

OATRIDGE COLLEGE

**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	09 October 2006
Date of Draft Report to College	30 October 2006
Date of Meeting re Draft Report	03 November 2006
Date of College Responses	06 November 2006
Date of Presentation of Report	11 December 2006

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GLOSSARY OF TERMS

Annual Report	-	Report
Oatridge College	-	The College
Financial Appraisal and Monitoring Service	-	FAMS
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Oatridge College 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 Oatridge College 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 SFEFC, 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 £67k on the year's continuing operations. The surplus represents a slightly weaker position from the previous year's surplus on continuing operations of £78k. The remainder of last year's total surplus on continuing operations of £89k was an £11k surplus on the sale of properties. A prior year adjustment has been made in respect of FRS 17 requirements. This has the effect of reducing net assets in last year's accounts by £635k.
- 3.5 In 2005/06 the College budgeted for an operating surplus of £53k. The College has forecast a £45k operating deficit in 2006/07 in its Financial Forecast Return to SFC.
- 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 £195k is shown (£217k in 2004/05).

- 3.7 The balance brought forward on the income and expenditure reserve at 1 August 2005 was £1,877k. 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 £2,064k. A Capital Reserve of £364k was created in 2003/04 out of the proceeds from the sale of fixed assets. This reserve has had no movement in the current year. A pension reserve has been created this year. £635k relates to the previous year adjustment in respect of FRS17 requirements. The revaluation of the pension fund during the year means that the closing balance on the Pension Reserve at 31 July 2006 is £663k.
- 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 and the Income Base Group, particularly in regard to:
- ◆ the reserves (designated reserves plus I&E reserves) were 41.6% of total income (2003/04: 39.0%), compared with a sector average of 7.0% (2003/04: 4.1%);
 - ◆ the liquidity ratio (current assets: current liabilities), was 3.6 (2003/04: 3.8) compared with a sector average of 1.3 (2003/04: 1.2);
 - ◆ the days cash to total expenditure ratio was 106 (2003/04: 107), compared with a sector average of 57 (2003/04: 44).
- 3.9 The financial position of the College has remained stable in 2005/06 and the surplus on continued operations has increased from the previous year. 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 26th October 2006, with a draft version of the figures having been used at the audit fieldwork visit. 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 Finance Manager. 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 **Lothian Pension Fund (LPF):** The LPF is a defined benefit scheme. In previous years, the financial statements have taken advantage of the exemptions available under FRS17 to disclose the LPF on the basis that it is a defined contribution scheme. There is uncertainty 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. Recent guidance appears to indicate that this is now possible for the LPF scheme if the College has the information available. Therefore, in this years financial statements, the College's pension assets and liabilities (as valued by Hymans Robertson during the year) have been accounted for as a defined benefit scheme. This has resulted in a prior year adjustment of £635k.

INTERNAL AUDIT

Objective and Approach

- 3.13 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.
- 3.14 The College's internal auditors are Chiene & Tait.
- 3.15 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2006 in the Audit Needs Assessment – dated June 2005.
- 3.16 In the course of the year ended 31 July 2006 the following internal audit reports were issued:
- a) SUMs
 - b) Capital Expenditure and Project Management
 - c) Corporate Governance
 - d) Payroll
 - e) Follow-up Review
- 3.17 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment.
- 3.18 The Internal Audit annual report from the College's internal auditors was issued in November 2006. This report gives the overall level of assurance as 'substantial'.

Opinion

- 3.19 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.

4. CORPORATE GOVERNANCE

Objective and Approach

- 4.1 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.

Opinion

- 4.2 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.

Recommendations

- 4.3 There was one recommendation in respect of Corporate Governance that was set out last year. This has been addressed this year.
- 4.4 There are no new recommendations in this area.

5. VALUE FOR MONEY

Objective and Approach

- 6.1 The College has a formal, written VFM strategy.

Opinion

- 6.2 Based on our audit work, there is nothing to suggest that the College does not have regard to economy, efficiency and effectiveness in the use of its resources.

Recommendations

- 6.3 There were no recommendations set out in last years Management letter. And no new recommendations to be raised this year.

7. GMAP VISITS

- 7.1 The College has not had a GMAP visit during the year ended 31 July 2006.
- 7.2 We understand that no GMAP visits have been scheduled as yet for the coming year.

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 are no recommendations in this area.

9 MANAGEMENT LETTER – 2005 and prior

- 9.1 Wylie & Bisset following the audit for the year issued the management letter for the year ended 31 July 2005.
- 9.2 Of the seven recommendations set out in the management letter, four of the recommendations have been implemented by the college. The other three recommendations have been re noted below.
- 9.3 There are no recommendations that have been graded as “High” priority in this area.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
1. In accordance with FRS 11 the College’s management should carry out a formal impairment review of fixed assets on an annual basis.	We recommend that the College carries out an impairment review of fixed assets on an annual basis, this could be done by the Estates committee.	Medium	The College’s review of its fixed assets showed no indication of impairment and therefore an annual impairment review of fixed assets was not undertaken in 2005-2006	Assistant Principal
2. Differences were found between the carry forward balances on the Hardship and Bursary Returns to the Student Support Creditor. This was due to inter-college journals that had not been processed.	An exercise should be performed to agree the Student Support creditor to the draft Returns before the auditor visit.	Medium	Reconciliation was not completed prior to the audit as a result of resource constraints following changes in staffing. Regular reconciliations will be carried out throughout the year to ensure that figures are agreed prior to next year’s audit.	Finance Manager
3. During our trade creditors work, we noted that the College does not formally prepare supplier statement reconciliations.	We recommend that the College prepares such reconciliations for large creditors and major suppliers, at least, as at the financial year-end.	Low	Supplier statements are checked when received for any outstanding invoices and are maintained at the year end. It is not considered that regular formal reconciliations are required.	Finance Manager

MANAGEMENT LETTER – 2006

9.4 Three recommendations following the audit for the year ended 31 July 2006 have been set out below.

9.5 None of these recommendations have been graded as “High” priority.

Background	Recommendations	Priority	College response	Responsibility /Timescale
1. During our testing of trade creditors it was noted that there are a number of immaterial debit balances remaining on the list since last year. There are also a number of immaterial credit balances which have been on the ledger since last year.	We recommend that the College investigate these amounts and deal with them/ write them off as appropriate in order to tidy up the ledger.	Low	Noted. We will carry out a review and clear these balances.	Finance Manager Dec 2006
2. During our testing of trade debtors it was noted that there are a number of immaterial credit balances on the ledger. Some of these have been there since last year.	We recommend that the College investigate these amounts and deal with them/ write them off as appropriate in order to tidy up the ledger.	Low	Noted. We will carry out a review and clear these balances.	Finance Manager Dec 2006
3. Draft figures were available from the start of the audit visit which did not change significantly. For efficiency it would be helpful to have full draft accounts at the start of the visit.	We recommend that in future years the College produce full draft accounts in advance of audit fieldwork.	Low	Noted. We try to complete the statutory accounts as fully as possible prior to the audit but minor changes are usually required during the audit process.	Finance Manager

APPENDIX A

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

(as copied from Annual Accounts)

APPENDIX B

INDEPENDENT AUDITORS REPORT

(As copied from Annual Accounts)