SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

# Elmwood College

## Annual Report to the Board of Management and the Auditor General for Scotland 2007/08

12 December 2008

# Elmwood College

## Annual Report to the Board of Management and the Auditor General for Scotland 2007/08

# Executive Summary

## Finance

Our audit of Elmwood College is now complete and our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.

The College reported an operating deficit of £513,000 in 2007/08. The College's mid-year forecast predicted a deficit of £306,000 and the variance was primarily due to exceptional costs of £329,000 in relation to staff restructuring. The restructuring was all on a voluntary basis and the costs were not included within the forecast as the restructuring was not expected to be as advanced as it was by the year-end.

The College's initial 2008 Financial Forecast Return (FFR) submitted to the SFC forecasts further deficits for the next three years. The College has not yet updated its financial plans to take account of the expected savings from the staff restructuring which are expected to be approximately £300,000 per annum.

The College commissioned a review of its estate during the year and plans to develop an Outline Business Case in 2008/09.

## Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the 2006 Combined Code on Corporate Governance during 2007/08. We have reviewed the College's statement and can confirm that this is in line with the Scottish Funding Council's guidance and is not inconsistent with the findings from our audit.

We did not identify any areas of concern from our review of the College's corporate governance arrangements in so far as they relate to prevention and detection of fraud and irregularity or standards of conduct and prevention and detection of corruption.

## Conclusion

This report concludes the 2007/08 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 (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Director of Finance. 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***
***12 December 2008***

# Introduction

1. This report summarises the findings from our 2007/08 audit of Elmwood College. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 16 September 2008. The main focus of our external audit has been on the financial statements and governance arrangements.

2. Our plan summarised the following key audit issues for 2007/08:

   - Financial position (including staff restructuring)
   - European income
   - Fife Council Pension Fund liabilities
   - Early retirement liabilities
   - Operating and Financial Review
   - Combined Code on Corporate Governance 2006
   - Finance system upgrade.

3. This report includes our findings in relation to these key issues and a follow-up of issues identified during our last year's audit.

4. This report will be submitted to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

# Finance

5. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and also to consider the College's governance arrangements in relation to the College's financial position.

## Auditors' opinion

6. We are required to give an opinion as to whether the financial statements present a true and fair view of the financial position of the College as at 31 July 2008 and of its expenditure and income for the financial year. We are also required to include a regularity assertion in our independent auditors' report stating whether, 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 Scottish Funding Council (SFC).

7. Our audit is now complete and we have issued an unqualified audit opinion on the truth and fairness of the financial statements and on the regularity of transactions.

8. We will now submit the signed financial statements to Audit Scotland who will pass them to the Scottish Government for laying before the Scottish Parliament.

## Financial position

9. The College is reporting a deficit for the year to 31 July 2008 of £513,000. Excluding the gain on sale of property, the College also reported a deficit in 2006/07 and was one of only four FE Colleges in Scotland to report operating deficits in that year. The College's operating deficit in 2006/07 was £221,000. The College's deficits are due to various reasons including a fall in European Social Fund (ESF) income.

10. The College originally budgeted for a surplus of £10,000 in 2007/08 but revised this in its mid-year forecast, which was presented to the Finance Committee on 7 March 2008, to a deficit of £306,000. Due to the College's poor financial performance and forecast deficits, the College's Chairman's Committee held two extraordinary meetings to consider what action was required. The committee agreed that a revised financial strategy to achieve an on-going recurrent surplus should be developed. A revised financial strategy has been prepared and has been approved by the Board of Management. In order to achieve its financial objectives the College identified that it would need to achieve savings and these would principally come from staff efficiencies.

## Budget to actual reconciliation

| | £ |
|---|---:|
| **Surplus per original budget** | **10,000** |
| Exceptional staff restructuring costs | (329,000) |
| European Social Fund income | (136,000) |
| Additional depreciation on revalued tangible fixed assets | (93,000) |
| Miscellaneous items | 35,000 |
| **Actual deficit per financial statements** | **(513,000)** |
| **Variance to original budget** | **(523,000)** |
| **Variance as percentage of total income** | **4.8%** |

### Exceptional staff restructuring costs

11. The College established a working group comprising the Principal, Depute Principal, Head of Human Resources, Director of Finance and a Director of Curriculum to review various elements of the College's staffing structure. Staff were informed of the terms of a standard redundancy package and were invited to apply for voluntary redundancy. There was no pension enhancement offered as part of the package.

