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INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

John Wheatley College

Annual audit report to the Board of Management of John Wheatley College and the Auditor General for Scotland

Audit: Year ended 31 July 2008

10 December 2008

AUDIT

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Notice: About this report

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

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

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

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

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Executive summary

Financial commentary

The College achieved a surplus of £46,000, compared to a forecast surplus of £45,000 and a surplus of £35,000 in the previous year.

The financial statements report retained general reserves of £884,000 and the Scottish Funding Council classifies the College as financially secure.

The 2008-09 financial plan projects a surplus of £50,000.

Governance and risk management

The corporate governance statement does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding.

Internal audit concluded that "*the procedures in place are working adequately and effectively and that the College has strong corporate governance controls in place*".

There is a formal process to record, distribute and monitor action in response to key guidance and circulars.

The operating and financial review provides a very comprehensive account of the College's activities and exceeds the requirements of SORP 2007.

The Board of Management report and operating and financial review includes a thorough self-assessment of the College's arrangements to achieve Best Value against the Scottish Government's nine principles of Best Value.

Financial statements audit

We issued an audit report expressing a qualified opinion on the financial statements of the College for the year ended 31 July 2008. Our audit opinion was qualified in respect of the adjustments and disclosures that would be required to comply with FRS 17 *Retirement benefits*. In all other respects our opinions were unqualified.

Management provided draft financial statements and supporting working papers, which were complete and of a high standard, in line with the agreed timetable.

No adjustments were made to the draft financial statements and there are no unadjusted audit differences.

Introduction

Audit framework

2007-08 was the second year of our five-year appointment as external auditors of John Wheatley College ("the College"). This report to the Board of Management of the College and the Auditor General for Scotland summarises our opinion and conclusions and highlights significant issues arising from our work.

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

- provide an opinion on the College's financial statements and, as required by relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland), the College's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position

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

Financial reporting framework

The statement of recommended practice: accounting for further and higher education (2007) ("the SORP") was published in July 2007. The revised SORP is required to be adopted for accounting periods ending on 31 July 2008.

Basis of information

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

Acknowledgement

Our audit has continued to bring us into contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during our audit fieldwork. We also note the continued high quality of the College's preparation for the audit and co-operation of the chief finance officer and his team.

Financial commentary

- The College achieved a surplus of £46,000, compared to a forecast surplus of £45,000. The surplus for the year ended 31 July 2007 was £35,000.
- The financial statements report retained general reserves of £884,000 and the Scottish Funding Council classifies the College as financially secure.
- The 2008-09 financial plan projects a surplus of £50,000.

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

The financial statements report a surplus for the year of £46,000, an increase of 31% compared to 2006-07 and 2% higher than the forecast outturn of £45,000. The surplus is equivalent to 0.5% of total revenue. The College is in a strong financial position with retained general reserves of £884,000 and is classified as financially secure by the Scottish Funding Council.

Income

Income for the year has risen by £555,000 compared to 2006-07, equivalent to a 6% year on year increase. The main components of this increase were:

- a £258,000 increase in the recurrent grant from the Scottish Funding Council (including fee waiver) as a consequence of higher student numbers;
- an increase of £132,000 in the release of deferred capital grants during the first full year of operation of the East End Campus; and
- increases in a number of other funding streams, including £61,000 in relation to 'English for speakers of other languages' courses, and £108,000 as part of the Scottish Government's 'more choices, more chances' initiative to reduce the number of young people not in education, employment or training.

These increases in income are offset by the anticipated decline in funding from European sources. European Structural Fund income decreased from £153,000 in 2006-07 to £53,000 in the year ended 31 July 2008; a decrease of 65%.

	2007-08	*2006-07*	Movement		2007-08	*2006-07*
	£'000	*£'000*	£'000	%	%	*%*
Scottish Funding Council grants	8,260	*7,559*	701	9	87	*85*
Tuition fees and education contracts	289	*201*	88	44	3	*2*
Other operating income	831	*1,058*	(227)	(21)	9	*12*
Bank interest	49	*56*	(7)	(13)	1	*1*
Total income	**9,429**	***8,874***	**555**	**6**	**100%**	***100%***

The reduction in other operating income brings this category to a similar level as 2005-06, following a significant, non-recurring increase in 2006-07.

