SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Elmwood College

Annual Report to the Board of Management and the Auditor General for Scotland 2006/07

14 December 2007

SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Elmwood College

Annual Report to the Board of Management and the Auditor General for Scotland 2006/07

1 Summary

Finance

- Our audit opinion on the truth and fairness of the financial statements and the regularity of transactions is unqualified. The deadline of 31 December 2007 for submitting final accounts to SFC will be achieved.
- The College reported a surplus of £176,000 in 2006/07 after an exceptional gain on sale of property of £397,000. Excluding this gain, the College incurred an operating loss of £221,000 which the College has attributed to delays in receiving European Social Fund (ESF) income.
- The College is forecasting deficits in 2008/09 and 2009/10 in its latest Financial Forecast Return (FFR) submitted to the SFC. This is principally due to a drop in expected ESF income. The College requires to review and revise its financial strategy in order to maintain financial security.
- We identified no major errors or weaknesses during our audit. However we have highlighted a number of opportunities for improvements in financial accounting and reporting systems. Strong financial management arrangements will be crucial to maintaining financial security in future years.
- The College should review its management arrangements for ESF contracts to provide greater confidence in receipt of income.

Governance

- 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 2006/07. A revised Combined Code on Corporate Governance was issued in 2006 and is applicable for reporting periods beginning on or after 1 November 2006. We recommend that the College reviews its current corporate governance arrangement against the 2006 Code.
- HMIE performed a review of the College in March and May 2007. The College was assessed as 'very good' in all cross college areas.

Conclusion

This report concludes the 2006/07 audit of Elmwood College. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing and Ethical Standards.

This report has been discussed and agreed with the Finance Director and has been prepared for the sole use of Elmwood College, the Auditor General for Scotland and Audit Scotland. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff

14 December 2007

2 Introduction

2.1 Audit appointments

The Auditor General for Scotland is responsible for reporting to the Scottish Parliament on how public bodies spend public money, manage their finances and achieve value for money in the use of public funds. In discharging this responsibility the Auditor General appoints FE college auditors and sets the terms of their appointment.

The Auditor General for Scotland has appointed Scott-Moncrieff as external auditor of Elmwood College for the five year period 2006/07 to 2010/11.

This annual report summarises our 2006/07 audit of Elmwood College and highlights the key issues arising from our work.

2.2 Independence and ethical standards

Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires external auditors to inform the Audit Committee on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We can confirm that we have complied with the APB Ethical Standards throughout the audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way.

2.3 Key risks

Our audits are risk based. This means that we focus our resources in the areas of highest risk to the College. The key audit issues identified for the 2006/07 audit were summarised in our external audit plan presented to the Audit Committee on 18 September 2007. These audit issues were:

- Revaluation of land and buildings (see section 4.8.1),
- European grants (see section 4.8.2),
- Corporate Governance – Combined Code (see section 3.2.4),
- Russell Mains (see section 4.8.3),
- Fife Council Pension Fund liabilities (see section 4.8.4),
- Early retirement liabilities (see section 4.8.5),
- HMIE visit (see section 3.7).

This report includes our findings in relation to these key risks.

2.4 Scope of the audit

Our audit work can be classified under the following two headings: governance and finance. The main audit objective for each of these areas is summarised below.

2.4.1 Audit areas and audit objectives

Audit area	Audit objective
Governance	To review the College's governance arrangements in relation to: • systems of internal control and risk management, • the prevention and detection of fraud and irregularity, • standards of conduct and prevention and detection of corruption.
Finance	To provide an opinion on the truth and fairness of the College's financial statements and on the regularity of transactions. To review the College's financial standing, and financial management arrangements.

The remainder of this report sets out the results of our work in 2006/07. The action plan in section 5 details the recommendations we have made during the year.

2.5 Audit fee

We agreed a fee of £11,100 in our audit plan which was presented to the College's Audit Committee on 18 September 2007. This was set at the mid-point of Audit Scotland's calculated range and this level of fee was based on our initial assessment of the audit work involved.

The work required on the key issues in 2006/07 was greater than we initially assessed and we have agreed with the Director of Finance to increase our fee to the high point in the range of £12,210 to reflect the additional audit work performed.

3 Governance

3.1 Introduction

The College 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; and
- conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

It is our responsibility to review and report on the College's governance arrangements.

