Scott-Moncrieff

North Glasgow College

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

February 2013

North Glasgow College

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

Executive Summary

Finance

Our audit of North Glasgow 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 Income and Expenditure Account reports a deficit of £57,000 in 2011/12. The budgeted surplus shown on the 2011 Financial Forecast Return submitted to the Scottish Funding Council was £59,000. The adverse variance of £116,000 was mainly due to increased staff costs due to the voluntary severance scheme offset by increased income.

The 2012 Financial Forecast Return shows the College forecasting an operating surplus of £17,000 in 2012/13.

The College is financially secure and the balance sheet as at 31 July 2012 reports total reserves of £36.327m including bank and cash of £5.646m.

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 Scottish Funding Council'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 21 August 2012 to move towards a merger with John Wheatley and Stow 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.

We are satisfied, from the audit work performed as detailed above, that the proposed merger has been disclosed appropriately in the 2011/12 financial statements. We will continue to monitor the situation with regards on-going merger developments.

Conclusion

This report concludes the 2011/12 audit of North Glasgow 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 Finance Director. 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 gives a summary of the findings from our 2011/12 audit of North Glasgow College ("the College"). The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 22 May 2012. Our audit has focused on the financial statements and governance arrangements at the College.

2. Our plan summarised the following key audit issues for 2011/12:
   - Voluntary severance scheme and the impact on financial position
   - Pension fund liabilities
   - Strategic partnerships and regionalisation proposals

3. This report sets out 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 as 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.

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 the Scottish Funding Council (SFC).

8. Our audit is now complete and we have issued unqualified audit opinions on the truth and fairness of the accounts 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

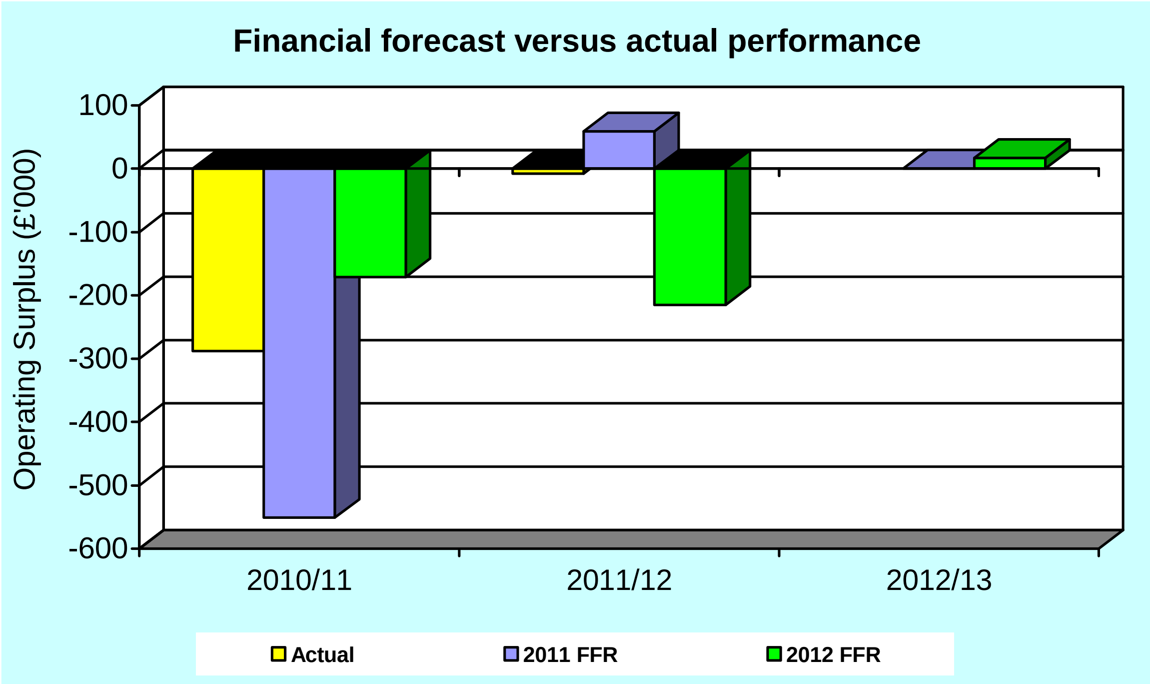
16. The financial statements report a deficit for the year to 31 July 2012 of £57,000.

