

# **LEWS CASTLE** **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 LLP  
CHARTERED ACCOUNTANTS  
168 Bath Street  
Glasgow**

<b>Date of commencement of Final Visit</b>	<b>27/10/2007</b>
<b>Date of Draft Report to College</b>	<b>19/11/08</b>
<b>Date of Meeting re Draft Report</b>	<b>1/12/08</b>
<b>Date of College Responses</b>	<b>27/11/08</b>
<b>Date of Presentation of Report</b>	<b>08/12/08</b>

## CONTENTS

<b>GLOSSARY OF TERMS .....</b>	<b>1</b>
<b>INTRODUCTION .....</b>	<b>2</b>
<b>INTERNAL CONTROLS AND AUDIT APPROACH .....</b>	<b>4</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>5</b>
<b>INTERNAL AUDIT .....</b>	<b>8</b>
<b>CORPORATE GOVERNANCE .....</b>	<b>9</b>
<b>VALUE FOR MONEY .....</b>	<b>10</b>
<b>GMAP VISITS .....</b>	<b>11</b>
<b>PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES...</b>	<b>12</b>
<b>MANAGEMENT LETTER – 2007 .....</b>	<b>13</b>
<b>MANAGEMENT LETTER – 2008 .....</b>	<b>17</b>
<b>EMERGING ISSUES.....</b>	<b>20</b>
<b>APPENDICES</b>	
<b>A Statement of responsibilities of the board of management .....</b>	<b>21</b>
<b>B Independent Auditors Report .....</b>	<b>24</b>

## **GLOSSARY OF TERMS**

Annual Report	-	Report
Lews Castle College	-	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

Wylie & Bisset were appointed as the External Auditors of Lews Castle College with effect from 1 August 2006 for a period of 5 years until 31 July 2011. Wylie & Bisset LLP succeeded Wylie & Bisset during the year and will undertake the remainder of the appointment.

The Annual Report has been prepared following the conclusion of our audit of the financial statements of Lews Castle College for the year ended 31 July 2008.

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.

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.

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.

The responsibilities of Wylie & Bisset 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.

Our audit report on the financial statements for the year ended 31 July 2008 is unqualified.

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

Our audit findings in each of the above areas are set out in the relevant sections of the report.

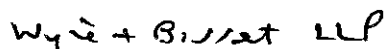
Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.

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.

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.

Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully



Wylie & Bisset LLP

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

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.

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 SFC;
- 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.

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.

Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 9 & 10.

The audit recommendations are included in the appropriate sections of this report.

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**

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.

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**

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**

The income and expenditure account shows an operating surplus for the year of £146k (2007 - £107k). Excluding the movements in relation to the pension liability under FRS17 the income and expenditure account would show an operating surplus of £110k (2007 - £38k).

In 2007/08 the College forecast for an operating surplus of £110k through the College Financial Return. The actual surplus for the year was £146k. The College has currently budgeted for a £10k operating surplus in 2008/09.

The consolidated balance brought forward on the income and expenditure reserve as at 1 August 2007 was £909k in deficit. The balance on the income and expenditure reserve at 31 July 2008 is £798k in deficit.

In August 2008 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2006/07. In comparing the performance indicators it should be remembered that the college had its pension provision brought onto the balance sheet, which may skew the figures. The indicators relative to the College in 2006/07 are as follows:



## PERFORMANCE INDICATORS

	<b>2006/07 LEWS CASTLE COLLEGE</b>	<b>2006/07 SECTOR AVERAGE</b>
Operating Surplus as a % of income	1.8%	1.6%
The Reserves (designated reserves plus Income & Expenditure reserves) as a % total of income	(15.5%)	17.0%
Historical cost surplus as a % of income	1.8%	4.0%
The liquidity ratio (current assets: current liabilities)	0.9	1.4
The days cash to expenditure ratio	21	79
Unit cost of WSUM	352	220
WSUM's per FTE teaching staff	281	371
Staff costs as % of total expenditure	64%	64%
Premises cost as % of total expenditure	7%	10%
Total funding grant as a % of total income	66%	71%
Recurrent Grant as a % of total income	57%	63%
Total education Contracts and Tuition Fees as a % of total income	11%	16%
Total other income as a % of total income	23%	11%
European Income as a % of total income	0.5%	3.4%

In 2009 the SFC is due to publish comparisons of the financial performance of colleges based on 2007/08 PIs. The College is continuing to keep the inter-college comparisons produced by SFC under review.