It is also our responsibility to review the College's governance arrangements in relation to its financial position. This is reported in section 4 – Finance.

3.2 Corporate Governance statement

3.2.1 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, and reports the College's compliance with the Combined Code.

We are required to report whether the College's Corporate Governance Statement complies with the requirements of the Scottish Funding Council (SFC).

3.2.2 The College's Corporate Governance Statement for 2006/07 – fully compliant statement

The College's Corporate Governance Statement for 2006/07 explains that the College was fully compliant with the 2003 Combined Code throughout the period.

3.2.3 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.

3.2.4 Combined Code 2006

A revised Combined Code on Corporate Governance was issued in June 2006, which supersedes the Code issued in 2003.

The Combined Code 2006 is applicable for reporting years beginning on or after 1 November 2006 and therefore the College is encouraged to adopt the revised code for its 2007/08 annual accounts. We recommend that the College reviews its corporate governance arrangements against the 2006 Code in preparation for making its Corporate Governance Statement in its 2007/08 annual accounts (see action plan **5.2.1**).

The 2006 Combined Code contains a new provision B.2.1 which requires that the Board Chairman should not chair the remuneration committee, although the Board Chairman is allowed to be a member of the committee. This provision is designed to support the principle that "no director should be involved in deciding his or her own remuneration". As college board chairs are not remunerated the Board could continue with its current arrangements and still be in compliance with the Combined Code, as long as the arrangements are explained in the 2007/08 Corporate Governance Statement.

3.3 Risk management

Risk management is important to the establishment and regular review of systems of internal control. We have reviewed the College's risk management arrangements.

The College has a risk register in place and this is maintained by the Principal, who along with senior management is responsible for reviewing and updating the risk register on a regular basis. Changes to the action plan and the full risk register are reported to the Audit Committee.

We have concluded that the College appears to have robust risk management systems in place.

3.4 Internal audit

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

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 Code of Audit Practice. The review concluded that the internal audit service provided to the College was in compliance with the Code of Audit Practice.

3.4.1 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.

During 2006/07 we have reviewed the following internal audit reports:

- Business Development Operations
- Golf Course and Clubhouse
- Procurement and Creditors/Purchasing

We considered the results from these reports on our own risk assessments. We are grateful to Henderson Loggie for their assistance during the course of our audit work.

3.5 Prevention and detection of fraud and irregularity

We are required to consider the arrangements made by management for the prevention and detection of fraud and irregularity. Fraud is defined as deception made for personal gain and irregularity is defined as transactions which do not comply with Scottish Ministers guidance. We consider the arrangements made by management in the following ways:

- We examine the financial instructions issued by the College to ensure that they deal adequately with fraud and irregularities and provide a framework for exercising strong internal control,
- 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 are pleased to report that we identified no issues of concern in relation to the arrangements for the prevention and detection of fraud or with regard to the legality of transactions.

3.6 Standards of conduct, integrity and openness

We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption.

Propriety requires that public business is 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.

Guidance on standards of conduct, accountability and openness has been issued by the Scottish Government (formerly Scottish Executive).

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. We also considered controls over ordering and procurement and disposal of assets.

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

3.7 HMIE visit

Her Majesty's Inspectorate of Education (HMIE) carried out a review in March and May 2007. The review team examined key cross-college functions and processes that have a direct impact on the quality of the learner experience. The review also involved scrutiny of documentation provided by the College and interviews with senior and middle managers, staff and students.

HMIE rated all the areas reviewed as either good or very good and included the following in its summary:

HMIE is confident that:

- The College has in place very effective learning and teaching processes
- The learners are progressing well and achieving appropriate outcomes
- The College is managing well and improving the quality of its services for learners.

We congratulate the College on the results of the HMIE review, which provides further evidence on the strength of the College's corporate governance arrangements.

4 Finance

4.1 Introduction

We are 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 of the financial position of the College and its expenditure and income for the period;
- whether they have been prepared in accordance with relevant legislation and applicable accounting standards;
- the regularity of the expenditure and receipts.

We are also required to review the College's governance arrangements in relation to its financial position.

4.2 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 2006/07 comply fully with the Accounts Direction issued by SFC.

4.3 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 colleges and universities 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. The SORP applicable to accounts ended 31 July 2007 was issued in 2003.

