SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

# Cumbernauld College

## Annual Report to the Board of Management and the Auditor General for Scotland 2008/09

December 2009

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# Executive Summary

## Finance

Our audit of Cumbernauld 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 £26,000 in 2008/09 (£73,000 in 2007/08). The budgeted surplus shown on the 2008 Financial Forecast Return submitted to the Scottish Funding Council was £66,000.

The 2009 Financial Forecast Return shows the College forecasting an operating surplus of £98,000 in 2009/10, and operating surpluses for 2010/11 and 2011/12 of £110,000 and £134,000 respectively.

The College is financially secure and the balance sheet as at 31 July 2009 is showing net assets of £9.848m including a bank balance, net of overdraft, of £878k.

## Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key provisions of the 2008 Combined Code on Corporate Governance during 2008/09 apart from the Chairman of the Board of Management also being the Chairman of the Remuneration Committee. This non-compliance has been disclosed in the Corporate Governance Statement within the financial statements. 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 of our audit.

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

## Conclusion

This report concludes the 2008/09 audit of Cumbernauld 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 Finance Manager. 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 2008/09 audit of Cumbernauld College. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 25 June 2009. 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 2008/09:
   - Fee waiver associated with strategic growth funding
   - Lennartz claim
   - Strathclyde Pension Fund liabilities
   - Combined Code on Corporate Governance 2008

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

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.

## Audit 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 2009 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

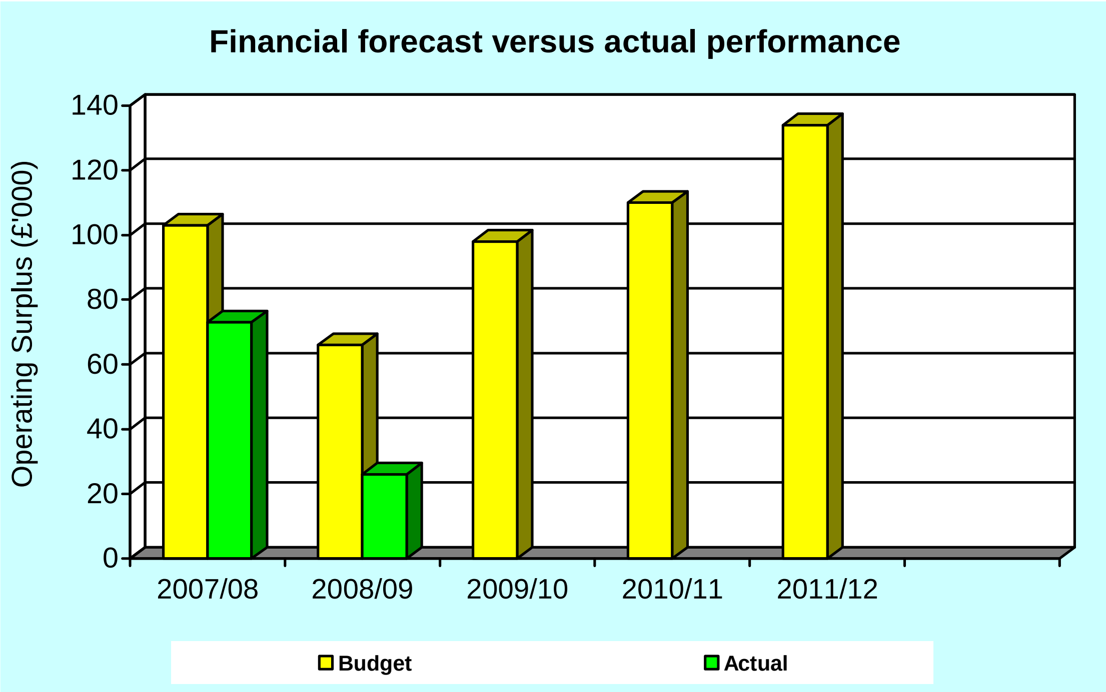
9. The College reported an operating surplus for the year to 31 July 2009 of £26,000.

10. The College is financially secure and the balance sheet as at 31 July 2009 is showing net assets of £9.848m including a bank balance, net of overdraft, of £878,000.

## Financial forecasts

11. 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.

12. The following graph compares the actual results for 2008/09 with the FFR forecasts and shows the latest predictions within the 2009 FFR.




13. As shown above, the College is expecting to report surpluses in 2009/10, 2010/11 and 2011/12.

14. The College's original budget for 2008/09 per the 2008 FFR showed a surplus of £66,000.

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

| | £ |
|---|---|
| **Surplus per initial budget** | **66,000** |
| FRS 17 adjustment (see paragraph 16) | 27,000 |
| Clawback of fee waiver associated with Strategic Growth Funding (see paragraph 17) | (158,000) |
| Total of other insignificant variances (see paragraph 18) | 91,000 |
| **Actual surplus per financial statements** | **26,000** |
| **Variance to original budget** | **(40,000)** |
| **Variance as percentage of total income** | **0.38%** |

16. 2007/08 was the first year that the College accounted for the Strathclyde Pension Scheme as a defined benefit scheme in accordance with FRS 17. As a result, when the 2008 FFR was prepared, the Board of Management could not quantify the effect this change in accounting policy would have on the figures in the financial statements, or on the FFR.

