

CENTRAL COLLEGE **OF COMMERCE**

**ANNUAL REPORT
TO THE BOARD OF MANAGEMENT AND THE AUDITOR
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR
THE YEAR ENDED 31 JULY 2006**

DECEMBER 2006

Date of commencement of Final Visit	4 September 2006
Date of Draft Report to College	17 October 2006
Date of Discussion re Draft Report	18 October 2006
Date of College Responses	25 October 2006
Date of Presentation of Report	13 December 2006

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GLOSSARY OF TERMS

Annual Report	-	Report
Central College of Commerce	-	The College
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council*	-	SFC*
Value for Money	-	VFM

* on 3rd October 2005, the Scottish Further Education Funding Council (SFEFC) changed it's name to the Scottish Funding Council (SFC).

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Central College of Commerce with effect from 1 August 2001 for a period of 5 years until 31 July 2006.
- 1.2 The Annual Report has been prepared following the conclusion of our audit of the financial statements of Central College of Commerce for the year ended 31 July 2006.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in July 2001.
- 1.4 Paragraph 19 of the 'Code' states that the auditor's objectives are to:
 - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
 - Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
 - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 Our audit report on the financial statements for the year ended 31 July 2006 is unqualified.

- 1.8 The Annual Report covers the following areas as set out in the Code:
- a) Internal Controls and audit approach
 - b) Internal Audit
 - c) Corporate Governance
 - d) Value for Money
 - e) GMAP visits
 - f) Prevention and detection of fraud and irregularities
 - g) Management letter – 2005
 - h) Management letter – 2006
- 1.9 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10 Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

Wylie & Bisset

2. INTERNAL CONTROLS AND AUDIT APPROACH

2.1 We have reviewed in the course of our audit the key elements of the College's systems of internal financial controls including the following areas;

- a) The College's medium and short term planning processes including budgets;
- b) The College's review of key performance indicators, financial and management accounts;
- c) The College's controls over income and expenditure;
- d) The College's financial controls and procedures;
- e) The input from the Audit Committee and the Finance Committee;
- f) The College's internal audit service.

2.2 In carrying out our audit work we have taken into account the following:

- a) The Code of Audit Practice issued by Audit Scotland;
- b) The Code of Audit Practice issued by SFC;
- c) Guidance issued by Audit Scotland;
- d) Guidance issued by SFC;
- e) The College's internal control procedures;
- f) The College's Corporate Governance procedures;
- g) The College's approach to Value for Money;
- h) The financial memorandum between SFC and the College.

2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:

- a) Reviewing previous financial statements;
- b) Reviewing internal audit plans and reports;
- c) Discussions with senior management and staff at the College;
- d) Completing appropriate audit programmes;
- e) Carrying out analytical review procedures;
- f) Carrying out substantive and compliance audit tests on a judgemental basis;
- g) Reviewing the minutes of the principal College committees.

2.4 Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 9 & 10.

2.5 The audit recommendations are included in the appropriate sections of this report.

2.6 The recommendations have been graded as High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

3. FINANCIAL STATEMENTS

- 3.1 The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.
- 3.2 The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

AUDIT REPORT

- 3.3 We are pleased to record that there are no qualifications in our audit report on the College's 2005/06 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

FINANCIAL PERFORMANCE

- 3.4 The income and expenditure account shows an operating surplus for the year of £56,000, which has not changed from the surplus in the accounts presented for audit. This is compared to a previous year surplus of £23,000.
- 3.5 In 2005/06 the College budgeted for an operating surplus of £15,000. The College has budgeted for a £20,000 operating surplus in 2006/07.
- 3.6 After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £146,000 is shown (£113,000 surplus in 2004/05).
- 3.7 The balance brought forward on the income and expenditure reserve at 1 August 2005 was £752,000. Amounts were transferred from the revaluation reserve to the income and expenditure reserve to match the depreciation charge for the year and the disposal of assets during the year. The balance on the income and expenditure reserve at 31 July 2006 is £898,000.

- 3.8 In May 2006 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2004/05. The indicators show that in 2004/05 the College was generally in a stronger financial position than the sector average, particularly in regard to:
- ◆ the reserves (designated reserves plus I&E reserves) were 10.1% (2003/04; 9.7%) of total income, compared with a sector average of 7.0% (2003/4; 4.1%);
 - ◆ the liquidity ratio (current assets: current liabilities), was 1.6 (2003-04; 1.5) compared with a sector average of 1.3 (2003-04; 1.2);
 - ◆ the days cash to total expenditure ratio was 88 (2003-04; 86), compared with a sector average of 57 (2003-04; 44).
- 3.9 As the financial position of the College has remained stable in 2005/06 and the surplus has remained consistent with the previous year, it is anticipated that similarly favourable comparisons will be reported next year in the 2006/07 figures. The College is to continue to keep the inter-college comparisons produced by SFC under review.

SUBMISSION OF ACCOUNTS

- 3.10 The accounts were submitted for audit on 4 September 2006, in line with the agreed timetable. The accounts submitted for audit were substantially complete. Working papers provided have generally been of a high standard and queries arising from the audit have all been resolved. Key staff were readily available for consultation throughout the audit process.

ISSUES ARISING

- 3.11 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Head of Finance. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.
- 3.12 **Strathclyde Pension Fund (SPF):** The financial statements disclose the SPF on the basis that it is a defined contribution scheme. There is inconsistency within the sector at present as to whether the College's share of the underlying assets and liabilities can be identified on a reasonable basis. Therefore this College, in common with a number of other Colleges, has in accordance with the dispensation given in paragraph 9 (b) of FRS17, chosen to account for its contributions to the scheme as if it was a defined contribution scheme. Guidance from SFC on whether or not the SPF is to be treated as a defined benefit scheme or a defined contribution scheme is expected in early 2007.

