Lews Castle College

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

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Executive Summary

Our audit of Lews Castle College is complete. We have issued an unqualified audit opinion on truth and fairness of the financial position of the College for the year ended 31 July 2012 and on the regularity of transactions.

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 reported a deficit in of £47,000 in 2011/12, compared to a projected £2,000 surplus. In 2012/13 the College is anticipating a breakeven position, following reductions in other operating expenditure. Previous financial issues (such as the SFC funding clawback), the finely balanced surplus/deficit position, the substantial negative general reserve (£1.55m as at 31 July 2012) and the difficulties the College has experienced in managing its cash flow all combine to increase the challenge going forward to establish Lews Castle College on as firm a financial footing as possible.

Governance

The College's 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. However, recent senior changes to streamline the College's leadership need to be well managed and monitored closely to ensure there is no ongoing adverse impact on the College's operations.

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.

Conclusion

This report concludes the 2011/12 audit of Lews Castle 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/Director of Finance.

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
6 February 2013

Introduction

1. This report gives a summary of our findings from the audit of Lews Castle 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 11 June 2012. Our audit has focused on the financial statements and governance arrangements at the College.

2. Our plan summarised five key issues in relation to the 2011/12 audit:
   - Financial position;
   - Greenspace Trading Ltd
   - Regionalisation, UHI and Senior Management
   - Pension fund liabilities; and
   - Early retirement 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 findings in relation to the College's financial performance for the year and its position at 31 July 2012. We will 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.

Auditors' opinion

7. We are required to give an opinion as to whether the financial statements present a true and fair view of the financial position of the College as at 31 July 2012 and of its expenditure and income for the financial year. We are also required to include a regularity assertion in our independent auditors' report stating whether, in all material respects, expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with Scottish Funding Council (SFC).

8. We have issued an unqualified audit opinion that the financial statements present a true and fair view of the financial position of the College for the year ended 31 July 2012 and on the regularity of transactions.

Financial year end

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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 deficit for 2011/12

16. The College has reported an operating deficit for the year to 31 July 2012 of £47,000. This is against a budgeted surplus of £2,000 anticipated before the start of 2011/12.

17. The College's overall income and expenditure position has been relatively consistent in 2011/12 compared to the previous period. Whilst SFC recurrent grant income has decreased (reflective of the funding environment and similar to other FE bodies across the country), other income streams have helped to mitigate against this (such as a £125,000 increase in UHI grant). Further savings on staff costs are expected in 2012/13, including through some posts not being filled by the College for at least part of 2012/13.

18. The College is currently exploring opportunities to maximise its income, whilst also assessing its cost base to ensure it is operating as efficiently and effectively as possible. This will continue to be looked at within the wider UHI context, and will also reflect objectives and priorities identified as part of the ongoing refresh of the College's strategic plan.

The College has continued to experience cash flow challenges

19. During 2011/12, the College borrowed funds from the bursary bank account to help alleviate cash flow pressures, with amounts owed from the College to the bursary fund at year end. We discussed this situation with SFC and, whilst they advised it may not technically be against regulations as long as proper records are retained to account for these separate funding streams, this is not reflective of desirable practice. In effect, the College should act as an agent for the bursary funds, to support students directly. Whilst we have not identified any existing or potential students being disadvantaged as a result of the College's actions, the College should

resolve to keep such funding separate and look at other measures to alleviate cash flow pressures.

Action plan point 1

Balance sheet

At £5.87m the College has a healthy net asset position, but this is because deferred capital grants offset negative general and pension reserves

20. The College has overall reserves of £5.87m at 31 July 2012 (£6.55m as at 31 July 2011). The reserves position has reduced mainly due to the release from deferred capital grant and the deficit reported for 2011/12.

21. However, the net asset position is only positive as the negative general reserve (£1.55m) and pension reserve (£1.201m) are more than offset by the £8.6m of deferred capital grants. There is also a £25,000 restricted reserve. This situation reinforces the difficult financial position the College continues to find itself in and will require continued close monitoring. The negative general reserve position is expected to remain for the medium term, given the tightening financial environment and related College financial forecasts.

22. Linked to the cash flow issue noted above, the College also has a bank overdraft of £198,000 at year end (no overdraft as at 31 July 2011). This further demonstrates the difficulties the College continues to face.