12. The exceptional staff restructuring costs of £329,000 relate to the voluntary redundancy costs of 14 employees. There were no compulsory redundancies. Three of these employees signed their termination agreements and received their redundancy payments during the year. Though no formal agreement had been reached with the remaining 11 employees, the College had communicated to them that the College would accept their applications for voluntary redundancy. In line with Financial Reporting Standard 12 – *Provisions, Contingent Liabilities and Contingents Assets* (FRS 12) the College has recognised a liability for these 11 employees as the College had raised an expectation with the employees that it will accept their offers of voluntary redundancy. Due to the uncertainty over timing of the payment at the year-end, the liability for these 11 employees is shown as a provision of £271,000 in note 16 to the financial statements.

13. One of the employees who accepted voluntary redundancy was a senior member of staff and, as required by SFC's guidance, this has been separately disclosed in note 7 to the financial statements. The senior member of staff received the same terms of redundancy as the other members of staff.

14. These voluntary redundancy costs were not included within the College's initial budget or updated forecasts as the restructuring exercise was not expected to be this far advanced by the year-end.

### Other variances

15. The original budget for European Social Fund income was £381,000 and the College actually recognised income of £245,000. The College recognises the income when it is virtually certain of receipt. There are on-going audits of some of the College's ESF claims and the College has not recognised any further income due to the uncertainty of receipt.

16. The College revalued its land and buildings as at 31 July 2007 which resulted in a net revaluation gain on £4.04m. This led to an increase in depreciation of £93,000 in 2007/08. The revaluation values were not known at the time the original budgets were prepared and therefore the additional depreciation resulted in a variance against budget.

## Balance sheet

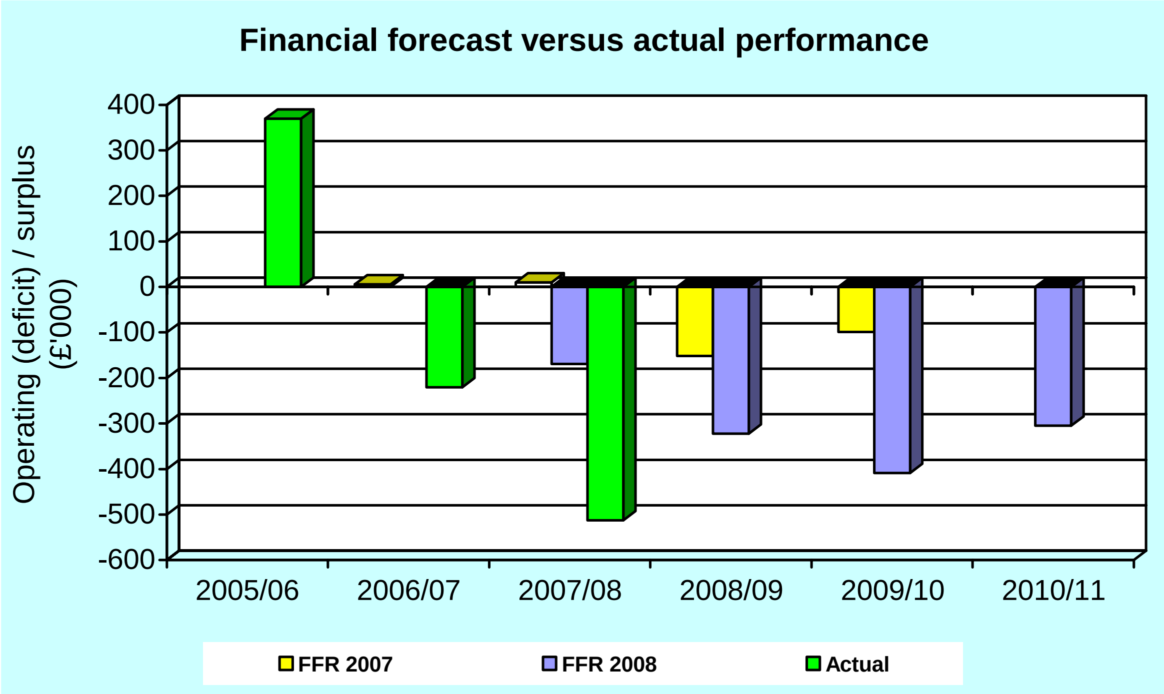
17. Although the College is facing challenges achieving a revenue surplus, it still maintains a relatively healthy balance sheet. The College's balance sheet as at 31 July 2008 shows net assets of £12.73m. This has decreased from £13.83m as at 31 July 2007 due to the in-year deficit of £513,000 as well as the net actuarial loss on the College's share of asset and liabilities in the Fife Council Pension Fund (FCPF) of £545,000. Net current assets stand at £1.13m including £1.7m in bank and cash and money market funds.

