John Wheatley College

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

February 2013

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Executive Summary

Finance

Our audit of John Wheatley College ("the College") is complete. We audit the financial statements of the College under the Further and Higher Education (Scotland) Act 1992.

College financial year end

During the audit, Audit Scotland queried whether, in 1999/2000, the required changes were made to the 1992 Act to amend the financial year end of all colleges in Scotland from March to July. In response to this query, the Scottish Government has been unable to provide a copy of the formal order that effected this change to the Act. However, in January 2013 further evidence came to light and all auditors in the sector have agreed, in conjunction with Audit Scotland, that this evidence is sufficient to indicate that such an order was in fact made. The evidence includes the minute of a Lifelong Learning Committee meeting in October 1999 and legal representation from the Scottish Government.

We therefore now conclude that the financial statements have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Financial position

The College has achieved a surplus of £73,000 in 2011/12. This was consistent with the 2011 Financial Forecast Return (FFR) submitted to the Scottish Funding Council (SFC) in June 2012, which projected a surplus of £78,000 in 2011/12.

The College's 2012 FFR projects a surplus in 2012/13 of £31,000, representing approximately 0.3% of total income.

Governance

The Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the UK Corporate Governance Code during 2011/12. We have reviewed the College's statement and can confirm that this is in line with the SFC's guidance and is not inconsistent with our understanding of the College's governance arrangements based on the information gathered as part of our normal audit work.

We did not identify any areas of concern from our review of the College's corporate governance arrangements in so far as they relate to prevention and detection of fraud and irregularity or standards of conduct and prevention and detection of corruption.

Looking forward

The College formally agreed on 29 October 2012 to move towards a merger with Stow and North Glasgow colleges with a target merger date of 1 August 2013. There has been considerable dialogue between the three colleges and this will become increasingly important over the coming year if the proposed merger is to be delivered within the target timetable. The College will need to balance strategic alignment between the colleges without jeopardising the level of service provided to students. Furthermore, this will need to be delivered against a backdrop of further reductions in grant funding from SFC.

Conclusion

This report concludes the 2011/12 audit of John Wheatley College. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Principal. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff
February 2013

Introduction

1. This report summarises the findings from our audit of John Wheatley College (“the College”) in 2011/12. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 30 May 2012. Our audit has focused on the financial statements and governance arrangements at the College.

2. Our plan summarised three key issues in relation to the 2011/12 audit:

   - Financial Position and the effect that the 9% reduction in core fee and waiver income from the Scottish Funding Council has had on the College’s ability to meet their outflows
   - Strategic Partnerships and the proposed merger with Stow College and North Glasgow College
   - Voluntary severance scheme
   - Pension fund liabilities.

3. This report includes our findings in relation to these key issues.

4. The report is also addressed to the Auditor General for Scotland and will be published on Audit Scotland’s website, www.audit-scotland.gov.uk.

Finance

5. This section of the report summarises our audit work on the College's financial performance for the year and its financial position at 31 July 2012. We also discuss any significant issues identified during our audit.

6. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and to consider the College's governance arrangements in relation to the College's financial position.

Financial year end

7. We audit the financial statements of the College under the Further and Higher Education (Scotland) Act 1992. We are required to give an opinion as to whether the financial statements have been prepared in accordance with the requirements of the 1992 Act and directions made thereunder by the Scottish Funding Council.

8. Schedule 1 of the 1992 Act originally stated that a Scottish college's financial year runs from 1 April to 31 March. In December 1999, the Scottish Further Education Funding Council (SFEFC) issued a direction to Scottish colleges changing the college sector's financial year end from 31 March to 31 July. For colleges' 1999/2000 financial statements this resulted in 16 month accounts to facilitate this transition.

9. Any amendments to the Act require Ministerial approval. In October 2012 Audit Scotland identified that the direction issued by SFEFC in December 1999 did not, by itself, have the requisite statutory authority to amend the Act and queried whether the required Ministerial approval had been obtained.

10. In response to Audit Scotland's query, the Scottish Government has been unable to provide a copy of the formal order, signed by a Scottish Minister, that effected the change to the Act in respect of college year ends. However, in January 2013, the Scottish Government provided other evidence indicating that such an order had in fact been made. This evidence includes the minute of a Lifelong Learning Committee meeting in October 1999 and legal representation from the Scottish Government. All auditors in the sector have agreed, in conjunction with Audit Scotland, that this evidence is sufficient to indicate that the required order was made.

11. We therefore conclude that the financial statements have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

12. Resolving this national issue has caused a delay to the normal deadline of 31 December for submitting signed annual accounts to the Scottish Funding Council. In December 2012 the Scottish Funding Council formally extended this deadline for the 2011/12 accounts, through an amendment to the Accounts Direction, to allow time for the issue to be resolved.