17. The College received correspondence from the SFC in April 2009 which highlighted the potential for a clawback of a proportion of 2007/08 and 2008/09 fee waiver associated with the strategic growth funding, following clarification of certain points contained within the original SFC guidance. The

clawback in respect of 2007/08 was £158,000. In September 2009, following discussions with College Management it was agreed that the circumstances indicated a change in accounting policy, as the accounting policy applied in the 2007/08 financial statements in relation to recognising fee waiver associated with the strategic growth funding did not present the transaction in a way that corresponds closely to the effect of the transactions and therefore necessitated a prior year adjustment. The College have subsequently accounted for the clawback within the 2008/09 financial statements and not as a prior year adjustment. The clawback was not treated in the 2009 FFR as an adjustment in respect of the 2008/09 figures. We disagree with the accounting treatment in respect of this transaction, but the adjustment is not considered material to the financial statements and our audit opinion on the truth and fairness of the financial statements is unqualified.

18. In all cases the College will take a prudent approach to budget setting, and following the economic downturn budget holders were encouraged to deliver efficiencies where possible.

## Financial planning and monitoring arrangements

19. 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.

20. Budgets are devised prior to the submission of the FFR which is approved by the Resources & General Purposes Committee. This committee meets four times a year. Management accounts showing actual against budget, as well as a projected forecast are presented to each Resources & General Purposes Committee. The College has a history of delivering year-end surpluses which are within 1% of the budget at the start of the year.

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

## Financial reporting framework

22. 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

23. We are pleased to confirm that the College's 2008/09 financial statements comply fully with the Accounts Direction and FE/HE SORP 2007 in all material aspects.

## Financial statements preparation

24. We are grateful to the Finance Manager 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 very high standard. The audit was completed in line with the timetable and all reporting deadlines will be met.

25. 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

26. Two adjustments were posted as a result of the audit work performed:

| | | | | Net Effect on I&E |
|---|---|---|---|---|
| | | **£** | **£** | **£** |
| **1** | Dr Trade debtors | £43,866 | | |
| | Cr Other creditors | | £43,866 | - |
| | *Being credit balances in the aged debtors listing* | | | |
| **2** | Dr Income | £3,900 | | £3,900 |
| | Cr Accrued income | | £3,900 | |
| | *Being correction of over-invoicing in respect of the Spanish Teachers course* | | | |
| | **Overall effect on the I & E account of the above – reduction in surplus** | | | **£3,900** |

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

### Potential adjustments

28. One potential adjustment was noted as a result of the audit work performed, but has not been adjusted in the financial statements:-

| | | | |
|---|---|---|---|
| 1) | Dr Income & Expenditure Account | £157,522 | |
| | Cr SFC Grants | | £157,522 |

*Being adjustment to remove the effect of the 2007-08 clawback of fee waiver associated with strategic growth funding (see paragraph 17)*

## 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. We identified no major internal control weaknesses and, in our opinion, accounting systems are generally well designed and operating effectively.

## Other issues arising from the audit

30. 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 2008/09.

### Fee waiver associated with strategic growth funding

31. In September 2009, following discussions with College Management in respect of the clawback of £158,000 of fee waiver associated with the strategic growth funding, it was agreed that the circumstances indicated a change in accounting policy, as the accounting policy applied in the 2007/08 financial statements in relation to recognising fee waiver associated with the strategic growth funding did not present the transaction in a way that corresponds closely to the effect of the transactions and therefore necessitated a prior year adjustment. The College have subsequently accounted for the clawback within the 2008/09 financial statements and not as a prior year adjustment.

32. The clawback was not treated as a current year transaction within either the 2009 FFR or the first draft of the financial statements submitted for audit. We disagree with the accounting treatment in respect of this transaction, but the adjustment is not considered material to the financial statements and our audit opinion on the truth and fairness of the financial statements is unqualified.

### Lennartz claim

33. Following HMRC confirmation that the College could submit a Lennartz claim, monies were actually received from HMRC in November 2009. The appropriate accounting adjustments have been reflected within the 2008/09 financial statements.

### Strathclyde Pension Fund liabilities

34. The College accounts for the Strathclyde Pension Fund as a defined benefit scheme. The actuarial valuations prepared by Hymans Robertson LLP showed that the pension fund had a net deficit of £537k at 31 July 2008 which increased to a deficit of £1,585k at 31 July 2009. These valuations are reflected within the financial statements and details are disclosed within note 25.

35. We have reviewed the College's accounting for the pension liability and confirm that it complies with the requirements of FRS 17.

