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INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

Glasgow Metropolitan College

Annual audit report to the Board of Management of Glasgow Metropolitan College and the Auditor General for Scotland

Audit: Year ended 31 July 2007
20 December 2007

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

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This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the *Code*').

This report is for the benefit of only the Board of Management of Glasgow Metropolitan College and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other that the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact David Watt, who is the engagement leader for our services to the College, telephone 0141 300 5695, email david.watt@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to lorraine.bennett@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

Executive summary

This report summarises our work for the 2006-07 year and our findings in relation to our audit of the financial statements, financial reporting and corporate governance arrangements.

Financial statements

On 20 December 2007 we issued an audit report expressing a qualified opinion on the financial statements of the College for the year ended 31 July 2007.

The Board of Management has accounted for the College's participation in the Strathclyde Pension Fund on a defined contribution basis under FRS 17. It is understood that the Board of Management believes that the College cannot identify its share of assets and liabilities in the Fund on a reasonable and consistent basis. In our view, taking into account the work of our actuarial staff and specific discussions with the scheme actuaries, the exemptions under FRS 17 are not available to the College and its participation should therefore be accounted for as a defined benefit scheme. This conclusion has been reached by drawing on the work of our actuarial staff and has involved specific discussions with the scheme actuaries and the facts presented by them.

In the absence of FRS 17 valuations of the College's share of the assets and liabilities in the Strathclyde Pension Fund having taken place it is not practicable for us to quantify the effect of the departure from FRS 17 on the financial statements as a whole. In view of the effect of the failure to account for and disclose pension costs as required by FRS 17 in respect of the Strathclyde Pension Fund, in our opinion the financial statements do not give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the College as at 31 July 2007 and of its surplus, total recognised gains and losses and cash flows for the year then ended.

In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

Our opinion on the regularity of transactions is also unqualified.

Financial position

The College made a surplus on continuing operations after depreciation of assets at valuation and disposal of assets of £829,000. The College had forecast a year end surplus of £37,000 in its financial forecast return to the Scottish Funding Council at the beginning of the year, although this was subsequently revised to a surplus of £651,000 as a result of an underspend in staff costs and additional funding received. The variance against the revised forecast was principally due to £129,000 additional investment income, £93,000 of additional overseas tuition fee income, further savings in operating expenditure of £412,000, all offset by an increase to the College pension provision of £453,000 as a result of an audit adjustment.

Governance and strategy

There are no significant weaknesses disclosed in the statement on internal control, and no significant control weaknesses were identified through our work on the control systems within the College. We have made a number of recommendations to improve the overall control environment.

We are not required to provide an opinion on the College's system of internal control. We have reviewed the corporate governance statement and consider it consistent with our understanding of the process followed by the College during the year.

In relation to 2006-07, internal audit have concluded that the College "has an adequate framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives."

Introduction

Audit framework

2006-07 was the first year of our five-year appointment as external auditors of Glasgow Metropolitan College ("the College"). This report to the Board of Management of the College and the Auditor General for Scotland summarises our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice*, the scope of the audit was to:

- provide an opinion on the College's financial statements and, as required by relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland):
  - the College's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position
  - the College's arrangements to achieve Best Value
  - other aspects of the College's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the College's audit committee.

Basis of information

External auditors do not act as a substitute for the Board of Management's own responsibilities for putting in place proper arrangements to account for its stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through its principal, to make arrangements to secure Best Value.

Acknowledgement

Our audit has continued to bring us into contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the first year of our work in the discharge of our responsibilities.

Financial commentary

This section of our report summarises the main features of the financial statements and key movements from the prior financial year.

Income and expenditure account

The surplus for the year of £829,000 is 3.4% of total income (2005-06: £611,000 and 2.7%). Based on 2005-06 financial statements, the sector average was around 2%. The College is classified as financially secure by the Scottish Funding Council.

Income

Total income increased by £1,512,000 (6.6%). The increase is primarily due to an increase of £1,279,000 in Scottish Funding Council funding in 2006-07, and an increase in tuition fee and education contract income of £161,000.