Financial forecasts

SFC funding has been confirmed for 2012/13 and a breakeven position is forecast

23. The College revenue budget for 2012/13 forecasts a breakeven position. SFC has confirmed funding for 2012/13, but, unlike previous years, this will be allocated on a regional basis through outcome agreements. Lews Castle College falls within the Highlands and Islands region, along with Argyll College, Inverness College, Moray College, North Highland College, Orkney College, Perth College, Shetland College and West Highland College. UHI will also continue to have a close role in the financial allocation and planning process, including through continued provision of UHI grant funding.

24. SFC reported that allocations would be set with every college's base teaching and fee waiver grant being reduced by 8.4%. In total the Highlands and Islands region will receive £39.059m for 2012/13.

Financial planning and monitoring

College finances are finely balanced and need continued close monitoring

25. 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.

26. The Board has a Finance and General Purposes 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. Management accounts showing forecast year end positions against budget are presented to each Finance and General Purposes Committee.

27. In our opinion, the arrangements provide a good overall structure for the College to monitor and scrutinise its financial performance and financial position. However, previous financial issues (such as the SFC funding clawback), the finely balanced surplus/deficit position, the substantial negative general reserve (£1.55m as at 31 July 2012) and the difficulties the College has experienced in managing its cash flow all combine to increase the challenge going forward to establish Lews Castle College on as firm a financial footing as possible.

Financial statements preparation

28. We are grateful to the Principal, Management Accountant and the finance staff for their assistance and support during the course of the audit.

29. The first substantially complete set of financial statements was received at the end of the final day of the audit fieldwork. Once we received the documentation necessary for our audit, we found the accounts and supporting working papers to be of a good standard. However, there was substantial delay in receiving all the paperwork and supporting schedules necessary for us to complete our work. We were still receiving important information after the November 2012 Joint Audit and Finance Committee meeting to approve the accounts, and in the run up to the December 2012 Board meeting. This also adversely impacted Member scrutiny and challenge of the annual accounts. Whilst we appreciate the transition issues given recent senior management changes and related retirement of the Board secretary, the College needs to put more robust plans in place for 2012/13 to support an efficient, effective and timely audit process.

Action plan point 2

Audit adjustments

30. During the course of our audit a small number of adjustments to the financial statements were identified and agreed. The table below outlines the impact of the adjustments made on the outturn position. The majority of all changes made were of a presentational and disclosure nature. There was one unadjusted misstatement in relation to accounting for Greenspace Live Ltd as an associate of the College from April 2012. This is discussed further below.

Table 1 – Audit adjustments raised in 2011/12

	£'000
(Deficit) per accounts originally presented for audit	**(61)**
Adjustments identified during the audit:	
Recognition of additional SFC funding	100
Release of Council funding from balance sheet to I&E	80
Remove Greenspace income (and show as contingent asset)	(60)
Increase in early retirement pension provision	(106)
Actual surplus per audited accounts	**(47)**

31. Some further adjustments were also made which impacted on the balance sheet only. These included the removal of £269,000 of assets brought forward from the mid-90s (impacting on the cost and accumulated depreciation lines of the fixed asset note only), a small adjustment to the capital grants balance and additional disclosures made to reflect the associate interest held in Greenspace Live Ltd.

Review of accounting systems

32. During our audit work we have considered the College's accounting systems and internal controls. We have found that they are generally reasonable and form an adequate basis for the preparation of the financial statements. However, we have noted the following areas where controls could be strengthened further.

Asset controls

33. No reconciliation is performed between the IT asset register and the central fixed asset register. Further, there are limited controls over removal of assets, such as when scrapped or are otherwise no longer in use. Asset accounting controls should be reviewed and updated to minimise the risk of misstatement and misappropriation.

Action plan point 3

Review of journals

34. Given the size and extent of the College and its Finance Team, there will always be problems in maximising segregation of duties. However, best practice dictates that journals should be subject to review to reduce the risk that inaccurate or inappropriate journals are posted. During 2011/12 such a review was not carried out consistently. The College should ensure that a high level review of posted journals is undertaken by a senior member of the finance team on a

regular basis, with arrangements put in place to ensure this does not lead to “self-review” by the same preparer/authoriser.

