SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Motherwell College

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

4 December 2008

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Executive Summary

Finance

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

The College has reported a surplus of £3,543,000 in 2007/08. The budgeted surplus shown on the 2007 Financial Forecast Return submitted to the Scottish Funding Council was £1,549,000 and the positive variance of £1,994,000 was mainly due to a combination of higher than expected investment income, better than expected SUMs delivery as well as cost efficiencies and prudent budgeting.

The 2007/08 surplus, along with that achieved in 2006/07 will be used to fund the College's contribution to the cost of the new campus at Ravenscraig, which is due to open in 2009/10.

The latest Financial Forecast Return shows the College forecasting an operating surplus of £898,000 in 2008/09 excluding an expected gain of £6,915,000 on the sale of the current campus. The forecast operating surpluses for 2009/10 and 2010/11 are £472,000 and £582,000 respectively.

The College is financially secure and the balance sheet as at 31 July 2008 is showing net assets of £56.651m including bank and cash of £21.046m.

The College has changed its accounting policy in respect of the Strathclyde Pension Scheme and is now accounting for this scheme as a defined benefit scheme in accordance with Financial Reporting Standard 17 – Retirement Benefits.

Governance

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

We did not identify any issues of concern from our review of the College's corporate governance arrangements for the prevention and detection of fraud and irregularity, standards of conduct or prevention and detection of corruption.

Conclusion

This report concludes the 2007/08 audit of Motherwell College. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Director of Finance and Physical Resources. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Introduction

1. This report summarises the findings from our 2007/08 audit of Motherwell College. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 10 June 2008. The main focus of our external audit has been on the financial statements and governance arrangements.

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

   - Disposal of the current College site
   - Commencement of the construction of the College's New Build Programme
   - Strathclyde Pension Fund liabilities – change to FRS 17 and SORP
   - Operating and Financial Review
   - Combined Code on Corporate Governance 2006

3. This report sets out our findings in relation to these key issues. The report also includes a follow-up of issues identified during the previous year's audit as well as issues which will be affecting our audit in future years.

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

Finance

Responsibilities

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

Auditors' opinion

6. We are required to give an opinion as to whether the financial statements present a true and fair view of the financial position of the College as at 31 July 2008 and of its expenditure and income for the financial year. We are also required to include a regularity assertion in our audit report stating whether, in all material respects, expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with the Scottish Funding Council (SFC).

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

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

Financial position

9. The College reported a surplus of £3,543,000 with income of £28,032,000 and expenditure of £24,489,000. The College had originally budgeted for a surplus of £1,549,000 in the 2007 Financial Forecast Return (FFR) submitted to the SFC. Therefore the variance between actual and budgeted surplus was £1,994,000.

10. A reconciliation between the forecast surplus and the actual surplus is set out below:

	£
Surplus per initial budget	**1,549,000**
Increase in SFC income	437,000
Increase in other income	360,000
Increase in investment income	451,000
Gain on implementation of FRS 17	208,000
Decrease in staff costs	199,000
Decrease in operating expenses	391,000
Miscellaneous items	(52,000)
Actual surplus per financial statements	**3,543,000**
Variance from original budget	**1,994,000**
Variance as percentage of total income	**7%**

11. The variance in income of £1,421,000 between actual and budget is mainly due to the following factors:-

   - The SFC grant income was £437,000 higher than the budgeted total of £17,904,000. The College has been allocated additional 3 year strategic growth funding based on an average annual SUMS growth of 7,654. 3,800 of this SUMS growth was not achieved in 2006/07 and so the income receivable in respect of this was deferred to 2007/08. In the year to 31 July 2008 the College achieved a SUMS total of 93,167 which included core SUMS of 80,865, as well as the strategic growth SUMS for 2007/08 of 7,654 and the deferred element from 2006/07 of 3,800. This performance was better than expected, which contributed to the higher than expected SFC income.