17. The Balance Sheet as at 31 July 2012 is reporting total reserves of £36.327m, with £6.047m within the income and expenditure account and a cash balance of £5.646m.

Financial forecasts

18. The College has submitted 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. SFC has confirmed funding for 2012/13, and as in the previous year, the College has not been asked to provide three year projections given the uncertainty over the financial position of the sector as a whole. The result has been that the College has not been able to budget in the same level of detail as before beyond 2012/13. However, given the College's strong balance sheet, this is not expected to pose a major risk in the short term.

19. The following graph compares the actual results for 2011/12 with the FFR forecasts and sets out future projections as contained within the 2012 FFR.



20. As shown above, the College is expecting to report a surplus in 2012/13.

21. The College's original budget for 2011/12 per the 2011 Financial Forecast Return (FFR) showed a surplus of £59,000. A reconciliation between the forecast surplus and the actual deficit is set out below:

	£
Surplus per initial budget	**59,000**
Voluntary severance costs **(paragraph 22)**	(335,000)
Increase in European funding **(paragraph 23)**	216,000
Miscellaneous items	3,000
Actual deficit per financial statements	**(57,000)**
Variance from original budget	**(116,000)**
Variance as percentage of total income	**0.20%**

22. A further voluntary severance exercise was undertaken in the year in response to reduced public sector funding, these costs were unforeseen at the time the 2011 FFR was prepared.

23. The increase in European funding was due to an unexpected one-off grant which was received from the Scottish Funding Council in the year.

24. With the on-going regionalisation developments across the FE sector and changes to funding methodology, there is some uncertainty over future levels of funding for the College or subsequent merged institution. The College will monitor developments over the coming year and the potential impact that this may have on service offering.

Financial planning and monitoring arrangements

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 College has a rigorous and prudent budgeting process, which is directly linked to the annual curriculum planning process. Performance monitoring and forecasting processes are in place to ensure that available funds remain appropriately directed and controlled.

27. Budgets are devised in advance of the year and approved by the Board of Management, after consideration by the Finance Committee. The Finance Committee meets four times a year. In addition, management accounts are circulated quarterly to members of the Finance Committee.

28. In our opinion the College has adequate financial management arrangements in place, and has taken steps to proactively analyse and respond to the future funding challenges posed by the current economic climate.

Financial reporting framework

29. The principal elements of the College's financial reporting framework are:
    - Accounts Direction issued by the Scottish Funding Council
    - Further Education / Higher Education Statement of Recommended Practice (FE/HE SORP) 2007

30. We are pleased to confirm that the College's 2011/12 financial statements comply fully with the Accounts Direction and FE/HE SORP 2007 in all material aspects.

Financial statements preparation

31. We are grateful to the Finance Director and to the finance staff for their assistance and support during the course of the audit.

32. In addition, we found that the College has adequate resources available in the Finance Department to meet the College's financial management and reporting needs.

Audit adjustments

Actual adjustments

33. During the course of the audit, the following three adjustments were identified:

1	Dr Payroll cost (I&E)	£31,000	
	Cr Finance Cost (I&E)		£74,000
	Dr Pension reserve (BS)	£1,707,000	
	Cr Pension asset/liability – FRS 17 (BS)		£1,707,000
	Dr I & E Reserve (BS)	£43,000	
	Being adjustment to incorporate FRS 17 valuation		
2	Dr Provision for early retirement costs (I&E)	£11,000	
	Cr Pension Provision (BS)		£11,000
	Being adjustment to incorporate interest rate change in pension provision		
3	Dr UK Tuition fees (I&E)	£48,995	
	Dr Other Income (I&E)	£1,350	
	Cr Trade debtors (BS)		£50,345
	Being invoices raised in error identified during fieldwork		