The following table identifies the main sources of income in 2005-06 and 2006-07.

	2006-07 £'000	*2006-06 £'000*	2006-07 %	*2005-06 %*
Scottish Funding Council grants	17,699	*16,420*	72%	*72%*
Tuition fees and education contracts	3,920	*3,759*	17%	*17%*
Other operating income	2,254	*2,307*	9%	*10*
Endowment and investment income	394	*269*	2%	*1%*
Total income	**24,267**	***22,755***	**100%**	***100%***

The majority of income is received from the Scottish Funding Council, with the proportion of income received from the various sources consistent year on year. The proportion of income receivable from Scottish Funding Council grants is in line with other College's delivering over 80,000 wSUMs, according to the Scottish Funding Council's performance indicators for 2005-06.

Expenditure

Overall, total expenditure increased by £1,294,000 (5.8%). This is slightly less than the equivalent movement in income and resulted in the increase in surplus for the year. The increase is primarily due to an increase in staff costs with the most significant movements being:

- an increase of £1,112,000 in staff costs, of which £453,000 related to an increase in the pension provision for early retirement;
- an decrease of £60,000 in other operating costs; and
- an increase of £242,000 in depreciation charges due to fixed asset additions of £2,218,000 in the year.

The majority of expenditure is incurred on staff costs. The following table identifies the key elements of expenditure in 2005-06 and 2006-07.

	2006-07 £'000	*2006-06 £'000*	2006-07 %	*2005-06 %*
Staff costs	16,399	*15,287*	70%	*69%*
Other operating expenditure	5,213	*5,273*	22%	*24%*
Depreciation	1,826	*1,584*	8%	*7%*
Total expenditure	**23,438**	***22,144***	**100%**	***100%***

The proportion of expenditure on the various elements has remained consistent year on year.

Balance sheet

The College has reported an increase in net assets of £1,304,000 during the year. The balance sheets at 31 July 2006 and 2007 are summarised as follows:

	2006-07 £'000	*2005-06 £'000*
Fixed assets		
Tangible fixed assets	20,878	*20,486*
Investments	1	*1*
Current assets		
Stock	12	*14*
Debtors	1,760	*1,695*
Cash at bank and in hand	7,022	*5,429*
Creditors due within one year	2,653	*2,329*
Net current assets	**6,141**	***4,809***
Provisions for liabilities and charges	1,059	*639*
Net assets	**25,961**	***24,657***
Deferred capital grants	5,693	*5,218*
Income and expenditure account	7,174	*5,875*
Restricted reserve	58	*58*
Revaluation reserve	13,036	*13,506*
Total	**25,961**	***24,657***

Significant movements during the year include:

- an increase in the fixed asset base of £392,000, due to fixed asset additions of £2,218,000, offset by the depreciation charge for the year of £1,826,000;
- an increase in the cash balance of £1,593,000, explained by the surplus for the year being achieved after inclusion of significant non-cash items such as the depreciation charge; and

- an increase of £420,000 in the pension provision.

Financial forecasting

The original 2006-07 financial plan forecast a surplus of £37,000 as at 31 July 2007, reported to the Scottish Funding Council in June 2006. The forecast was revised to a surplus of £651,000 in June 2007 as a result of underspends in relation to staff costs and additional funding received from the Scottish Funding Council. The actual outturn as at 31 July 2007 was a surplus of £829,000. The following table summarises the significant movements during the year.

	£'000
2006-07 forecast outturn per the financial forecast return	**651**
Increase in investment income	139
Reduction in other operating expenditure	412
Additional pension provision	(453)
Increased fee income from overseas students	93
Movement on income	(13)
2006-07 actual outturn at 31 July 2007	**829**

Source: Glasgow Metropolitan College (October 2007)

The following table summaries the forecast income, expenditure and cash balances for the College for 2007-08.

