

# **FORTH VALLEY** **COLLEGE**

**ANNUAL REPORT  
TO THE BOARD OF MANAGEMENT AND THE AUDITOR  
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR  
THE YEAR ENDED 31 JULY 2008**

**NOVEMBER 2008**

**Wylie & Bisset  
CHARTERED ACCOUNTANTS  
168 Bath Street  
Glasgow**

<b>Date of commencement of Final Visit</b>	<b>13 October 2008</b>
<b>Date of Draft Report to College</b>	<b>12 November 2008</b>
<b>Date of Meeting re Draft Report</b>	<b>13 November 2008</b>
<b>Date of College Responses</b>	<b>20 November 2008</b>
<b>Date of Presentation of Report</b>	<b>26 November 2008</b>

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## **GLOSSARY OF TERMS**

Annual Report	-	Report
Forth Valley	-	The College
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

## **1. INTRODUCTION**

- 1.1 Wylie & Bisset were appointed as the External Auditors of Forth Valley College with effect from 1 August 2006 for a period of 5 years until 31 July 2011. From 1 July 2008 Wylie & Bisset became Wylie & Bisset LLP.
- 1.2 The Annual Report has been prepared following the conclusion of our audit of the financial statements of Forth Valley College for the year ended 31 July 2008.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in March 2007.
- 1.4 Paragraph 19 of the 'Code' states that the auditor's objectives are to:
  - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
  - Review and report on the College's corporate governance arrangements as they relate to:
    - The College's review of its systems of internal control
    - The prevention and detection of fraud and irregularity
    - Standards of conduct, and the prevention and detection of corruption
    - Its financial position, and
  - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset LLP with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 Our audit report on the financial statements for the year ended 31 July 2008 is unqualified.

- 1.8 The Annual Report covers the following areas as set out in the Code:
- a) Internal Controls and audit approach
  - b) Internal Audit
  - c) Corporate Governance
  - d) Value for Money
  - e) GMAP visits
  - f) Prevention and detection of fraud and irregularities
  - g) Management letter – 2007
  - h) Management letter – 2008
- 1.9 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10 Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

*Wylie & Bisset LLP*

Wylie & Bisset LLP

## **2 INTERNAL CONTROLS AND AUDIT APPROACH**

- 2.1 We have reviewed in the course of our audit the key elements of the College's systems of internal financial controls including the following areas;
- a) The College's medium and short term planning processes including budgets;
  - b) The College's review of key performance indicators, financial and management accounts;
  - c) The College's controls over income and expenditure;
  - d) The College's financial controls and procedures;
  - e) The input from the Audit Committee and the Finance Committee;
  - f) The College's internal audit service.
- 2.2 In carrying out our audit work we have taken into account the following:
- a) The Code of Audit Practice issued by Audit Scotland;
  - b) The Code of Audit Practice issued by SFEFC (SFC as of 3<sup>rd</sup> Oct 2005);
  - c) Guidance issued by Audit Scotland;
  - d) Guidance issued by SFC;
  - e) The College's internal control procedures;
  - f) The College's Corporate Governance procedures;
  - g) The College's approach to Value for Money;
  - h) The financial memorandum between SFC and the College.
- 2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:
- a) Reviewing previous financial statements;
  - b) Reviewing internal audit plans and reports;
  - c) Discussions with senior management and staff at the College;
  - d) Completing appropriate audit programmes;
  - e) Carrying out analytical review procedures;
  - f) Carrying out substantive and compliance audit tests on a judgemental basis;
  - g) Reviewing the minutes of the principal College committees.
- 2.4 Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 9 & 10.
- 2.5 The audit recommendations are included in the appropriate sections of this report.
- 2.6 The recommendations have been graded as either High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

### **3 FINANCIAL STATEMENTS**

- 3.1 The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.
- 3.2 The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

#### **AUDIT REPORT**

- 3.3 We are pleased to record that there are no qualifications in our audit report on the College's 2007/08 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

