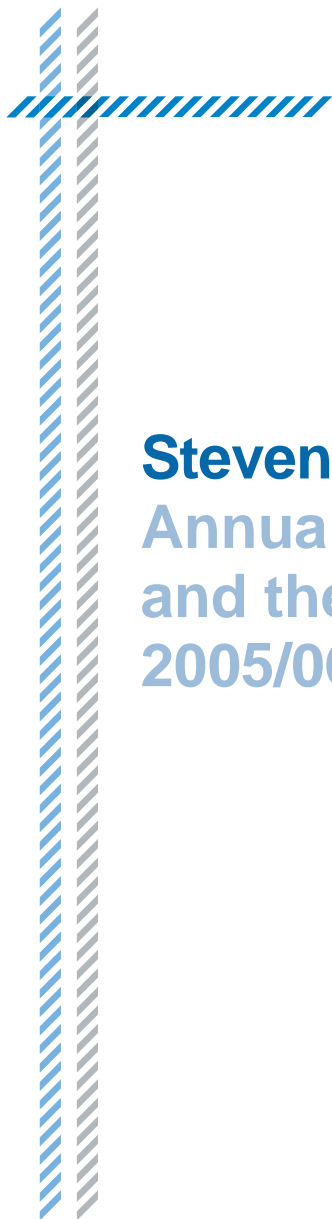





SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW



Stevenson College Edinburgh
Annual Report to the Board of Management
and the Auditor General for Scotland
2005/06



Stevenson College Edinburgh

Annual Report to the Board of Management and the Auditor General for Scotland 2005/06

1	Summary and Conclusion.....	1
2	Introduction	2
3	Financial Statements	3
4	Corporate Governance	6
5	Action Plan.....	10

1 Summary and Conclusion

Financial statements <i>Section 3</i>	<ul style="list-style-type: none">• Our audit opinion on the truth and fairness of the annual accounts and on the regularity of transactions is unqualified.• The accounts comply with the Accounts Direction issued by the Scottish Funding Council (SFC) and the Statement of Recommended Practice on Accounting for Further and Higher Education. The deadline for submitting final accounts to SFC will be achieved.• The College reported a surplus of £689,000 to 31 July 2006.• This is the first year where the College has been required to fully show its pension liability on its balance sheet. The pension liability as at 31 July 2006 was £3,407,000.
Corporate governance <i>Section 4</i>	<ul style="list-style-type: none">• We identified no significant errors or weaknesses during our audit. In general, the College's systems of internal control appear to be adequate, well designed and operating effectively.• The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the 2003 Combined Code on Corporate Governance during 2005/06.
Conclusion	<p>This report concludes the 2005/06 audit of Stevenson College Edinburgh, which we have performed in accordance with the Code of Audit Practice and Statement of Responsibilities issued by Audit Scotland.</p> <p>We would like to thank all members of College management and staff who have been involved in our work for their co-operation and assistance during our audit.</p>

Scott-Moncrieff
15 December 2006

2 Introduction

2.1 Audit framework

The Auditor General for Scotland is the Scottish Parliament's watchdog for ensuring propriety and value for money in the use of public funds. The Auditor General is therefore responsible for appointing auditors to Further Education colleges and for setting the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The purpose of this report is to summarise the results of our audit work for 2005/06. The report describes the ways in which the requirements of the Statement of Responsibilities and the Code of Audit Practice have been met by both the College and ourselves.

2.2 Responsibilities of the College

The College is accountable to the public for the conduct of public business and the stewardship of funds under its control. The College is therefore responsible for:

- establishing proper corporate governance arrangements;

- maintaining proper accounting records;
- preparing the financial statements;
- safeguarding assets;
- taking reasonable steps for the prevention and detection of fraud and other irregularities;
- managing its affairs to secure the economic, efficient and effective use of resources.

2.3 Responsibilities of auditors

Our responsibilities, which are significantly greater than those of auditors in the private sector, are derived from statute and from the Code of Audit Practice.