Action plan point 4

Other issues of significance in the 2011/12 audit

35. In order to assist College members’ understanding of the financial statements and our audit, we have summarised the issues that we believe are of particular significance to the 2011/12 financial statements below and which have not been addressed elsewhere in this report.

Greenspace Live Ltd

36. In 2011/12, the College developed Greenspace Live Ltd (Greenspace), a company involved in low carbon building design and consultancy. In April 2012, the College created a separate company and obtained over £100,000 of external investment. This transaction was subject to ongoing review and scrutiny by the Board and the Finance & General Purposes Committee and was supported by external consultants in new company development/finance raising and by relevant legal advice. The Principal/Director of Finance remains a Director of Greenspace Live Ltd, to allow the College to exert influence and safeguard its 26% shareholding.

37. The College has not accounted for Greenspace Live Ltd in line with Financial Reporting Standard 9 – Associates and Joint Ventures (FRS 9). The College should have accounted for its retained holding in Greenspace as an associate in its 2011/12, but has chosen not to do so. As there is evidence that this is not a material issue, we have not qualified our audit opinion and have reflected this issue within our letter of representation. We strongly encourage the College to ensure it considers its position on this matter to ensure future compliance with accounting requirements.

38. Greenspace is currently liaising with other partner businesses with a view to forming a business consortium. The ultimate aim is to exploit each respective partner’s competitive advantage and form a more complete and attractive investment proposition for new investors to potentially take the business forward. It is important that there is ongoing involvement from the College in these developments, given its retained 26% shareholding in Greenspace. It is important that the Board is kept fully informed and involved in decision making in relation to Greenspace, supported by sufficient detail and robust options appraisal information to aid scrutiny.

Action plan point 5

Local Government Pension Scheme

39. The College’s employees belong to two principal defined benefit pension schemes, the Scottish Teachers’ Superannuation Scheme (STSS) for the teaching staff and the Highland Council Pension Fund for the non-teaching staff.

40. 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 FRS17, the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

41. The Highland Council Pension Fund 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 in its balance sheet. The College has consistently reported significant FRS 17 liabilities over the past few years, as is common across the sector. The Highland Council Pension Fund's actuaries provide the College with an updated valuation on an annual basis which is reflected in the pensions liability disclosed on the Balance Sheet. We have reviewed the College's accounting for these pension schemes and found that it complies with the requirements of FRS 17.

Early retirement provision

42. The College has previously offered early retirement to staff as part of the management restructuring programme. The College makes monthly payments to the pension fund to cover any shortfall arising from the decision to grant early access to retirement benefits. In line with Financial Reporting Standard 12 - Provisions, Contingent Liabilities and Contingents Assets (FRS 12), the College creates a provision for the future payments in relation to these early retirements. The provision for early retirement was £927,000 at 31 July 2012 (£927,000 at 31 July 2011).

43. We reviewed the College's accounting treatment of its liabilities arising from early retirements. Although actuarial reviews are to be conducted periodically the last one was completed in July 2009. The value of the provision on the balance sheet is not adjusted between actuarial valuations (although for each interim year it has been decreased by the enhancement payment for the year and then subsequently increased by the same amount, having an overall nil effect).

44. The Scottish Funding Council provides calculation tables which can be used as a basis for this provision calculation. Although the provision is just an estimate of the potential future payments, the timing difference since the last actuarial valuation could reduce the accuracy of the provision.

45. We have recalculated the provision based on the SFC tables. This resulted in a provision of £1.032m, an increase of approximately £106,000. The College has decided to make this adjustment in the financial statements. We recommend that in the interim years between actuarial valuations, the College should utilise these SFC tables as a sense-check in reviewing its provision annually.

Action plan point 6

Governance

46. 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
- the College’s financial position

47. We reported on the corporate governance arrangements in relation to its financial position in the Finance section of this report. This section includes our comments on other aspects of the College’s arrangements.

Corporate Governance

No compliance concerns within the Corporate Governance Statement

48. 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.

49. The College’s Corporate Governance Statement for 2011/12 asserts that the College was fully compliant with the UK Corporate Governance Code throughout the period.

50. 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

51. 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.

Senior Management, UHI and regionalisation

52. In our 2011/12 External Audit Plan we noted that the College was in a period of transition, with a new Principal to be appointed and potential changes to the senior management roles and responsibilities which may result.