Expenditure

Overall, total expenditure has increased by £544,000 (6%), which is in line with the increase in income. Individually significant movements were:

- a £324,000 increase in expenditure on wages and salaries as a result of pay inflation and a 2% increase in staff numbers;
- an increase of £154,000 in depreciation costs as a consequence of the East End campus being operational for the full year compared to the part year in 2006-07; and
- other operating expenditure, including teaching materials and associated costs, increased by £66,000, which was offset by a reduction in advertising costs and national qualification units registration fees.

	2007-08	*2006-07*	Movement		2007-08	*2006-07*
	£'000	*£'000*	£'000	%	%	*%*
Staff costs	5,778	*5,454*	324	6	62	*62*
Other operating expenses	2,864	*2,798*	66	2	31	*32*
Depreciation and impairment	741	*587*	154	26	7	*6*
Total expenditure	**9,383**	***8,839***	**544**	**6**	**100%**	***100%***

Balance sheet

The College reported a decrease of £327,000 in net assets during the year. The balance sheets at 31 July 2008 and 2007 are summarised as follows:

	2007-08	*2006-07*	Movement	
	£'000	*£'000*	£'000	%
Fixed assets	21,610	*21,964*	(84)	(0.4)
Current assets				
Stock	13	*15*	(2)	(13)
Debtors	271	*759*	(488)	(64)
Cash	1,366	*119*	1,247	1,048
Creditors due within one year	(1,773)	*(1,049)*	724	69
Net current liabilities	**(123)**	***(156)***	**33**	**21**
Provisions for liabilities and charges	(134)	*(128)*	6	5
Net assets	**21,353**	***21,680***	**(327)**	**(2)**
Deferred capital grants	17,930	*18,303*	(373)	(2)
General reserve	884	*789*	95	12
Revaluation reserve	2,539	*2,588*	(49)	2
Total	**21,353**	***21,680***	**544**	**6**

Explanations for significant balance sheet movements during the year include:

- the mix between debtors and cash has changed following receipt of £470,000 of debtors outstanding at 31 July 2007 in relation to grants for the East End campus and the receipt of grants in advance for 2008-09, rather than funding being received in arrears in previous years; and
- timing of payments for increased cleaning and security costs at the East End campus and receipt of income in advance, shown as deferred income, contributed to the £724,000 increase in creditors.

Financial forecasting

The financial forecast return submitted to the Scottish Funding Council in June 2007 forecast a surplus of £50,000 to 31 July 2008. The actual outturn was a surplus of £46,000. This table summarises the movements during the year.

	£'000
2007-08 forecast outturn per the financial plan	**50**
Additional Scottish Funding Council grants	68
Additional tuition fees	81
Additional other income	55
Additional other operating expenses	(337)
Reduction in staff costs	50
Reduction in depreciation	79
2007-08 actual outturn at 31 July 2008	**46**

Similar to last year, analysis of the reconciliation between the forecast and actual outturn identifies that additional operating expenses were matched by similar levels of additional income. This requires constant monitoring and detailed financial control at an operational level during the financial year to ensure that funding is spent for the purposes intended and matched closely to the nature and timing of additional allocations received, which cannot always be anticipated.

The following table summarises the 2008-09 financial forecast.

	£'000
Income	10,409
Expenditure	(10,359)
Forecast surplus for the year ending 31 July 2009	**50**
Cash balance at 31 July 2008	1,366
Forecast cash balance at 31 July 2009	727
Forecast movement in cash during 2008-09	**(639)**

The increased surplus for 2008-09 is based on a rise in Scottish Funding Council grants, which are offset by an anticipated rise in staff costs and other operating expenses, resulting in a forecast surplus £50,000. The planned decrease in cash reflects timing differences over the year end and utilisation of grants received in advance during 2007-08, for the intended purposes.

