SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Motherwell 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 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.

On 31 December 2008, 100% of the share capital of Amcol Scotland Limited was transferred to Motherwell College. As a result 2008/09 is the first year that the College has prepared consolidated financial statements. All figures referred to in this report relate to the consolidated position for the group (college and company) as a whole.

The Consolidated Income and Expenditure Account reports a surplus of £5,171,000 in 2008/09. The budgeted surplus shown on the 2008 Financial Forecast Return submitted to the Scottish Funding Council was £7,813,000 and the negative variance of £2,642,000 was mainly due to the reduction in sale proceeds for Dalzell Drive, the FRS 17 adjustment, the results of the subsidiary acquired in the year (Amcol Scotland Limited), and additional expenditure in relation to fixtures, fittings and equipment for the new building written off in the year in accordance with accounting policies.

The 2009 Financial Forecast Return shows the College forecasting operating surpluses of £405,000 in 2009/10, £484,000 in 2010/11 and £591,000 in 2011/12.

The College is financially secure and the Group balance sheet as at 31 July 2009 reports net assets of £67.937m including bank and cash of £8.401m.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the 2008 Combined Code on Corporate Governance during 2008/09. 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 2008/09 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.

Scott-Moncrieff
10 December 2009

Introduction

1. This report summarises the findings from our 2008/09 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 8 October 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:
   - Disposal of the Dalzell Drive Campus
   - Construction costs – Ravenscraig Campus
   - Preparation of consolidated financial statements
   - Strathclyde Pension Fund – FRS 17 liability
   - Combined Code on Corporate Governance 2008

3. This report sets out our findings in relation to these key issues. This report also includes a follow-up of issues identified during our previous year's audit 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

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.

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 then pass them to the Scottish Government for laying before the Scottish Parliament.

Financial position

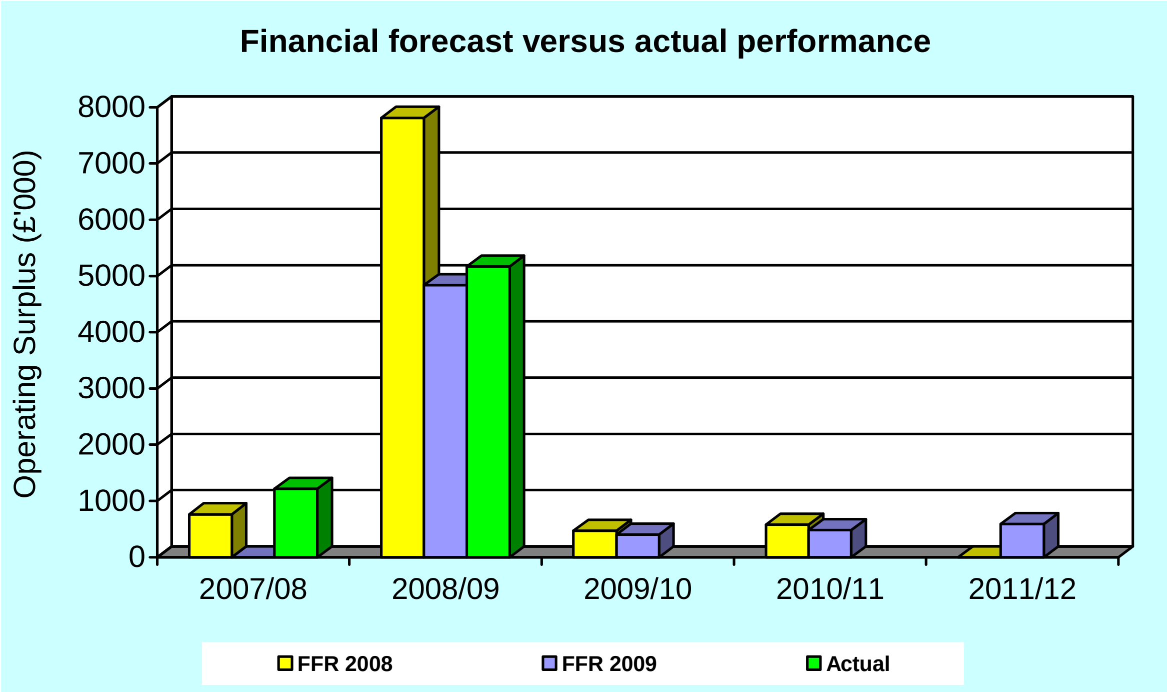
9. The Consolidated Financial Statements report a surplus for the year to 31 July 2009 of £5,171,000.