- 3.13 **Human Resources:** During the year 2004/05, the College jointly commissioned with SFC an Independent Review Panel to examine the College's grievance, disciplinary and other relevant policies and procedures and their applications in relation to a recent employment tribunal involving the college. The report was issued on 13th October 2006 and contains 17 recommendations. None of the recommendations raised alter our audit unqualified audit opinion.
- 3.14 **HM Inspectors Report:** This report was issued on 12th August 2005 and concluded that the College has effective learning and teaching processes, that learners are progressing well and that the College is managing well and improving the quality of its services for learners.

4. INTERNAL AUDIT

Objective and Approach

- 4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2 The College's internal auditors are Deloitte.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2006 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2006 the following internal audit reports were issued:
- a) SUMs Return
 - b) Debtor Systems
 - c) Strategic Planning
 - d) Business Continuity Planning

Members of the Audit Committee and Board of Management also attended a Risk Management Workshop, run by Deloitte.

- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment.
- 4.6 The Annual Report from the College's internal auditors gave substantial assurance for the year. No internal audit reports were outstanding at the date of this Annual report.

Opinion

- 4.7 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with the Internal Audit providers. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit. Accordingly reliance was placed on the work of Internal Audit in all areas on which reported they reported during 2005/06 as detailed at 4.4.

5. CORPORATE GOVERNANCE

Objective and Approach

- 5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was carried out using a bespoke checklist. We also reviewed the following:
- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2006;
 - b) The College's Corporate Governance strategy;
 - c) The minutes of meetings of key College committees issued during the year.
- 5.2 Paragraph 23 to Circular SFC/35/2006, Accounts direction for Scotland's colleges and universities 2005-06, states that colleges and universities are encouraged to adopt the 2003 Combined Code in the 2005-06 financial statements where possible.

Opinion

- 5.2 Based on our review the College appears to operate appropriate Corporate Governance procedures and that management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff. We also draw attention to the jointly commissioned independent review in relation to a recent employment tribunal involving the College (referred to at 3.13, above). We found no matters therein to impact upon our audit opinion.

Recommendations

- 5.3 There were no recommendations in 2005 and no further recommendations in this area, this year.

6. VALUE FOR MONEY

Objective and Approach

- 6.1 We have reviewed the College's Value for Money systems including the following:
- a) The College's strategy in this area;
 - b) VFM studies carried out by the College's internal auditors.

Opinion

- 6.2 Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources subject to the points noted below.

Recommendations

- 6.3 There were no recommendations in 2005 and no further recommendations in this area this year.

7. GMAP VISITS

- 7.1. The College has not had a GMAP (previously FAMs) visit during the year ended 31 July 2006.
- 7.2. The College last had a FAMs visit during November 2000, which reviewed arrangements for Corporate Governance, Financial Management and Audit.
- 7.3. Of the seventeen recommendations none have still to be implemented.
- 7.4. There are no recommendations in this area.

8. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

- 8.1. The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures.
- 8.2. An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a bespoke checklist.
- 8.3. In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
 - a) The monitoring and compliance with financial procedures;
 - b) The College's strategy to prevent and detect fraud and other irregularities;
 - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 8.4. No areas of concern were found during normal audit procedures.
- 8.5. We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Opinion

- 8.6. Overall we concluded that management takes fraud prevention and detection seriously and has reliable controls in place to ensure that potential areas for fraud are detected and dealt with.

Recommendations

- 8.7. There were no recommendations in 2005 and no further recommendations in this area, this year.

9 MANAGEMENT LETTER – 2005 and prior

- 9.1 The management letter for the year ended 31 July 2005 was issued by Wylie & Bisset following the audit for the year.
- 9.2 Of the two recommendations set out in the management letter, one recommendation has been implemented. One recommendation is still ongoing and is reported below.
- 9.3 The solicitors' letter obtained during the audit highlighted that title for the Allan Glens Campus showed gaps in the title documents. In the 2002 Management letter it was recommended that the College take the necessary steps to transfer legal title to the name of the College.
- 9.4 During the year ended 31 July 2003 the College instructed their solicitors to undertake a detailed examination of the title to the subjects at Cathedral Street. This identified a number of gaps in the site. The College was subsequently advised to record a non domino disposition in the College name over the gap areas which should perfect their title ten years after the registration date. This has as yet not been recorded.
- 9.5 There are no recommendations graded as "High" priority in this area.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
1. The solicitors' letter obtained during the audit confirmed that there are gaps in the title documents for the Allan Glens Campus.	We recommend that the College takes the necessary steps to transfer legal title to the name of the College.	Medium	This is a long standing issue and will be dealt with under the Estates reorganisation. The legal advisers of the Scottish Funding Council are aware of the situation and will be advising how this is handled within the overall City Centre College Estate development.	Principal/ Ongoing

10. MANAGEMENT LETTER – 2006

10.1 The recommendations following the audit for the year ended 31 July 2006 are set out below.

Background	Recommendations	Priority	College response	Responsibility /Timescale
We are aware of no weaknesses in the Colleges systems and controls upon which we would seek to make a recommendation (other than those at Section 9, above).				

**STATEMENT OF RESPONSIBILITIES OF THE BOARD OF
MANAGEMENT**

(As copied from Annual Accounts)

INDEPENDENT AUDITORS REPORT

(As copied from Annual Accounts)