

North Glasgow College

Report to members on the 2005/06 audit



Contents

Key messages	1	Governance	7
Introduction	2	Financial statements	10
Performance	3	Final remarks	13
Financial position	5	Appendix A: Action Plan	14



Key messages

Introduction

In 2005/06 we audited the financial statements and looked at aspects of performance and governance. This report sets out our key findings, summarises key outcomes in 2005/06 and the outlook for the period ahead.

Key outcomes from 2005/06 audit

We have given an unqualified opinion on the financial statements for North Glasgow College for 2005/06.

The income and expenditure account shows a surplus for the year of £531,000 on the year's operations. After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £669,000 is disclosed. The balance on the general reserve has increased from £893,000 at 31 July 2005 to £1,562,000 at 31 July 2006.

The corporate governance statement complies with accounting requirements and is not inconsistent with audit findings. The statement reflects the fact that adequate assurance can be placed on the college's corporate governance arrangements and internal control systems.

Outlook for future audits

The 2006/07 college strategy was approved by the board of management in June 2006. Progress against the targets set out in this plan are monitored on a regular basis by the board.

On the basis that the college is unable to identify its share of the underlying assets and liabilities of the Strathclyde Pension Fund (SPF), the college's accounts reflect reduced pension disclosure requirements in accordance with accounting guidance. The reduced disclosure requirements do not require the inclusion in the accounts of the full cost of benefit entitlements earned by employees or the asset/liability attributable to the college. Therefore in 2005/06 the requirement to account for pension costs in line with FRS 17 has had no impact on the college's surplus. However, it is envisaged that some of this information may be available for the SPF in future years. This would require the scheme to be accounted for as defined benefit, and is likely to have a significant impact on the college's financial statements.

This is the final year of our appointment to the audit of North Glasgow College. From 2006/07 the college's auditors will be KPMG.

**Audit Scotland
December 2006**



Introduction

1. This report summarises the findings from our 2005/06 audit of North Glasgow College. The scope of the audit was set out in our 2005/06 audit planning memorandum which was submitted to management in February 2006 and the Audit Committee in May 2006. This described the audit work we planned to carry out in the year.
2. The financial statements of the college are the means by which it accounts for its stewardship of the resources made available to the college 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 Scottish Funding Council, 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. The board of management are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
 - the college's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
 - the college has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
 - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption; and
 - the college has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
4. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the Board of Management, the Principal, the Director of Finance and their staff during the course of our audit work.



Performance

Introduction

5. In this section we summarise key aspects of the college's performance and provide an outlook on future performance.
6. It is the responsibility of the board of management to ensure that proper arrangements are in place to secure the economy, efficiency and effectiveness in the use of its resources. As part of the auditor's statutory responsibilities we are required to consider whether the college has made appropriate arrangements to fulfil its duty in this regard.

Overview of performance in 2005/06

7. The college has in place a strategy document setting out the college's strategic aims and key targets for the period. The college strategy is reviewed and updated on an annual basis by the board of management. Progress against the targets set in the 2004/05 to 2006/07 strategy is reported regularly to the board. The college strategy is discussed further at paragraph 11.
8. Over recent years the college's student numbers have remained broadly stable. The college's contract with the Scottish Funding Council for 2005/06 was 45,431 weighted SUMS. The actual SUMS recorded was 44,428 (1,003 under target).
9. During the year reports have been issued in relation to the financial/management health of other FE colleges. While the college has considered the contents of these reports informally, a report on the possible implications for North Glasgow College has yet to be prepared.
10. The college is required to report to the SFC on progress made against the Council's national priorities. This information is to be published each year in a format which the college thinks would most readily inform stakeholders. We have been advised that the college intends to publish its progress against the SFC's national priorities in a separate 2005/06 performance report which will be issued early in 2007.

Performance outlook

11. In June 2006, the board of management approved the college strategy to 2006/07. This identifies the college's purpose as being "*quality learning opportunities for all*". Key targets are set to support the achievement of the three strategic aims:



- To be proactive and responsive to client needs and changing external influences by providing programmes which are appropriate, flexible, inclusive and accessible.
 - To increase retention and achievement rates and improve progression opportunities for students by providing an improved learning environment and student experience.
 - To develop and promote the culture of efficiency, modernisation and quality improvement throughout all college activities.
12. The college strategy includes clear links to other strategy documents which have been approved by the board of management, and demonstrates how these support each strategic aim.
13. The strategy also states that it is essential that the college develops a course of action which enables the current education and training service to be properly and sufficiently resourced to provide an appropriate response to the markets in the future. Contributing to this has been the college's significant efforts in attracting overseas students, specifically from China, Bangladesh, India and Africa.
14. The college's mission is to be achieved through active engagement with the local community. Its new build is seen to be part of the wider regeneration plan driven by Glasgow City Council which will see substantial new investment in local housing and sporting facilities for the whole area.



