As part of the internal audit process periodic reviews have been recommended and the first spot check was carried out the week beginning the 22nd October 2012. A full review will be carried out once a year.
2. Reconciliation of income per management accounts to income disclosed in the VAT returns During the year bank interest received has been disclosed within box 6 of the VAT returns in error. This type of income is not VATable. There is a risk that incorrect figures are disclosed to HMRC and if there was a VAT visit, HMRC would question the amount of VAT paid given the level of income disclosed in the return.	We recommend that the VAT calculation spreadsheet is checked each quarter to ensure that only VATable income streams are included within box 6 of the VAT returns, to ensure that such issues are identified on a timely basis.	**Auditor Comment** We have confirmed that the VAT returns exclude bank interest received. A standard VAT spreadsheet is used which has been reviewed by the College's VAT advisors and this minimises the risks of incorrect VAT classification of income and expenditure.

Appendix II
Follow-up of 2010/11 Annual Audit Report Recommendations

3. Opening reserves It was noted that the income and expenditure account balances are not cleared from the accounting system to reserves at the end of each year. There is a risk that brought forward reserves could be incorrect, resulting in an incorrect surplus or deficit being reported for the current year.	The balances within income and expenditure account codes should always be cleared to reserves at the end of each year and closing balances reconciled to the signed accounts	**Auditor Comment** Balances have not yet been rolled forward **Updated Management Comment** This will be performed after closure of accounts for 11/12.
4. Payroll reconciliation to nominal ledger During audit fieldwork it was noted that payroll nominal accounts were not fully reconciled to payroll reports at the year end. Whilst the total per the payroll report agreed in total to the various nominal codes, there is a risk that the split of costs between wages & salaries, social security and pensions are incorrect and therefore reconciling items not identified in a timely manner.	Prepare a reconciliation of payroll reports to nominal codes.	**Auditor Comment** A reconciliation of payroll reports was produced, however this included a number of unexplained items that need to be investigated and resolved. **Updated Management Comment** **These anomalies will be investigated and where necessary adjusted for by May 2013.**
4. Corporate Governance Code The UK Corporate Governance Code, formerly known as the Combined Code, sets out standards of governance, against which publicly funded bodies are required to prepare a corporate governance statement. This replaces the 2008 Combined Code.	To mitigate against the risk of non-compliance, we recommend that the College reviews its corporate governance arrangements against the new Code in preparation for making its Corporate Governance Statement in its 2010/11 financial statements.	**Auditor Comment** A full analysis of the College's compliance against the UK Corporate Governance Code has been completed by the Secretary to the Board of Management.

HENDERSON LOGGIE

Extracts from the Audit Scotland Code of Audit Practice

The Scottish ministers, elected members, governing bodies, boards, accountable officers, managers and officials have primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with integrity and spent appropriately. Public bodies and those responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

Financial statements
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. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice)
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Many audited bodies publish other information, such as an annual report, alongside the financial statements.

Audited bodies should prepare financial statements in accordance with statutory timescales or in good time to allow audits to be completed by any dates specified by sponsoring directorates or other bodies (eg, the relevant Scottish Government Health Directorate for NHS bodies). Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

Corporate governance arrangements
The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their Board members are elected or appointed, or whether they comprise groups of people or an individual accountable officer

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.

Systems of internal control
Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls.

They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Rigorous self-evaluation should be a central part of audited bodies' performance management to support continuous improvement

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity.

This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland.

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

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for Board members and officers
- promoting appropriate values and standards
- developing, promoting and monitoring compliance with standing orders and financial instructions

Financial position of audited bodies

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and future use
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

The Scottish Public Finance Manual explains that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value is defined as the continuous improvement in the performance of functions. This includes having regard to the concepts of economy, efficiency and effectiveness and the need to meet equal opportunity requirements, and contributing to the achievement of sustainable development.

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.