

Perth College

Report on the 2005/06 Audit



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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, summarising 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 of Perth College for 2005/06.

The consolidated income and expenditure account shows a surplus for the year of £80,000 on the year's operations. After transfer of £328,000 from the revaluation reserve, an in-year historical cost surplus of £408,000 was achieved, which when transferred to the general reserve resulted in an accumulated general reserve of £1,451,000 as at 31 July 2006. An additional £500,000 is held as a designated reserve.

The college's strategic plan aims to achieve reserves balances of £3 million by 2007/08. The plan states that the reserves shall be used to "maintain the existing campus and to ensure financial security if an unpredicted liability were to occur".

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 2005-08 college strategy was approved by the board of management in June 2005. The college is currently preparing an updated strategic plan for the period 2006–2010, which will be aligned with the strategic plans of other UHI partners to create a single UHI plan. The college plans to submit the strategic plan to the Scottish Funding Council in July 2007. Progress against the targets set in the strategic plan will be monitored by the board.

The colleges' estates strategy is currently under review. The outcome of this review is fundamental to the delivery of improved services to students in the coming years and will support the college's strategic direction.

This is the final year of our appointment to the audit of Perth College. From 2006/07 the college's auditors will be Tenon Audit Limited.

**Audit Scotland
December 2006**



Introduction

1. This report summarises the findings from our 2005/06 audit of Perth College. The scope of the audit was set out in our 2005/06 audit planning memorandum, which was submitted to the college in March 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
 - 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 Finance Manager 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 a 2005-08 strategy document in place setting out the college's strategic aims and key performance measures for the period. Progress against the targets has been presented to the board at strategy away days and will be incorporated into the 2006-10 college strategy. The college strategy is discussed further at paragraph 10.
8. Over recent years the college has exceeded its targets for further education student numbers. The college's contract with the Scottish Funding Council is for 31,553 weighted SUMS. In 2005/06, the college achieved weighted SUMS of 34,205. The college continues to exceed targets in this area.
9. Performance in attracting higher education students in recent years has been mixed. 2004/05 forecasts were not achieved, however 2005/06 reflected improved performance in this area with the college attracting 1,099 Full Time Equivalent students (FTE), in excess of the forecast level of 1,052.

Performance outlook

10. In June 2005, the board of management approved the college strategy 2005-08. This identifies the college's vision *"to be the first choice for the people of Perth and Kinross who are seeking the skills and qualifications to achieve their career goals and for businesses seeking to improve their performance through their employees"*.
11. Perth College identified the following four strategic aims and objectives (covering two horizontal themes —widening access & equal opportunities and knowledge transfer):
 - providing learning opportunities of an excellent standard to learners at all levels in ways that maximise successful outcomes



- making the curriculum and services flexible, relevant, up-to-date and readily and equally accessible to a full spectrum of potential learners and employers
 - supporting the economic, social and cultural development of the communities it serves, working with partners and other stakeholders where appropriate
 - making best use of all resources, including staff, finance and property, in order to maximise income and maintain the College's financial security.
12. A new Principal was appointed by the college in January 2006, following the retirement of the existing Principal. The new Principal has introduced a new management structure for the college which is designed to manage the delivery of improved performance across the college. The management team is currently preparing a revised strategic plan for the period 2006-10. The plan is being aligned with other UHI partners' strategic plans and processes and will form part of a single UHI plan. New key performance measures are being developed to measure progress against the college's aims and objectives and the monitoring of these measures will be reported in future strategic plans.
13. The college's strategic priorities are underpinned by key supporting strategies which have been approved by the board of management. The college's estate strategy is currently under review and the new strategy is seen as a key element of delivering improved services to students.



Financial Position

Introduction

14. 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

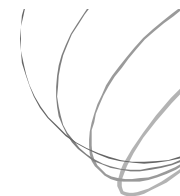
15. The college's consolidated income and expenditure account shows a surplus for the year of £80,000 (£143,000 in 2004/05) on the year's operations in line with the forecast surplus in the college's 2005 financial forecast return (FFR). The £80,000 surplus included a surplus of £127,000 achieved by Air Service Training (Engineering) Limited (AST), a wholly owned subsidiary of the College.
16. After transferring £328,000 from the revaluation reserve to account for the difference between the actual depreciation charge for the year and depreciation based on historical cost, an historical cost surplus of £408,000 is shown (£472,000 in 2004/05). This sum, together with the balance brought forward on the general reserve of £1,043,000 resulted in a balance on the general reserve as at 31 July 2006 of £1,451,000.

Reserve Strategy

17. The college's strategic plan aims to achieve reserve balances of £3 million by 2007/08. This sum includes a designated reserve of £500,000 which is earmarked to fund anticipated future costs of long term estates management. The strategic plan states that the reserves shall be used to "maintain the existing campus and to ensure financial security if an unpredicted liability were to occur".

Pension Disclosures

18. 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* (FRS 17) 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.



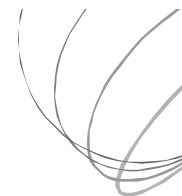
19. For defined benefit schemes, the pension asset or liability attributable to the college has to be recognised in the balance sheet and the full costs of benefit entitlements earned by employees, and not simply the cost of employer contributions to the fund, are to be reflected in the income and expenditure account. The FRS allows reduced disclosure for defined contribution schemes which does 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.
20. The college employees belong to two principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS) and the Tayside Superannuation Scheme (the Local Government Pension Fund - LGPF).
21. Both schemes are multi-employer schemes. On the basis that the college is unable to identify its share of the underlying assets and liabilities of these schemes, in the accounts 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. 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.