## **SUBMISSION OF ACCOUNTS**

The accounts were submitted for audit on 27th October 2008. The accounts submitted for audit were complete. Working papers provided have generally been of a good standard and queries arising from the audit have all been resolved. Key staff members were readily available for consultation throughout the audit process.

## **ISSUES ARISING**

During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance & Corporate Services. 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.

**Accounting Policies:** In accordance with FRS18 the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts.

**Capital expenditure:** During the year ended 31 July 2008, the College expended £481k on capital expenditure

**FRS 17:** The College participates in the Highland Council Pension Scheme and this is treated as a defined benefit scheme. At 31 July 2008 the college had a pension liability of £147k (2007 an asset of £133k).

**SSAP 24 Provision:** The college is accounting for SSAP 24 provision using an interest rate of 2% which is in line with SFC guidance.

**Basis of Preparation – Going Concern:** The College makes reference to the accumulated deficit within its accounting policies. This area should be reviewed on an annual basis to ensure the accounting policy note is still relevant.

## **4 INTERNAL AUDIT**

### **Objective and Approach**

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.

The College's internal auditors for 2008 were CIB services.

The College's internal audit strategic and operational plans are set out for the year ending 31 July 2008 in the Audit Needs Assessment.

In the course of the year ended 31 July 2008 the following internal audit reports were issued but only in draft format:

- a) Sales & income (May 08)
- b) Purchasing & payments (May 08)
- c) Payroll (September 08)

The Internal Audit Annual Report has yet to be issued.

### **Opinion**

Given that no finalised Internal Audit Annual Report's were available at the time of the audit we were unable to make an assessment of the adequacy of the Internal Audit function. Based on this we have not placed formal reliance on the work of Internal Audit.

## **5 CORPORATE GOVERNANCE**

### **Objective and Approach**

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**

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**

There were no recommendations made in this area.

## **6 VALUE FOR MONEY**

### **Objective and Approach**

We have reviewed the College's Value for Money systems including the following:

- a) The College's strategy in this area;

### **Opinion**

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**

There are no recommendations in this area.

## **7 GMAP VISITS**

- a) The College has not submitted a GMAP return during the year ended 31 July 2008.

A visit was planned for 4<sup>th</sup> November 2008.

**We recommend that any reports from future GMAP visits should be forwarded to us in order that they can be reviewed as part of our audit work.**

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

### **Objective and Approach**

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.

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.

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.

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**

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**

There were no recommendations made in this area.

## 9 MANAGEMENT LETTER – 2007

The management letter for the year ended 31 July 2007 was issued by Wylie and Bisset following the audit for that year.

There was one recommendation graded as “High” priority in this area.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
<p><b>1. Sales invoices</b> The Sales invoices indicate the relevant sales ledger account which an invoice is to be posted to but does not indicate which nominal account. This results in a poor audit trail.</p>	<p>We recommend all sales invoices include the nominal account code to which the invoice has been posted.</p>	Low	<p>Will investigate whether there is a suitable field in the system to record the nominal account.</p> <p><b>Updated position</b> Sales invoices now include the nominal account code to which the invoice has been posted.</p>	<p>Director of Finance &amp; Corporate Services March 2008</p>
<p><b>2. Nursery fees</b> Nursery fee forms requesting the raising of an invoice are authorised by a typed name.</p>	<p>As best practice we recommend that invoice request forms regarding nursery fees are manually signed as evidence of authorisation.</p>	Medium	<p>Agreed</p> <p><b>Updated position</b> Nursery fee invoice request forms are now authorised by a manual signature.</p>	<p>Director of Finance &amp; Corporate Services Immediately</p>
<p><b>3. Bank reconciliation</b> Bank reconciliations are prepared on a regular basis; however, they are signed as prepared by but not signed as reviewed and authorised.</p>	<p>We recommend that bank reconciliations are signed by the person who prepares the reconciliations, and signed by the person, who reviews and authorises them.</p>	Medium	<p>Agreed</p> <p><b>Updated position</b> Bank reconciliations are now signed as completed and signed as reviewed.</p>	<p>New process now in place.</p>
<p><b>4. Payroll procedures</b> Payroll input procedures have not been updated since July 2002.</p>	<p>We recommend that the procedures are reviewed to ensure any necessary changes are made and to update the names of members of staff who have left.</p>	Medium	<p>Agreed</p> <p><b>Updated position</b> The procedures have not yet been updated. This point has been carried forward to our 2008 management letter.</p>	<p>Director of Finance &amp; Corporate Services March 2008</p>