10. The Group's Balance Sheet as at 31 July 2009 is reporting total reserves of £18.817 million, with £21.980 million within the income and expenditure account and a cash balance of £8.401 million.

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 in 2011/12.

14. The College's original budget for 2008/09 per the 2008 Financial Forecast Return (FFR) showed a surplus of £7,813,000.

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

	£
Surplus per initial budget	**7,813,000**
Reduction in sale proceeds for Dalzell Drive **(paragraph 16)**	(2,750,000)
Effect of consolidation of the results of the subsidiary Amcol (including negative goodwill) **(paragraph 17)**	508,000
I&E effect of 2008/09 FRS17 adjustment **(paragraph 18)**	120,000
Additional FF&E spend in relation to the new building **(paragraph 19)**	(1,000,000)
Miscellaneous items	480,000
Actual surplus per financial statements	**5,171,000**
Variance from original budget	**(2,642,000)**
Variance as percentage of total income	**9%**

16. The sale proceeds in respect of the disposal of the old college site at Dalzell Drive were reduced from the originally agreed £12.8m to £10.05m following negotiations with the purchaser Cala Homes, following the downturn in the housing market. However the figures disclosed in the 2008 FFR were based on the original agreed level of sale proceeds as this reduction was not anticipated at the time the FFR was prepared.

17. The College acquired 100% of the share capital of the nursery, Amcol Scotland Limited at 31 December 2008. The Consolidated Income and Expenditure Account for Motherwell College include the results of Amcol since acquisition. This acquisition was not expected at the time the FFR was prepared.

18. 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.

19. During the year additional expenditure on fixtures, fittings and equipment in relation to the new building was written off in accordance with accounting policies, which was not expected at the time the FFR was prepared.

Financial planning and monitoring arrangements

20. 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.

21. The College has a rigorous and prudent budgeting process, which is directly linked to the annual curriculum planning process. Performance monitoring and forecasting processes are in place to ensure that available funds remain appropriately directed and controlled.

22. Budgets are devised in advance of the year and approved by the Board of Management, after consideration by the Finance Committee, and forecasts 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. In addition, management accounts are circulated monthly to members of the Finance Committee.

23. In our opinion the College has effective financial management arrangements in place. We have raised one recommendation in the Action Plan in relation to the review of monthly management accounts which the College has implemented with immediate effect.

Financial reporting framework

24. 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

25. 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

26. 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. The audit was completed in line with the timetable and all reporting deadlines will be met.

27. 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

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

		Dr	Cr
1)	Dr Debtors due after one year	£3,050,000	
	Cr Debtors due within one year		£3,050,000
2)	Dr Deferred Capital Grant	£14,982,000	
	Cr Accrued Income		£14,982,000

Being the reallocation of a proportion of the Cala debtor which is due after one year

Being the correction of the level of accrued income at the year-end in respect of the new build programme

29. As noted in journal 2 above, an overstatement of accrued income and deferred capital grants of £14,982,000 was identified shortly after the submission for audit of the first set of financial statements and the College subsequently issued an amended set of accounts. This occurred because grant funding for the new campus continued to be accrued in the management accounts for a number of months after all of the agreed funding had been received. This overstatement was then carried into the year end financial accounts. The adjustment required to correct this error was solely between balance sheet headings, with no adjustment required to the Consolidated Income and Expenditure Account. There was therefore no impact on the College's surplus for the year and no impact on funding for the campus. We appreciate that the review of management accounts focusses on the income and expenditure account, cash and other liquid assets, assets in the course of construction and cash flows, and the grant funding for the new campus is a one-off item. However, we recommend within the Action Plan that the management accounts review is extended to include the full balance sheet to ensure that similar one-off items are given immediate attention in the future.