We are pleased to report that the 2006/07 annual accounts of the College comply with the FE/HE SORP 2003 in all material respects.

4.3.1 FE/HE SORP 2007

A revised SORP was issued in July 2007 and is applicable to the 2007/08 annual accounts. The revised SORP has been prepared on the assumption that Further and Higher Education institutions will not be adopting International Financial Reporting Standards (IFRSs) in the near future and has been based on UK Generally Accepted Accounting Principles (UK GAAP).

The main impact of the revision is the requirement for the College to include an Operating and Financial Review (OFR) to accompany its annual accounts. An OFR is intended to be more detailed and forward looking than the current Report of the Board of Management. To minimise disruption during the year end audit process, we recommend that the College prepare its OFR in advance of the 2007/08 accounts preparation process (see action point **5.2.2**).

4.4 Annual accounts and audit timetable

The deadline for the submission to SFC of FE college audited annual accounts is 31 December. The accounts will be approved by the Board of Management on 14 December 2007 and will be submitted to SFC and the Auditor General prior to this deadline.

We did not receive the full draft accounts and supporting papers on 22 October 2007 as agreed in our audit plan. This was principally due to the new Director of Finance having to prepare the accounts without the support of another qualified accountant.

The Director of Finance informed us early on of the potential delay in the accounts preparation process and worked closely with us to ensure that the audit team were given sufficient work to ensure that the audit was completed. We found the draft accounts and workings papers to be of a very high standard.

We are grateful to the Director of Finance and the finance staff for their assistance and support during the course of the audit. However, we recommend that the College review its resource allocation for the year end accounts preparation process and ensure that it is adequate to prevent delays in the 2007/08 process (see action point **5.2.3**).

In addition, we recommend that the College reviews the current level of resource within the Finance Department to ensure it is adequate to meet the College's financial management and reporting needs going forward (see action point **5.2.4**).

4.5 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 2007 and of its expenditure and income for the financial year.

We are also required to include a regularity assertion in our audit report stating that, in all material respects, 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 have issued an unqualified audit opinion on the truth and fairness of the accounts and on the regularity of transactions.

4.6 Financial Position

4.6.1 In-year performance

The College is reporting a surplus for the year to 31 July 2007 of £176,000. This surplus includes the exceptional gain on sale of property as well as unplanned year end adjustments in respect of the pension liability. The table below shows the in-year performance excluding the exceptional item and year end adjustments.

Surplus / (deficit)		**£**
Surplus per annual accounts		176,000
Exceptional item – gain on sale of property		(397,000)
Pension adjustments:		
Net return on pension assets	(61,000)	
Pension cost less employer contributions	(22,000)	(83,000)
Adjusted operating deficit		**(304,000)**

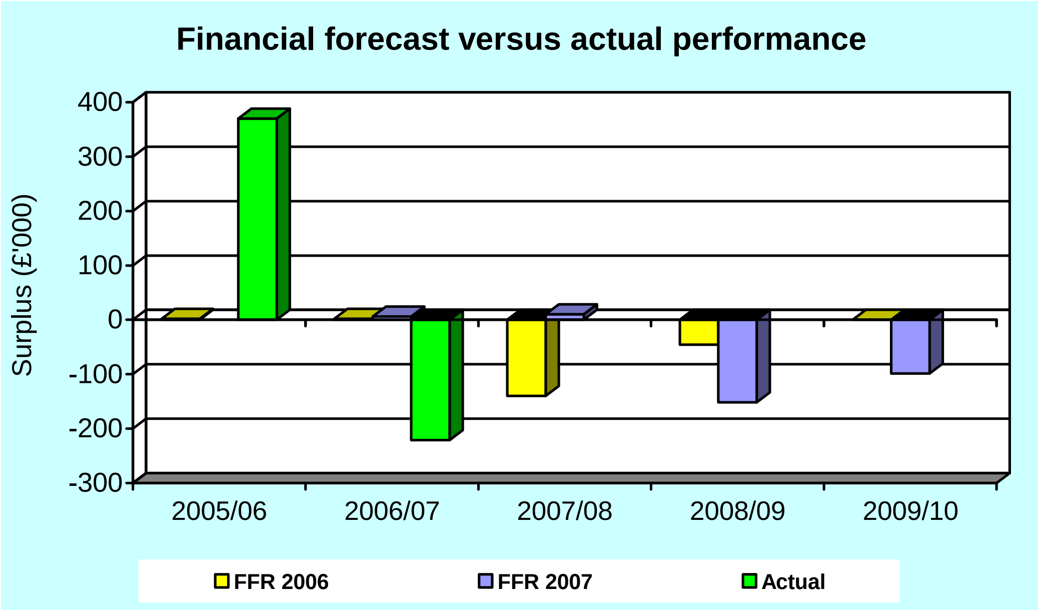
The College's original budget for 2006/07 showed a surplus before gain on sale of property of £2,000. The mid-year update presented to the Finance Committee on 9 March 2007 reported a revised forecast surplus of £6,000. The College has attributed much of the variance to European Social Fund (ESF) income being lower than forecast. The College had forecast ESF income of £460,000 in its mid-year update and actually reported ESF income of £317,000 in its annual accounts.

