Anniesland College

Report to the Board and the Auditor General for Scotland

Year ended 31 July 2009

BDO

1 Executive Summary

Introduction

- The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of Anniesland College ('the College') for the year ended 31st July 2009.
- The matters raised in this report, are only those which have come to our attention arising from or relevant to our work that we believe need to be brought to your attention. Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.
- This report has been prepared solely for the use by the Board of Management of Anniesland College and the Auditor General for Scotland.
- We have completed our audit work in respect of the financial statements for the year ended 31 July 2009 and will be issuing an unqualified audit opinion for the year.

Scope of Work

- The accounting rules and regulations applied to Further Education Colleges are specifically laid out in various documents as discussed in section 3 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents.

Corporate Governance Arrangements

- The corporate governance statement within the College's financial statements states that the College has been fully compliant with guidance on corporate governance for the year ended 31 July 2009. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Compliance with Scottish Funding Council ('SFC') Accounts Direction

- We can confirm in preparing the financial statements the College has complied with the Accounts Direction for Scotland's colleges and universities issued under circular SFC/35/2008.

Conclusion

- The audit of Anniesland College was performed 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. This report has been issued to College management and will be considered by the Audit Committee.

Acknowledgement

- The 2008/09 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

2 Introduction

Purpose of Report

- This report has been prepared in connection with our audit of the financial statements of the College for the year ended 31 July 2009. This report summarises the principal matters that have come to our attention during the course of the audit.

- The contents of the report should not be taken as reflecting the view of BDO LLP except where explicitly stated as being so. To a certain extent, the content of this report comprises general information which has been provided by, or is based on discussions with, the management of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

- One of the purposes of this report is to record features of the year's activities, the way they are treated in the financial statements and the comments thereon provided to audit staff by the College's staff.

Audit Bodies

- The Auditor General, a royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish public spending bodies to account for the proper, efficient and effective use of public money.

- Audit Scotland is an independent statutory body which was set up in April 2000 to provide assistance and support to the Accounts Commission and to the Auditor General for Scotland in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.

- BDO LLP was appointed by Audit Scotland as external auditor to Anniesland College for 5 years covering the financial years 2006/07 to 2010/11. This report summarises our audit work for 2008/09 and details how the requirements of the Statement of Responsibilities and the Code of Audit Practice have been met by the College and by BDO LLP

College Responsibilities

- The College is publicly accountable for the conduct of business and the stewardship of funds under its control. The College's Board of Management is therefore responsible for:

    - establishing adequate corporate governance procedures;
    - ensuring funds from the SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which the SFC may from time to time prescribe;
    - ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
    - safeguarding the assets of the College and taking reasonable steps to prevent and detect fraud and other irregularities;
    - securing the economical, efficient and effective management of the College's resources and expenditure;
    - maintaining proper accounting records and preparing financial statements which give a true and fair view of the financial position of the College at the year-end and its income and expenditure for the year.

Auditors' Responsibilities and Approach

- We are required to report to the Board of Management of the College and to the Auditor General for Scotland on the financial statements of the College. Our responsibilities are to:

  - provide an opinion, to the extent required by the relevant authorities, on the financial statements 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 requirements of Audit Scotland's Code of Audit Practice (March 2007), regarding the College's corporate governance arrangements relating to:

    - the College's review of its systems of internal control

    - the prevention and detection of fraud and irregularity

    - standards of conduct, and prevention and detection of corruption

    - its financial position.

  - obtain an understanding of the accounting and internal control systems in place in the College sufficient to allow the audit to be planned and an effective audit approach developed.

- Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.

3 Scope of Work

- We took reasonable steps to plan and carry out the audit to ensure that the above responsibilities were met and that we complied with the requirements of Audit Scotland's Code of Audit Practice.

- In essence the scope of our work is similar to that applied to a limited company audit, however, the accounting rules and regulations applying to Further Education Colleges are specifically laid down in various documents as detailed below.

Financial Memorandum

- This memorandum sets out the terms and conditions under which the Scottish Funding Council will make payments to the Board of Management of Colleges of Further Education out of funds made available by the First Minister of Scotland. We can confirm the College fully complies with the terms and conditions of the memorandum.

Accounts Direction

- In preparing its annual accounts the College is required to comply with the directions of the Scottish Funding Council (SFC). The Accounts Direction is designed to ensure that disclosures in the financial statements of all colleges follow best practice. We can confirm the College's financial statements comply with the Accounts Direction.

Guidance on Audit

- Audit Scotland's Code of Audit Practice (March 2007) sets down Audit Scotland's requirements for both internal and external audits. In carrying out our audit work we are also required to comply with International Standards on Auditing (UK and Ireland) and to take cognisance of any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board. We also comply with relevant ethical standards and guidance issued or adopted by the relevant professional accountancy bodies and any supplementary guidance issued by Audit Scotland.