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

Potential adjustments

31. Nine potential adjustments were noted as a result of the audit work performed, but have not been adjusted in the financial statements:-

1) Dr Trade Debtors	£26,780	
Cr Trade Creditors		£26,780

Being the grossing up of debit balances within the aged creditors listing

2) Dr Trade Debtors	£157,992	
Cr Trade Creditors		£157,992

Being the grossing up of credit balances within the aged debtors listing

3) Dr Trade Debtors	£32,931	
Cr Deferred Income		£32,931

Being cash collected in advance reallocated from debtors to deferred income

4) Dr Deferred Income	£262,320	
Cr Deferred Capital Grants		£262,320

Being reallocation of ERDF deferred income to deferred capital grant as income was set aside for the new college, and the chance of claw-back is now remote

5) Dr Input VAT	£17,783	
Dr Output VAT	£79,039	
Cr Purchases		£96,822

Being potential adjustment in respect of Lennartz VAT pending finalisation of the position with HMRC

6) Dr Accrued Income	£191,421	
Cr Accruals		£191,421

Being the reallocation of deferred income included in accrued income

7) Dr Accruals	£6,620	
Cr Purchases		£6,620

Being adjustment to accruals for unapproved invoices that have now been reversed by credit notes

8) Dr Prepayments	£46,400	
Cr Accruals		£46,400

Being the reallocation of prepayments included in accruals

9) Dr Accruals	£36,313	
Cr Purchases		£36,313

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

Affect on Consolidated I&E account of these potential adjustments – increase in surplus of £139,755

Review of accounting systems

32. 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. Please refer to the action plan for details of control improvements detected during audit fieldwork.

Significant areas of audit focus

33. 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.

Disposal of the Dalzell Drive Campus

34. The calculation of the gain on disposal of the Dalzell Drive Campus was tested as part of the audit work performed and found to be treated correctly in the financial statements.

Construction costs – Ravenscraig Campus

35. The College relocated to its new purpose built campus on the former Ravenscraig site in July 2009. The construction costs incurred in the year totalling £23.434 million in relation to the new Campus and the significant investment in plant and equipment were tested as part of the audit

work performed. It was found that all significant capital expenditure that relates to the new College have been correctly capitalised.

Preparation of consolidated financial statements

36. The College acquired 100% of Amcol Scotland Limited at 31 December 2008, which resulted in the results of this company being consolidated and Group financial statements being prepared for the first time this year.

37. Audit work has confirmed that the results of Amcol Scotland Limited for the 7 months to 31 July 2009 have been correctly incorporated into the consolidated financial statements of Motherwell College. As the results of the subsidiary were material to the Group position, we inspected the audit files of Amcol Scotland Limited's auditors, and concluded that reliance could be placed on the results.

Strathclyde Pension Fund – FRS 17 liability

38. 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 £286k at 31 July 2008 which increased to a deficit of £3,166k at 31 July 2009. These valuations are reflected within the financial statements and details are disclosed within note 24.

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

Governance

40. 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.

41. 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

42. 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.

43. The College's Corporate Governance Statement for 2008/09 explains that the College was compliant with the 2008 Combined Code throughout the period. The College's statement did not identify any significant control weaknesses.

44. 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.

45. 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

46. 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.

47. The College reviewed its corporate governance arrangements against the 2008 code. Overall, the College has a sound governance framework in place.

Risk management

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

49. 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 Executive Team (SET) 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.