34. These adjustments resulted in an overall increase in the deficit of £18,345.

35. All other adjustments related to presentational and disclosure issues.

Potential adjustments

36. Two potential adjustments were noted as a result of the audit work performed, but have not been adjusted in the financial statements:-

1	Dr Trade Debtors	£21,125	
	Cr Trade Creditors		£21,125
	Being the grossing up of debit balances within the trade creditors listing		
2	Dr Trade Debtors	£10,049	
	Cr Sundry Expenses		£10,049
	Being adjustment to square trade debtors control account to trade debtors listing		

Effect on I&E account of the above noted potential adjustments – decrease in deficit of £10,049.

Review of accounting systems

37. During our audit work we have considered the College's accounting systems and internal controls. Please refer to the action plan for details of control improvements detected during audit fieldwork. In general, the College's systems of internal financial control appear to be adequate, well designed and operating effectively.

Other issues of particular significance for the 2011/12 audit

38. In order to assist College members' understanding of the financial statements and our audit, we have summarised issues below which we believe are of particular significance to the 2011/12 financial statements, which have not already been discussed fully in our report.

Voluntary Severance Scheme and the impact on financial position

39. Our audit planning identified the accuracy and classification of costs associated with the voluntary severance agreements entered into in the year as a significant audit area.

40. 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 to the guidance.

41. As a result of our audit testing, it was concluded that the amounts had been correctly included and disclosed in the financial statements.

Pension Fund liabilities

42. The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF).

43. 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 the scheme is effectively accounted for as if it was a defined contribution scheme.

44. 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 in its balance sheet. In 2011/12, the College reported a liability in respect of the SPF of £2.233m. This was a significant increase from the balance as at 31 July 2011 of £526k.

45. We provided the Director of Finance with the required journal entry to reflect the increase in the liability within the financial statements, and confirmed that disclosure is consistent with the actuarial valuation report. We also confirmed that the actuarial assumptions underpinning the valuation are reasonable and reflective of the College's circumstances.

46. 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.

Governance

47. 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.

48. 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

Current governance arrangements

49. Colleges are required to include in their financial statements a statement covering the responsibilities of their Board of Management in relation to 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.

50. 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.

51. We reviewed the Corporate Governance Statement by:
    - checking the statement against Scottish Funding Council 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.

52. We are satisfied that the statement is consistent with the Scottish Funding Council's guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Risk management

53. 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.

54. The College has a Risk Management Policy and Risk Management Procedures in place. The College has a risk register which is maintained by the Senior Management Team (SMT) and reviewed and updated on a regular basis. The Audit Committee will consider the risk register at each committee meeting and the Board of Management will review the risk register on a continuum and also annually. However any significant changes in the risk register are notified immediately to both the audit committee and the full board.

55. We have concluded that the College has robust risk management systems in place.

Internal audit

56. 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.

57. For 2011/12 the internal audit service has been provided by Wylie & Bisset LLP. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate.

Internal audit's annual opinion statement

58. Internal audit has concluded in its annual report that management has an adequate framework of control over the systems examined.

Prevention and detection of fraud and irregularity

59. 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.

60. The College has an anti-bribery policy and a code of practice on whistle blowing in place. There were no frauds identified during the year.

61. All SFC and other guidance and circulars are received by the Principal's Secretary and the Vice Principal. All relevant regulatory information is distributed to the appropriate members of staff. All Circulars raised are acted upon by Senior Management at the appropriate Committee meetings.

62. 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.

Standards of conduct

63. We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption.

64. 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 have been issued by the Scottish Government.

65. 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 controls over ordering and procurement and disposal of assets.

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

Looking Forward

Financial position

67. 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 is a trend which is expected to be reflected in funding settlements 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.