	£'000
Income	24,559
Expenditure	24,498
Forecast surplus for the year ending 31 July 2008	**61**
Cash balance at 31 July 2007	7,022
Forecast movement in cash during 2007-08	59
Resulting cash balance at 31 July 2008	**7,081**

Source: Glasgow Metropolitan College (2007-08 budget)

College expenditure for the year is expected to increase as a result of increased staff costs and a further increase in the annual depreciation charge from additional investment in resources. As a result of the smaller forecast surplus for the year, it will be important for the College to monitor other operating expenditure costs closely during the year in order to remain in surplus for the year.

Governance and risk management

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its principal, the Board of Management of the College is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on the College's corporate governance arrangements as they relate to:

- the College's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

Management is responsible for establishing arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice.

Governance arrangements

The Board of Management has 14 full members and one co-opted member who was invited to join the finance and estates committee. There are seven standing committees of the board, including finance and estates, learning and teaching, equalities, and staffing, each of which is formally constituted and has its own terms of reference. This comprehensive governance structure, which includes non-executive, student and academic representation, is demonstrative of best practice and exceeds the minimum requirements of the Scottish Funding Council. The committee structure provides the Board of Management with the framework to ensure appropriate oversight and monitoring of financial and academic activities.

The College has a number of values that are core to its operations and set the tone of the organisation from senior management. These are identified in the 2006-09 corporate strategy and include flexible and accessible lifelong learning, innovative, efficient and effective learning and support, maintaining the financial viability of the College core portfolio, continual investment in the professional development of staff, continuous investment in the estates and resources, promotion of diversity and equality of opportunity, embedding good practice in corporate governance, and to promote all aspects of quality assurance and improvement.

Risk management

A formal risk management policy is in place, approved by the Board of Management. Risk registers have been established and the risk management policy requires a formal annual review of risks to be undertaken by the Board of Management and the senior management group.

Risks are identified and prioritised; there is a process to manage and mitigate risks. Risks are assessed according to impact and likelihood and where there is no existing mitigating control in place an action plan is created to address the risk.

Systems of internal control

Corporate governance statement

Internal audit monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to management and the audit committee. Management is responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow up reviews to ensure that such recommendations have been implemented. The audit committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans.

Management have established an internal controls assessment framework, complementing the risk management and internal audit arrangements. The assessment of internal control is informed by the senior management group who have responsibility for the development and maintenance of the internal control framework, the work of internal audit, and comments made in reports by external audit. The audit committee is also responsible for providing assurance to the Board of Management relating to corporate governance.

The corporate governance statement for 2006-07 provides details of the internal control environment and risk and control framework. The board highlights its recognition of maintaining best practice in this area.

The College has made a fully compliant corporate governance statement. We are required to review this to assess whether the description of the process adopted by the College in reviewing the effectiveness of the system of internal control is consistent with our understanding of the process and report any inconsistencies in our opinion. We are not required to provide an opinion on the College's system of internal control.

We have reviewed the corporate governance statement and consider it consistent with our understanding of the process followed by the College during the year.

Internal audit

The approved internal audit programme for 2006-07 has been completed and the internal auditors have concluded that the College "has an adequate framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives." The internal auditors also concluded that, in their opinion, based on the areas examined in 2006-07, the College has "proper arrangements to promote and secure value for money."

Internal controls

Drawing on the work of internal audit, in accordance with our plan, we undertook detailed testing in relation to both entity-level and key financial controls. We identified a number of areas for enhancement, including implementation of a formal process for the receipt, recording and distribution of guidance to ensure that appropriate action are taken and introduction of a system of asset tagging and verification. Recommendations are included in the action plan in appendix one and have been accepted by management.

Testing of the design and operation of controls over significant risk points in terms of major financial systems confirms that, subject to the minor weaknesses reported, controls are designed appropriately and operating effectively.

Charities and Trustee Investment (Scotland) Act 2005

The Charities and Trustee Investment (Scotland) Act 2005 ("the Act") came into force in April 2006, introducing new duties and responsibilities for the Office of the Scottish Charity Regulator ("OSCR"). Over time OSCR intends to undertake a rolling review of charities entered in the Scottish charity register to assess whether they meet, and continue to meet, the charity test: purposes will have to be charitable in the context of the charity test set out in section 7 of the Act 2005 and charities will have to show that they provide public benefit.