<p><b>5. Performance evaluation</b> There is no formal performance evaluation in place for board members/chairman.</p>	<p>We recommend that the college implement a formal performance evaluation for board members/chairman.</p>	<p>Medium</p>	<p>Agreed. Will form part of selection of new Chair</p> <p><b>Updated position</b></p> <p>There are plans for the chair to evaluate the performance of the Principal and other board members although this has not as yet been carried out.</p>	<p>Board January 2008</p>
<p><b>6. Appointment of chairman</b> There is no formal process for the appointment of a new chairman to the board.</p>	<p>We understand that the college will be looking into this in the near future as the term of the existing chairman will end in 2008. We recommend that the college look to implement a formal process as soon as possible.</p>	<p>Medium</p>	<p>Process in Place</p> <p><b>Updated position</b></p> <p>There is now a formal procedure in place which was used for the appointment of the new chair this year.</p>	<p>Process in Place</p>
<p><b>7. Board members</b> There is no expected time commitment included in the appointment letter/process of board members.</p>	<p>We recommend that a realistic time commitment is included in the appointment process of new board members.</p>	<p>Low</p>	<p>Will be reviewed in context of recruiting new members</p> <p><b>Updated position</b></p> <p>The length of term is included in letters of appointment. The college does not believe that it is appropriate to include a time commitment as this varies. Board members have been attending training courses on Corporate Governance giving them an insight into the time involved – considered adequate.</p>	<p>Board January 2008</p>
<p><b>8. Audit Committee</b> The terms of reference of the audit committee do not state that their role includes “reviewing and monitoring the external auditors independence and objectivity”.</p>	<p>We recommend that the college updates the terms of reference of the audit committee to include this role.</p>	<p>Low</p>	<p>Terms of Reference will be updated</p> <p><b>Updated position</b></p> <p>There are new terms of reference for the audit committee which now include the forementioned role. These will be approved</p>	<p>Board March 2008</p>

<p><b>9. Fixed Assets</b> The college does not keep a register of fixed assets which reconciles to the financial statements.</p>	<p>We recommend that the college maintains a fixed asset register for all assets held.</p>	<p>Medium</p>	<p>by the College's Board at the November Board meeting.</p> <p>Agreed</p> <p><b>Updated position</b></p> <p>The college has not yet created a fixed asset register. And therefore we carry this point forward to our 2008 management letter.</p>	<p>Director of Finance &amp; Corporate Services June 2008</p>
<p><b>10. Petty cash</b> The college has petty cash floats at the main campus and its 2 outreach centres; however, no reconciliations are carried out.</p>	<p>We recommend that petty cash reconciliations are carried out on a monthly basis for each of the petty cash floats.</p>	<p>Medium</p>	<p>Agreed</p> <p><b>Updated position</b></p> <p>Petty cash reconciliations are now being carried out but they are not signed as completed or signed as reviewed. This point is therefore carried forward to our 2008 management letter.</p>	<p>Now in place</p>
<p><b>11. Out Dated Cheque</b> There is an out dated cheque written in March, which has not been written off at September.</p>	<p>We recommend that cheques over six months old are written back.</p>	<p>Low</p>	<p>Agreed. Process will now take place monthly.</p> <p><b>Updated position</b></p> <p>This was tested during the 2008 audit, no problems were noted.</p>	<p>Now in place</p>
<p><b>12. Purchase invoices</b> Purchase invoices under query are not posted to the purchase ledger, as it is the colleges' policy to only include items once they have been approved for payment.</p>	<p>We recommend that purchase invoices are posted to the purchase ledger when received to ensure all invoices are logged onto the system.</p>	<p>Medium</p>	<p>Agreed. Will review process and implement practical solution.</p> <p><b>Updated position</b></p> <p>This issue will be addressed when the college upgrades to the new Access system. The issue is therefore carried forward to our 2008 management letter.</p>	<p>Director of Finance &amp; Corporate Services March 2008</p>