The College's Balance Sheet as at 31 July 2007 is reporting total reserves of £13.2 million, with £2.8 million within the general reserve and a healthy cash balance of £2.6 million.

4.6.2 Financial forecasts

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 2006/07 with the FFR forecasts and shows the latest predictions within the 2007 FFR. The surpluses reported are based on the surplus on operations prior to gain on sale of property and transfers between reserves.



As shown above, the College is expecting to incur deficits in 2008/09 and 2009/10. The College is currently in discussions with the SFC regarding its forecasts, though no plan of action has been agreed yet.

The College includes a finance section and 3 year forecast in its 2007-2010 Strategic Plan. Although the forecasts within the Strategic Plan show the College incurring deficits, the Strategy does not set out the College's plan for addressing these deficits. We recommend that the College reviews its financial strategy with a view to generating future surpluses (see action plan point **5.2.4**).

4.6.3 Financial planning and monitoring arrangements

The College's budgets are devised at the start of the year and approved by the Finance Committee. During the year, a mid-year financial forecast is presented to the Finance Committee showing the revised forecast and a paper explaining the significant movements. The Finance Committee meet three times a year and receives a cashflow report at each meeting. With the exception of the mid-year financial forecast, the Finance Committee does not receive reports showing income and expenditure against budget or a revised forecast.

We recommend that management accounts showing the year-end forecast are presented to each Finance Committee meeting. We also recommend that the Finance Committee consider meeting more frequently until the College is in a position where it is confidently forecasting regular surpluses (see action plan point **5.2.5**).

4.7 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.

We identified the following issues during our review:

- there is no commitment facility in the accounting system to show the value of outstanding orders made;
- the HR and payroll systems are not linked;
- the College is not currently getting all the reports it requires from the payroll bureau; and
- there is no reconciliation performed between the HR and payroll systems.

We have included recommendations in our attached action plan to address these issues (see action plan points **5.2.6**, **5.2.7**, and **5.2.8**).

4.8 Issues arising from the audit

In order to assist College members' understanding of the financial statements and our audit, we have summarised the issues below that we believe are of particular significance to the 2006/07 financial statements.

4.8.1 Revaluation of land and buildings

The College adopts a revaluation policy for its land and buildings. The College commissioned a full revaluation of all land and buildings as at 31 July 2007. This resulted in an upward revaluation of £4,043,000 and a reversal of past impairment of £79,000. The upward revaluation is shown in the Statement of Total Recognised Gains and Losses and Note 11 – Tangible Fixed Assets. The reversal of past impairment is netted off against the depreciation charge.

We audited the College's accounting entries and disclosure of the revaluation and are satisfied that, in all material aspects, it complies with *Financial Reporting Standard 15: Tangible Fixed Assets* (FRS 15).

4.8.2 European grants

The College participates in a number of European Social Fund (ESF) projects. Scottish Enterprise Fife is the lead partner for these projects and the College's contracts are with them. Scottish Enterprise Fife makes claims to ESF and the College submits claims to SEF. Scottish Enterprise Fife does not make payments to the College until Scottish Enterprise Fife has received payments from ESF.

The College stated accounting policy for this income is “Income from European Social Fund is accounted for to the extent that it has been received prior to the date of approval of the accounts.”

Financial Reporting Standard 5 – Reporting the Substance of Transactions – Application Note G – Revenue Recognition (FRS 5 – AN G) requires an entity to recognise income to the extent that the entity has obtained the rights to the consideration for the performance of a service.