OSCR recently reported the results of its pilot review and that six of the eight organisations satisfied the 'public benefit' test. John Wheatley College was identified as one of the two organisations that do not meet the requirements. The report concluded that "*John Wheatley College has exclusively charitable purposes and provides public benefit. However, the Charity Test was not met as its constitution expressly permits Scottish Ministers or a Minister of the Crown to direct or otherwise control its activities.*" OSCR's report clearly states that the results of the review cannot necessarily be applied to similar organisations but there is an expectation within the sector that the charitable status of further education colleges is at risk because the ministerial control identified by OSCR exists in the Further and Higher Education (Scotland) Act 1992 (as amended by the Further and Higher Education (Scotland) Act 2002).

The College will need to consider this risk appropriately within its risk management arrangements and keep themselves informed of further developments. We recognise that the Scottish Government has made a public commitment to amending the legislation as required to preserve the charitable status of further education colleges.

HM Inspectorate of Education inspection

The College was subject to an HM Inspectorate of Education ("HMIe") inspection during February and March 2007. HMIe concluded that it is confident that:

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

The College was assessed as "very good" in four out of the eight subject areas evaluated and "good" in the remaining four areas. Learner progress and outcomes were found to be "very good" in one subject area and "good" in five subject areas. In the cross-College elements, the College was assessed as "very good" in two areas and "good" in the other five areas. The report identifies eight points for action; five areas where the College demonstrates sector-leading and innovative practice were also identified.

Prevention and detection of fraud and irregularity

The College has a fraud prevention policy and procedure in place, which includes a fraud response plan, to encourage staff to bring suspected frauds to notice and to ensure that prompt and effective action is taken. Where management are made aware of a suspected fraud, the internal fraud project group is convened to co-ordinate an investigation. Arrangements require significant frauds to be reported to the audit committee.

Management has not reported any material instances of fraud or irregularity in 2006-07.

Standards of conduct

Staff are required to operate in accordance with the College's internal code of conduct setting out the required minimal ethical and behavioural expectations. There are comprehensive human resources policies and procedures providing additional guidance to staff which are readily accessible to staff on the intranet. There is also a formal register of interests for recording members of the board of management and senior managers' interests. This is regarded as best practice and assists in demonstrating consideration of independence in decision-making and the awarding of contracts.

Best Value

The 2006-07 planning guidance for further education colleges issued by Audit Scotland indicated that there was no requirement for auditors to undertake performance audit or other Best Value studies during the year.

Future developments

During 2006-07, the College has continued to work with three other colleges in the central Glasgow area on the development of an estates strategy, driven by curriculum, for the city centre of Glasgow. This is a long term project costed at approximately £200 million, with phased completion up until 2014.

In addition, the College has now opened discussions with the Glasgow College of Nautical Studies with a view to merger in 2008.

We will consider these developments further as part of our 2007-08 audit.

Financial statements audit

Audit opinion

On 20 December 2007 we issued an audit report expressing a qualified opinion on the financial statements of the College for the year ended 31 July 2007. Financial reporting standard 17 'retirement benefits' ("FRS 17") paragraph nine states that '*Where more than one employer participates in a defined benefit scheme the employer should account for the scheme as a defined benefit scheme*'. This indicates that there is a presumption that a defined benefit scheme will be accounted for on a defined benefit basis unless one of the two possible exemption criteria is met, which are:

- employers contributions are set in relation to the current service period, i.e. not impacted by any past surplus or deficit of the fund; or
- the employer is unable to identify its share of the underlying assets and liabilities in the fund on a consistent basis.

The Board of Management has accounted for the College's participation in the Strathclyde Pension Fund ("the Fund") on a defined contribution basis under FRS 17. It is understood that the Board of Management believes that the College cannot identify its share of assets and liabilities in the Fund on a reasonable and consistent basis and that the College is therefore entitled for its current service obligations to use the multi-employer exemption permitted by FRS 17, which allows a defined benefit scheme to be accounted for as it was a defined contribution scheme when a body cannot identify its share of the assets and liabilities in the pension scheme.