## Financial forecasts

18. 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.

19. The College completed its initial 2008 FFR in June 2008, however this did not include the expected savings from the staff restructuring. The College has anticipated savings of approximately £300,000 per annum from the revised staff structure.

20. The graph below compares the actual operating results for 2007/08 with the 2007 and 2008 FFR forecasts and shows the latest predictions within the 2008 FFR.




**Financial planning and monitoring arrangements**

21. The College has a responsibility to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the College's financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the College's operations and use of resources.

22. 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 meets 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 recommended in our 2006/07 Annual Report that finance reports showing the year-end forecast are presented to each Finance Committee. The College has not implemented this recommendation during the year but plans to use the reporting functions available from its upgraded finance system to provide regular reports to the Finance Committee as well as to the Board of Management. Improving management reporting will be key to improving the College's financial position.

***Follow-up action plan – 5***

## Financial reporting framework

23. The principal elements of the College's financial reporting framework which the College is required to comply with are:

- Accounts Directions issued by the SFC
- Further Education / Higher Education Statement of Recommended Practice (FE/HE SORP) 2007.

24. We are pleased to confirm that the College's 2007/08 financial statements comply fully with the Accounts Direction and FE/HE SORP 2007 in all material aspects.

### FE/HE SORP 2007

25. A revised SORP was issued in July 2007 and was applicable for the first time to the College's 2007/08 financial statements. The main impacts of the application of the revised SORP on the College's financial statement were:
    - The Board of Management Report has been replaced with an Operating & Financial Review which includes more detailed analysis of the College's financial and non-financial performance.
    - Changes in the required disclosure of defined benefits pension schemes.

## Financial statements preparation

26. We are pleased to report that we received full financial statements and working papers of a very high standard on the first day of the audit as agreed. We are grateful to the Director of Finance and the finance staff for their assistance and support during the course of the audit.

27. We previously recommended that the College review the level of resource within the Finance Department to ensure that it is adequate to meet the College's management and reporting needs. We note the Director of Finance still does not have the support of a qualified accountant. Considering the College's financial position and the staff restructuring exercise, we appreciate that it may be difficult for the College to justify additional resource within the Finance Department. We do however recommend that the College periodically reviews whether the Finance Department is adequately resourced.

***Follow-up action plan – 3***

## Audit adjustments

28. We are pleased to report that we did not identify any material adjustments to the draft financial statements. Adjustments identified were generally of a presentational nature.

## Review of accounting systems

29. 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.

30. The College was in the process of upgrading its finance system to SUN version 5 during the financial statements preparation and audit process. The new system offers improved functionality, including better reporting facilities. Audit risks can sometimes arise with changes in finance systems due to potential problems accessing old data. We are pleased to report the upgrade did

not result in any issues for our 2007/08 audit. We will review the implementation and operation of the upgraded system during our 2008/09 audit.

31. We noted that purchase order forms are not always used when orders are raised. The College estimates that as little as 5% of expenditure has a supporting order form. There is a risk that the College incurs unauthorised expenditure or that the College is unaware of its committed expenditure. The College has recently introduced electronic ordering forms and this will likely increase the usage of order forms. We recommend that the College ensures that order forms are used where appropriate.

***Action plan – 1***

## Other issues arising from the audit

32. 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 2007/08 financial statements.

### SUMs

33. As a condition of its SFC funding the College is required to achieve total Student Unit of Measurement (SUMs) within 2% of its target to avoid a clawback of SFC grant. The College achieved SUMs of 28,852 against a target of 29,278 which is 1.5% below its target and therefore no clawback will be applied. The College's Internal Auditors completed the SUMS audit and concluded that the final SUMS were not materially misstated.