It is our view that the College’s current method for recognising ESF income does not comply with FRS 5 – Annex G and therefore the 2006/07 annual accounts are misstated. We have assessed this misstatement and do not consider it to be material to the annual accounts for 2006/07and have not qualified our audit opinion in this respect. We recommend that the College changes its accounting policy to comply with FRS 5 – AN G (see action plan point **5.2.9**).

The College’s current accounting policy implies an inherent uncertainty and lack of confidence in the ESF contracts. We recommend that the College reviews its management of these contracts with a view to ensuring that they are enforceable (see action plan point **5.2.9**).

4.8.3 Russell Mains – property disposal

The College disposed of property at Russell Mains and recognised a gain of £397,000 in its 2006/07 accounts. This is shown as an exceptional item on the Income and Expenditure Account.

We have agreed the disposal to the actual cash receipts on 5 October 2006 and 17 November 2006. We reviewed the College’s accounting for this disposal and ensured that it is correctly reflected in the financial statements.

4.8.4 Fife Council Pension Fund liabilities

The College’s employees belong to two principal defined benefit pension schemes, the Scottish Teachers’ Superannuation Scheme (STSS) for the teaching staff and the Fife Council Pension Fund (FCPF) for the non-teaching staff.

The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with *Financial Reporting Standard 17 – Retirement Benefits* (FRS 17), the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

The FCPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in its balance sheet. The FCPF's actuaries provided the College with an updated valuation as at 31 July 2007. The College 2006/07 financial statements reported a liability in respect of the Fife Council Pension Fund of £148,000. This is decrease of £984,000 during the year. This is principally due to a change in the financial assumptions underlying the present value of the scheme liabilities, resulting in a decrease of £705,000.

We have reviewed the College's accounting for the pension liability and ensured that it complies with the requirements of FRS 17.

4.8.5 Early retirement liabilities

The College has previously offered early retirement to staff. The College makes monthly payments to the pension fund to cover any shortfall arising from the decision to grant early access to retirement benefits. In line with *Financial Reporting Standard 12, Provisions, Contingent Liabilities and Contingents Assets* (FRS 12), the College recognises a liability for the future payments in relation to these early retirements. The College recalculates its estimate of this liability every year. The provision for early retirement was £679,000 as at 31 July 2007, an increase of £4,000 from the balance as at 31 July 2006.

We reviewed the College's calculation of its liabilities from early retirements and ensured that the estimation basis complies with the Scottish Funding Council's guidance and that the provision is a reasonable estimate of future payments.

4.9 Estates Strategy

The Scottish Funding Council issued revised estate strategy guidance during the year. The revised guidance reflects the Funding Council's Corporate Plan (Priority Action 68): "*We will establish the evidence base to allow the Council to consider how and when Colleges …could be provided with a sustainable funding stream, sufficient to allow them to renew and replace their buildings on an ongoing basis*." This action implies a move away from the funding of large, individual, bids-based projects to more strategic asset-management funding.

The SFC commissioned Currie and Brown in 2006 to review Colleges' continuing investment need. They recommended an approach to the remaining investment need that is based on formula funding and enhancing Colleges' planning through greater certainty of funding. The Council expects to see a much greater emphasis on phased renewal and refurbishment rather than complete replacement of buildings.

The Funding Council has asked for all Colleges to provide up to date estates strategies by the end of 2007. The type and size of institution or college will determine the type of estate strategy that will be required. The guidance also requires annual updates of these strategies.

The Principal and the Assistant Principal have already met with the Funding Council (the FE Development Unit) as well as a number of prospective advisors and mentors. The Funding Council wishes to have Elmwood College as a pilot College for this revised process.

The activities that Elmwood has already undertaken include: commissioning the Condition Survey; undertaking a Space Utilisation Survey; determination of a selection process with tenders for appropriate consultants based on a list provided by the Funding Council.

4.10 Loss of charitable status

The Office of the Scottish Charity Regulator (OSCR) published the results of the pilot scheme to review charitable status. This included a review of John Wheatley College in Glasgow. OSCR concluded that the charity test was not met because of the ability of Scottish Ministers to direct or otherwise curtail the College's activities. The College has a two year period for a resolution to be found.