#### **FINANCIAL PERFORMANCE**

- 3.4 The income and expenditure account shows an operating surplus for the year of £67k (2007 - £674k).
- 3.5 In 2007/08 the College forecast for a historical cost surplus of £500k. The College has currently budgeted for a £261k historical cost surplus in 2008/09.
- 3.6 A reconciliation of the 2007/2008 Budget to actual was reviewed and discussed with the college.
- 3.7 At the year end the properties were revalued resulting in an uplift in value of £22,856k which has been credited to Revaluation Reserve.
- 3.8 In 2009 the SFC is due to publish comparisons of the financial performance of colleges based on 2007/08 PIs.
- 3.9 In July 2008 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2006/07. The indicators of Forth Valley College for 2006/2007 compared to the sector average is as follows:-



## PERFORMANCE INDICATORS

- **Operating Surplus as a % of income was 2.3% compared with a sector average of 1.6%**
- **Designated Income & Expenditure reserves as a % total of income was - 1% compared with a sector average of 17%**
- **Historical cost surplus as a % of income was 3.1% compared with a sector average of 4.0%**
- **The liquidity ratio (current assets: current liabilities) was 1.4% compared with a sector average of 1.4%**
- **Interest Cover was 17.9 compared with a sector average of 5**
- **Long term liabilities to total reserves was 0.2 compared with a sector average of 0.1**
- **The days cash to total expenditure ratio was 46 compared with a sector average of 79**
- **Unit cost of WSUM was 213 compared with a sector average of 220**
- **WSUM's per FTE teaching staff was 415 compared with a sector average of 371**
- **Staff costs as % of total expenditure was 66% compared with a sector average of 64%**
- **Premises cost as % of total expenditure was 9% compared with a sector average of 10%**
- **Total funding grant as a % of total income was 77% compared with a sector average of 71%**
- **Recurrent grant as a % of total income was 67% compared with a sector average of 63%**
- **Total Education Contracts and Tuition Fees as a % of total income was 17% compared with a sector average of 16%**
- **Total other income as a % of total income was 5% compared with a sector average of 11%**
- **European Income as a % of total income was 0.8% compared with a sector average of 3.4%**

## **SUBMISSION OF ACCOUNTS**

- 3.10 The accounts were submitted for audit on 13 October 2008. Working papers provided have generally been of a satisfactory standard and queries arising from the audit have all been resolved. The working papers provided this year were to a higher standard than the previous year. Key staff members were readily available for consultation throughout the audit process.

## **ISSUES ARISING**

- 3.11 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Financial Accountant. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.
- 3.12 **Accounting Policies:** In accordance with FRS18 the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts.
- 3.13 **Campus Development:** The College is currently in the process of planning new builds; £266k of costs relating to this have been included in the Fixed Assets as assets in the course of construction.

## **4 INTERNAL AUDIT**

### **Objective and Approach**

- 4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2 The College's internal auditors for the year to 31 July 2008 were Baker Tilly.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2008 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2008 the following internal audit reports were issued:
- a) Governance
  - b) Performance Management and Monitoring
  - c) Management Accounting
  - d) Ordering, receipt and payment
  - e) Non SFC Income
  - f) Payroll
  - g) Catering
  - h) School College Partnership
- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment except for tendering procedures on which further work is required.
- 4.6 The Internal Audit annual report from the College's internal auditors concluded that 'Reasonable Assurance' could be taken from the internal audit work. However, additional efforts should be directed to the areas identified in Appendix B as high priority in order to strengthen the College's risk management, control and governance processes. Particular focus should be placed on establishing a list of agreed Key Performance Indicators (KPIs) which are in line with the college's agreed strategic objectives. Performance against these KPIs should be monitored by Committee on a regular basis.

### **Opinion**

- 4.7 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with the Internal Audit providers. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit. Accordingly reliance was placed on the work of Internal Audit in all areas on which they reported during 2007/08 as detailed at 4.4.