Statement of Recommended Practice (SORP)

- We can confirm that the financial statements of the College are in general in compliance with the requirements of the 2007 SORP.

- Additional guidance on the content of the operating and financial review (OFR), the inclusion of which is recommended within the 2007 SORP, was issued by the Scottish Funding Council on 2 October 2009. This guidance states that it would be helpful if a core set of performance indicators could be incorporated within the OFR to meet best practice and facilitate comparisons between the performances of different colleges. Two colleges have been identified as providing examples of good practice. In response to this guidance, the College have provided additional disclosures in respect of key performance indicators and principle risks and uncertainties. In doing this College management have identified the performance indicators and risks which best reflect the College's situation.

- One of the key areas of emphasis within the 2007 SORP that has had an impact on the College was the impact of *FRS 17 Retirement Benefits* on the accounting treatment in respect of the Strathclyde Pension Fund. In 2008/09:

  The College has elected to account for the Strathclyde Pension Fund (SPF) as a defined benefit fund per FRS 17 as the scheme's actuaries assessed that they were able to identify the College's share of the assets and liabilities on a fair and reasonable basis. This actuarial valuation shows that the College had an FRS 17 pension deficit of £1,836k as at 31 July 2009 which has now been shown as a liability on the balance sheet. The College had previously included a provision relating to early retirals unfunded benefits of £755k. This has been incorporated into the FRS 17 liability and amounts to £743k of the total.

The College is accounting for the Scottish Teachers' Superannuation Scheme (STSS) as if it were a defined contribution scheme. This accounting treatment is consistent with the view taken by the scheme's actuaries.

4 Audit Findings

Preparation of Financial Statements

- The financial statements were not ready for audit on 19 October 2009 in line with the agreed timetable. The working papers made available were of good quality; however a full set of financial statements was not received until after the audit field visit was complete. We have discussed this with College Management with a view to improving the position next year. We are aware that at that time management were heavily involved in new build issues and were diverted to other tasks.

Audit Opinion

- We are satisfied that the financial statements of the College present a true and fair view of its financial position as at 31 July 2009. Following approval of the financial statements by the Board of Management on 10 December 2009 our audit report expresses unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2009 and (ii) regularity.

Financial Commentary

- This section summaries the main financial features and key movements from the prior year.

Income and expenditure account

- The College made a surplus of £141k, 0.9% of total income (2007/08: £175k surplus (as restated) and 1.2%) in respect of the year ended 31 July 2009. The sector average for 2007/08 was 1.3%.

Income

- Total income increased by £679k (5.0%). The increase is primarily due to an increase of £410k in Scottish Funding Council Grants however, it should be noted that included within this balance is £485k relating to the release of deferred capital grants (PY: £1,453k).In addition Other Grant Income increased by £421k as a result of increased income from ESF projects.

- The table below summarises the main sources of income for 2008/09 and 2007/08.

	2008/09	**2007/08**	**2008/09**	**2007/08**
	£'000	**£'000**	**%**	**%**
Scottish Funding Council Grants	12,041	11,635	77%	78%
Tuition Fees and Education Contracts	1,432	1,605	9%	11%
Other Grant Income	1,028	603	7%	4%
Other Operating Income	954	837	6%	6%
Investment Income	201	297	1%	1%
Total Income	**15,656**	**14,977**	**100%**	**100%**

- A significant proportion of income is received from the Scottish Funding Council and the various sources of income remain relatively consistent with 2007/08. Total Funding Council Grant income is normally in the region of 76%, based on the 2007/08 statistics for colleges in this category.

Expenditure

- Total expenditure increased by £823k (5.6%) in comparison to 2007/08. The increase in expenditure is greater than the increase in income and consequently the operating surplus is lower than 2007/08. The most significant movements in costs are detailed below:

  - An increase in teaching department costs of £249k mainly due to increased investment in childcare (£201k);
  - An increase in premises costs of £924k due to the significant level of expenditure in relation to the new building incurred during the year; and
  - An increase in staff costs of £637k which is mainly attributable to the pay award and uplifts in the salary pay scales.

- The table below summarises the main sources of expenditure for 2008/09 and 2007/08.

	2008/09	**2007/08**	**2008/09**	**2007/08**
	£'000	**£'000**	**%**	**%**
Staff costs	10,728	10,091	69%	68%
Exceptional restructuring costs	19	20	0%	0%
Other operating expenses	4,154	2,960	27%	20%
Depreciation	724	450	4%	3%
Exceptional impairment loss	0	1,281	0%	9%
Total Expenditure	**15,625**	**14,802**	**100%**	**100%**

- Proportionately expenditure has remained relatively consistent with 2007/08 with the exception of the impairment loss in 2007/08 and increased other operating expenses in 2008/09 due to additional new build costs.