Loss of charitable status will result in increased non-domestic rates and potential corporation tax liabilities. Elmwood College has been monitoring developments closely and is currently reviewing its own structure and arrangements with a view to the potential loss of charitable status.

5 Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2006/07. These are the issues that we believe need to be brought to the attention of the College.

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.

5.1 Priority rating

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. 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 action to improve the efficiency, effectiveness on economy of operations or which otherwise require to be brought to the attention of senior management.

5.2 Issues from our 2006/07 audit

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.1 **Combined Code 2006** **(Section 3.2)**	A revised Combined Code on Corporate Governance was issued in June 2006, which supersedes the Code issued in 2003. The Combined Code 2006 is applicable for reporting years beginning on or after 1 November 2006. The College does not have an up to date comprehensive self-assessment of compliance with the 2003 Combined Code.	Without a self-assessment, there is a risk that the College's statement of compliance with the Combined Code is inaccurate. The College should take this opportunity with the introduction of a new Combined Code to perform a self-assessment against the requirements of the 2006 Combined Code. The College should retain this self-assessment as a working document to be regularly updated in line with developments in corporate governance. ***Priority 2***	Agreed. ***Responsible Officer:*** Clerk ***Implementation Date:*** 31 March 2008
5.2.2 **FE/HE SORP 2007** **(Section 4.3)**	A revised SORP was issued in July 2007 and is applicable to the 2007/08 annual accounts. The main impact of the revision is the requirement for the College to include an Operating and Financial Review (OFR) to accompany its annual accounts.	The preparation of the OFR may delay the 2007/08 annual accounts preparation process. To minimise disruption during the year end accounts process, we recommend that the College prepare its OFR in advance of the 2007/08 accounts preparation process. ***Priority 2***	Agreed. ***Responsible Officer:*** Director of Finance ***Implementation date:*** 30 September 2008

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.3 **Accounts preparation** **(Section 4.4)**	The start of the 2006/07 audit fieldwork was delayed by one day and only the Balance Sheet page of the accounts was available for audit on our first day on site. This was principally due to there being a new Director of Finance in post and largely having to prepare the accounts alone.	Delays in the accounts preparation process increase the risk of error within the accounts and result in delays in the audit which could have cost implications for the College. We recommend that the College review its resource allocation for the year end accounts preparation process and ensure that it is adequate to prevent delays in the 2007/08 process. ***Priority 2***	Agreed. ***Responsible Officers:*** Principal and Director of Finance ***Implementation Date:*** 31 July 2008
5.2.4 **Financial position** **(Section 4.6.2)**	The College is currently forecasting deficits for financial years 2008/09 and 2009/10 in its latest Financial Forecast Return (FFR) to the Scottish Funding Council (SFC).	The College should review its financial strategy with the view to achieving a recurrent surplus. Once in place, progress against the financial strategy should regularly be reported to the Finance Committee and the Board, if necessary. In addition, the College should review the level of resource within the Finance Department to ensure it will be adequate to meet the College's financial management and reporting needs in support of the financial strategy. ***Priority 1***	Agreed. ***Responsible Officer:*** Principal ***Implementation Date:*** 31 March 2008
5.2.5 **Financial monitoring** **(Section 4.6.3)**	With the exception of the mid-year financial forecast, the Finance Committee does not receive reports showing income and expenditure against budget or a revised forecast.	Management accounts showing the year-end forecast are presented to each Finance Committee meeting. We also recommend that the Finance Committee consider meeting more frequently until the College is in a position where it is confidently forecasting regular surpluses. ***Priority 2***	Agreed. ***Responsible Officer:*** Director of Finance ***Implementation Date:*** 31 August 2008