50. We have concluded that the College has robust risk management systems in place.

Internal audit

51. Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by Deloitte.

52. 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

53. Internal audit has concluded in its annual report that management has an adequate framework of control over the systems examined.

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

Prevention and detection of fraud and irregularity

55. 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.

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

57. 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.

58. 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

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

60. 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.

61. 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.

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

Looking Forward

Financial position

63. The Scottish Government, through 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, with a very real prospect of significant reductions in either/or price and volume. The economic downturn is also impacting on the non SFC income streams of the College, with the increasing number of redundancies and a general tightening of private sector training budgets impacting on commercial income. Coupled with increasing cost pressures this will result in further and continuing pressure on financial resources.

64. Actuarial valuations prepared by Hymans Robertson LLP showed that the Strathclyde Pension Fund (SPF) had a net deficit of £286k at 31 July 2008 which increased to a deficit of £3,166k at 31 July 2009. The current turbulence in the global markets and the corresponding impact upon the value of the fund, make it increasingly difficult for the College to predict the impact of the SPF on its financial statements.

Appendix 1 – Action Plan

65. 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.

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.

Grading

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 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.

1. Issues from our 2008/09 audit

Action point	Para ref	Issue identified and recommendation	Management response
1.1 **Review of monthly management accounts**	***29***	An overstatement of accrued income and deferred capital grants was identified shortly after the submission of the first set of financial statements for audit. The over-accrual was undetected for a number of months within the management accounts and then within the year end financial accounts. It is appreciated that the timetable for completion of the financial statements for audit was challenging given the deadlines in place, the move to the new campus and this being the first year of preparation of consolidated accounts. We appreciate that the review of the management accounts focusses on the income and expenditure account, cash and other liquid assets, assets in the course of construction and cash flows, and the issue identified is of a one-off nature. However, we recommend that the review of management accounts is extended to include the full balance sheet to ensure that similar one-off items are given immediate attention in the future. ***Grade 3***	Agreed. Given the release of resource within the department post Ravenscraig, the balance sheet review process for the management accounts will be extended to ensure that any possible future one-off events of this nature will be identified at the earliest opportunity. **To be actioned by:** Financial Controller **No later than:** With immediate effect

2. Follow-up of issues from previous years' audits

Follow-up point	Original recommendation	Update at December 2009
2.1 **Employee Numbers** **2006/07 audit**	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: • 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 **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 2009	Issue addressed. Internal audit performed a review of the College's payroll systems in 2008/09 and concluded that the systems are now broadly operating as intended and in particular the Human Resources, Payroll and Finance departments are liaising effectively. **Action taken as agreed**
2.2 **Commitment accounting** **2007/08 audit**	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. **Management Response:** 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 advance of next year's audit.	There were purchase order commitments totalling £309,413 at 31 July 2009 which were tested during the audit and the goods or services were found to not have been received by the year-end. The net effect on the 2009 accounts would have been an increase in surplus of £36,313. **Management response:** The College looked at this area in advance of the current year audit and has reduced the commitment in volume terms by 75%. However we will endeavour to investigate further next year.

Follow-up point	Original recommendation	Update at December 2009
	Responsible Officer: Assistant Financial Controller **Implementation Date: July 2009**	**To be actioned by:** Assistant Financial Controller **No later than:** July 2010
2.3 **Nominal accounts** **2007/08 audit**	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. **Management Response:** 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. **Responsible Officer:** Management Accountant **Implementation Date: July 2009**	The College has performed a mapping exercise to ensure transparency with regard to where the figures are disclosed within the financial statements. **Action taken as agreed**

Follow-up point	Original recommendation	Update at December 2009
2.4 **The use of a suspense account** **2007/08 audit**	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. **Management Response:** 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. **Responsible Officer:** Financial Controller **Implementation Date: July 2009**	Reconciliations now performed in respect of this account. No further action is required. **Action taken as agreed**

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