Financial position

Introduction

15. In this section we summarise key aspects of the college's reported financial position and performance to 31 July 2006 and provide an outlook on potential future financial risks.

Revenue Account

Revenue performance 2005/06

16. The college's income and expenditure account shows a surplus for the year of £531,000 on the year's operations compared to an expected surplus of £22,000 as per the 2005 financial forecast return (FFR). This amount was later revised upwards to £145,000. The difference between the amount budgeted and actual outturn (£386,000) arose as a result of higher than expected tuition income together with an underspend in staff costs. The college's 2006 FFR records an anticipated surplus of £77,000 for 2006/07.
17. After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £669,000 is shown (£559,000 in 2004/05).
18. The balance brought forward on the general reserve at 1 August 2005 was £893,000. Following on from the transfer of the £531,000 surplus from the income and expenditure account and a transfer from the revaluation reserve of £138,000, the accumulated balance as at 31 July 2006 is £1,562,000. A further £501,000 is held as a restricted reserve following the sale of the Barmulloch site in 2004/05, which will be applied to the new build.

Pension Disclosures

19. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions including projecting increased life expectancy. *Financial Reporting Standard 17 (Retirement Benefits)* is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. 2005/06 is the first year of full FRS 17 disclosure requirement for further education colleges. This means that for defined benefit schemes, the pension asset or liability attributable to the college has to be recognised in the balance sheet and the full costs of benefit entitlements earned by employees, and not simply the cost of employer contributions to the fund, are to be reflected in the income and expenditure account.



20. Retirement benefits to employees of the college are provided by the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). These are both defined benefit multi-employer schemes. On the basis that the college is unable to identify its share of the underlying assets and liabilities of both schemes, the college has used reduced disclosure requirements available for defined benefit schemes in accordance with FRS 17. The reduced disclosure requirements are the same as for a defined contribution scheme and do not require the inclusion in the accounts of the full cost of benefit entitlements earned by employees or the asset/liability attributable to the college. Therefore in 2005/06 the requirement to account for pension costs in line with FRS 17 has had no impact on the college's surplus.
21. In recent years, there has been an ongoing national debate as to whether local government pension schemes, of which SPF is one, should be accounted for as defined benefit or defined contribution schemes. Scottish Funding Council guidance for 2005/06 says that the characteristics of the SPF scheme enable colleges to consider using the reduced disclosure requirements. In common with other colleges, the treatment adopted by the college is in line with this guidance. However, this represents a change in accounting policy from previous years, and this has been reflected in the statement of accounting policies included within the financial statements.

Financial position outlook

22. Strathclyde Pension Fund (SPF) has issued a funding strategy statement for consultation. It is envisaged that separate employer rates will be introduced by 2008 at the earliest, though a small number of separate rates may be introduced prior to this date. Assets are currently apportioned based on the liability profile though employer assets have been tracked for each employer since 2002. Indications are, therefore, that in future years the college will therefore have the information required to enable it to account for the SPF as a defined benefit scheme, and reflect the full costs of benefit entitlement, and any asset or liability in the scheme in the financial statements. This is likely to have a significant impact on the college's surplus in future years.

Action plan no 1



Governance

Introduction

23. In this section we comment on key aspects of the college's governance arrangements during 2005/06.

Overview of arrangements in 2005/06

24. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, to ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. The auditor has a responsibility to report on the college's corporate governance arrangements.
25. The corporate governance statement included within the financial statements reflects the board of management's view that adequate assurance can be placed upon the adequacy and effectiveness of the college's corporate governance arrangements and internal financial control system. The statement also records that the college complies with all the provisions of the Combined Code on Corporate Governance 2003 and it has complied throughout the year ended 31 July 2006. In our opinion, the corporate governance statement included within the financial statements complies with the requirements of the accounts direction and is not inconsistent with the findings of our audit.
26. Although full compliance with the Combined Code of Corporate Governance 2003 is not required until 2006/07, I have recommended that the college carries out a formal review of its corporate governance arrangements to demonstrate compliance with the 2003 Code. As part of this review the college should ensure that all corporate governance documentation is updated and regularly reviewed thereafter. The college may also wish to consider referring to the guide for College Board Members issued by the Association of Scottish Colleges and the Further Education Unit in December 2003.