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.6 **Finance systems** **(Section 4.7)**	We identified the following issues while reviewing the accounting systems: • There is no commitment facility in the accounting system, • The HR and payroll systems are not linked.	Lack of a commitment facility could result in the College overspending its approved budgets. The HR and payroll systems both contain data on the College's employees. Linking the systems could increase efficiency and the consistency of data in both systems. In light of the College's forecast financial position it will become increasingly important for the College to have strong financial management of budgetary controls. In our view, commitment accounting is key element of a strong financial reporting system. The College should develop a plan for updating its finance system to meet its requirements. The plan should consider the issues we have raised. ***Priority 1***	Agreed. ***Responsible Officer:*** Director of Finance ***Implementation Date:*** 31 August 2008
5.2.7 **Payroll bureau** **(Section 4.7)**	The College's payroll is partly outsourced to the Royal Bank of Scotland. The current information provided by the payroll provider is limited and does not include exception reports.	In the absence of reviewing exception reports, there is a risk that payroll may not be calculated correctly and the error may not be detected. We recommend that the College reviews its arrangements with the payroll provider and considers either amending the arrangements or bringing the payroll 'in-house' to ensure that the College gets the information required. ***Priority 3***	Agreed. ***Responsible Officer:*** Director of Finance and Head of HR ***Implementation Date:*** 1 August 2008

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.8 **Payroll to HR reconciliation** **(Section 4.7)**	We identified in point 5.2.6 that the HR and payroll system are not linked. In addition, there are no procedures to reconcile the Payroll and HR systems.	There is a risk that the two systems might not match in terms of total staff numbers and people could remain on the payroll who should have been removed We recommend that an annual reconciliation between the two systems should be carried out at the end of the financial year. ***Priority 3***	Agreed. ***Responsible Officer:*** Head of HR ***Implementation Date:*** 31 December 2007 and thereafter by 30 September
5.2.9 **ESF contracts** **(Section 4.8.2)**	The College's current accounting policy implies an inherent uncertainty and lack of confidence in the College's ESF contracts.	There is a risk that the College will not receive income for services it has agreed to deliver under its ESF contracts. We recommend that the College: • amends it accounting policy to comply with FRS 5 AN G, and • review its management of these contracts with a view to ensuring that they are enforceable. ***Priority 2***	We have raised this issue with the Funding Council in terms of sector-wide practice. The uncertainty of ESF income in particular is a sector-wide issue. ***Responsible Officer:*** Director of Finance ***Implementation Date:*** N/A

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.10 **Register of Board Members' interests**	We identified during our interim audit, that there was no process in place for regularly updating the Register of Board Members' interests.	The risk is that the register will not be up-to-date for any changes to current Board Members' interests We recommend that the Register of Board Members' Interests should be updated annually to confirm any changes or confirm that there have been no changes in the year. ***Priority 3***	Action already taken. ***Responsible Officer:*** Clerk ***Implementation Date:*** Actioned in August 2007 and will be undertaken annually by 31 July thereafter

5.3 Follow up of issues from the 2005/06 audit

Title	Original Issue Identified	Original Management Comments	Update at November 2007
5.3.1 **Reserve Strategy**	The previous auditors identified that the College does not have a formal reserve strategy in place.	The College will introduce a formal reserve strategy, which will be approved by the Board of Management. **Responsible Officer:** *Director of Finance* **Implementation Date:** *30 April 2007*	This is a requirement of the Charity SORP and is not required by HE/FE SORP. However, the College believes that a reserve strategy is considered as part of the College's longer term planning reflected in the Financial Forecast Returns (FFR). ***No further action required***
5.3.2 **Financial Regulations**	The previous auditors identified that the College agreed to review its Financial Regulations in 2005/06. The review has not yet been carried out.	The College will review its Financial Regulations in 2006/07. **Responsible Officer:** *Director of Finance* **Implementation Date:** *30 April 2007*	To be updated during 2007/08. Not implemented in 2006/07 due to appointment of new Finance Director. ***Outstanding***
5.3.3 **Revaluation of Fixed assets**	The previous auditors identified that the College does not have a policy on the frequency of revaluation of tangible fixed assets.	The College will formally introduce a policy on the revaluation of tangible fixed assets. A full valuation of the golf course and clubhouse and an interim valuation of land and buildings will be undertaken in 2006/07. **Responsible Officer:** *Director of Finance* **Implementation Date:** *31 July 2007*	All land and buildings were revalued as at 31 July 2007. ***Action taken as agreed***

Title	Original Issue Identified	Original Management Comments	Update at November 2007
5.3.4 **Impairment of Fixed Assets**	The previous auditors identified that tangible fixed assets were not tested to determine whether any asset was subject to impairment.	Assets will be tested annually to determine if there is any requirement for impairment. **Responsible Officer:** *Director of Finance* **Implementation Date:** *31 July 2007*	Assets were reviewed as part of the year end accounts preparation process. ***Action taken as agreed***

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.