INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

North Glasgow College

Annual audit report to the Board of Management and Auditor General for Scotland
Year ended 31 July 2009

8 December 2009

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

The contacts at KPMG in connection with this report are:

David Watt
Director
Tel: 0141 300 5695
Fax: 0141 204 1584
david.watt@kpmg.co.uk

Keith Macpherson
Senior Manager
Tel: 0141 300 5806
Fax: 0141 204 1584
keith.macpherson@kpmg.co.uk

Lianne Barr
Assistant Manager
Tel: 0141 309 2505
Fax: 0141 204 1584
lianne.barr@kpmg.co.uk

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of only North Glasgow College and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

Financial commentary

The College recorded a deficit of £691,000 for 2008-09, compared to a forecast deficit for the year of £95,000 and a surplus of £492,000 in the prior year. This was mainly due to additional expenditure on the new College building, as well as a significant increase in the early retirement provision. The deficit was significantly greater than the forecast outturn reported in June 2009, and has highlighted a weakness in both budgetary control and purchasing procedures in operation at the College. The full extent of the deficit for the year was not reported to the Board until the completion of the audit.

The financial statements report retained general reserves of £4.2 million, which is after inclusion of a net pension liability of £2.2 million.

The 2009-10 financial plan projects a surplus of £58,000. The deficit in 2008-09 is regarded as a result of extraordinary expenditure in light of the opening of and move to the new College building. These costs are not expected to recur in 2009-10.

Governance and risk management

The corporate governance statement does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding of the College, however we have highlighted in this report some priority areas for action during 2009-10.

Internal audit concluded that the College "*has a framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives.*" Internal audit did, however, report that the design of controls over asset management were weak, as was the design and operational effectiveness in respect of ICT. This is consistent with our audit findings in both 2008-09 and the prior year. These issues need to be addressed by the College as a matter of priority in 2009-10.

The staff and students migrated into the new College building during the year. The remainder of the sales proceeds were received as agreed. The project was, however, over budget.

The College has prepared an enhanced Board of Management report, reviewing the College's activities in the year, which meets the requirements of Statement of Recommended Practice for further and higher education institutions 2007 ("SORP 2007").

Financial statements

We issued an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2009.

Management provided draft financial statements and supporting working papers, which were complete and of a very high standard, in line with the agreed timetable.

During 2008-09, the College has changed its accounting policy in respect of its participation in the Strathclyde Pension Fund, to account on a defined benefit basis in accordance with FRS 17 `*Retirement Benefits.*' The comparative figures have been restated accordingly in light of the change in accounting policy.

Introduction

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. This, and supplementary planning guidance issued by Audit Scotland, specifies a number of objectives for our audit.

Audit framework

2008-09 was the third of our five-year appointment by the Auditor General for Scotland as external auditors of North Glasgow College. This report to the College's Board of Management and the Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

We outlined the framework under which we operate, under appointment from Audit Scotland, in the audit plan overview discussed with the Board of Management's audit committee on 5 May 2009.

In accordance with Audit Scotland's Code, the scope of our work for 2008-09 was to:

- provide an opinion on the College's financial statements and, as required by the relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, *the Code* and any guidance issued by Audit Scotland):
  - corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; its financial position
  - aspects of the College's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

Responsibilities of the Board and auditors

External auditors do not act as a substitute for the Board of Management's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to its and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the College principal, to make arrangements to secure Best Value.

Acknowledgement

Our audit work has continued to bring us into contact with a range of College staff. We wish to place on record our appreciation of the cooperation and assistance extended to us by staff during the third year of our work in the discharge of our responsibilities. We also note the continued high quality of preparation for the audit by College management.

Service overview; overall position for year; income

- The College recorded a deficit of £691,000 for 2008-09, compared to a forecast deficit for the year of £95,000 and a surplus of £492,000 in the prior year. This was mainly due to additional expenditure arising from the new College building, as well as an increase in the provision for early retirement costs. The deficit is significantly greater than the forecast outturn reported in June 2009, and has highlighted a weakness in both budgetary control and purchasing procedures in operation at the College. The full extent of the deficit for the year was not reported to the Board of Management until the completion of the audit.
- The financial statements report retained general reserves of £4.2 million, which is after inclusion of a net pension liability of £2.2 million.
- The 2009-10 financial plan forecasts a surplus of £58,000. The deficit in 2008-09 is regarded as a result of extraordinary expenditure in light of the opening of and move to the new College building. These costs are not expected to recur in 2009-10.

Service overview

In January 2009 the year the College successfully completed the construction, fitting out and opening of its new building at Springburn, Glasgow. The College also completed the disposal of its previous premises in accordance with the sales agreement concluded earlier. The financial statements report a deficit for the year of £691,000. This compares to a surplus in 2007-08 and is £436,000 lower than the projected outturn anticipated in the June 2009 forecast outturn for the year. At 31 July 2009 there were retained general reserves of £4.2 million.