53. The Director of Finance and Corporate Services was appointed as Principal & Chief Executive in May 2012. The provided the College with continuity and provides the benefit of experience of the College's existing systems and processes. This also made permanent the previous arrangement, where the Director of Finance and Corporate Services had been Acting Principal since the start of 2012.

54. As part of the appointment, the Principal continues to act as Director of Finance and Corporate Services. Whilst this offers the College some welcome efficiencies, there is a significant risk that the time and efforts of the Principal may be too thinly stretched. This may have been a contributing factor to the issue noted in Action Plan Point 2, above. This situation can be exacerbated in a relatively small FE body, where there are small teams and more limited opportunities to spread responsibilities amongst other managers within the organisation, to free up the Principal to devote sufficient time on strategy, leadership and longer term planning. Being too dependent on one or a very small number of key individuals also exacerbates business continuity planning risks. We recommend that this situation is monitored very closely in the coming months by the Board (particularly with this being a relatively new appointment), to consider this situation and ensure any actions arising to address any problems arising are put in place swiftly. This should be a key area of focus between the Chair and the Principal in performance review meetings. This should also be considered as part of the revised strategic planning and risk management arrangements noted below.

Action plan point 7

55. There are recent and ongoing mergers across the sector, presenting the biggest structural change in the FE sector since incorporation. Lews Castle College is expected to remain an active participant in the University of the Highlands and Islands and it is unclear the extent to which such wider changes will impact on the College and other UHI members. However, we have not identified any specific impacts of this for our 2011/12 audit.

56. UHI integration and wider regionalisation is an area that management and Board members must continue to monitor closely.

Risk management

Risk management systems need further development, to reflect revised strategic planning within the College

57. Risk management is important to the establishment and regular review of systems of internal control. The College's financial statements signpost some of the principal risks and uncertainties of the College.

58. The College's internal auditors recently reviewed the College's risk management arrangements. The internal auditors raised a number of recommendations to improve risk management arrangements within the College, which appear reasonable given our understanding of the College's current arrangements. These recommendations include:

- Development of procedures to further develop and embed risk management across the College,
- Refresh of the existing risk register, to better link to strategic and operational objectives,
- Clarification amongst College management regarding operational ownership and responsibility for the risk register,
- Clarification of the Audit Committee Terms of Reference to confirm the Board and Audit Committee's specific role and responsibility in relation to risk management, and
- A programme of risk management training.

59. Risk management arrangements are to be revised in 2012/13, to identify and monitor key strategic risks to the College. This will be in tandem with a revision to the College's strategic plans and objectives.

Internal audit

60. The internal audit service is a key component of the College's internal control framework. As part of our corporate governance responsibilities, we have reviewed the College's arrangements to ensure that the work of internal audit is sufficient 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

61. 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 has been provided by Wylie and Bisset. We have considered the findings of the work of internal audit within our audit process and have sought to minimise duplication of effort, to ensure the total audit resource to the College is used efficiently and effectively.

62. Wylie and Bisset have concluded in their annual report that the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives. We are grateful to Wylie and Bisset for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

63. As part of our audit we consider how the College ensures compliance with all relevant guidance and regulations. This includes a consideration of the College's arrangements for the prevention and detection of fraud and irregularity.

64. The College has anti-fraud and corruption (including a fraud response plan) and whistle blowing policies in place, with an identified fraud liaison officer. There were no frauds identified during the year.

65. The process for receipting, administering and actioning relevant guidance and circulars should be improved. All SFC and other guidance/circulars should be received by a central point of contact. All relevant regulatory information should be distributed to the appropriate members of staff. A database should be held of all circulars and responsible officers dealing with the relevant circular, to allow confirmation that issues have been actioned or facilitate appropriate monitoring. We understand this is an area which will be dealt with by the new Board Secretary in due course, but the College should put an interim arrangement in place until that post in filled.

Action plan point 8

Standards of conduct

66. 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.

67. 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 and procurement and disposal of assets.

68. The register of interests available on the internet has not been updated since 2008. Further, forms are not signed annually in all instances to detail either any changes to interests or to confirm that nothing has changed.

Action plan point 9

Looking Forward

Financial position

69. 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 sector as a whole. The College, given its relative financial position and related pressures, is likely to be particularly exposed to difficulties and challenges as a result of this mix of factors.