## **5 CORPORATE GOVERNANCE**

### **Objective and Approach**

5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was carried out using a bespoke checklist. We also reviewed the following:

- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2008;
- b) The College's Corporate Governance strategy;
- c) The minutes of meetings of key College committees issued during the year.

### **Opinion**

5.2 Based on our review the College appears to operate appropriate Corporate Governance procedures and management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff.

### **Recommendations**

5.3 The recommendations in this area are contained in Section 9.

There were no High Priorities noted.

## **6 VALUE FOR MONEY**

### **Objective and Approach**

- 6.1 We have reviewed the College's Value for Money systems including the following:
- a) The College's strategy in this area;
  - b) VFM studies carried out by the College's internal auditors.

### **Opinion**

- 6.2 Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources.

### **Recommendations**

- 6.3 There are no recommendations in this area.

## **7 GMAP**

- 7.1 We recommend that any significant correspondence from GMAP be forwarded to us so that they can be reviewed as part of our audit work.

## **8 PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES**

### **Objective and Approach**

- 8.1 The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures.
- 8.2 An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a bespoke checklist.
- 8.3 In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
- a) The monitoring and compliance with financial procedures;
  - b) The College's strategy to prevent and detect fraud and other irregularities;
  - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 8.4 We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

### **Opinion**

- 8.5 Overall we concluded that management takes fraud prevention and detection seriously and has reliable controls in place to ensure that potential areas for fraud are detected.

### **Recommendations**

- 8.6 The recommendations in this area are contained in Section 9.

There were no High Priorities noted.

## 9 MANAGEMENT LETTER – 2008

9.1 The recommendations following the audit for the year ended 31 July 2008 are set out below.

9.2 The recommendations have been graded as follows:

**High Priority** Recommendations addressing significant control weaknesses which should be implemented immediately.

**Medium Priority** Recommendations addressing significant control weaknesses which should be addressed in the medium term.

**Low Priority** Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the college matches current good practice.

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>1. Corporate Governance</b>                      The Combined Code on Corporate Governance requires that the chairman should hold meetings with the non-executive members without the executives present. Led by the senior independent member, the non-executive members should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate. This is not done at the College.</p>	<p>We recommend that the non-executive directors meet periodically without the chairman in order to appraise his performance.</p>	Medium	<p>A Board self appraisal has been carried out and the findings will be reported to the Board in December 2008. They will be given the opportunity to discuss this without the Chairman present. Discussion without the Chairman present will be incorporated into future procedures for Board performance appraisal.</p>	<p>Director of Corporate Services  Dec 2008</p>
<p><b>2. Anti fraud and corruption policy</b>                      We have identified that there is no anti fraud and corruption policy in place.                       There is a risk that the existing policies and procedures do not reflect current activities at the College and the absence of an anti fraud and corruption policy may result in suspected frauds not being identified and investigated effectively.</p>	<p>We understand that management is in the process of reviewing all College standing policies and procedures and is planning to finalise an anti fraud and corruption policy during 2007-08. We recommend that this policy is given priority to ensure that systems of internal control are effectively supported by sound and up to date formal standing documentation.</p>	Medium	<p>An anti fraud and corruption policy has been prepared and approved by the SMT. This will be presented to the Audit Committee for comment in November and subsequently to the Board for approval.</p>	<p>Director of Corporate Services  Dec 2008</p>



Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>3. Financial procedures</b> The College have two separate financial procedures relating to periods prior to merger. With the merger there should be one harmonised set of financial procedures applicable to the College.</p>	<p>We understand that the financial procedures are being consolidated and prepared now and should be available in the near future.</p>	Medium	<p>A fundamental review and documentation of finance procedures is being undertaken.</p>	<p>Director of Corporate Services Dec 2008</p>
<p><b>4. Fixed Assets</b> The college has spreadsheet schedules to support the fixed assets figures in the nominal ledger but do not have an inventory register.</p> <p>Also the college did not carry out a physical check of the assets during the course of the year.</p>	<p>It is recommended that the college invest in a comprehensive fixed assets register including inventory register – with location depreciation rates etc – so as to have a more effective management control of the fixed assets.</p> <p>It is recommended that during the course of the year the college should physically spot check the assets. The evidence of these checks should be filed and any corrective adjustment to the fixed assets should be implemented.</p>	Medium	<p>The College understands and accepts the need for a fixed asset register - this will be implemented in line with the estates development activity in Alloa and Stirling. Work will also be undertaken to record the Falkirk campus assets.</p> <p>Once these systems are introduced period spot checks will be carried out.</p>	<p>Head of Financial Services/ Head of Estates and Facilities Management Falkirk - 2009/10 Stirling &amp; Alloa – 2010/11</p>
<p><b>5. Trade creditors</b> During our audit tests to ensure completeness of liabilities at the year end, it was noted that the college do not carry out a monthly reconciliation of the Purchase Ledger Balance to the supplier statement. The level of Trade Creditors is about £78K.</p>	<p>It is recommended that for <u>major</u> balances of the purchases ledger and major turnover accounts, a formal reconciliation be made monthly to the suppliers statements and late invoices be properly accrued.</p>	Low	<p>Although supplier statement reconciliations are being carried out we will introduce a system so that major balances are regularly reconciled and that this is documented.</p>	<p>Head of Financial Services Dec 2008</p>

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>6. Repairs and Renewals</b> During our audit it was noted that one invoice of a capital nature had been expensed as repairs and renewals.</p>	<p>It is recommended that at the outset the invoices are properly authorised and coded by a responsible officer to avoid any misallocation.</p>	Low	<p>Quarterly Reviews will be implemented in 2008/09.</p>	<p>Head of Financial Services  December 2008</p>
<p><b>7. Sales Ledger</b> At the year end there was a difference of £16,007 between the debtors control account and the debtors listings.</p>	<p>It is recommended that the control account be reconciled monthly and reviewed by a responsible officer.</p>	Medium	<p>Monthly reconciliations are now in place, although issues with UNIT-e still remain.  Review of sales ledger process currently underway with a view to moving this from UNIT-e to the Financial system.</p>	<p>Head of Financial Services  March 2009</p>
<p><b>8. Sales Credit Notes</b> During our audit of post year end review, it was noted that £25,513 of Sales Credit Note was not provided for in the accounts to 31 July 2008.</p>	<p>It is recommended that proper cut off procedures be applied to ensure that the accruals reflect the appropriate current balances.</p>	Medium	<p>Staff are reminded on a regular basis to ensure all sales invoicing/credit notes are processed timeously.</p>	<p>Head of Financial Services  Ongoing</p>
<p><b>9. Slow Moving Debtors</b> It was noted that there was £20,828 of students debts for which no bad debt provision had been made.  Also at September 2008, 37% of the July 2008 debtors had been paid.</p>	<p>Management should continually review its credit control procedures to ensure timeous collection of outstanding debtors and improvement of the cash flow position.</p>	Medium	<p>Monthly monitoring of debts is performed in line with the College's Debt Management Policy. Part of the Student debt relates to bursary overpayments. If not collected this debt would be funded from bursary money, not written off to the I&amp;E account.</p>	<p>Head of Financial Services  Ongoing.</p>

## 10 MANAGEMENT LETTER – 2007

- 10.1 The management letter for the year ended 31 July 2007 was issued by Wylie & Bisset LLP following the audit for that year.
- 10.2 The College Response set out in the management letter has been updated.
- 10.3 Points 1, 3, 6, 8, 9, 11, 12, 13, 14 and 15 have been implemented and the others are being carried forward.
- 10.4 There was one recommendation graded as “High” priority in this area.