Action plan no 2

27. I have again discussed with the Principal, the need for formal written reports to be submitted to the various committees and board of management of the college as opposed to the continuing practice of officers providing verbal updates to members. These reports should direct members' attention to the salient issues and should provide a forum for discussion. As a consequence, corporate governance processes will be enhanced.

Action plan no 3



28. The College has a formally approved risk policy statement which is subject to ongoing review. In addition, a separate risk register has been established in relation to the new college.

Systems of internal control

29. It is the responsibility of the college's management to maintain adequate financial systems and associated internal controls. The auditor evaluates these systems of internal control, both for the purpose of giving an opinion on the statement of accounts, and in order to report to the college on the adequacy of such systems and controls.
30. A review and assessment of the college's corporate governance arrangements was carried out. This assessment included a review of the college's committee minutes and completion of a number of Audit Scotland checklists. This work confirmed that overall the college's corporate governance arrangements appear to be operating effectively.
31. Audit's conclusions are that overall the college's financial systems are adequate for the purpose of producing the financial statements.

Review of internal audit

32. Internal audit plays a key role in the college's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. To maximise the reliance that can be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
33. Internal audit services are provided by BDO Stoy Hayward. An assessment was made of the adequacy of the internal audit input and it was concluded that external audit can place formal reliance on the work of internal audit.
34. Overall, satisfactory progress has been made in implementing internal audit recommendations and progress towards any remaining actions will continue to be monitored by the audit committee.
35. In August 2006 internal audit issued their annual report for the year ended 31 July 2006 and concluded *that the college has a framework of controls in place which provides reasonable assurance regarding the effective and efficient achievement of the college's objectives*. In addition, based on the areas examined in 2005/06, the internal auditor was able to conclude that the college had proper arrangements to promote and secure value for money.
36. Internal Audit included within their plan for 2005/06 a value for money review of staff absence which had been carried forward from 2004/05. However, due to system problems, internal audit were unable to complete this work during the year and is currently being finalised (November 2006).



Management should continue to review the audit plan and ensure that they are content with the overall level of internal audit coverage provided.

Prevention and detection of fraud and irregularities

37. The college has appropriate arrangements in place to prevent and detect fraud. These arrangements include policies on whistle-blowing and on the prevention of fraud. While the policies appear adequate, they have not yet been submitted to the Board for approval. This matter was raised in my 2004/05 final report.

Action plan no 4

38. The Director of Finance has confirmed that no frauds were identified in 2005/06.



Financial statements

Introduction

39. In this section we summarise key outcomes from our audit of the college's financial statements for 2005/06. We comment on the accounting issues faced and provide an outlook on future financial reporting issues.
40. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of the college and its expenditure and income for the period in question; and
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
41. We also review the corporate governance statement by:
- considering whether disclosures in the statement comply with the requirements of the Scottish Funding Council; and
 - assessing whether disclosures in the statement are consistent with our knowledge of the college.

Overall conclusion

42. We have given an unqualified opinion on the financial statements for 2005/06 and can record that they give a true and fair view of the state of affairs of North Glasgow College as at 31 July 2006.
43. The college's unaudited financial statements were submitted for audit on 12 October 2006, in line with the agreed timetable. A file of working papers was provided, and this was of an acceptable standard. Key staff were readily available for consultation throughout the audit process which enabled the audit to progress smoothly.
44. A number of presentational changes were made to the accounts during the course of the audit, as a result of issues identified during our audit. Of particular note were amendments required to ensure compliance with accounting guidance which had been issued by the SFC in May 2006.
45. The College's audited financial statements and my final report are to be submitted to the Auditor General by 31 December. I am pleased to record that, following approval of the financial statements by the Board of Management on 4 December 2006, the audited financial statements will be submitted within this timetable



46. Matters raised in the 2004/05 final report to the board of management were followed up as part of the audit and will be reported separately.

Accounting practice

47. The college's financial statements comply with the requirements of the statement of recommended practice: accounting for further and higher education and the funding council's 2005/06 accounts direction. During the course of the audit a number of issues arose which were resolved in discussion with the Director of Finance. This practice is an established part of the audit process. A number of minor changes have been made to the accounts following completion of the audit.

Intangible Assets

48. No intangible assets are disclosed within the college's balance sheet. Guidance requires that software licences should be capitalised and classified as intangible assets. Our audit noted that the asset register shows a computer asset addition in 2005/06 for £9,404 in relation to a software licence which covers a 3 year period. The expenditure has been included within the equipment assets and will be written off over the appropriate period. We would recommend that the college continues to review the categorisation of future purchases of software licenses which extend beyond one year and which are above the college's de minimis level of £5,000 for individual items.