### Student halls of residence

34. The College has incurred expenditure of £1,010,000 during 2007/08 on a major refurbishment of its student halls of residence. Under Financial Reporting Standard 15: *Tangible Fixed Assets* (FRS 15), the College should only capitalise subsequent expenditure on an asset where the expenditure provides an enhancement of the economic benefits of the asset in excess of the previously assessed standard of performance. The College has capitalised approximately £890,000 of this expenditure in the draft financial statements and this is shown within the Assets Under Construction in note 11. The College has recognised the remaining £120,000 as revenue expenditure. The revenue expenditure has been offset by the release of an SFC capital grant and therefore did not impact on the College's in-year deficit.

35. We initially had difficulty obtaining evidence to support the College's assessment of the capital / revenue split of project expenditure and recommended that the College obtain the opinion of its property consultants. The College's property consultants estimated the project has increased the value of the building to approximately £2.4m as at 31 July 2008. This estimate is £133,000 lower than the College's carrying value in the financial statements and indicates that the College has capitalised some expenditure which should have been charged as revenue expenditure through the Income and Expenditure Account. The College does not consider this difference to be

material and has chosen not to adjust the financial statements. We agree that the difference is not material and have not insisted on an adjustment.

36. We recommend that the College assess the revenue implications at the outset of any future capital projects. This assessment should involve obtaining the opinions of the College's property advisors where the capital / revenue split of project expenditure is not clear and the project is of a significant value.

***Action plan – 2***

## Fife Council Pension Fund liabilities

37. 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.

38. 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.

39. 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 College reported a liability of £606,000 as at 31 July 2008, an increase of £458,000 during the year. The increase in the liability is principally due to a lower than expected return on the College's pension assets during the year. This was partially offset by a reduction in the College's pension liabilities due to changes in actuarial assumptions. The movement in the pension fund liability was largely shown directly in reserves with a net actuarial loss of £545,000. The pension transactions actually resulted in a net gain to the Income and Expenditure Account of £86,000 in 2007/08.

40. We have reviewed the College's accounting for the pension liability and ensured that it complies with the requirements of the FRS 17 amendment and the new FE/HE SORP and that its disclosure is consistent with the actuaries' valuation.

## European income

41. The College's accounting policies for European income previously stated that "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". This was essentially a form of cash-based accounting policy as the accounting treatment was dependant on cash receipt and not income earned in the period. We reported in our 2006/07 Annual Report that the College's ESF accounting policy did not comply with 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.

42. The College amended the wording of its accounting policy in 2007/08 to read "Income from European Social Fund is accounted for to the extent that it has been earned during the year and the College is virtually certain of receipt". The College has outstanding claims for ESF at the year-end for which it has not received the payments. Whilst the College believes it is entitled to these payments it did not consider receipt to be virtually certain and has therefore not recognised this income. The outstanding claims are recognised as a contingent asset in note 33 to the financial statements. It is our view that the revised accounting policy is compliant with FRS 5 – AN G while achieving the same effect as the previous policy.

***Follow-up action plan – 9***

### Early retirement liabilities

43. The College has previously offered early retirement to staff as part of an earlier management restructuring programme. The College makes monthly payments to these former employees to cover any shortfall in their pension benefits 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 uses the Scottish Funding Council statistical tables to calculate the provision at the year-end. The provision for early retirement was £764,000 as at 31 July 2008. As previously stated, the College has not offered any pension enhancements as part of its current staff restructuring and therefore the restructuring has not had any impact on the College's provision.

44. We confirmed that the provision had been appropriately accounted for in the financial statements. However, we noted that the College does not regularly confirm the validity of payments or confirm the former employee's details. We recommend that the College regularly performs an exercise to confirm the validity of the on-going payments and also to confirm the dates of birth which the College requires for its estimation of its early retirement liabilities.

***Action plan – 3***

## APUC

45. APUC (Advanced Procurement for Universities and Colleges) Ltd was established in response to the McClelland report – *Review of Public Procurement in Scotland*. It is a condition of the College's funding that it cooperates with APUC. The College signed the Membership and Partnership agreement on 11 December 2007. The College felt that the benefits of becoming a member of APUC outweighed any disadvantage.