Investment in Air Service Training (Engineering) Limited (AST)

22. In previous years we reported on the weak financial position of AST, a subsidiary company wholly owned by the College and recommended that the financial position be closely monitored by the Board of Management.
23. In last year's annual report on the audit, we reported that the company had achieved an improved financial position (the company incurred a deficit of £0.016 million, which followed a deficit of £0.103 million in the preceding year), resulting from the imposition of strict expenditure controls during the year. Further improvement was forecast for 2005/06 following relocation of part of the AST operations to the main College building. This improvement has been realised with a surplus of £127,000 being achieved in 2005/06.

Financial position outlook

24. The college's 2006 FFR records an anticipated surplus of £63,000 for 2006/07. This sum includes a forecast £151,000 surplus from AST. Improvements in the college's financial position is dependent on the forecast surpluses to be achieved by AST. We note that the Board will continue to monitor the position of AST to ensure that these surpluses are achieved.
25. The College's forecast financial health over the next three years is rated as secure in its 2006 FFR. A healthy general reserve is to be maintained for future use.



Governance

Introduction

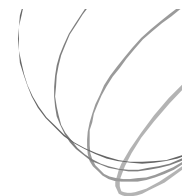
26. In this section we comment on key aspects of the college's governance arrangements during 2005/06.

Overview of arrangements in 2005/06

27. 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.
28. 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.
29. 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.

Systems of internal control

30. 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.
31. 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 standard Audit Scotland checklists.
32. Our review of corporate governance confirmed that overall the college's arrangements appear to be well developed and operating effectively.
33. Overall, we conclude that the college's financial systems are adequate for the purpose of producing the financial statements.



Review of internal audit

34. 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.
35. Internal audit services are provided by Henderson Loggie. 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.
36. 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.
37. On 16 November, Henderson Loggie issued an Internal Audit Report for the year ended 31 July 2006, which concluded that the *"College operates adequate and effective internal control systems as defined in the ANA (Audit Needs Assessment)"*.

Prevention and detection of fraud and irregularities

38. The college has appropriate arrangements in place to prevent and detect fraud. These arrangements include policies on the prevention of fraud and whistle-blowing.
39. The Finance Manager has confirmed that no frauds were identified in 2005/06.



Financial Statements

Introduction

40. 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.
41. 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
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
42. We also review the corporate governance statement by:
- considering whether disclosures in the statement comply with the requirements of the Scottish Funding Council
 - assessing whether disclosures in the statement are consistent with our knowledge of the college.

Overall conclusion

43. We have given an **unqualified** opinion on the financial statements for 2005/06.
44. The college's unaudited financial statements were submitted for audit on 30 October 2006, in line with the agreed timetable. Supporting working papers were provided and were found to be of a high standard. Key staff were also readily available for consultation throughout the audit process and this enabled the audit to progress smoothly.

Accounting practice

45. The college's financial statements comply with the requirements of the statement of recommended practice: accounting for further and higher education (SORP) 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 Finance Manager. 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.



Tangible fixed assets

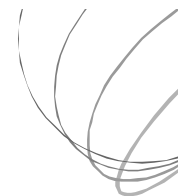
46. *Financial Reporting Standard 15: Tangible Fixed Assets* (FRS 15) sets out the principles of accounting for the initial measurement, valuation and depreciation of tangible fixed assets. As noted in its Statement of Principal Accounting Policies, the college has applied the FRS's transitional arrangements for valuing assets. These arrangements allow an entity which does not have a policy of revaluation to retain the existing book value of assets. The college has had a programme of new build since the introduction of the FRS and took the decision not to revalue its tangible fixed assets until the programme was complete.
47. As noted at paragraph 13, the college is currently reviewing its estates strategy. The completion of this review would be an appropriate time to reconsider the college's policy in regard to revaluation of tangible fixed assets.
48. FRS 15 requires that a review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. We understand that land and building assets were not tested to determine whether any land and building asset were subject to impairment.

Legality

49. 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 her 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.
50. There are no additional legality issues arising from our audit which require to be brought to the board's attention.

Financial reporting outlook

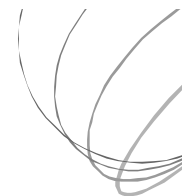
51. Overall the college is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and developing accounting practice.



Change of external auditor

52. 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.

53. This is the final year of our current appointment to the audit of Perth College. From 2006/07 Tenon Audit Limited 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

54. 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.
55. The co-operation and assistance given to us by the Principals, the Finance Manager 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	Refer Para No.	Risk Identified	Planned Action	Responsible Officer	Target Date
1	46 to 47	Since the introduction of FRS 15, the college has applied a policy of not revaluing its tangible fixed assets. The completion of the review of the estates strategy in 2006/07 would be an appropriate time to formally reconsider this policy. Continuing the existing policy could result in asset values being understated.	The policy of re-valuing tangible fixed assets will be formally re-considered after the review of the Estates Strategy to be completed in 2006-07.	Director of Strategy & Financial Planning	June 2007
2	48	Land and building assets were not tested to determine whether any such asset was subject to impairment. This does not comply with FRS 15.	Land & Buildings fixed assets will be tested annually to determine whether any asset is subject to impairment.	Director of Resources	June 2007