   - The College's other income was £2,356,000 compared with a budget of £1,996,000, giving a variance of £360,000. Part of this difference was a grant in aid write back adjustment of £134,148. The remaining £226,852 is largely due to an increase in miscellaneous income. Miscellaneous income includes a variety of income sources eg windfall gains, income from the sale of equipment and materials, beauty therapy and drama production income. Much of this income is non-recurring, and by the very nature, this category of income will fluctuate.

   - Investment income was £1.111m against a budget of £660,000. This was a result of the strengthening bank balance coupled by an increase in interest rates.

   - The College has accounted for the Strathclyde Pension Fund as a defined benefit scheme for the first time in 2007/08, and a gain in the form of finance income of £208,000 has arisen. The actuarial loss of £1.12m was taken directly to the pension reserve via the Statement of Total Recognised Gains and Losses. The decision to change the accounting policy in respect of the Strathclyde Pension Fund was taken after the year end and thus was not accounted for as part of the budgeting process.

12. Total expenditure of £24,489,000 was £573,000 less than budgeted expenditure. This was mainly a result of the following factors:-

   - Actual staff costs were £199,000 lower than the budgeted cost. This was due to an increase in the number of salaries which were able to be recharged to third parties arising from secondment opportunities and through pension savings against budget. Salary costs have increased as indicated in note 6.02 to the financial statements and in the 2007 FFR due to increased activity, but have been offset by the above noted factors.

   - The budgeted total for operating expenses was £7,655,000 against an actual spend of £7,264,000. This improvement of £391,000 was largely due to the College improving efficiency and prudent budgeting.

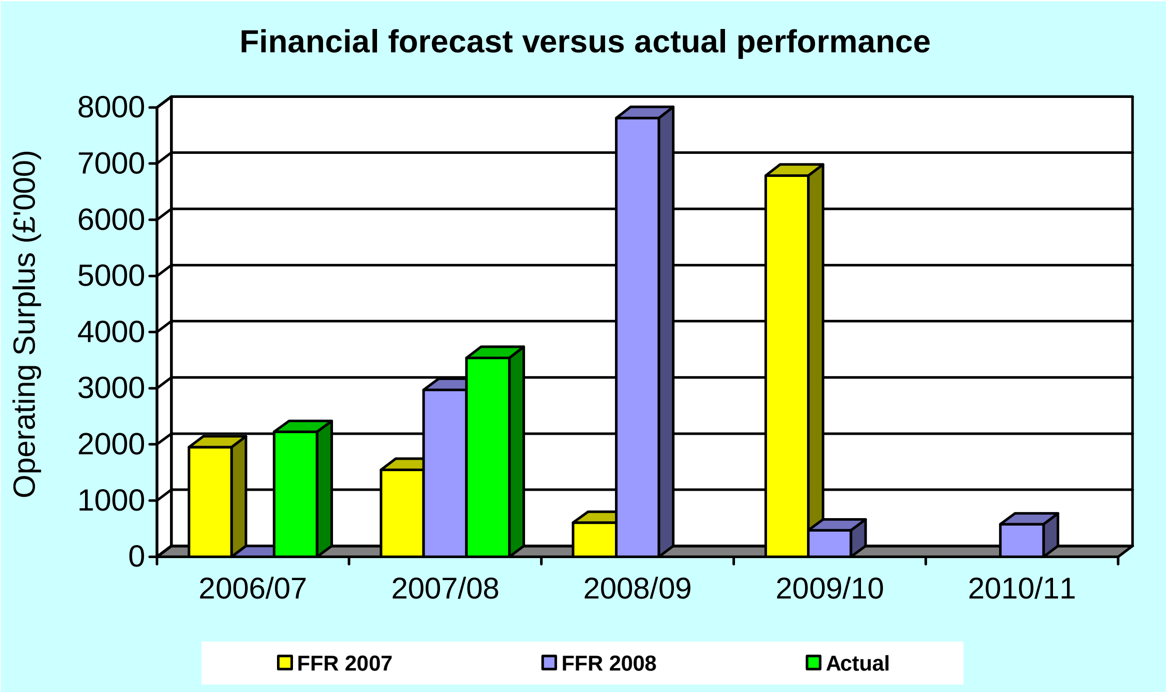
13. The College is financially secure and the balance sheet as at 31 July 2008 reports net assets of £56.651m including bank and cash balances of £21.046m. This large bank and cash balance will decrease during 2008/09 as the College meets the funding gap in respect of the cost of constructing the new Ravenscraig campus from its own resources.