<p><b>13. Projects</b> There are two projects run by the college for which the income and expenditure is recorded through balance sheet codes resulting in the income and expenditure not being recorded through the profit and loss statement.</p>	<p>We recommend that income and expenditure is recognised separately in the profit and loss statement and not netted off in balance sheet codes.</p>	<p>High</p>	<p>Agreed</p> <p><b>Updated position</b></p> <p>The college is recording income and expenditure through the balance sheet for the offit project. We therefore carry this point forward to our 2008 management letter.</p>	<p>Director of Finance &amp; Corporate Services March 2008</p>
<p><b>14. Investments</b> The college has an investment in Lews Castle College Trading Company; however, the investment is not included in the college's trial balance or accounting system.</p>	<p>We recommend that the shares are included in the colleges' accounting system to recognise this investment.</p>	<p>Low</p>	<p>Agreed</p> <p><b>Updated position</b></p> <p>The college's trading company and subsidiary's are not included within the ledger. This point is carried forward to our 2008 management letter.</p>	<p>Director of Finance &amp; Corporate Services March 2008</p>
<p><b>15. Payroll reconciliation</b> In the payroll reconciliation, a break down of the differences between the payroll costs and the costs per accounts could not be provided. When differences have been identified no detail is retained to explain the figures.</p>	<p>We recommend that as the payroll reconciliation is being prepared detail is retained to show the break down of the differences found.</p>	<p>Medium</p>	<p>Agreed</p> <p><b>Updated position</b></p> <p>A payroll reconciliation was prepared for the 2008 audit with a break down of differences found.</p>	<p>Director of Finance &amp; Corporate Services July 2008</p>
<p><b>16. Student Support Fund</b> It was noted that Student Support Fund bank accounts are not held within the main ledger.</p>	<p>We recommend that Student Support Funds bank accounts should be maintained within the main ledger.</p>	<p>Medium</p>	<p>Treatment of Student Funds will be reviewed and appropriate action taken</p> <p><b>Updated position</b></p> <p>Student support funds are still held outwith the main ledger. This point is carried forward to our 2008 management letter.</p>	<p>Director of Finance &amp; Corporate Services July 2008</p>

## 10 MANAGEMENT LETTER – 2008

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

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. Payroll procedures</b> Payroll input procedures have not been updated since July 2002.</p>	We recommend that the procedures are reviewed to ensure any necessary changes are made and to update the names of members of staff who have left.	Medium	The payroll procedures were updated 24.11.08 to incorporate the use of leaver forms, which were already being used.	Director of Finance & Corporate Services November 2008
<p><b>2. Fixed Assets</b> The college does not keep a register of fixed assets which reconciles to the financial statements.</p>	We recommend that the college maintains a fixed asset register for all assets held.	Medium	Agreed.	Director of Finance & Corporate Services January 2009
<p><b>3. Petty cash</b> The college has petty cash floats at the main campus and its 2 outreach centres. Petty cash reconciliations are carried out but they are not signed as completed or signed as reviewed.</p>	We recommend that petty cash reconciliations are carried out on a monthly basis for each of the petty cash floats and that they are signed as completed and signed as reviewed.	Medium	Agreed. Reconciliations are already being carried out but they will now be signed and reviewed.	Director of Finance & Corporate Services November 2008
<p><b>4. Purchase invoices</b> Purchase invoices under query are not posted to the purchase ledger, as it is the colleges' policy to only include items once they have been approved for payment.</p>	We recommend that purchase invoices are posted to the purchase ledger when received to ensure all invoices are logged onto the system.	Medium	Agreed. This will be implemented when the Access upgrade has been installed.	Director of Finance & Corporate Services December 2008