Governance and risk management

- The corporate governance statement does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding.
- Internal audit concluded that *"the procedures in place are working adequately and effectively and that the College has strong corporate governance controls in place"*.
- There is a formal process to record, distribute and monitor action in response to key guidance and circulars.
- The operating and financial review provides a very comprehensive account of the College's activities and exceeds the requirements of SORP 2007.
- The Board of Management report and operating and financial review includes a thorough self-assessment of the College's arrangements to achieve Best Value against the Scottish Government's nine principles of Best Value.

Introduction

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

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

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

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

Governance arrangements

The Board of Management has 16 full members and four co-opted members, who were invited to join the board based on their individual skills, such as capital and building management and accounting and finance. Following adverts in the national press and the consequent Board of Management selection process, a number of new members joined the Board of Management during the year. An independent scrutineer was also involved in the process. Management are aware of the requirement to ensure appropriate and timely induction for new members to ensure they fully understand their role. In addition, the audit committee appointed a new chair, who has been a member of the committee for the past nine months.

There are seven standing committees, including capital ICT, personnel and staffing, financial control and audit, each of which is formally constituted and has its own terms of reference. This comprehensive governance structure – which includes non-executive, student and academic representation – is demonstrative of best practice and exceeds the minimum requirements of the Scottish Funding Council. The committee structure provides the Board of Management with the mechanisms to ensure appropriate oversight and monitoring of financial and academic activities.

The College's 2008-11 corporate strategy identifies the values that are core to its operations and sets the tone of the organisation from senior management. Management are increasingly focussing on public value and the wider social benefits that the College does and can bring to the local community in addition to its base goal of providing education services.

Risk management

The College's approach to risk management is based on guidance produced by the Chartered Institute of Public Finance and Accountancy ("CIPFA") for the further and higher education sectors in Scotland. The College's risk management strategy is owned by the Board of Management and all its standing committees. A risk register has been established and is a standing item on the Board of Management meeting agenda and is amended if discussion identifies previously unforeseen risks.

The College's risk management committee meets regularly during the year to review the College's response to identified risks. The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. Risks are identified, prioritised and assessed according to likelihood and consequence; where there is no existing mitigating control in place measures are taken to address and mitigate the risk.

Systems of internal control

Corporate governance statement

The 2007-08 statement documents of the processes and controls and highlights the organisation's continued commitment to exhibiting best practice in all areas of corporate governance. The corporate governance statement is informed by the results of internal consideration of the arrangements in place. In line with best practice, the College formally evaluated its arrangements against the *On Board* checklist and reported the results to the Board of Management during the year. Management continue to review and implement policies and procedures in line with good practice to maintain a robust corporate governance framework and operating culture.

Internal audit completed a review of the College's corporate governance controls and procedures during the year and concluded that *"the procedures in place are working adequately and effectively and that the College has strong corporate governance controls in place".* Only one low grade recommendation was made in their report to the audit committee.

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

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

College management are supportive of the Association of Scottish Colleges current work with CIPFA to devise an education specific code of corporate governance, rather than using the Combined Code which, in some areas, is not relevant to the environment in which the College operates.

Regularity

The Board of Management considers all incoming correspondence relevant to its strategic management role from the Scottish Funding Council and other regulatory or advisory bodies, including organisations such as the Association of Scottish Colleges and Audit Scotland. Relevant communication is also considered by the audit committee. This allows management to demonstrate the College's approach to considering incoming guidance and taking action where appropriate.

Internal audit

The approved internal audit programme for 2007-08 has been completed and the internal auditors have concluded that the College has in place "*an adequate framework of control over the systems they examined*". Management has continued to report action taken in response to internal audit recommendations to the audit committee. As at October 2008 only one "high" graded recommendation remained outstanding for completion; this is in relation to the Enquirer online register system. Internal audit noted that no formal training had been provided on using this system and that a user manual did not exist.

Internal controls

Drawing on the work of internal audit, in accordance with our plan we undertook detailed testing in relation to both entity-level and key financial controls. We identified no control failures in our work and no significant recommendations have been noted. Testing of the design and operation of controls over significant risk points in terms of major financial systems confirms that controls are designed appropriately and operating effectively.

Board of management report and operating and financial review

The revised SORP, issued in 2007 and effective for the year ended 31 July 2008 requires an operating and financial review for the first time. Management proactively anticipated this requirement and the 2006-07 board of management report met the majority of criteria required by the forthcoming operating and financial review. Consequently, the 2007-08 operating and financial review required little enhancement to ensure that the College continues to provide a very comprehensive account of its activities and exceeds the requirements of SORP 2007.