14. The Ravenscraig project is due to be completed during 2008/09. At 31 July 2008 the cost capitalised in respect of the project totalled £39.903m and is currently shown as assets in the course of construction (note 10 to the financial statements). On completion of the project this asset, along with the further costs incurred will be transferred to Land and Buildings.

Financial forecasts

15. The College submits annual Financial Forecast Returns (FFRs) to SFC detailing the expected results for the current year and the next three years. SFC uses the FFRs to assess the financial performance of individual Colleges and of the sector as a whole.

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



The large surpluses achieved in 2006/07 and 2007/08 are required to fund the College's contribution to the cost of the new campus, albeit the College has significantly over-achieved in 2007/08. Although the College is forecasting a further surplus of £7.813m in 2008/09, £6.915m of this will be derived from the gain on sale of the existing campus. When the 2007 FFR was prepared the gain was expected to arise in 2009/10, but as previously noted the project is now on course for completion in 2008/09, hence the amendment in respect of the timing of the projected surpluses. The underlying operating surpluses for 2008/09, 2009/10 and 2010/11 are forecast to be £898,000, £472,000 and £582,000 respectively. At approximately 1.5% to 3% of total income, these are in line with the sector average.

Financial planning and monitoring arrangements

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

18. Budgets are devised at the start of the year and approved by the Finance Committee and are updated during the year to take account of new information. The Finance Committee meets twice a year and management accounts showing forecast year end positions against budget are presented to each Finance Committee meeting. However additionally, management accounts are circulated monthly to members of the finance committee.

19. In our opinion the College has effective financial management arrangements in place.

Financial reporting framework

20. The principal elements of the College's financial reporting framework are:

    - Accounts Direction issued by the Scottish Funding Council
    - Further Education / Higher Education Statement of Recommended Practice (FE/HE SORP) 2007

FE/HE SORP

21. A revised SORP was issued in July 2007 and was applicable for the first time to the College's 2007/08 financial statements. The main impact of the revised SORP on the College's financial statement were as follows:-

    - The Board of Management Report has been extended to meet the requirements of an Operating & Financial Review which includes more detailed analysis of the College's financial and non-financial performance.
    - Changes in the required disclosure of defined benefit pension schemes. The new disclosures are shown in note 22 to the financial statements.

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

Financial statements preparation

23. We are grateful to the Director of Finance and Physical Resources, the Financial Controller and the finance staff for their assistance and support during the course of the audit. We found the draft financial statements and supporting working papers to be of a good standard.
24. In addition, we found that the College had adequate resource available in the Finance Department to ensure it meets the College's financial management and reporting needs going forward.

Adjustments during the audit

Actual adjustments

25. Four adjustments were posted as a result of the audit work performed:-

1) Dr Assets in the course of construction	£743,340	
Cr Creditors		£743,340

Being the incorporation of the retention in respect of the work performed by Miller Construction with regards the Ravenscraig project

2) Dr Deferred SFC Income	£113,283	
Cr SFC Income		£113,283

Being the release of SFC grant income deferred in error

3) Dr Accrued Income - Lennartz	£2,946,714	
Cr HMRC Lennartz creditor		£2,946,714

Being the incorporation of the Lennartz VAT recovered from HMRC in relation to the input VAT incurred as part of the Ravenscraig project – arising from post balance sheet information