Balance sheet

- Net assets at 31 July 2009 are £50,158k (31 July 2008 (restated): £35,440k).
- The balance on the income and expenditure account (excluding pension) carried forward as at 31 July 2009 is a surplus of £2,803k (31 July 2008 (restated): £2,508k).
- The balance on revaluation reserve carried forward as at 31 July 2009 is a surplus of £17,395k (31 July 2008: surplus £17,562k).
- The balance on the pension reserve carried forward as at 31 July 2009 is a deficit of £1,836k (31 July 2008 (restated): deficit £700k).
- The deferred capital grant balance carried forward as at 31 July 2009 is £31,796k (31 July 2008: £16,070k).

Cash Flow

- During 2008/2009 the College experienced a net inflow of cash of £1,250k (2007/08: inflow of £1,463k).

Financial Forecasting

- The 2008-09 financial plan forecast a surplus of £17k. The variations from budget are summarised opposite.

Financial Forecasting	**2008/09**
	£'000
2008-09 forecast outturn per budget	17
Increase in SFC grant income	730
Increase in tuition fee income	48
Increase in other income	265
Increase in investment income	1
Increase in staff costs	(52)
Exceptional restructuring costs not budgeted	(19)
Increase in other operating expenses	(614)
Increase in depreciation	(345)
Gain on disposal of fixed assets not budgeted	110
2008-09 outturn per financial statements	**141**

- The table below summarises the forecast income, expenditure and cash balances for the College for 2009/10.

	£'000
Income	14,520
Expenditure	14,414
Forecast surplus for the year ending 31 July 2010	106
Cash balance at 31 July 2009	6,089
Forecast movement in cash during 2008/09	150
Resulting cash balance at 31 July 2009	**6,239**

- Both College income and expenditure are expected to decrease in 2009/10. Expenditure will have to be monitored accordingly, particularly staff costs in order to remain in surplus.

Going Concern Basis

- In preparing the accounts on a going concern basis the Board of Management is satisfied that SFC will provide sufficient funding to enable the College to operate for at least twelve months from 10 December 2009.

Performance Indicators

- The Scottish Further Education Funding Council's ('SFEFC') financial security campaign was announced in December 2002, its principal objective being that all colleges would report underlying operating surpluses by the end of 2005-06. Financial security is defined as the ability, on a continuing basis, to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve. The college must also generate sufficient cash to finance its operations and meet its liabilities; regular operating surpluses would ensure this.

- Under the terms of the financial memorandum between SFC and the College, it is the responsibility of the governing body "*to ensure that the institution strives to achieve best value from its use of public funds from all sources*". It is intended that the financial performance indicators used by the Funding Council, when set alongside other performance data, will support the college in seeking best value.

- The table below has been produced from the data published by the Funding Council in respect of the Financial Statements as at 31 July 2008. The formulae have then been applied to the 2008/09 Financial Statements.

	Anniesland College Factor 2008-09	Anniesland College Factor 2007-08	Group Average Factor 2007-08	Sector Average Factor 2007-08
Underlying operating surplus/ (deficit) % of total income	0.9%	1.2%	2.0%	2.9%
Operating surplus/ (deficit) % of total income	0.9%	1.2%	1.6%	1.3%
Designated plus I&E reserves % of total income	17.9%	16.7%	10.6%	22.9%
Historical cost surplus/ (deficit) % of total income	2.0%	2.3%	9.4%	8.9%
Current assets: Current liabilities	3.2	1.4	1.8	1.7
Interest Cover	N/A	N/A	4.6	3.9

Grant in Aid Funding

- The College's WSUMS target for 2008/09 was 48,579 and the College has over delivered in relation to the year. As a result the College will not be liable to refund any amounts received.

Corporate Governance Framework and Statement

- The Board of Management has seven formally constituted committees which have specific terms of reference and act with delegated authority from the Board.
- We reviewed the College's corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
- From our review of Corporate Governance arrangements within the College we do not believe the Corporate Governance statement to be misleading or inconsistent with other information made available to us during the audit process.

System of Internal Control

- A review and assessment of the College's corporate governance arrangements was carried out. This assessment included a review of the College's committee minutes and completion of a number of standard checklists. The checklists cover issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct, issues of legality and the College's financial position.

- The College, in accordance with the Accounts Direction, has included in its financial statements, a statement covering the responsibilities of the Board of Management in relation to corporate governance.

- Our review of the statement concluded that it complies with guidance and is not inconsistent with other information we are aware of from our audit.

Prevention and detection of Fraud and Corruption

- The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment showed the arrangements to be operating satisfactorily. No frauds were identified by the College in 2008/09.