## Loss of charitable status

46. The Office of the Scottish Charity Regulator (OSCR) previously published the results of the pilot scheme to review charitable status of a selection of charities including 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 Scottish Government has since announced its intention to protect the charitable status of Scottish FE Colleges and an order has been laid before the Scottish Parliament to this effect.

# Governance

47. It is the College’s responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:

- the College’s review of its systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and other irregularities;
- standards of conduct and arrangements for the prevention and detection of corruption;
- the College’s financial position.

48. We reported on the corporate governance arrangements in relation to its financial position in the Finance section of this report. This section includes our comments on other aspects of the College’s arrangements.

## Corporate Governance Statement

49. Colleges are required to include in their financial statements a statement covering the responsibilities of their Board of Management in relation corporate governance arrangements. The statement should describe the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and report on the College’s compliance with the Combined Code.

50. The College’s Corporate Governance Statement for 2007/08 explains that the College was fully compliant with the 2006 Combined Code throughout the period.

51. We reviewed the Corporate Governance Statement by:

- checking the statement against SFC guidance;
- considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control;
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

52. We are satisfied that the statement is consistent with the SFC’s guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

### Combined Code 2006

53. 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 has stated compliance with the 2006 code for the first time in its 2007/08 financial statements.

54. We recommended in our 2006/07 Annual Report that the College reviews its corporate governance arrangements against the 2006 code. Board members were all provided with copies of the Combined Code 2006 and no areas of non-compliance were identified. However, the

College did not perform a documented exercise to confirm compliance. We reiterate our recommendation.

***Follow-up action plan – 1***

## Corporate planning

55. The College revised its Strategic Plan during the year and the Board of Management approved the Strategic Plan 2008-11 in March 2008. The Strategic Plan includes estates and financial plans.

## Risk management

56. Risk management is important to the establishment and regular review of systems of internal control. We review the College's risk management arrangements as part of our audit work on corporate governance.

57. 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.

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

## Internal audit

59. Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by Henderson Loggie. In the previous year 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 SFC's Code of Audit Practice.

60. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate. During 2007/08 we have reviewed the following internal audit reports:

- External relations
- Staffing issues (including payroll)
- Estates and facilities management including VFM
- Student fees and contracts
- SUMS audit.

61. We considered the results from these reports on our own risk assessments.

### Internal audit's conclusion

62. Internal audit has concluded in its annual report that the College operates adequate and effective internal control systems.

63. We are grateful to Henderson Loggie for their assistance during the course of our audit work.

## Prevention and detection of fraud and irregularity

64. 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.

65. The College has a Fraud Policy and Response Plan and Whistle Blowing Policy in place. The response plan identifies the appropriate officer(s) that staff should contact when they become aware of any indication of fraud or irregularity. There were no frauds identified during the year.

66. All SFC and other guidance and regulations are received the appropriate members of staff. During our audit we review Technical Bulletins issued by Audit Scotland with regard to fraud reports and ensure the College has arrangements in place to prevent similar frauds occurring.

67. 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.

## Standards of conduct

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

69. 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.

70. 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.

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

# Looking Forward

## Financial position

72. The College has incurred operating deficits for the past two years and its latest projections are showing future operating deficits. In addition, the Spending Review and indications from the Scottish Government are that there will be no further significant increases in FE College funding. The College will continue to face significant challenges to achieving its target surplus.

73. In addition to its staff restructuring, the College is also conducting a review of the curriculum delivery in order to deliver services more efficiently. The College is also actively pursuing increasing international income including China, South Africa and India which could increase incoming resources.

## Estates Strategy

74. The College plans to prepare an Outline Business Case in 2008/09 which will set out various options for the College's estate. This will feed into an updated Estates Strategy. We will monitor the development of the Outline Business Case and Estates Strategy and ensure that these plans are incorporated into the college's future financial statements.

## Combined Code 2008

75. The updated code is applicable to accounting periods beginning on or after 28 June 2008. The updated code includes two amendments from the 2006 code. The first amendment removes the restriction on an individual chairing more than one FTSE 100 company and therefore does not apply to the College. The second amendment is to allow the Chairman to be a member, but not chair, the Audit Committee where the Chairman was considered independent on appointment. The College's 2008/09 Corporate Governance Statement should state compliance with the 2008 code. We will determine whether the College has complied with the combined code 2008 in 2008/09.