Our role is to carry out an independent and objective appraisal of the discharge by management of its stewardship responsibilities and in particular: -

- to provide an opinion on the financial statements and regularity of transactions;
- to review and report on the corporate governance arrangements relating to the prevention and detection of fraud and corruption;
- to review and report on the corporate governance arrangements relating to standards of conduct, accountability and openness;
- to review and report on the corporate governance arrangements relating to the organisation's financial position;
- to review and report on the corporate governance arrangements relating to the organisation's review of its systems of internal control;
- to review and report on the organisation's arrangements for managing its performance economically, efficiently and effectively.

3 Financial Statements

STATEMENT OF RESPONSIBILITIES

It is the responsibility of the audited body and its management to:

- act within the law and ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records;
- prepare financial statements timeously which give a true and fair view of the financial position of the body and its expenditure and income.

The auditor is required to audit the financial statements in accordance with International Standards on Auditing and to give an opinion on:

- whether they give a true and fair view or present fairly the financial position of the audited body and its expenditure and income for the period;
- whether they have been prepared in accordance with relevant legislation and applicable accounting standards;
- on the regularity of the expenditure and receipts.

3.1 Accounts Direction

The College was required, in preparing its annual accounts, to comply with directions given by the Scottish Funding Council (SFC). We are pleased to confirm that the College's annual accounts for 2005/06 comply fully with the Accounts Direction issued by SFC.

3.2 Statement of Recommended Practice (SORP)

The purpose of the SORP on Accounting for Further and Higher Education is to ensure that the financial statements of institutions are prepared on a comparable and consistent basis.

The SORP takes account of best accounting practice, the requirements of the Funding Councils, the accounting provisions of the Companies Act and other relevant legislation. We are pleased to report that the 2005/06 annual accounts of the College comply with the SORP in all material respects.

3.3 Annual accounts and audit timetable

The deadline for the submission to SFC of FE college audited annual accounts is 31 December. We are pleased to report that the accounts will be approved by the Board of Management on 15 December 2006 and will be submitted to SFC and the Auditor General prior to the 31 December deadline.

We are grateful to the Vice Principal (Finance and Resources), the Head of Finance and Finance Department staff for preparing, by the agreed date, draft accounts and working papers of a high standard and for their assistance and support during the course of the audit.

3.4 Auditors' report – unqualified opinion

We are required to give an opinion as to whether the accounts present a true and fair view of the financial position of the College at 31 July 2006 and of its income and expenditure for the financial year.

We are also required to include a regularity assertion in our audit report stating that 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 SFC.

We plan to issue an unqualified audit opinion on the truth and fairness of the accounts and on the regularity of transactions.

3.5 Review of accounting systems

One of the objectives of our audit was to review the accounting systems and internal controls operating at the College to ensure they formed an adequate basis for the preparation of the financial statements.

There were no major changes to the College's accounting systems during the year. We identified no major control weaknesses during our audit of accounting systems. In

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

3.6 Estates project

The SFC approved the College's business case in 2004/05 for a two project redevelopment which identified a funding requirement of approximately £9.9 million. The SFC agreed to provide £4.4 million of the funding, with the balance being met by the College.

Since the approval of the business case, the College has built on its original estates project. The total budget for the project is now approximately £10.4 million.

3.6.1 Music and performing arts centre

The first project was the construction of a music and performing arts centre at the rear of the Sighthill campus. The new centre was 25% complete by 31 July 2006, with capitalised costs of £975,000. This is reported as assets under construction in note 13 to the financial statements.

The College's latest forecast cost to complete are consistent with the College's original forecast.

3.6.2 Reconfiguration and refurbishment

The second project was the reconfiguration and refurbishment of the existing campus. This project was split into 4 phases. The College began work on phases 1 and 2 during the year,

with the work being completed in early 2006/07. The College plan to complete the majority of phases 3 and 4 during the 2007 and 2008 summer breaks.

3.6.3 Project management

As with any major project, the effective management of project risk is essential. The College has prepared a project risk register detailing all key risks and is taking action to mitigate the risks and uncertainties identified. The project risk register is reported to every Finance, Property and General Purposes Committee meeting.