Consequently, in respect of current service, the financial statements have been prepared on the basis of an accounting policy of charging pension costs to the income and expenditure account on the basis of contributions made during the financial year. In our view, taking into account the work of our actuarial staff and specific discussions with the scheme actuaries, the exemptions under FRS 17 are not available to the College and its participation should therefore be accounted for as a defined benefit scheme. The conclusion is based on consideration of the facts presented by the Fund's actuaries against the two specific exemptions outlined above:

- the common contribution rate takes into account any surplus or deficit in the Fund and differing contribution rates are calculated with regard to the circumstances of employers (or homogenous groups of employers) and allows for any surplus or deficit attributable to them;
- allocation of assets to individual employers can be performed on the basis that assets can be derived based on movements in the liabilities, which can be explicitly measured and allocated to individual employers, in addition to measurement of gains and losses on assets and liabilities, both of which are based on the experience of the individual employer during the year.

As a result, in our opinion pension costs should be charged to the income and expenditure account on the basis of reflecting the cost of benefits earned in the period and its share of assets and liabilities in the Fund should be included within the balance sheet of the College.

In the absence of FRS 17 valuations of the College's share of the assets and liabilities in the Strathclyde Pension Fund having taken place it is not practicable for us to quantify the effect of the departure from FRS 17 on the financial statements as a whole. In view of the effect of the failure to account for and disclose pension costs as required by FRS 17 in respect of the Strathclyde Pension Fund, in our opinion the financial statements do not give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the College as at 31 July 2007 and of its surplus, total recognised gains and losses and cash flows for the year then ended.

In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder. Our opinion on the regularity of transactions is also unqualified.

Fixed assets

Audit work performed over fixed assets identified that the College's accounting policy was not consistent with the actual accounting treatment applied to the valuation of fixed assets. The policy wording has been amended as part of the audit process. A full valuation of the College's land and buildings is due in 2007-08.

Pension provision for early retirement

In line with previous years, the College's pension provision for future pension costs arising from early retirement was based on past experience and not calculated with reference to the actuarial tables suggested by the Scottish Funding Council. The College agreed to adjust the financial statements to re-base the provision, using the suggested 2.5% net rate of return. As a result, an increase of £453,000 was required to the pension provision, with a corresponding reduction in the surplus reported by the College between the draft and finalised financial statements.

Regularity

There are no issues arising from the regularity audit. We have reviewed the minutes of the College's key committees, including the board of management and audit committee meetings. From these minutes, we have established that the College has procedures in place to ensure discussion of key guidance from the Scottish Funding Council, as well as other relevant laws and regulations. This could, however, be enhanced through a formal procedure to record receipt and distribution of guidance and to provide evidence of action taken. Management representations obtained from the principal included our standard representation that during 2006-07 the College had complied with all necessary laws and regulations.

Report to those charged with governance

At the audit committee meeting on 26 November 2007 we discussed our "report to those charged with governance" which is required under International Auditing Standard 260. This dealt with relevant aspects of the College's financial statements production process, amendments to draft financial statements during the audit process, the treatment of uncorrected audit differences and the content of the representation letter from the principal to us.

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Appendix – action plan

Priority rating for performance improvement observations raised		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the College or systems under consideration. The weakness may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and performance improvement observation	Management response	Officer and due date
1	The College does not maintain a fixed asset register to record its fixed assets. Depreciation and amortisation of capital grants is calculated manually using a spreadsheet. There is a risk that assets are not accurately recorded and that spreadsheets may contain formulae error which may lead to a misstatement of fixed assets in the financial statements. Management should consider using a dedicated fixed assets register programme to record its fixed assets which will automatically calculate depreciation and the amortisation of capital grants. *Grade 2*	Agreed.	S Watson March 2008
2	The College does not tag its assets to allow easy identification of assets and no fixed asset verification exercise has been carried out during the year to confirm the existence and completeness of assets. We understand that the College intends to begin a programme of asset tagging during the year. It is recommended that assets are tagged to allow easy identification of assets and that an annual verification exercise is performed to confirm the accuracy of records. *Grade 2*	Agreed.	S Watson September 2008