Review of Internal Audit

- 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 systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality.

- Internal audit services are provided by Scott Moncrieff. An assessment was made of the adequacy of the internal audit input and it was concluded that we as external auditors were able to place reliance on the work of internal audit. Accordingly a certain amount of reliance was placed on the work of internal audit in the following areas during 2008/2009.

    - Financial Systems Overview

Misstatements

- There were 12 adjusted misstatements made between the completion of the audit field work and the finalisation of the financial statements. These adjustments resulted in an increase to net assets of £40k.

- There were 3 unadjusted misstatements uncovered during the course of our audit. None of these adjustments had any impact on the Income and Expenditure account.

Accounting and Internal Control System Weaknesses

- An observation for potential improvement in internal controls was identified during the course of our audit. In the prior year one internal control weakness was also identified and implementation of this has now taken place. These are discussed in section 5.

Qualitative Aspect of the College's Accounting Practice and Financial Reporting

- Our overall assessment, based on our work undertaken, is that the financial procedures of the College are adequate to enable annual financial statements to be produced in the prescribed form.

FRS 17 – Retirement Benefits

- This standard was published in November 2000 introducing significant changes to the way in which colleges should account for defined benefit pension schemes. Full implementation of FRS17 – 'Retirement Benefits' was mandatory from 2005/06 year ends. The College participates in the Scottish Teachers Superannuation Scheme ('STSS') and the Strathclyde Pension Fund ('SPF') which are defined benefit pension schemes. All colleges treat the STSS scheme as a defined contribution scheme as there is general agreement that they are unable to identify their share of the scheme's assets and liabilities.

- In relation to the SPF scheme, assets are currently apportioned based on the liability profile though employer assets have been tracked for each employer since 2002. Management took the view this year that its share of the assets and liabilities in the SPF scheme could be reliably identified and accounted for its share of the fund on a defined benefits basis. Actuaries provided information on the College's interests in the scheme as at 31 July 2007, 2008 and 2009. This change in accounting policy required a prior year adjustment to the College's accounts. The financial statements are showing a pension deficit at 31 July 2009 of £1,836k (31 July 2008: £700k).

Component accounting

- The College commenced an estates redevelopment programme during 2006/07 which is now substantially underway with Phase 1 completed in January 2009. As part of this FRS15 requires that where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life.
- The requirements of FRS15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the assets are charged to the income and expenditure account over the periods in which they are consumed.
- In order to comply with the requirements of FRS15 College management obtained a detailed breakdown of the phase 1 costs from their contractors. This listing was found to be very comprehensive and detailed the estimated economical life of each component of the build costs.
- By obtaining and making use of this detailed listing we are satisfied that College management have correctly applied the requirements of FRS15 for phase 1 costs of the build.

New build expenditure not capitalised

- Included as part of College expenditure in the year is £1,035k comprising the costs of new furniture, fittings and computer equipment for the new building. This expenditure was grant funded. Individually, the items making up this expenditure are deemed by College management to meet the accounting policy which states that "Equipment costing less than £5,000 per individual item......are written off to the income and expenditure account".
- We have been assured by College management that sufficient controls are in place to protect these assets.

5 Internal control systems weakness

Findings from 2009 audit

Asset register

Findings

- The College has large amounts of fully-depreciated fixed assets that have been built up since 1993. As a result of the move to the new building there are likely to be instances where assets have been scrapped or are no longer used. In these instances management should be removing these individual items from the fixed asset register. The College has a responsibility to protect its own assets. Maintaining an up to date fixed asset register will help them to do this.

Recommendation

- The move to the new building offers the ideal opportunity for management to review their fixed asset listing and we would recommend that such a review is completed at the earliest convenience to ensure that assets which are no longer being used or that have been scrapped are removed from the fixed asset listing.

Management Response

- It has been agreed that a review exercise will be carried out in the coming year.

Findings from 2008 audit

Disclosure of staff numbers

Findings

- While conducting our analytical review on college payroll costs it became apparent the staffing numbers initially disclosed in the accounts were inaccurate. From discussion with college management we understand the initial staffing numbers were taken from the annual staffing return submitted to SFC. The criteria for inclusion in the SFC return are different from what is required for disclosure in the financial statements. The SFC return data does not include staff on maternity leave or those on long term sick who are still being remunerated by the college. This initially led to staff numbers being understated before being adjusted for staff known to fall into the two categories mentioned.

Recommendation

- We recommend College management maintain a separate record of staff numbers for financial statement disclosure purposes and do not rely on the staffing return for this purpose.

Management Response

- Separate analysis to be completed for future years.

Status as at 31 July 2009

- This recommendation has now been implemented.

BDO LLP

BDO LLP
10 December 2009