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>1. Preparation of financial statements</b>                      Audit Scotland’s protocol sets out an expectation that the audited bodies will produce a full set of financial statements supported by full working papers at the start of the audit of the financial statements. This did not happen in 2006-7. Not all lead schedules had been prepared, many of the schedules that were prepared did not have comparative figures.</p>	<p>We recommend that the College plans the finalisation and internal review of the financial statements for 2007-08 in line with Audit Scotland’s expectations.</p> <p>We would note that for this year we understand that there were staff resourcing issues.</p> <p><b>Update: Cleared</b></p>	Medium	<p>The College will prepare Accounts to 31 January 2008 in statutory format which will provide the basis for the full year’s statutory accounts and working papers. This will ensure that comparatives are available and also that members of staff with new roles gain a better understanding of the requirements.</p>	<p>Director of Corporate Services                      31 July 2008</p>
<p><b>2. Corporate Governance</b>                      The Combined Code on Corporate Governance requires that the chairman should hold meetings with the non-executive members without the executives present. Led by the senior independent member, the non-executive members should meet without the chairman present at least annually to appraise the chairman’s performance and on such other occasions as are deemed appropriate. This is not done at the College.</p>	<p>We recommend that the non-executive directors meet periodically without the chairman in order to appraise his performance.</p> <p><b>Update:                      Carried Forward</b></p>	Medium	<p>Noted and will be considered by the Board</p>	<p>Director of Corporate Services                      31 July 2008</p>

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>3. Corporate Governance</b> The Registers of Interests are duly kept but it would appear that for some of the items the updates were well before 31 July 2007.</p>	<p>It is recommended that the College ensures that the Registers are updated to 31 July, so that any appropriate disclosures are not missed in the financial statements.</p> <p><b>Update: Cleared</b></p>	Medium	<p>The College will continue to update the register annually but a request for confirmation of Interests will be issued on 31 July to ensure that all details are current.</p>	<p>Director of Corporate Services</p> <p>31 July 2008</p>
<p><b>4. Anti fraud and corruption policy</b> We have identified that there is no anti fraud and corruption policy in place.</p> <p>There is a risk that the existing policies and procedures do not reflect current activities at the College and the absence of an anti fraud and corruption policy may result in suspected frauds not being identified and investigated effectively.</p>	<p>We understand that management is in the process of reviewing all College standing policies and procedures and is planning to finalise an anti fraud and corruption policy during 2007-08. We recommend that this policy is given priority to ensure that systems of internal control are effectively supported by sound and up to date formal standing documentation.</p> <p><b>Update:</b></p> <p><b>Carried Forward</b></p>	Medium	<p>This policy is included as part of the staff handbook and is also mentioned within the Disciplinary Policies and Procedures. However, for clarity a separate policy will be issued.</p>	<p>Director of Corporate Services</p> <p>31 July 2008</p>
<p><b>5. Financial procedures</b> The College have two separate financial procedures relating to periods prior to merger. With the merger there should be one harmonised set of financial procedures applicable to the College.</p>	<p>We understand that the financial procedures are being consolidated and prepared now and should be available in the near future.</p> <p><b>Update:</b></p> <p><b>Carried Forward</b></p>	Medium	<p>This process is ongoing and will be completed by 31 July 2008.</p>	<p>Director of Corporate Services</p> <p>31 July 2008</p>