<p><b>5. Projects</b> There is one project run by the college for which the income and expenditure is recorded through balance sheet codes resulting in the income and expenditure not being recorded through the profit and loss statement.</p>	<p>We recommend that income and expenditure is recognised separately in the profit and loss statement and not netted off in balance sheet codes.</p>	<p>High</p>	<p>Agreed.</p>	<p>Director of Finance &amp; Corporate Services April 2009</p>
<p><b>6. Investments</b> The college has an investment in Lews Castle College Trading Company and Greenspace Research Limited and 2 sub-subsidiaries which are part of Greenspace Research Limited; however, the investments are not included in the college's trial balance or accounting system.</p>	<p>We recommend that the shares are included in the colleges' accounting system to recognise these investments.</p>	<p>Low</p>	<p>Agreed.</p>	<p>Director of Finance &amp; Corporate Services December 2008</p>
<p><b>7. Student Support Fund</b> It was noted that Student Support Fund bank accounts are not held within the main ledger.</p>	<p>We recommend that Student Support Funds bank accounts should be maintained within the main ledger.</p>	<p>Medium</p>	<p>Agreed.</p>	<p>Director of Finance &amp; Corporate Services July 2009</p>
<p><b>8. Petty cash reconciliation</b> There was a £537.86 difference in the petty cash reconciliation at the year end resulting in the petty cash being overstated. We understand that this was due to the expenditure for the week ending 7/7/08 not being posted.</p>	<p>We recommend that petty cash expenditure is posted on a timely basis.</p>	<p>Medium</p>	<p>Agreed. A check will be made to ensure that all petty cash expenditure is posted as part of the monthly reconciliation review.</p>	<p>Director of Finance &amp; Corporate Services November 2008</p>
<p><b>9. Fixed assets</b> There is £36k of finance lease equipment in fixed assets written down to a net book value of nil. We understand that the college no longer holds these assets.</p>	<p>We recommend that as the college no longer holds these assets they should be written off.</p>	<p>Medium</p>	<p>Agreed. These assets will be removed from the notes to the accounts.</p>	<p>Director of Finance &amp; Corporate Services July 2009</p>
<p><b>10.Fixed assets</b> The college has capitalised items below their £5k capitalisation limit but were unable to demonstrate if the costs were related to a larger purchase and therefore correctly capitalised.</p>	<p>We recommend that the college capitalises items in line with its accounting policy and can demonstrate the breakdown of costs relating to assets.</p>	<p>Medium</p>	<p>Agreed.</p>	<p>Director of Finance &amp; Corporate Services July 2009</p>
<p><b>11.Purchase invoices</b> Purchased invoices with regards to translator fees for the trading company are raised internally as opposed to by the translators.</p>	<p>We recommend that purchase invoices are raised by the translators and not internally by the college.</p>	<p>Low</p>	<p>Agreed.</p>	<p>Director of Finance &amp; Corporate Services January 2009</p>

<p><b>12. Internal audit</b></p> <p>For the 12 areas that the 2008 programme of work had planned to review only 3 reports were available for us at the year end audit and they were still in draft format. Although a plan has been prepared for the 2009 programme of work an annual report has yet to be prepared.</p>	<p>We recommend that the internal audit work planned is carried out and reports are produced on a timely basis.</p>	<p>High</p>	<p>Agreed. 3 more reports were received on 05.11.08. It is expected that the annual report for 2009 will be available by the time of the external auditors' visit.</p>	<p>Director of Finance &amp; Corporate Services July 2009</p>
<p><b>13. ESF Projects</b></p> <p>It was noted that there are several ESF projects in which Lews Castle College are part of, although they are not the lead partner. The finance department and the Head of Finance and Estates were not aware that the college had agreed to take part in these projects. It was also not able to quantify the amount that was due to the college for these projects at the year end audit.</p>	<p>We recommend that the College put a system in place where all ESF projects the college agrees to take part in must be approved by the Head of Finance and Estates.</p>	<p>High</p>	<p>Agreed. A system is already in place but compliance will now have to be ensured.</p>	<p>Director of Finance &amp; Corporate Services July 2009</p>
<p><b>14. Bursaries creditor</b></p> <p>We note that there is an historic bursaries creditor that has been carried forward in the accounts for £10,000.</p>	<p>We recommend that the college investigate this to establish whether the creditor is repayable and release as necessary.</p>	<p>Medium</p>	<p>Agreed.</p>	<p>Director of Finance &amp; Corporate Services January 2009</p>

## 11 EMERGING ISSUES

### **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 is 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 preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and 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;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

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 and General Purposes Committee;

- 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 only provide reasonable, but not absolute, assurance against material misstatement or loss.

Approved by order of the members of the Board on 8 December 2008 and signed on its behalf by:

.....*Elizabeth McAtear*.....

**Elizabeth McAtear**  
**Chairman of the Board of Management**

**APPENDIX B**

**INDEPENDENT AUDITORS REPORT**

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF LEWS CASTLE COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND**

We have audited the financial statements of Lews Castle 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 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 the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Board of Management, Accountable Officer and Auditor**

The Board of Management and Accountable Officer 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 thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Accountable Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with 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 and the Accounts Direction. We also report if, in our opinion, the Foreword 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<sup>st</sup> 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.

In addition, we report to you if, in our opinion, the college has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement of Corporate Governance and Internal Control reflects the college's compliance with the requirements of the Scottish Funding Council and report if, in our opinion, it does not. We are not required to consider whether the statement covers all risks and controls, or 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 Annual Report and consider whether it is consistent with the audited financial statements. 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 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 Accountable Officer 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.

**Opinion****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 Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder;
- information which comprises the Operating and Financial Review included with the Annual Report 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<sup>st</sup> 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 and Registered Auditors  
168 Bath Street  
Glasgow G2 4TP

8 December 2008

Date