***Follow-up action plan – 1***

# Appendix 1 – Action Plan

76. Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2007/08. These are the issues that we believe need to be brought to the attention of the College. We have also included a follow-up of issues identified in our previous audit.

77. 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.

## Priority rating

78. 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. |

## Issues from our 2007/08 audit

| Action point | Para ref | Issue identified and recommendation | Management response |
|---|---|---|---|
| 1 | 31 | **Purchase order forms**<br><br>Purchase order forms are not always raised for procurement of goods or services. There is a risk that unauthorised expenditure is incurred and that the College is unaware of its commitments.<br><br>We recommend that the College ensure purchase orders are raised for expenditure where possible.<br><br>***Priority 2*** | Agreed<br><br>***To be actioned by:*** Director of Finance<br><br>***No later than:*** February 2009 |

| Action point | Para ref | Issue identified and recommendation | Management response |
| --- | --- | --- | --- |
| 2 | 36 | **Capital / revenue split on capital works**<br><br>We had difficulty obtaining sufficient evidence to support the capital / revenue split of the expenditure on the student halls of residence.<br><br>We recommend that the College assess the revenue implications of capital projects at the outset of any future capital projects. This assessment should involve obtaining the opinions of the College's property advisors where the projects where the capital / revenue split is not clear and the project is of a significant value.<br><br>***Priority 2*** | Agreed for all material projects.<br><br>***To be actioned by:*** Director of Finance<br><br>***No later than:*** January 2009 |
| 3 | 44 | **Early retirement provision**<br><br>The College estimates its early retirement liabilities by using the SFC statistical tables. However, the College does not regularly confirm the validity of payments or confirm the former employee's details.<br><br>We recommend that the College regularly performs an exercise to confirm the validity of the on-going payments and also to confirm the dates of birth which is needed for the estimation of the liability. This could involve writing to the former employees on a regular basis and confirming details.<br><br>***Priority 2*** | Agreed<br><br>***To be actioned by:*** Director of Human Resources<br><br>***No later than:*** March 2009 |

**Follow-up of issues from our previous external audit**

| Follow-up point | Para ref | Original recommendation and management response | Update at December 2008 |
|---|---|---|---|
| 1 | 54 & 75 | **Combined Code 2006**<br><br>A revised Combined Code on Corporate Governance was issued in June 2006, which supersedes the Code issued in 2003. The college should perform a self assessment against the requirements of the Combined Code.<br><br>***Priority 2***<br><br>**Management Response:** Agreed.<br><br>**Responsible Officer:** Clerk<br><br>**Implementation Date:** 31 March 2008 | Board members were all provided with copies of the Combined Code 2006 and no areas of non-compliance were identified. However, the College did not perform a documented exercise to confirm compliance. We reiterate our recommendation.<br><br>A revised Code of Corporate Governance was issued in 2008. We recommend that the College perform an assessment against the updated code.<br><br>***Action taken as agreed*** |
| 2 | 25 | **FE/HE SORP 2007**<br><br>A revised SORP was issued in July 2007 and was 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. To minimise disruption during the year end accounts process, we recommended that the College prepare its OFR in advance of the 2007/08 accounts preparation process.<br><br>***Priority 2***<br><br>**Management Response:** Agreed.<br><br>**Responsible Officer:** Director of Finance<br><br>**Implementation Date:** 31 July 2008 | The College prepared an Operating and Financial Review and provided us with a draft in sufficient time to ensure that the audit was not delayed.<br><br>***Action taken as agreed*** |

| Follow-up point | Para ref | Original recommendation and management response | Update at December 2008 |
|---|---|---|---|
| 3 | 27 | **Accounts preparation**<br><br>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.<br><br>We recommended 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.<br><br>***Priority 2***<br><br>**Management Response:** Agreed.<br><br>**Responsible Officer:** Principal and Director of Finance<br><br>**Implementation Date:** 31 July 2008 | We are pleased to report that full financial statements and working papers of a very high standard were available for the first day of the audit.<br><br>***Action taken as agreed*** |
| 4 | 10 | **Financial position**<br><br>Due to its deficit position, we recommended that the College review its financial strategy with the view to achieving a recurrent surplus.<br><br>***Priority 1***<br><br>**Management Response:** Agreed.<br><br>**Responsible Officer:** Principal and Director of Finance<br><br>**Implementation Date:** 31 July 2008 | The College's Chairman's Committee held two extraordinary meetings and agreed that a revised financial strategy to achieve an on-going recurrent surplus should be developed. A revised financial strategy has been prepared and has been approved by the Board of Management.<br><br>***Action taken as agreed*** |