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>6. Fixed asset revaluation (b/fwd from 2006)</b> Whilst the College obtained a valuation of the former Falkirk College land and buildings on 31 July 2005 at the time of the merger, this has not been reflected in the financial statements. The 31 July 2003 valuation is therefore still being used for the land and buildings of the former Falkirk College in the 2005-06 financial statements. FRS 15 only requires a full valuation every five years. However, redevelopment plans within the College's estates strategy leads to a risk that book values are no longer appropriate.</p>	<p>Management should revalue the College's land, buildings and fixed plant during 2007-08 by entering into discussion with the proposed valuer at an early date to discuss information requirements, including details of fixed plant. This will ensure that the book value at 31 July 2008 is accurately stated in accordance with FRS 15 and the SORP.</p> <p><b>Update: Cleared</b></p>	Medium	A revaluation is planned for 31 July 2008.	<p>Director of Estates Development</p> <p>31 July 2008</p>
<p><b>7. Fixed Assets</b> The college has schedules to support the fixed assets figures in the nominal ledger. However for the year 2007, all the additions were shown as one figure and the supporting schedules did not have details of the assets but only the amounts.</p> <p>Also the college did not carry out a physical check of the assets during the course of the year.</p>	<p>It is recommended that the college invest in a comprehensive fixed assets register including inventory register – with location depreciation rates etc – so as to have a more effective management control of the fixed assets.</p> <p>It is recommended that during the course of the year the college should physically spot check the assets. The evidence of these checks should be filed and any corrective adjustment to the fixed assets should be implemented.</p> <p><b>Update:</b></p> <p><b>Carried Forward</b></p>	Medium	<p>It is planned to set up a comprehensive fixed asset register during the current financial year.</p> <p>This will be done during the current financial year.</p>	<p>Director of Corporate Services</p> <p>31 July 2008</p>
<p><b>8. Fixed assets</b> During the course of the audit we identified revenue expenses that had been capitalised in error. Admittedly as they are also grant funded there is no impact on the income and expenditure account.</p>	<p>We recommend that the fixed asset listing is reviewed on a monthly basis to ensure that fixed assets are allocated correctly.</p> <p><b>Update: Cleared</b></p>	Low	This is part of the standard month end procedures for 2007/08.	Director of Corporate Services

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>9. Fixed Assets</b> The college is negotiating for a Full Business Case with the SFC in relation to Estates Strategy.</p>	<p>If the Full Business Case is formally approved by the SFC, consideration should be given to depreciate the relevant assets over their <u>shorter</u> remaining lives.</p> <p><b>Update: Cleared</b></p>	Medium	This will be considered once the outcome of the Full Business Case is known.	Director of Corporate Services/Director of Estates Development
<p><b>10. Trade creditors</b> During our audit tests to ensure completeness of liabilities at the year end, it was noted that the college do not carry out a monthly reconciliation of the Purchase Ledger Balance to the supplier statement. The level of Trade Creditors is about £455K.</p>	<p>It is recommended that for <u>major</u> balances of the purchases ledger and major turnover accounts, a formal reconciliation be made monthly to the suppliers statements and late invoices be properly accrued.</p> <p><b>Update:</b> <b>Carried Forward</b></p>	Medium	Reconciliations already take place but these will be formalised and records retained. The accounts are prepared on a commitments basis therefore any late invoices are already reflected in the accounts as accrued commitments.	Director of Corporate Services  31 July 2008
<p><b>11. Fee waiver debtor</b> During the course of the audit work we identified that the fee waiver debtor was incorrectly stated. The debtor in the accounts was based on a wrong estimate as 100% of the income had been received.</p>	<p>We recommend that all balance sheet ledgers are reconciled on a monthly basis and reviewed by the Head of Financial Services.</p> <p><b>Update: Cleared</b></p>	Medium	This is part of the standard month end procedures for 2007/08.	Director of Corporate Services
<p><b>12. Prepayments/Accruals</b> During the course of the audit we identified instances of net expenditure amounting to £154K which had not been properly accounted for. They related to sales invoices, expense invoices and payroll costs. Whilst £129K of these have been corrected, these errors illustrate potential deficiencies in the college accounts and prepayments identification process.</p>	<p>Management should review the year end cut off procedures to ensure that all income and expenditure is properly accounted for in the financial statements.</p> <p><b>Update: Cleared</b></p>	Medium	Year end cut off procedures are documented and will be rigorously applied.	Director of Corporate Services  31 July 2008