13. The signed financial statements will now be submitted to the Scottish Funding Council and Audit Scotland, who will pass them to the Scottish Government for laying before the Scottish Parliament.

Financial position

The College has reported a surplus of £73,000 for the year to 31 July 2012 despite a 5% fall in income

14. In line with the rest of the sector, the College has suffered a reduction of 9% in core teaching and fee waiver income from the SFC. In addition the College has prepared for a further reduction of 9.8% in 2012/13. In response to these financial challenges, the College undertook a consultation exercise and planning process to support the development of the 2011/12 budget. The College identified savings primarily through a reduction in teaching staff costs of £0.283 million against prior year budgets. The introduction of a new management structure delivered savings totalling more than £0.184 million of administration costs during 2011/12. The College has also secured additional lottery funding of approximately £0.500 million over the next three years.

15. We reviewed the College's budgets and Financial Forecast Return (FFR) for 2012/13 and are satisfied that the College has taken sufficient steps to ensure that the reduction in SFC funding will not impact on the going concern status of the College.

16. Income has reduced by £0.460 million (4%) compared to 2010/11. This is primarily due to a reduction in SFC allocations of £0.532 million and Tuition Fees by £78,000. These reductions were offset by an increase in other grant funding of £0.153 million due to additional funding being secured for the College's learning programme, funded by Glasgow City Council. This project is expected to generate £0.338 million over the next year.

17. The College has also reduced its expenditure in the year by approximately £0.378 million. This is mainly due to a reduction in staff costs as a result of a voluntary severance scheme that took place during the year as well as streamlining staff working hours and not replacing non-essential posts. The reduction in funding has also meant that there are fewer courses being run, which has reduced teaching staff costs.

Balance sheet

The College has a healthy net asset position

18. As at 31 July 2012, the College had reserves of £5.013 million (£5.632 million as at 31 July 2011) and £16.224 million of deferred capital grants (£16.544 million at 31 July 2011). During 2011/12 the reserves position weakened due to the increase in the pension liability of £0.677 million, primarily due to an increase of £1.216 million in the present value of defined benefit liabilities partially offset by an increase in the value of scheme assets. There was also a healthy cash balance totalling £1.213 million at the year end.

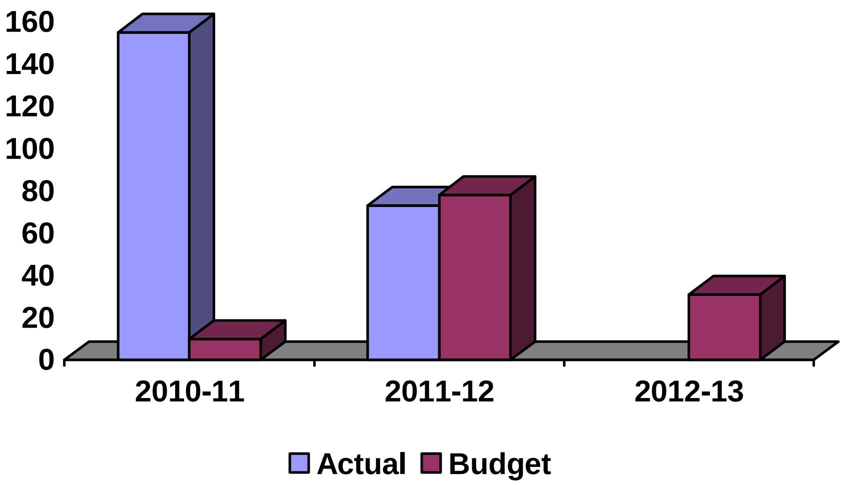
19. The College had total capital additions of £0.333 million in the year, mainly related to equipment. A further £429,000 of revenue expenditure was incurred in maintenance and repairs of existing premises.

Financial forecasts

SFC funding has been confirmed for 2012/13 and a small surplus has been forecast

20. The College has returned the 2012 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC). SFC uses the FFR to assess the financial position and performance of individual colleges and the sector as a whole. Diagram 1 below compares the actual results with FFR forecasts and sets out projections for 2012/13.

Diagram 1 - Actual performance and FFR Forecasts of surplus (£'000)



Source: Financial Forecast Return

21. The diagram shows that, despite funding reductions, the College has continued to maintain strong financial performance in recent years. The College achieved a surplus in line with forecast for 2011/12 and a further small surplus is expected in 2012/13, despite continued reductions in funding of some £1.1 million of grant in aid and fee waiver income.

22. With the on-going regionalisation developments across the FE sector and changes to funding methodology, there is some uncertainty over future funding levels. The College plans to monitor developments over the coming year and the potential impact that this may have on service offering.