Income

Income for the year has risen by £1.0 million compared to 2007-08, an increase of 8%. As shown in the table below, the majority of the increase has arisen from increases in Scottish Funding Council grants. This is mainly attributed to a £460,000 increase in recurrent grant from the Scottish Funding Council (including fee waiver) as a consequence of higher levels of funding per student than in previous years, a £404,000 increase in other grants from the Scottish Funding Council, and a £444,000 increase in the release of deferred capital grants, to match the increased depreciation charge resulting from completion of the new build.

The increase in grant income has partially offset the significant reduction in investment income. This is due principally to lower cash balances being held during the year following expenditure on completion of the new premises, combined with the reduction in investment returns available due to the current economic climate.

	2008-09 £'000	2007-08 £'000	Movement £'000	Movement %
Scottish Funding Council grants	11,120	9,728	1,392	14
Tuition fees and education contracts	2,017	1,990	27	1
Other operating income	468	272	196	72
Investment income	153	754	(601)	(80)
Total	**13,758**	**12,744**	**1,014**	**8**

Expenditure; forecast and outturn comparison

Expenditure

Expenditure has increased from £12.3 million in 2007-08 to £14.4 million in 2008-09, giving an 18% increase on last year. This is greater than the % increase in income, which results in the 2008-09 deficit position. The movement in expenditure is due to the following:

- increase in expenditure on wages and salaries (£589,000) primarily as a result of pay inflation of 3.25% from 1 August 2008 plus a further 1.21% award from 1 February 2009;
- increase in expenditure on premises costs (£509,000) and increase in administration and central services (£411,000) due to additional spend on the new building;
- increase in consultants costs (£140,000) primarily related to the learn, direct and build project; and
- additional depreciation charge (£564,000) as a result of completion of the new building and its transfer from assets under construction to operational land and buildings. The depreciation charge on the new build is 85% "matched" by release of capital grant funding.

	2008-09 £'000	2007-08 £'000	Movement £'000	Movement %
Staff costs	9,646	9,057	589	7
Other operating expenses	3,822	2,778	1,044	38
Depreciation	981	417	564	135
Total	**14,449**	**12,252**	**2,197**	**18**

Comparison of budget forecasts with actual outturn

The Board of Management originally budgeted for a deficit in 2008-09 of £95,000. This reflected anticipated costs associated with the opening of the new College building. There were however elements of the College's original budget for 2008-09 that were acknowledged to be unknown, due to the migration to the new build which was expected to have different running costs. In addition, the delay in completion of the new build resulted in additional costs for the College in securing and insuring both properties prior to completion of the sale of the old College building.

The budget was revised in May 2009 for the updated financial forecast return to the Scottish Funding Council. This showed a forecast outturn deficit for the year of £255,000. The main reasons for the increased forecast deficit were:

- an `additional migration costs' expenditure line, with anticipated costs of £340,000;
- £70,000 for VAT consultancy to pursue a Lennartz claim which had not been included in the original 2008-09 budget;
- additional premises expenditure lines totalling £310,000 for premises migration costs and additional maintenance expenditure, plus an extra £50,000 for security.

These additional costs on migration to the new building were partially offset by recognition of additional income, principally estates formula funding which have been applied.

Forecast and outturn assumption; balance sheet

The actual outturn deficit of £691,000 has seen a significant increase of £436,000 over the revised forecast position at May 2009. This has resulted principally from the following controllable and non-controllable factors:

- £204,000 charge to the income and expenditure account in respect of the College's early retirement provision for teaching staff as a result of revised mortality tables being advised by the Scottish Funding Council (*uncontrollable*);
- pension accounting adjustments following the change in accounting policy of £85,000 (net, *uncontrollable*);
- an overspend of £188,000 on the `additional migration costs' budget of £340,000, representing 55% overspend on budget within the last three months of the financial year (*controllable*); and
- £103,000 overspend on temporary lecturing staff compared to that expected and forecast (*controllable*).

Recommendation one

Balance sheet

The balance sheet shows an increase of £419,000 in net assets as at 31 July 2009 compared to the previous year end. Significant movements include:

- a £4.0 million increase in tangible fixed assets following completion of the new building;
- a £1.4 million reduction in accrued income following new build completion;
- a £5.8 million reduction in cash due to settlement of final cash payments on the new campus building, plus the overspend in operating expenditure which was not matched by grant funding;
- within creditors, a £3.2 million reduction in capital accruals and deferred income associated with the campus construction, plus repayment of the £1.5 million loan given to the College by the purchaser of the old Flemington Street building in advance of full settlement of the purchase in January 2009; and
- an increase in the net pension liability of £1.7 million due to changes in the economic climate and the actuarial assumptions underlying valuation.