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>13. Financial statements</b> During our audit fieldwork it was noted that the allocation of certain balances are not applied consistently, for example, payroll accrual has been allocated to accruals in 2007 but to other creditors in 2006.</p>	<p>We recommend that the balances be allocated in a consistent manner in order to assist with the preparation and audit of the financial statements.</p> <p><b>Update: Cleared</b></p>	Medium	2007 allocations will be the basis of all future year's allocations. The preparation of half year statutory accounts will ensure that consistency is applied to all treatments.	<p>Director of Corporate Services</p> <p>31 July 2008</p>
<p><b>14. Input VAT</b> The college is currently carrying out construction work. The college can partially claim all the related input VAT on the construction.</p>	<p>Consideration should be given to taking VAT advice.</p> <p><b>Update: Cleared</b></p>	Low	This has already been done and preliminary discussions have taken place.	Director of Corporate Services
<p><b>15. Fixed Assets</b> Some items of fixed assets have been categorised as current Assets.</p>	<p>The proper allocation should be addressed in the current year.</p> <p><b>Update: Cleared</b></p>	Low		

## **11. EMERGING ISSUES**

### **11.1 Code of Audit Practice**

The Scottish Funding Council have revised requirements in relation to internal and external audit.

The new requirements represent a fundamental recasting of previous codes of audit practice. In particular, the SFC have taken advantage of the extensive guidance on audit which has been published since previous codes were issued. The new requirements are therefore shorter by 65 pages compared to the longest of the two existing codes of audit practice. Consequently, the new audit requirements can now be simply incorporated within the other material associated with the Financial memorandum. The existing codes of audit practice have therefore been withdrawn completely. The SFC believe this rationalisation of their audit requirements is consistent with modern governance good practice and will benefit colleges and their stakeholders.



## **APPENDIX A**

### **STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT**

### Statement of the Board of Management's Responsibilities

The Board of Management are required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 *Statement of Recommended Practice - Accounting for Further and Higher Education Institutions* and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Institution will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud;
- secure the economical, efficient and effective management of the College's resources and expenditure.
- ensure sound corporate governance and proper conduct of the College's operations.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

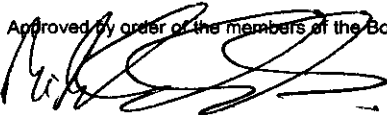
- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance Committee;
- a professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

#### Disclosure of information to auditors

The Board members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each Board member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Approved by order of the members of the Board on 3 December 2008 and signed on its behalf by:



Dr Michael Cantlay  
Chairman

**APPENDIX B**

**INDEPENDENT AUDITORS REPORT**

**Independent Auditors' Report to the members of the Board of Management of Forth Valley College, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of Forth Valley College for the year ended 31 July 2008 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Historical Cost Surpluses and Deficits and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Forth Valley College and to the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditors' report and for no other purpose. In accordance with the Code of Audit Practice approved by the Auditor General for Scotland, this report is also made to the Scottish Parliament, as a body. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than Forth Valley College and the Auditor General for Scotland, for this report, or the opinions we have formed.

**Respective Responsibilities of the Board of Management, Principal and Auditors**

The Board of Management and the principal are responsible for preparing the annual report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the accounts direction issued by the Scottish Further and Higher Education Funding Council which requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2007). They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board of Management's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with the International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education, and the Accounts Direction. We also report if, in our opinion, the Report by the Board of Management is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We also report whether in all material respects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2008; and
- funds from whatever source administered by the College for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the College's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Report of the Board of Management and consider whether it is consistent with the audited financial statements. The other information comprises only the report of the Board of Management. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of Audit Opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and the Principal in the preparation of the financial statements, and of whether the accounting policies are appropriate to the College's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report to the members of the Board of Management of Forth Valley College, the Auditor General for Scotland and the Scottish Parliament (continued)

**Opinions**

**Financial Statements**

**In our opinion**

- the financial statements 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 2008 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education, the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction
- information which comprises the Operating and Financial Review is consistent with the financial statements.

**Regularity**

In our opinion in all material respects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2008; and
- funds from whatever source administered by the College for specific purposes have been properly applied for the intended purposes.

*Wylie Bisset LLP*

**Wylie & Bisset LLP**  
Chartered Accountants  
Registered Auditor

.....3/12/08