3.7 FRS 17 – Retirement Benefits

Financial Reporting Standard 17 – Retirement Benefits (FRS 17) has been implemented in preparation of the financial statements for the year ended 31 July 2006. The implementation of FRS 17 resulted in the College's share of the Lothian Pension Fund's (LPF) net assets or liabilities being shown on the balance sheet for the first time.

As shown in note 23, the retirement benefits to the College's employees and former employees are provided by either the Scottish Teacher's Superannuation Scheme (STSS) or the LPF. Both schemes are defined benefit schemes.

Note 23 shows that the College's pension liability is made up of:

	£'000
LPF – Net deficit	2,357
STSS – Unfunded liabilities	<u>1,050</u>
Total pension liability	3,407

The College's actuaries were able to separately identify the College's share of assets and liabilities in the LPF scheme and this has been included in the College's accounts.

With the exception of liabilities arising from early retirements, the College is unable to separately identify its share of assets and liabilities in the STSS scheme. The College has applied the concession allowed by FRS 17 and has accounted for the STSS scheme as a defined contribution scheme.

The College is able to identify its liabilities in the STSS scheme arising from the College's previous decision to allow early retirement and early access to retirement benefits. These liabilities have been included in the College's pension liability.

The implementation of FRS 17 resulted in a prior period adjustment to the 2005 figures to incorporate the pension liability and pension reserve. The effect of this is shown in note 37.

4 Corporate Governance

STATEMENT OF RESPONSIBILITIES

The audited body has a responsibility to:

- Develop and implement systems of internal control and at least annually to conduct a review of the effectiveness of the internal control systems.
- Establish arrangements to prevent and detect fraud and irregularity.
- Ensure its affairs are managed in accordance with proper standards of conduct.
- Conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

The auditor reviews and reports on the audited body's corporate governance arrangements.

4.1 Corporate governance framework

The Board of Management has formally established the following sub-committees, which contribute to the culture of risk management and internal control at the College: Learning and Teaching Committee, Audit Committee, Finance, Property and General Purposes Committee, Membership Committee, and Remuneration Committee.

The work of these committees is described in the Corporate Governance Statement.

4.2 Corporate governance statement

Requirement for a corporate governance statement

Colleges are required to include a statement on their corporate governance arrangements within their annual accounts. The statement describes the ways in which the College has

complied with good practice in corporate governance, including the arrangements for risk management.

Guidance on the 2005/06 statement

A revised Combined Code on Corporate Governance was issued in July 2003, which superseded the Code issued in 1998. FE College's were required to adopt the 2003 Combined Code for the 2006/07 financial statements, and encouraged to do so early.

Stevenson College Edinburgh adopted the 2003 Combined Code during 2004/05. The College's corporate governance statement for 2005/06 illustrates that the College was fully compliant with the 2003 code throughout the period.

Unqualified audit opinion

We have reviewed the corporate governance statement included within the annual accounts. Our audit opinion on this

statement is covered by our auditors' report and is unqualified in this respect.

4.3 Internal Audit

Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by BDO Stoy Hayward.

As required by the Code of Audit Practice we undertook a review of the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and performed in accordance with the SFC Code of Audit Practice. The review concluded that the internal audit service provided to the College was in compliance with the SFC Code of Audit Practice.

Reliance on internal audit

To avoid duplication of effort and ensure an efficient audit process we planned our audit work to place reliance wherever possible on the work of internal audit.

We have made use of the following internal audit reports:

- ICT review
- Purchasing cycle and creditors
- Project management
- SUMS audit
- Banking and petty cash / Other income
- Student funding
- 2004/05 follow-up

We are grateful to BDO Stoy Hayward for their assistance during the course of our audit work.

4.4 Fraud, irregularity and corruption

College's responsibilities

To ensure the integrity of public funds, the College is responsible for establishing arrangements to prevent and detect fraud and other irregularities.

Auditors' responsibilities

We consider the arrangements made by management in the following ways:

- Our systems based audit is planned so as to provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity.
- We focus on specific areas of high risk for potential fraud and irregularity and review the arrangements in place in these areas.
- We review the Technical Bulletins produced by Audit Scotland with regard to fraud reports and ensure that the College has arrangements in place to prevent similar frauds occurring.
- We review the extent and adequacy of the Internal Audit function within the College.
- We examine the financial instructions issued by the College to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control.