Financial planning, monitoring and reporting arrangements

The financial management arrangements at the College are strong

23. As part of our audit, we considered the College's financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such

arrangements are adequate in order to properly control the College's operations and use of resources, particularly at a time of funding reductions.

24. In our opinion the College continues to have strong financial management arrangements in place. The Board has a Financial Control Committee which met regularly throughout the year. Budgets are devised and approved at the start of the year and are updated during the year to take account of new information. Budget Monitoring Reports showing forecast year end positions against budget are presented to each Financial Control Committee.

High standard of financial statements

25. We found the draft financial statements and supporting working papers to be of a very high standard. In addition, we found that the College continues to have adequate resource available in the Finance Department to meet the College's financial management and reporting needs.

Audit adjustments

26. During the course of the audit only one adjustment was made to the draft financial statements. This adjustment was necessary to reflect new guidance issued by the SFC on accounting for HE childcare funds (after the draft accounts were completed). The adjustment involved an increase in both income and expenditure of £31,000 and therefore had no net impact on the surplus for the year.

27. During the audit we also identified one error that has not been adjusted for in the financial statements due to immateriality. This related to debit balances being incorrectly included within the trade creditors balance. The effect of this journal is detailed below:

	Balance sheet		**Income and Expenditure A/C**	
	£	£	£	£
Dr Expenses	-	-	3,156	-
Dr Other debtors	2,005	-	-	-
Cr Trade creditors	-	5,161	-	-

Being grossing up for debit balances in trade creditors

Surplus per financial statements	73,000
Potential reduction in surplus	**(3,000)**

Review of accounting systems

28. During our audit work we have considered the College's accounting systems and internal controls. We identified no reportable control issues during our audit of the accounting systems. In

general, the College's systems of internal financial control appear to be adequate, well designed and operating effectively.

Other issues of significance in the 2011/12 audit

Voluntary severance scheme

29. To deliver a balanced budget for 2011/12 and 2012/13 the College has identified the need to reduce activity levels and operate more efficiently. The College commenced a voluntary severance scheme during 2011/12.

30. The SFC's *Guidance on severance arrangements to senior staff in Scottish further education colleges* provides guidance to colleges on managing severance schemes. As part of our audit we reviewed severance settlements for senior staff to confirm that severance arrangements conformed with the guidance.

31. We are satisfied that the voluntary severance scheme has conformed with the guidance and has been accounted for and disclosed correctly in the 2011/12 financial statements.

Pension Fund Liabilities

32. The College's employees belong to two principal defined benefit pension schemes; the Scottish Teachers' Superannuation Scheme (STSS) for teaching staff and the Strathclyde Pension Fund (SPF) for non-teaching staff.

33. The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with Financial Reporting Standard 17 – Retirement Benefits (FRS 17), the College does not recognise any asset or liability relating to the STSS and pension costs primarily represent the college's annual contributions to the scheme.

34. The SPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability on its balance sheet. The College reported a liability of £1,518,000 as at 31 July 2012, an increase of £841,000 from 31 July 2011.

35. We reviewed the College's accounting for the pension liability to confirm that it complies with the requirements of FRS 17 and that the disclosure is consistent with the actuaries' valuation. We also confirmed that the actuarial assumptions underpinning the valuation are reasonable and reflective of the College's circumstances.

36. We are satisfied, from the audit work performed as detailed above, that the pension fund liabilities have been accounted for and disclosed correctly in the 2011/12 financial statements.

Pension payments

37. The College makes monthly payments to the Scottish Teachers Superannuation Scheme covering both employer and employee contributions. We noted that the December contribution in respect of the scheme was paid after the January payment deadline. There is a risk that the

College is in breach of the scheme guidelines. It is recommended that timely payments should be made to ensure no further breaches occur.

Action Plan Point 1

Governance

38. It is the College's responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:

- the College's review of its systems of internal control, including reporting arrangements
- the prevention and detection of fraud and other irregularities
- standards of conduct and arrangements for the prevention and detection of corruption

Corporate Governance

The College's governance arrangements remain strong

39. Colleges are required to include in their annual accounts a statement covering the responsibilities of their Board of Management in relation corporate governance arrangements. The statement should describe the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and report on the College's compliance with the UK Corporate Governance Code.

40. The College's Corporate Governance Statement for 2011/12 states that the College was fully compliant with the UK Corporate Governance Code throughout the period.

41. We reviewed the Corporate Governance Statement by:

- checking the statement against SFC and Audit Scotland guidance
- considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

42. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Risk management

43. Risk management is important to the establishment and regular review of systems of internal control. The College's annual accounts outline the principal risks and uncertainties of the College and confirm that mitigating controls are in place in response to these risks.