International financial reporting standards

70. 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.

71. Colleges will continue to converge with international financial reporting standards (IFRS) as UK GAAP converges with IFRS. It appears likely that full implementation of IFRS will not take place before 2013/14.

72. The conversion process requires sufficient and appropriate information to be available to support the production of comparator balances. Effectively, this means work to produce full IFRS-compliant financial statements will begin at least one year before the actual implementation date. In some areas, such as in relation to fixed assets and component accounting, the earlier the work begins the more straightforward the conversion process may be and we endorse any moves the College may make to work towards IFRS transition in a structured and well-planned way.

Appendix 1 – Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2011/12. These are the issues that we believe need to be brought to the attention of the College.

The action plan details the officers responsible for implementing the recommendations and implementation dates. The College should assess these recommendations for their 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 requiring management attention
Grade 1	Efficiency / housekeeping point.

External audit recommendations arising in 2011/12

No	Title	Issue identified	Risk and recommendation	Management comments
1	**Cash flow management** **(Para 19)**	During 2011/12, the College borrowed funds from the bursary bank account to help alleviate cash flow pressures.	This is not reflective of desirable practice. The College should act as an agent for the bursary funds, to support students directly. Whilst we have not identified any existing or potential students being disadvantaged as a result of the College's actions, the College should resolve to keep such funding separate and look at other measures to alleviate cash flow pressures. **Grade 3**	We agree that this was not good practice but 2011-12 was an extremely difficult year in terms of cash flow for two main reasons - £248k of HE funding from UHI was only received in October 2012 and significant amounts of European funding were long overdue. However, this position has been turned around, the bursary fund has been repaid and the cash flow forecast for the rest of 2012-13 is positive. If cash flow pressures are experienced in the future other measures to alleviate will be looked at. **Responsible officer:** Finance Manager **Implementation date**: 31/10/12

No	Title	Issue identified	Risk and recommendation	Management comments
2	**Financial statements** **(Para 29)**	There was substantial delay in receiving all the paperwork and supporting schedules necessary for us to complete our work. We were still receiving important information after the November 2012 Joint Audit and Finance Committee meeting to approve the accounts, and in the run up to the December 2012 Board meeting.	This situation adversely impacted on the efficiency of the audit process, as well as on Member scrutiny and challenge of the annual accounts. Whilst we appreciate the transition issues given recent senior management changes and related retirement of the Board secretary, the College needs to put more robust plans in place for 2012/13 to support an efficient, effective and timely audit process. **Grade 3**	Unfortunately for the first week of the audit work we had our internal auditors here also. Our limited finance resources were overstretched with consequent delays in responding to requests for information. Also, having four of an audit team all plying the same two people with requests was challenging. In future we will ensure that no double booking happens and will focus on being better prepared in terms of personnel and information availability. **Responsible officer:** Finance Manager **Implementation date:** 31/07/13

No	Title	Issue identified	Risk and recommendation	Management comments
3	**Asset reconciliations** **(Para 33)**	No reconciliation is performed between the IT asset register and the central fixed asset register. Further, there are limited controls over removal of assets, such as when scrapped or are otherwise no longer in use.	Asset accounting controls should be reviewed and updated to minimise the risk of misstatement and misappropriation. A periodic high level reconciliation between the IT and central fixed asset register and more robust asset disposal controls would help improve existing procedures. **Grade 2**	A member of the finance staff has been assigned to address this whole area. Asset acquisition, relocation and disposal forms have now been set up and will be implemented as soon as all the necessary procedures have been established. Periodic reconciliations will be carried out. **Responsible officer**: Finance Manager **Implementation date**: 31/07/13

No	Title	Issue identified	Risk and recommendation	Management comments
4	**Journals** **(Para 34)**	Given the size and extent of the College and its Finance Team, there will always be problems in maximising segregation of duties. However, best practice dictates that journals should be subject to review to reduce the risk that inaccurate or inappropriate journals are posted.	During 2011/12 such a review was not carried out consistently. The College should ensure that a high level review of posted journals is undertaken by a senior member of the finance team on a regular basis, with arrangements put in place to ensure this does not lead to "self-review" by the same preparer/authoriser. **Grade 3**	There is already a system in place where a spreadsheet is kept to record all adjusting journals to be made each month. On completion, this spreadsheet is then signed by the person posting the journal and also the reviewer. We will ensure that this is consistently maintained. **Responsible officer:** Finance Manager **Implementation date:** 31/01/13