Conclusion

We are pleased to report that our audit identified no issues of concern in relation to fraud, irregularity and corruption.

4.5 Standards of conduct, integrity and openness

Propriety requires that public business be 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.

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.

Conclusion

We are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

4.6 Financial standing

It is the responsibility of the College to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider 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.

4.6.1 Financial position

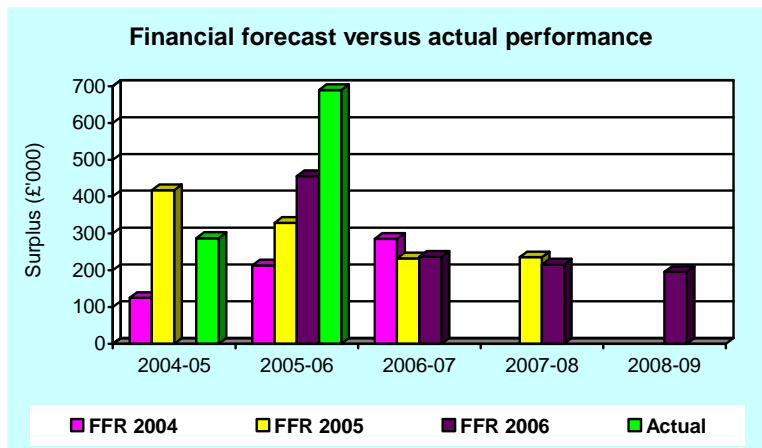
The College is reporting a surplus for the year of £689,000.

The College net assets of £26,754,000. Excluding the College's pension liability, the College has net assets of £30,161,000.

4.6.2 Financial planning, forecasting and control

The College submits annual financial forecast returns (FFRs) to SFC detailing the expected results for the current year and the next three years. SFC uses the FFRs to assess the financial performance of individual colleges and of the sector as a whole.

The graph below compares the actual results for 2004/05 and 2005/06 with the FFR forecasts and shows the latest predictions within the 2006 FFR.



As shown above, the College is expecting to achieve healthy surpluses over the next three years. These surpluses will mainly be achieved through continued control over staff costs, concentration on income generation and robust budget monitoring.

The successful redevelopment of the College's estate remains the key factor to ensuring long-term financial sustainability and sustained curriculum growth. This reflects conditions throughout the sector.

4.6.3 Conclusion

In our opinion the College has established robust and effective arrangements for financial planning, budgetary control and financial reporting.

5 Action Plan

5.1 Summary

Our action plan summarises all of the control weaknesses and opportunities for improvement that we have identified during our 2005/06 audit.

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.

5.2 Priority rating

The priority rating is intended to assist the College in assessing the significance of the issues raised and in prioritising the action required to address them. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action;
Priority 2	Medium risk, significant observations requiring reasonably urgent action;
Priority 3	Low risk, minor observations which require to be brought to the attention of management.

5.3 Key Issues from 2005/06 Final Audit

Title	Issues identified	Risk and recommendation	Management comments
<p>5.3.1</p> <p>Pension</p> <p>Priority 3</p>	<p>The College's total pension liability comprises its share of the LPF's assets and liabilities as well as the liabilities arising in the STSS scheme as a result of the College's previous decisions to allow employees early retirement.</p> <p>The College has not valued its pension liabilities on a consistent basis. The College's share of the LPF's assets and liabilities has been valued by the College's actuaries. The College's liabilities arising from its previous decisions to allow employees early retirement have been estimated by the College using actuarial tables obtained from the SFC.</p>	<p>We consider that the actuary's valuation of the pension liabilities offer a better estimation of the College's pension liabilities compared to the actuarial tables obtain from the SFC.</p> <p>We recommend that the College ask their actuaries to value all of the College's pension liability in future years. This will ensure a consistent approach to the valuation of the College's pension liabilities as well as reducing the time taken by the College to prepare the pension disclosures in the finance statements.</p>	<p>The College followed SFC guidance with regard to the valuation of the unfunded pension scheme. In light of the audit recommendation, the College will now discuss the approach to be adopted in 2006/07 with SFC.</p> <p>Responsible Officer: Vice Principal (Finance and Resources)</p> <p>Implementation Date: July 2007</p>