No.	Issue and performance improvement observation	Management response	Officer and due date
3	Audit work performed found that in some instances the College had not sent reminder letters in respect of overdue fees to students in a timely manner. There is a risk that the College may not recover debts. It is recommended that procedures should be put in place to ensure reminder letters are automatically generated or outstanding payments flagged. *Grade 2*	Agreed.	S Thompson March 2008
4	During our audit work we found that in some cases it was difficult to locate student enrolment forms. This may be due to forms being misfiled. There is a risk that "ghost" students could be on the College's register. We understand that the College is considering introducing a new filing system which should make locating forms easier. *Grade 3*	Agreed.	L Anderson Immediate
5	It was identified that an IT security policy was not in place at the College. This leads to risk of inappropriate access or use of the College's systems. It is recommended that an IT security policy should be drafted in accordance with an appropriate standard such as BS7799 or ISO27001. *Grade 2*	Agreed, although unlikely to follow BS7799 or ISO27001.	J Louden June 2008
6	There is no disaster recovery / business continuity plan currently in place, although discussion with management confirmed that a plan will be considered by the Board in December. It is recommended that a disaster recovery plan is put in place as soon as possible to ensure that all aspect of business continuity in the event of a disaster as clearly documented. Grade *2*	Agreed.	S Watson J Carson Date contingent on merger developments

No.	Issue and performance improvement observation	Management response	Officer and due date
7	There is no formal new user / leaver policy in place in respect of IT. The absence of such a policy increases the risk that inappropriate accounts may be created or that leavers are not removed from the system in a timely manner. It is recommended that a policy should be created including acceptance of the user of terms and conditions by signature and authorisation for a new user account to be created. *Grade 2*	Agreed.	S Watson March 2008
8	There are no forced password changes in respect of access to IT programmes. The system does not require complex passwords. There is an increased risk that unauthorised access to IT programmes may be obtained The College should implement a process to ensure that complex passwords such as 8 character alphanumeric passwords are required. Password changes should be enforced every 60 days. *Grade 2*	Agreed in part. The College has various software applications which have differing user ID and password handling routines. The College intends to explore whether there exists an overall software solution that would permit one user log-in for each individual linked to their individual profile of access to corporate software applications / systems.	S Watson Initial decision one corporate solution: December 2007. If this is not viable then separate solutions for each software application will be implemented by June 2008.
9	The College does not have a formal process in place in respect of the receipt, recording and distribution of circulars. There is a risk that no action is taken in respect of issued circulars. It is recommended that a log is created to record the receipt of circulars. The log should detail who the circulars have been distributed to. Where an action is necessary the responsible individual should be identified in the log and confirmation of action taken should be recorded. This will provide management with assurance that appropriate action is taken in respect of issued circulars. *Grade 2*	Agreed.	Principal March 2008

No.	Issue and performance improvement observation	Management response	Officer and due date
10	The College's catering operation is consistently a loss making function, although progress has been made to reduce the deficit. There is a risk the College is subsidising trading operations. This deficit must be considered against the value of the college retaining catering services deemed as important to its students/staff. *Grade 3*	Agreed in part. The Funding Council benchmarking exercise indicates that the sector average for catering cost recovery is 85%. The College's percentage is better at 88%.	S Watson Ongoing review and sector benchmarking. Also link with city centre estates development.
11	Audit work performed found that payroll control account reconciliations are not prepared in a timely manner. As at 11 October 2007 no control account reconciliation had yet been performed for the month of August 2007. As such, erroneous items may not be identified in a timely manner It is recommended that management should ensure procedures are in place to ensure reconciliations are performed in a timely manner every month. *Grade 2*	Agreed.	S Thompson January 2008

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