No	Title	Issue identified	Risk and recommendation	Management comments
5	**Greenspace** **(Para 38)**	Greenspace is currently liaising with other partner businesses with a view to forming a business consortium. The ultimate aim is to exploit each respective partner's competitive advantage and form a more complete and attractive investment proposition for new investors to potentially take the business forward.	It is important that there is ongoing involvement from the College in these developments, given its retained 26% shareholding in Greenspace. It is important that the Board is kept fully informed and involved in decision making in relation to Greenspace, supported by sufficient detail and robust options appraisal information to aid scrutiny. **Grade 3**	The Principal is a Director of Greenspacelive Limited and represents the interests of the Board. The Principal will ensure that the Board is kept up to date and that the required information is provided. Business requirements may not allow time for decision making to suit the normal cycle of Board minutes. The Principal will exercise the necessary authority and ensure that information is made available to Board members as soon as possible. **Responsible officer:** Principal **Implementation date:** Immediately

No	Title	Issue identified	Risk and recommendation	Management comments
6	**Review of provisions** **(Para 45)**	The College does not review its early retirement provision in detail, for example to account for changes in assumptions or for any know changes since last formal valuation.	Provisions should be reviewed at least annually, to support accurate financial reporting. If the College does not wish to utilise the services of the actuary on an annual basis for this, it should consider using the SFC life tables as a "sense check" on the existing provision. **Grade 2**	Agreed – these will be reviewed annually with the aid of actuarial reports and the SFC life tables. **Responsible officer:** Finance Manager **Implementation date:** 31/07/13

No	Title	Issue identified	Risk and recommendation	Management comments
7	**Senior management changes** **(Para 54)**	The Principal & Chief Executive is new in post, and also acts as the College's Director of Finance & Corporate Services. There are risks related to having such a wide scope of duties and responsibilities.	Being too dependent on one or a very small number of key individuals exacerbates business continuity planning risks. This situation should be monitored very closely in the coming months by the Board, to consider this situation and ensure any actions arising to address any problems arising are put in place swiftly. This should be a key area of focus between the Chair and the Principal in performance review meetings. This should also be considered as part of the revised strategic planning and risk management arrangements noted below. **Grade 4**	At a time when funding is reducing and the regionalisation agenda is moving forward at great pace the luxury of recruiting another Director of Finance is beyond the resources of the College. The dependencies have been exaggerated because much of the operational financial management is undertaken by the Finance Manager. Our processes and procedures will be updated to accommodate the changes. This will be undertaken as part of the implementation of a new management Structure. **Responsible officer:** Principal **Implementation date:** June 2013

No	Title	Issue identified	Risk and recommendation	Management comments
8	**Circulars** **(Para 65)**	The process for receipting, administering and actioning relevant guidance and circulars should be improved.	All SFC and other guidance/circulars should be received by a central point of contact. All relevant regulatory information should be distributed to the appropriate members of staff. A database should be held of all circulars and responsible officers dealing with the relevant circular, to allow confirmation that issues have been actioned or facilitate appropriate monitoring. We understand this is an area which will be dealt with by the new Board Secretary in due course, but the College should put an interim arrangement in place until that post in filled. **Grade 2**	This will be reviewed as part of the new management structure. Relevant guidance and circulars are all currently tied up in the changes to the FE Sector and the new regional arrangements. By necessity this process is being managed by the Principal's office. **Responsible officer:** Principal **Implementation date:** February 2013

No	Title	Issue identified	Risk and recommendation	Management comments
9	**Register of interests** **(Para 68)**	The register of interests available on the internet has not been updated since 2008. Further, forms are not signed annually in all instances to detail either any changes to interests or to confirm that nothing has changed.	Good practice is not being adhered to. The registers of interest should be updated annual for all relevant individuals. Once signed off, this should be uploaded on the College website. **Grade 3**	A new Register of Interests declaration will be completed by all Board members in February 2013 and an annual exercise will be undertaken thereafter on an agreed date. Members will continue to be reminded that they need to update the current declaration if there are any changes. **Responsible officer:** Principal **Implementation date:** February 2013

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