5.4 Follow-up of previous action plan recommendations

Title	Recommendation	Management Comments – November 2005	Follow-up
<p>5.4.1</p> <p>Financial memorandum</p> <p>Priority 2</p>	<p>The financial memorandum sets out the formal relationship between the Funding Council and Stevenson College Edinburgh. A consultation paper proposing a renewed financial memorandum was published on 9 December 2004 by the Funding Council. It is anticipated that this will be brought into effect in early 2006.</p> <p>We recommended that the College ensure its existing governance and internal control procedures provide the flexibility to deal with any changes imposed by the implementation.</p>	<p>Agreed</p> <p>Responsible Officer: College Secretary</p> <p>Implementation Date: Early 2006</p>	<p>The College reviewed its governance and internal control procedures against the new financial memorandum. The College did not identify any areas of non-compliance.</p> <p>Action taken as agreed</p>

Title	Recommendation	Management Comments – November 2005	Follow-up
<p>5.4.2</p> <p>Estates project</p> <p>Priority 2</p>	<p>The successful redevelopment of the College's estate remains the key factor to ensuring long-term financial sustainability and sustained curriculum growth.</p> <p>There are a number of ongoing risks to the estate development project, including:</p> <ul style="list-style-type: none"> • Award of external funding • Tender overspend against forecast budgets. • Maintaining effective links between the strategic objectives of the project and the operational design and cost requirements of each phase. • Technical issues regarding existing services. <p>We recommended that the College continue to apply risk management procedures to the estates project.</p>	<p>Agreed</p> <p>Responsible Officer: Vice Principal (Finance and Resources)</p> <p>Implementation Date: Duration of Project</p>	<p>The College has regularly reported the estates project risk register to its Finance, Property and General Purposes Committee.</p> <p>Action taken as agreed</p>

Title	Recommendation	Management Comments – November 2005	Follow-up
<p>5.4.3</p> <p>Estates project risk register</p> <p>Priority 3</p>	<p>Management have developed a risk register specific to the estates project. This is monitored on a rolling basis and quantifies risk in categories of likelihood and impact however does not quantify the impact of activities designed to manage the risk.</p> <p>In common with recent revisions to the College's strategic risk register the concept of gross and net risk should be applied to the estates project.</p>	<p>Agreed</p> <p>Responsible Officer: Vice Principal (Finance and Resources)</p> <p>Implementation Date: January 2006</p>	<p>The project risk register reflects gross and net risk.</p> <p><i>Action taken as agreed</i></p>

Title	Recommendation	Management Comments – November 2005	Follow-up
<p>5.4.4</p> <p>Bursary returns</p> <p>Priority 3</p>	<p>The College has recently implemented the ToKAM system. A number of weaknesses have been identified within the system.</p> <ul style="list-style-type: none"> • Individual students had several different entries due to minor differences in the format of name entered. • Some students were not attached to tutor groups within the system. <p>Active records exist for students who have completed or withdrawn from their course.</p> <p>There is a risk that the College makes payments to students who become ineligible for bursary support.</p> <p>We accept that management have implemented compensating controls are in place.</p>	<p>Controls and procedures will be reviewed to ensure robustness of system. Compensating controls will also be reviewed, monitored and updated where appropriate.</p> <p>Responsible Officer: Accommodation, Welfare and Bursaries Officer</p> <p>Implementation Date: January 2006</p>	<p>The College continues to use the ToKAM system. The College accepts that there are weaknesses in the system but considers the compensating controls to be adequate to manage this risk.</p> <p>No further action required</p>



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
2006. All rights reserved. "Scott-Moncrieff"
refers to Scott-Moncrieff Chartered
Accountants, a member of Moore Stephens
International Limited, a worldwide network
of independent firms.

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.