68. SFC has confirmed funding for 2012/13, and as in the previous year, the College has not been asked to provide three year FFR projections given the uncertainty over the financial position of the FE and public sector as a whole. This puts pressure on the College's ability to plan its medium term financial future. It is undoubtedly a significant variable which complicates strategic decision making.

69. The Scottish Government discussed the plan of having regional boards to distribute funding in the future. It is likely that these boards will be set up prior to summer 2013.

Strategic partnerships

70. In September 2011, the Scottish Government released 'Putting Learners at the Centre: Delivering Our Ambitions for Post-16 Education'. This paper proposed 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 John Wheatley and Stow Colleges.

71. The College formally agreed on 21 August 2012 to move towards a possible merger with John Wheatley and Stow 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 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 via the Glasgow Regional Board which is also expected to become operational from August 2013.

72. We are satisfied, from the audit work performed as detailed above, that the proposed merger has been disclosed appropriately in the 2011/12 financial statements. We will continue to monitor the situation with regards on-going merger developments.

International financial reporting standards

73. 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.

74. 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 2014/15.

75. 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 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.

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 College 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.

Issues arising from our 2011/12 audit

Action point	Issue identified and recommendation	Management response
1 **Posting of purchase invoices**	Whilst performing supplier statement testing it was noted than an invoice dated June 2012 was posted into the period August 2012/13. As such, the invoice was recorded in the incorrect financial year. There is the risk that cut-off is incorrect where invoices are not posted using the invoice date. It is recommended that finance staff are reminded of the importance of posting purchase invoices to the ledger in the period to which they relate. **Grade 2**	Noted **To be actioned by:** Finance Team **Timescale for implementation:** With immediate effect
2 **Trade Debtors Control Account Reconciliation**	Whilst performing a reconciliation of the trade debtors listing to the trade debtors control account in the general ledger, a variance of £10k was noted which could not be explained by the finance team (*paragraph 36 – potential adjustment 2*). There is a risk that as this key control is not being performed, that either the control account total in the balance sheet is incorrectly stated or the listing is not reflective of current outstanding debtors. It is recommended that this variance is immediately investigated and corrected. Going forward we recommend that monthly reconciliations of the trade debtors listing to the trade debtors control account are performed, and any variances investigated and resolved on a timely basis. **Grade 2**	Noted. The difference has been investigated and written off post year-end. Reconciliations will now be performed monthly going forward. **To be actioned by:** Iain Ross (Director of Finance) **Timescale for implementation:** With immediate effect

Action point	Issue identified and recommendation	Management response
3 **Review of Bad Debts**	Whilst performing a review of older debts it was discovered that there were approximately £38k of sales invoices outstanding within one debtor account (DCONSTRUCTION/1) which had been raised in error and thus required credit notes to be raised (*paragraph 33 – included within actual adjustment 3*). Two control weaknesses were identified as arising from this issue as follows: 1. In this situation the sales invoices were either raised in error or raised twice, and on investigation it was identified that the then sales ledger clerk did not adhere to the internal processes. 2. The invoices were classed as debtors in the 120 days + category within the debtors listing as at 31 July 2012, which illustrates that the debt management process is not working efficiently. The current process in place is that a letter is issued to the debtor once an invoice has been outstanding in excess of 30 days, with another letter issued after 45 days, at which point it is then passed to the Lewis Group to pursue recovery. The implication of this issue is that debtors and income were over-stated. We recommend that in future, new staff to the department are adequately trained and supervised. Additionally we would recommend that the debt recovery process is re-considered, first of all to identify why it took in excess of 6 months for this error to be identified, and then secondly to implement procedural changes to ensure that this issue will not arise again in the future. **Grade 3**	Personnel and processes were changed during the summer months. **To be actioned by:** Iain Ross (Director of Finance) **Timescale for implementation:** With immediate effect

Scott-Moncrieff (www.scott-moncrieff.com), one of Scotland's leading independent professional services firms, provides industry-focused audit, tax, business advisory and corporate consulting services for commercial, public, not-for-profit and private clients.

Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.