4) Dr Pension reserve £1,120,000

Dr Income & Expenditure Account Reserve £210,000

Cr Pension liability £910,000

Cr Staff costs £2,000

Cr Finance costs £208,000

Cr Pension reserve £210,000

Being adjustments required to disclose the SPF as a defined benefit scheme

26. A prior adjustment was also required to be made to the financial statements in respect of this change in accounting treatment. The decision to treat the Strathclyde Pension Fund as a defined benefit scheme was not taken by the audit committee and approved by the Board of Management until after the audit had commenced and thus the adjustment could not have been reflected in the draft financial statements presented by the College at the start of the audit. This was in agreement with Scott-Moncrieff.

27. All other adjustments related to presentational and disclosure adjustments.

Potential adjustments

28. There were 10 significant potential adjustments that were not posted and are therefore not reflected in the financial statements, these being:

Journal		£	£	Net Effect on I&E £
1	Dr Accruals and deferred income	£ 15,259		
	Cr Purchases		£ 15,259	£ 15,259
	Being the reversal of the Phoenix software invoice as the subscription/licences did not commence until 06/08/08 (post year end)			
2	Dr Other debtors	£ 70,136		
	Cr Heat and light		£ 70,136	£ 70,136
	Being the creation of a debtor in respect of a rebate from Scottish Power due to VAT being previously overcharged - arising from post balance sheet information			
3	Dr Purchases	£31,100		
	Cr Accruals and deferred income		£31,100	-£31,100
	Being estimated adjustment of the net effect on these financial statements of accruing purchase order commitments where goods and services are not received until after the year end – see para 30 below			
4	Dr Accruals and deferred income	£ 90,000		
	Cr Purchases		£ 90,000	£ 90,000
	Being the reversal of VAT on the fee waiver accrual - arising from post balance sheet information			
5	Dr Accruals and deferred income	£ 28,000		
	Cr Purchases		£ 28,000	£ 28,000
	Being the over-accrual of SQA fees due			

Journal		£	£	Net Effect on I&E £
6	Dr Accountancy/Professional fees	£ 21,200		
	Cr Accruals and deferred income		£ 21,200	-£21,200
	Being the accrual of VAT at 17.5% on the VAT advice			
7	Dr Accruals and deferred income	£ 7,425		
	Cr Purchases		£ 7,425	£ 7,425
	Being the reversal of the commission accrual to be paid in respect of Chinese students as the courses do not commence until 2008/09			
8	Dr Prepayments and accrued income	£ 211,655		
	Cr Accruals and deferred income		£211,655	£ -
	Being the reallocation of accrued income included in deferred income			
9	Dr Accruals and deferred income	£ 26,800		
	Cr Purchases		£ 26,800	£ 26,800
	Being the over-accrual of the Perception Study accrual. This study is to take place in August 2008 and so no goods or services were delivered during the financial year to 31 July 2008			
10	Dr Accruals and deferred income	£ 16,000		
	Cr Purchases		£ 16,000	£ 16,000
	Being adjustment in respect of a mis-calculation of the accrual in respect of Libyan students			
Affect on I&E account of significant potential adjustments - increase in surplus				**£ 201,320**

Review of accounting systems

29. One of the objectives of our audit was to review the accounting systems and internal controls operating at the College to ensure they formed an adequate basis for the preparation of the financial statements.

30. Audit testing detected accruals with a value of £273,100 (2007 : £304,200) which related to purchase orders raised prior to the year end for goods and services that were not received until post year-end. The net effect of this accounting treatment is detailed in journal entry 3 above. For management reporting purposes the College accounts for expenditure when the commitment is entered into, as per its current financial procedures. However these commitments must be reviewed as part of the year end accounts production process to ensure that accruals are only included for goods and services received by the 31 July. **Action plan – 1**.

Other issues arising from the audit

31. In order to assist College members' understanding of the financial statements and our audit, we have summarised the issues below that we believe are of particular significance in 2007/08.