Bad Debt Provision

49. Although an aged transactions report can be produced from the financial ledger which lists amounts owed to the College by debtors in terms of age, the report is not used as a means of calculating an appropriate bad debt provision. Judgement is used instead of utilising the information contained within this report. We noted that the bursary debtor bad debt provision is £5,000 at 31 July 2006 but the actual bursary debtors outstanding at the year end totalled £1,572. The College should assess the level of bad debt provision in the light of the aged debt analysis.

Action plan no 5

Student Support Funds, Bursaries and Childcare Funds

50. Notes 31 and 32 to the financial statements identify a number of funds which, with the exception of childcare funds, are not included in the College's income and expenditure account. All of these funds (excluding Education Maintenance Allowances), are subject to separate audit certification by the college internal auditors. The audit was recently completed by internal audit and a draft report submitted to management for comment with no major matters arising identified.



College estate

51. The college has now begun work on the site of the new build, to be situated opposite the current college building on the Flemington Street site. A project management team, a design team and a contractor are in place and full planning consent has been obtained. Current costs are estimated to be in the region of some £41 million with funding having been secured from a wide range of sources. As at 31 July some £3.859 million had been spent on the project. The college expects the year ahead to see a significant increase in the level of expenditure as building gets properly underway.
52. The process of determining the most appropriate option for disposing of the current Flemington Street site is likely to have implications for the college's income and expenditure account. This is because the value of the site on the balance sheet will need to be adjusted to reflect that expected from the chosen method of disposal, and the possibility of a significant impairment impacting on the income and expenditure account will need to be considered.

Legality

53. Each year we request written confirmation from the Principal that the college's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Principal has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the board of management, the financial transactions of the college were in accordance with the relevant legislation and regulations governing its activities.
54. There are no additional legality issues arising from our audit which require to be brought to the board's attention.

Financial reporting outlook

55. Overall the college is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements.

Change of external auditor

56. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years.
57. This is the final year of our current appointment to the audit of North Glasgow College. From 2006/07 KPMG will become the college's appointed auditor. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.



Final remarks

58. The members of the board of management are invited to note this report. We would be pleased to provide any additional information that may be required.
59. The co-operation and assistance given to us by the Principal, the Director of Finance and their staff over the five years of our audit appointment is gratefully acknowledged.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Responsible officer	Planned Action	Action Date
1	<p>It is possible that existing pensions' disclosure and accounting requirements will change during 2006/07.</p> <p><i>Risk: The college may not disclose properly the required accounting disclosures.</i></p> <p>Recommendation: The college should consider the relevant guidance to ensure that they are fully apprised of developments in accounting for pensions during 2006/2007.</p>	Director of Finance	Relevant pensions' accounting guidance will be considered.	July 2007
2	<p>All colleges are formally required to comply with the 2003 Code of Corporate Governance with effect from 2006/07 and provide evidence that governance arrangements have been reviewed against the 2003 Code requirements.</p> <p><i>Risk: The college may not fully comply with the requirements of the 2003 Code.</i></p> <p>Recommendation: The college should formally review the Combined Code of Corporate Governance 2003 to ensure full compliance.</p>	Vice-Principal	The Vice-Principal along with the College Secretary, will ensure full compliance with the Combined Code of Corporate Governance 2003.	July 2007
3	<p>Verbal updates are provided to members.</p> <p><i>Risk: Members are not fully aware of relevant information on which to base their decisions.</i></p> <p>Recommendation: Formal written reports should preface each item on the agenda, summarising the key documents and issues to be raised together with alternative courses of action highlighted.</p>	Principal	The recommendation will be implemented.	December 2006
4	<p>A formal fraud policy has not been formally approved and circulated to all parties.</p> <p><i>Risk: The college's view and expectations with regard to fraud and corruption are not known / are unclear / are misunderstood.</i></p> <p>Recommendation: The fraud policy should be updated and formalised and issued to all relevant parties.</p>	Director of Finance	The fraud policy will be presented to the Board in December 2006.	December 2006



Action Point	Risk Identified	Responsible officer	Planned Action	Action Date
5	<p>The college does not use an aged analysis of the different categories of debtors prior to deciding the level of bad debt provision to be established.</p> <p><i>Risk: The level of provision established may prove inadequate to cover bad debts, resulting in additional unanticipated costs against the income and expenditure account.</i></p> <p>Recommendation: A review of the aged debtor balances should be undertaken and an appropriate level of provision established.</p>	Director of Finance	The recommendation will be implemented.	July 2007