44. The College's approach to risk management has been formally approved by the Board, including clarifying respective roles and responsibilities within the College. Senior management, led by the Principal, regularly review and consider risks and associated systems of internal control and report any further risks identified. Management is also responsible for implementing policies of internal

control to ensure risk is managed appropriately. The Audit Committee has an oversight role with the full risk register and any changes to action plans being approved by the Board.

Internal audit

45. The internal audit service is a key component of the College's internal control framework. As part of our corporate governance responsibilities, we have considered the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice. Our review was performed in accordance with the Code of Audit Practice and *International Standard on Auditing 610: Considering the work of internal audit* (ISA 610).

Considering the work of internal audit

46. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. For 2011/12 the internal audit service was provided by Wylie and Bisset LLP. We considered internal audit findings as part of our audit and sought to minimise duplication of effort, ensuring that the total audit resource to the College is used efficiently and effectively.

47. Wylie and Bisset LLP have concluded in their annual report that John Wheatley College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives. This is consistent with the findings of our audit.

48. We are grateful to Wylie and Bisset for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

49. As part of our audit we consider how the College ensures compliance with all relevant guidance and regulations, including its arrangements for preventing and detecting fraud and irregularity.

50. The College has a fraud prevention policy and a whistle blowing policy in place. Furthermore, the financial regulations and scheme of delegation are designed to establish a robust system of internal financial control.

51. All SFC and other guidance and circulars are received by the Principal's Secretary. All relevant regulatory information is distributed to the appropriate members of staff. Circulars are raised as a standing agenda item on the weekly CMT meeting agenda. Any circulars received in the week are noted, discussed and assigned to an individual with a deadline agreed for any necessary points to be actioned.

52. We identified no issues of concern in relation to the arrangements for the prevention and detection of fraud, with regard to the legality of transactions or in relation to compliance with relevant guidance and regulations. Management have confirmed that there were no frauds identified during the year.

Standards of conduct

53. We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption. Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the Scottish Government.

54. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We also considered arrangements in place for ordering, procurement and disposal of assets.

55. We are pleased to report that our audit identified no issues of concern in this area.

Looking Forward

Financial position

56. There is increasing uncertainty over the level of future funding that will be provided to the sector. Indications from the Scottish Government are that the reductions in funding experienced in 2011/12 may continue over the next few years. Coupled with increasing cost pressures this will result in significant financial challenges for the College and the sector as a whole.

International financial reporting standards

57. The College's financial statements are still prepared on the basis of UK accounting standards (UK GAAP) which the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) Board believes continues to be appropriate for colleges.

58. Colleges will continue to converge with international financial reporting standards (IFRS) But it appears unlikely that full implementation of IFRS will take place before 2013/14.

Strategic partnerships

59. In September 2011, the Scottish Government released '*Putting Learners at the Centre: Delivering Our Ambitions for Post-16 Education* '. This paper proposes the regionalisation of the college sector within Scotland. In response, the College is currently exploring options to align working relationships with other colleges within Glasgow. This includes a possible merger with North Glasgow and Stow colleges.

60. The College formally agreed on 29 October 2012 to move towards a possible merger with Stow and North Glasgow colleges with a target merger date of 1 August 2013. There has been considerable dialogue between the three colleges and this will become increasingly important over the coming year if the target timetable is to be delivered. The College will need to balance strategic alignment between the colleges without jeapordising the level of service provided to students. Furthermore, this will need to be delivered against a backdrop of further reductions in grant funding from SFC via the Glasgow Regional Board which is also expected to become operational from August 2013.

Appendix 1 – Action Plan

Our annual report action plan details the financial control weaknesses and opportunities for improvement that we have identified during our audit visit in addition to any reportable matters arising from our review of performance and governance systems. There is only one recommendation arising in 2011/12.

The action plan details the officers responsible for implementing the recommendation and the implementation date. The College should assess the recommendation for its wider implications before approving the action plan. Following submission of this report to the Audit Committee, we will send a copy to the Auditor General.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Grading

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded. The grading structure is summarised as follows:

Grade 5	Very high risk exposure - Major concerns requiring Board attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations
Grade 1	Efficiency / housekeeping point.

Issues arising from our 2011/12 audit

No	Title	Issue identified and recommendation	Management response
1	**Late payment of pension**	The December contribution in respect of the Scottish Teachers Superannuation Scheme was paid after the January payment deadline. There is a risk that the College is in breach of the scheme guidelines. Timely payments should be made to ensure no further breaches occur. ***Grade 2***	Recommendation accepted. The College will review its payroll timetable to ensure all payments are made on time. **To be actioned by: HR Manager** **No later than: December 2012**

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