Disposal of the current College site

32. The College received a deposit of £1.05m from Cala Homes, the purchaser of the current campus, during the year. This has been recognised within other creditors as at 31 July 2008 (note 12 of the financial statements). The transfer of title will take place in the year to 31 July 2009 and therefore the disposal of the existing campus and gain on sale will be recognised within next year's financial statements.

Commencement of the construction of the College's New Build Programme

33. The Ravenscraig project costs of construction continue to be disclosed as assets under the course of construction (note 10 of the financial statements). The total capitalised cost as at 31 July 2008 is £39.903m.

34. Capital grants received in relation to the project total £39.165m as at 31 July 2008 and are included within deferred capital grants (note 14 of the financial statements). When the Ravenscraig campus is completed and the building comes into use, the cost of construction will be transferred from assets under the course of construction to land and buildings. At that point the building will require to be depreciated, and the deferred capital grants will be released in line with the stated depreciation policy.

Strathclyde Pension Fund liabilities – change to FRS 17 and SORP

35. The College has elected to change its accounting policy in respect of the Strathclyde Pension Fund, which will now be accounted for as a defined benefit scheme. A prior year adjustment was required to incorporate the pension liability into the financial statements. The actuarial valuation prepared by Hymans Robertson LLP showed that the pension fund had a net deficit of £1.191m at 31 July 2006, a surplus of £624k at 31 July 2007 and a deficit of £286k at 31 July 2008. These valuations are now reflected within the financial statements and details are disclosed within note 22.

36. The overall impact of this change of accounting policy is detailed within note 28 of the financial statements.

Operating and Financial Review

37. One of the key changes in the new SORP is the requirement for the College to include an Operating and Financial Review (OFR) within its financial statements. The College has included a detailed operating and financial review within the financial statements and thus complies with the requirements of the new SORP.

Combined Code on Corporate Governance 2006

38. As described in the next section, we are satisfied that the College has complied with the Combined Code on Corporate Governance 2006 for the year to 31 July 2008.

Governance

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

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

40. We reported on the College's financial position in the Finance section of this report. This section includes our comments on other aspects of the College's governance arrangements.

Corporate Governance Statement

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

42. The College's Corporate Governance Statement for 2007/08 explains that the College was fully compliant with the 2006 Combined Code throughout the period. The College's statement did not identify any significant control weaknesses.

43. We reviewed the Corporate Governance Statement by:

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

44. We are satisfied that the statement is consistent with the Scottish Funding Council's guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Combined Code 2006

45. A revised Combined Code on Corporate Governance was issued in June 2006, which superseded the Code issued in 2003. The Combined Code 2006 is applicable for reporting years beginning on or after 1 November 2006 and therefore the College has stated compliance with the 2006 code for the first time in its 2007/08 financial statements.

46. Internal audit conducted a review of Corporate Governance arrangements in place at the College in 2006/07. Internal audit concluded that, overall, the College has a sound governance framework in place.

Risk management

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

48. The College has a Risk Management Policy and Risk Management Procedures in place. The College has a risk register which is maintained by the Senior Management Team (SMT) and reviewed and updated on an annual basis. The Audit Committee will review the risk register annually and the Board of Management will review the 'top ten' risks annually. However any

significant changes in the risk register are notified immediately to both the audit committee and the full board.

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

Internal audit

50. Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by Deloitte. In the previous year we undertook a review of the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and performed in accordance with the Code of Audit Practice. The review concluded that the internal audit service provided to the College was in compliance with the SFC's Code of Audit Practice.

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

- Relocation Project Management
- General Ledger and Month End Controls.

Internal audit's annual opinion statement

52. Internal audit has concluded in its annual report that management has substantial assurance that the internal controls and governance frameworks which it operates are sufficient to ensure the effective and efficient operation of the organisation.