| Follow-up point | Para ref | Original recommendation and management response | Update at December 2008 |
|---|---|---|---|
| 5 | 22 | **Financial monitoring**<br><br>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 recommended that management accounts showing the year-end forecast are presented to each Finance Committee meeting.<br><br>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.<br><br>***Priority 2***<br><br>**Management Response:** Agreed.<br><br>**Responsible Officer:** Director of Finance<br><br>**Implementation Date:** 31 August 2008 | The College has not implemented this recommendation during the year but plans to use the reporting functions available from its upgraded finance system to provide regular reports to the Finance Committee as well as the Board of Management.<br><br>The frequency of Finance Committee meetings has not changed but the distribution through the year has been amended to better fit in with the Board and other committee meetings.<br><br>***Recommendation outstanding***<br><br>**Updated Management Response:** Agreed<br><br>***To be actioned by:*** Director of Finance<br><br>***No later than:*** February 2009 |
| 6 | 30 | **Financial systems**<br><br>We identified a number of issues with the Colleges finance system including lack of commitment accounting and linkage to the payroll system. We recommended that the College develop a plan for updating its finance system to meet its requirements. The plan should consider the issues we have raised.<br><br>***Priority 1***<br><br>**Management Response:** Agreed.<br><br>**Responsible Officer:** Director of Finance<br><br>**Implementation Date:** 31 August 2008 | The College has upgraded its finance system to SUN version 5.<br><br>***Action taken as agreed*** |

| Follow-up point | Para ref | Original recommendation and management response | Update at December 2008 |
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| 7 | N/A | **Payroll bureau**<br><br>We identified issues with the College's payroll provider and recommended that the College reviews its arrangements with the payroll provider and consider either amending the arrangements or bringing the payroll 'in-house' to ensure that the College gets the information required.<br><br>***Priority 2***<br><br>**Management Response:** Agreed.<br><br>**Responsible Officer:** Director of Finance and Director of HR<br><br>**Implementation Date:** 1 August 2008 | The College has decided to stay with the current provider.<br><br>***Recommendation considered and not implemented*** |
| 8 | N/A | **Payroll to HR reconciliation**<br><br>We identified that the HR and payroll system are not linked. In addition, there are no procedures to reconcile the Payroll and HR systems. We recommended that an annual reconciliation between the two systems should be carried out at the end of the financial year.<br><br>***Priority 3***<br><br>**Management Response:** Agreed.<br><br>**Responsible Officer:** Director of HR<br><br>**Implementation Date:** 31 December 2007 and thereafter by 30 September | Regular reconciliations are now being performed.<br><br>***Action taken as agreed*** |

| Follow-up point | Para ref | Original recommendation and management response | Update at December 2008 |
|---|---|---|---|
| 9 | 42 | **ESF contracts**<br><br>There is a risk that the College will not receive income for services it has agreed to deliver under its ESF contracts.<br><br>We recommend that the College:<br>• amends it accounting policy to comply with FRS 5 AN G, and<br>• review its management of these contracts with a view to ensuring that they are enforceable<br><br>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.<br><br>***Priority 2***<br><br>**Management Response:** 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.<br><br>**Responsible Officer:** Director of Finance<br><br>**Implementation Date:** N/A | The College has amended its accounting policy to recognise ESF income to the extent that it is earned during the year and receipt is considered virtually certain. This complies with the requirements of FRS 5 AN G.<br><br>The current round of European funding has come to an end and a new round has begun. The College plans to ensure that adequate records are maintained to support all future claims.<br><br>***Action taken as agreed*** |
| 10 | N/A | **Register of Board Members' interests**<br><br>We identified during our interim audit, that there was no process in place for regularly updating the Register of Board Members' interests and recommended 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.<br><br>***Priority 3***<br><br>**Management Response:** Action already taken.<br><br>**Responsible Officer:** Clerk<br><br>**Implementation Date:** Actioned in August 2007 and will be undertaken annually by 31 July thereafter | We confirmed during our review of corporate governance that the Register of Board Members' Interest has been updated<br><br>***Action taken as agreed*** |

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