Prevention and detection of fraud and irregularity

The College's financial regulations detail measures put in place to prevent instances of fraud, including a whistle-blowing policy. The College has an over-arching anti-fraud policy in addition to policies and procedures in individual financial and operational areas. The principal has requested annual confirmations from all staff on instances of fraud during the year. Management has not reported any material instances of fraud or irregularity in 2007-08.

Standards of conduct

The College has comprehensive human resources policies and procedures which are readily accessible to staff on the intranet. There is also a formal register of interests for recording members of the board of management and senior managers' interests. This is regarded as best practice and assists in demonstrating consideration of independence in decision-making and the awarding of contracts.

Best Value

The 2007-08 planning guidance for further education colleges issued by Audit Scotland indicated that there was no requirement for auditors to undertake performance audit or other Best Value studies during the year. In line with the requirements of the financial memorandum with the Scottish Funding Council, the Board of Management report and operating and financial review includes a thorough self-assessment of the College's arrangements to achieve Best Value against the Scottish Government's nine principles of Best Value. In addition, the College's value for money strategy meets some of the requirements recently issued by the Scottish Funding Council.

Financial statements audit

- We issued an audit report expressing a qualified opinion on the financial statements of the College for the year ended 31 July 2008. Our audit opinion was qualified in respect of the adjustments and disclosures that would be required to comply with FRS 17 *Retirement benefits*. In all other respects our opinions were unqualified.
- Management provided draft financial statements and supporting working papers, which were complete and of a very high standard, in line with the agreed timetable.
- No adjustments were made to the draft financial statements and there are no unadjusted audit differences.

Audit opinion

On 10 December 2008 we issued an audit report expressing a qualified opinion on the financial statements of the College for the year ended 31 July 2008. Our audit opinion was qualified in respect of the adjustments and disclosures that would be required to comply with FRS 17 *Retirement benefits*. In all other respects our opinions on the financial statements and regularity of transactions was unqualified.

Qualified audit opinion

Paragraph nine of FRS 17 states that '*Where more than one employer participates in a defined benefit scheme the employer should account for the scheme as a defined benefit scheme*'. This indicates that there is a presumption that a defined benefit scheme will be accounted for on a defined benefit basis unless one of the two possible exemption criteria – employers' contribution rates or underlying assets and liabilities – is met.

The Board of Management believes that the College cannot identify its share of assets and liabilities in the Fund on a reasonable and consistent basis and that the College is therefore entitled to use the multi-employer exemption permitted by FRS 17, which allows a defined benefit scheme to be accounted for as it was a defined contribution scheme. The Board of Management considered information available during the year, but continues to account for the College's participation in the Strathclyde Pension Fund ("the Fund") on a defined contribution basis.

In our view, the College's share of the underlying assets and liabilities in the Fund can be identified on a consistent and reasonable basis and its participation should therefore be accounted for as a defined benefit scheme. Our audit opinion is qualified in respect of the adjustments and disclosures that would be required to comply with FRS 17. We qualified our audit report on the financial statements of the year ended 31 July 2007 with regard to the same disagreement. In all other respects our opinion is unqualified. Our opinion on the regularity of transactions is also unqualified.

Fixed asset accounting

Management has amended the College's fixed asset accounting policy to account for and depreciate buildings based on their individual components. This resulted in decreased depreciation, offset by a corresponding decrease in the release of deferred capital grants. The College's external valuer has assessed the life of the building structures at 125 years. Management are aware of the requirement in accounting standards to consider impairment of assets with lives in excess of 50 years. We concur with management's view that this process will be completed by external valuers in the third and fifth years of the valuation cycle and by management in the interim periods.

Financial statements preparation

Management provided draft financial statements, which were complete and of a high standard, to us in advance of the audit fieldwork. The standard of documentation prepared by the finance department to support the financial statements was of a high standard and available to the audit team on the first day of the fieldwork. No adjustments were made to the draft financial statements and there are no unadjusted audit differences.