53. We are grateful to Deloitte for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

54. We are required to consider the arrangements made by management for the prevention and detection of fraud and irregularity. Fraud is defined as deception made for personal gain and irregularity is defined as transactions which do not comply with Scottish Ministers guidance.

55. The College has a fraud and corruption policy and code of practice on whistle blowing in place. There were no frauds identified during the year.

56. All SFC and other guidance and regulations are received by the Principal's secretary. All relevant regulatory information is distributed to the appropriate members of staff. A database is held of all SFC circulars and responsible officers. All relevant guidance is presented to the Board of Management meetings ensuring that all those concerned have access to adequate and relevant information.

57. We are pleased to report that we identified no issues of concern in relation to the arrangements for the prevention and detection of fraud or with regard to the legality of transactions.

Standards of conduct

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

59. Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the Scottish Government.

60. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over ordering and procurement and disposal of assets.

Looking Forward

Financial position

61. The Scottish Funding Council has provided significant increases in funding to the Scottish Further Education sector in the past decade. The Spending Review and indications from the Scottish Government are that there will be no further significant increases in the short to medium term. In addition, there is reduced opportunity for European grant income available to the sector. Coupled with increasing cost pressures this will result in limited financial resources for the Further Education sector.

Ravenscraig Project

62. The new campus is expected to be completed during the summer of 2009, with the College anticipating that the 2009/10 academic year will commence within the Ravenscraig campus.

Combined Code 2008

63. The Financial Reporting Council (FRC) issued an updated Combined Code in June 2008. The updated code is applicable to accounting periods beginning on or after 28 June 2008. The updated code includes two amendments from the 2006 code. The first amendment is in relation to FTSE 100 companies and does not apply to the College. The second amendment is to allow the Chairman to be a member of, but not chair, the Audit Committee where the Chairman was considered independent on appointment. The College's 2008/09 Corporate Governance Statement should state compliance with the 2008 code and we will review this as part of our 2008/09 audit.

Loss of charitable status

64. The Office of the Scottish Charity Regulator (OSCR) previously published the results of the pilot scheme to review charitable status of a selection of charities including John Wheatley College in Glasgow. OSCR concluded that the charity test was not met because of the ability of Scottish Ministers to direct or otherwise curtail the College's activities. The Scottish Government has since announced its intention to protect the charitable status of Scottish FE Colleges and an order has been laid before the Scottish Parliament to this effect.

Appendix 1 – Action Plan

65. Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2007/08. These are the issues that we believe need to be brought to the attention of the College.

66. It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Priority rating

67. To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action.
Priority 2	Medium risk, significant observations requiring reasonably urgent action.
Priority 3	Low risk, minor observations which require action.

Issues from our 2007/08 audit

Action point	Para ref	Issue identified and recommendation	Management response
1 **Commitment accounting**	**30**	Part of the year end accrual figure is derived from outstanding purchase orders commitments. For many of the items selected for testing, goods and services had not been received by the 31 July 2008 and thus the accrual should have been reversed. The estimated over-statement of accruals totals approximately £273,100 (2007 : £304,200). If adjusted the net effect on the 2008 accounts would have been a reduction in surplus of £31,100. We recommend that year end procedures are implemented to ensure that all purchase order accruals are reviewed to confirm whether or not goods and services have been received by the year end. Where this is not the case the accrual must be reversed. We would ask that evidence of this review is retained by Finance staff to assist with the year end audit of accruals. ***Priority 2***	The treatment of purchase order commitments is explicit in the College's financial policies and procedures. This treatment is consistent with that applied in previous accounting periods. The College endeavours to look at this area in greater detail in advance of next year's audit. **To be actioned by:** Assistant Financial Controller **No later than:** 31 July 2009