### Combined Code on Corporate Governance 2008

36. As described in the next section, we are satisfied that the College has complied with the Combined Code on Corporate Governance 2008 for the year to 31 July 2009.

# Governance

37. 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.

38. 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

39. 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.

40. The College's Corporate Governance Statement for 2008/09 explains that the College was compliant with all provisions of the 2008 Combined Code throughout the period, except for the fact that the Chairman of the Board of Management is also the Chairman of the Remuneration Committee. This exception is clearly disclosed within the Corporate Governance Statement in the financial statements. The College considers it appropriate to maintain this position as the Remuneration Committee does not determine remuneration for Board members but only for senior management. As a result the College considers that it remains compliant with the principles of the Combined Code.

41. 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.

42. 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 2008

43. An updated Combined Code on Corporate Governance was issued in June 2008, which superseded the Code issued in 2006. The Combined Code 2008 is applicable for reporting years beginning on or after 28 June 2008 and therefore the College has stated compliance with the 2008 code for the first time in its 2008/09 financial statements.

44. The College reviewed its corporate governance arrangements against the 2008 code. The only area of non-compliance is that the Chairman of the Board of Management is also the Chairman of the Remuneration Committee, and this fact is clearly disclosed within the Corporate Governance Statement in the financial statements.

## Risk management

45. 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.

46. The College has a Risk Management Policy and Risk Management Procedures in place. The College has a risk register, which is subject to regular review and update by the Risk Management Group. Procedures now ensure that risk management is reported as a standing item at each meeting of the Audit Committee. An up to date, electronic, full risk register is made available to members prior to each Audit Committee meeting. The Board consider all high level risks on a bi-annual basis.

## Internal audit

47. Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by Wylie & Bisset.

48. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate.

### Internal audit's annual opinion statement

49. Internal audit has concluded in its annual report that the College has adequate and effective risk management, control and governance processes in place to manage its achievement of the College's objectives.

50. We are grateful to Wylie & Bisset for their assistance during the course of our audit work.

## Prevention and detection of fraud and irregularity

51. 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.

52. The College has a fraud policy and a whistle blowing policy in place. These policies identify the appropriate persons to contact in the event of any fraud or irregularity. There were no frauds identified during the year.

53. 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.

54. 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

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

56. 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.

57. 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.

58. We are pleased to report that we identified no issues of concern in relation to standards of conduct, integrity and openness.

# Looking Forward

## Financial position

59. The SFC 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. Coupled with increasing cost pressures, this will result in limited financial resources for the Further Education sector.

## Revaluation of fixed assets

60. The College is due to carry out an interim revaluation of fixed assets as at 31 July 2010. We will consider this as part of our 2009/10 audit, including the potential impact on the College's asset base in view of the general downturn in property values.

# Appendix 1 – Action Plan

61. Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2008/09. These are the issues that we believe need to be brought to the attention of the College.

62. 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.

**Grading**

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

| | |
|---|---|
| Grade 5 | Very high risk exposure - Major concerns requiring Board attention. |
| Grade 4 | High risk exposure - Material observations requiring management attention. |
| Grade 3 | Moderate risk exposure - Significant observations requiring management attention. |
| Grade 2 | Limited risk exposure - Minor observations requiring management attention |
| Grade 1 | Efficiency / housekeeping point. |

**Issues from our 2008/09 audit**

| |
|---|
| **None** |

**Follow-up of issues from previous year's external audit**

| Follow-up point | Original recommendation | Update at December 2009 |
|---|---|---|
| **1**<br><br>**Fixed Asset Register** | The College keeps detailed records on an annual basis of all asset additions, but the fixed asset register does not contain this information.<br><br>The register reports the costs and depreciation for a group of assets.  e.g. £274k of fixtures and fittings purchased in 2006/07 are referred to as "New build".<br><br>There is a risk that assets will be disposed of or scrapped, but the register and accounting records are not updated.<br><br>The College has the information to allow the construction of such a database, and we would recommend that such an exercise is undertaken.<br><br>Once a detailed register is in operation the College should perform periodic physical verification checks to ensure that the assets listed are still owned by the college.<br><br>***Priority 2*** | A revised Fixed Asset Register format was agreed through liaison with Internal and External Auditors and produced for the 2008/09 external audit.<br><br>**Action taken as agreed** |

| Follow-up point | Original recommendation | Update at December 2009 |
|---|---|---|
| **2**<br><br>**Purchase Order Requisition Authorisation** | During audit testing, it was identified that a purchase order requisition to the value of £50,000 was not signed as authorised by the Principal. The College's financial procedures state that orders in excess of £5,000 require the authorisation of the Principal.<br><br>We recommend that all finance staff are reminded of the authorisation limits to ensure that authorisation is sought from the appropriate person.<br><br>***Priority 3*** | Audit testing has not detected any breaches of authorisation procedures.<br><br>**Action taken as agreed** |

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