Action point	Para ref	Issue identified and recommendation	Management response
2 **Nominal accounts**	**N/A**	Within the nominal ledger there are certain balance sheet codes that include a mix of both debtor and creditor balances. For example, nominal code 7240 "Other Income accrual" includes balances in respect of deferred income, accrued capital income, accrued bank interest, and the creditor in respect of the £1.05m deposit from Cala Homes. We recommend that each class of debtor and creditor is allocated its own unique nominal code within the nominal ledger, as this will assist with the preparation of month end reconciliations and the year end accounts production process. **Priority 3**	The College will consider this recommendation. We may decide not to amend the nominal ledger coding structure, and if this is the case we will perform a mapping exercise to ensure transparency with regard to where the figures are disclosed within the financial statements. **To be actioned by:** Management Accountant **No later than:** 31 July 2009
3 **The use of a suspense account**	**N/A**	At the year end, the nominal ledger included a balance sheet suspense account which totalled £112k. This suspense account included various items such as VAT repayments, SAAS repayments/debtors. We recommend that during 2008/09 procedures are implemented to ensure that all balances contained within suspense accounts are investigated and cleared on a quarterly basis. Where appropriate, new codes should be created within the chart of accounts to allow these balances to be reallocated. ***Priority 3***	The College will continue to monitor the use of this account on a monthly basis as part of its management accounts process, and will consider this recommendation in advance of next year's audit. **To be actioned by:** Financial Controller **No later than:** 31 July 2009

Follow-up of issues from previous years

Follow-up point	Original recommendation and management response	Update at December 2008
1 **Board of management evaluation**	To further strengthen the self evaluation process, we recommend that the Board of Management complete a formal, annual evaluation exercise. This process should be formally documented. **Management Response:** The process of Board of Management evaluation has already commenced. ***Responsible Officer:*** Secretary to the Board ***Implementation Date:*** December 2007	The self-evaluation papers were issued to the Board of Management at the October 2008 meeting. **Action taken as agreed**
2 **Combined Code 2006**	The College should review its current corporate governance arrangements against the requirements of the 2006 Combined Code. The College should take action to address any areas of non-compliance to ensure that it is compliant for its 2007/08 financial statements. **Management Response:** Agreed. ***Responsible Officer:*** Director of Finance and Physical Resources **Implementation Date:** ***December 2007***	The College is compliant with the 2006 Combined Code. **Action taken as agreed**
3 **Ravenscraig Project Cut Off**	At 31 July 2007 there were costs relating to the construction of the Ravenscraig site that were incurred after the most recent valuation that had not been accrued into the accounts for the year ended 31 July 2007. The related capital grant was also not accrued. We recommend that procedures are introduced to ensure that this cut off issue is addressed in advance of the 31 July 2008 year-end. **Management Response:** Agreed. ***Responsible Officer:*** Financial controller **Implementation Date:** ***July 2008***	The College has capitalised all costs incurred up to 31 July 2008 within the 2008 financial statements and has also accrued the related deferred capital grant. **Action taken as agreed**

<table>
<tr><th>Follow-up point</th><th>Original recommendation and management response</th><th>Update at December 2008</th></tr>
<tr><td>4

Employee Numbers</td><td>It was noted during audit fieldwork that the number of employees per the payroll summaries did not agree to the numbers per the staffing lists, which are in turn used to prepare the employee numbers disclosure contained within the financial statements.

Following identification of this issue, it was addressed immediately and the disclosure contained within the financial statements is now accurate.

Management Response: The Financial Controller will liaise with the Human Resources Manager to ensure agreed reconciliations take place.

Responsible Officer: Financial controller.

Implementation Date: July 2008</td><td>The full time equivalent (FTE) calculation has improved since last year and it is now possible to reconcile back to the payroll summaries.

We noted a small number of inconsistencies still arising in relation to the calculation of FTEs which we recommend are addressed for the 2008/09 accounts:
the temporary support staff figure is currently taken from the staffing lists, which is a different approach to that applied to temporary lecturing staff
a reconciliation should be performed between the payroll system and the staffing lists to ensure staff who have left the College are accurately dealt with in relation to the calculation
To be actioned by:

Management Accountant

No later than:

31 July 2009</td></tr>
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