	2009 £'000	**2008 £'000**	**Movement £'000**	**Movement %**
Fixed assets	42,093	38,014	4,079	11
Stock	3	3	-	0
Debtors	497	1,723	(1,226)	(71)
Cash and short-term investments	2,733	8,520	(5,787)	(68)
Creditors: amounts falling due within one year	(385)	(5,552)	5,167	93
Provisions for liabilities and charges	(1,848)	(1,772)	(76)	(4)
Net pension liability	(2,195)	(457)	(1,738)	380
Net assets	**40,898**	**40,479**	**419**	**1**

Financial forecasts

The following table summarises the 2009-10 financial forecast.

	£'000
Income	13,610
Expenditure	13,551
Forecast surplus for the year ending 31 July 2010	**59**
Cash balance at 31 July 2009	2,733
Forecast cash balance at 31 July 2010	3,559
Forecast movements in cash during 2009-10	**826**

The College is forecasting a small surplus of £59,000 for 2009-10. Income is expected to fall by £428,000, of which £376,000 represents a decrease in funding from the Scottish Funding Council, £71,000 represents an increase in tuition fees, while there are expected reductions of £117,000 in other income and £6,000 in respect of investment income.

Expenditure is forecast to fall by £1.0 million, due to the exclusion of the additional migration costs that were incurred in 2008-09 and which are assumed to be non-recurring. This includes a £15,000 reduction in staff costs, a £1,121,000 reduction in other operating income and £5,000 increase in depreciation. The planned increase in cash reflects a reduction in costs incurred for the new building.

Achievement of this budgeted surplus will require increased management attention on accurate control of costs and budget forecasting.

Governance and risk management

- The corporate governance statement does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding of the College, however we have highlighted in this report some priority areas for action during 2009-10.
- Internal audit concluded that the College "*has a framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives.*" Internal audit did, however, report that the design of controls over asset management were weak, as was the design and operational effectiveness in respect of ICT. This is consistent with our audit findings in both the 2008-09 and prior year. These issues have not been addressed in 2008-09.
- The staff and students migrated into the new College building during the year. The remainder of the sales proceeds were received as agreed. The project was, however, significantly over budget and weaknesses were identified in the budgeting and purchasing processes in relation to this.
- The College has prepared an enhanced Board of Management report, reviewing the College's activities in the year, which meets the requirements of Statement of Recommended Practice for further and higher education institutions 2007 ("SORP 2007").
- A number of recommendations from 2007-08 and prior years had not been implemented as agreed.

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all publicly-funded bodies.

Through the College principal, the Board of Management is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy of these arrangements. The *Code* requires auditors to review and report on the College's corporate governance arrangements as they relate to:

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

Governance arrangements

The Board of Management comprises 17 members and meets a minimum of four times a year to oversee the College's strategic plans. It is supported in this role by the senior management team. The College operated five key standing committees during 2008-09, namely finance, audit, human resources, property, and learning and teaching. In addition, there is a nominations committee and a remuneration committee. This governance structure, which includes non-executive, student and academic representation, is demonstrative of best practice and meets the minimum requirements of the Scottish Funding Council. The committee structure provides the Board of Management with the framework to ensure appropriate oversight and monitoring of financial and academic activities.

Governance and risk management (continued)

The College has policies and procedures in place covering key requirements, for example, namely a fraud policy; staff and board members' code of conduct; unethical and whistle blowing policy; capability policy; staff recruitment and selection policy, induction policy; dismissal and disciplinary policy; and risk assessment procedures. The College has a practice of conducting a rolling review of its key policies and procedures every two years. A number of these policies are now older than two years, and so are overdue for review.

Recommendation two

Risk management

A formal risk management policy is in place, approved by the Board of Management. The College has also established a risk management group and a programme of risk awareness training has been introduced. A risk assessment matrix is presented for consideration by the Board of Management, but this is not reviewed or updated on a regular basis. The matrix includes details of the risk identified, the potential impact of the risk, the control action established to mitigate the risk and the person or committee responsible for managing the risk.

A specific risk assessment matrix was developed for the new build project and this was referred to and updated regularly during the currency of the project. Regular reports were also provided throughout the year to the Board of Management and its committees to monitor and report on the ongoing risks associated with the new build project, and the management of these.

Corporate governance statement

The corporate governance statement for 2008-09 provides details on how the Board of Management have established processes and controls in order to comply with the combined code on corporate governance, issued in 2003. The statement highlights that the College is committed to exhibiting best practice in all aspects of corporate governance. The corporate governance statement is informed by the results of internal consideration of the arrangements that have been put in place by the Board of Management.

Regularity

The Board of Management considers all incoming correspondence relevant to its strategic management role from the Scottish Funding Council and other regulatory or advisory bodies, such as Audit Scotland. The audit committee also considers any applicable correspondence. The College therefore considers all incoming guidance received from these bodies, and can demonstrate that they take appropriate action when required.

Internal audit

The approved internal audit programme for 2008-09 has been completed and the internal auditors have concluded that the College "*has a framework of control which provides assurance regarding the effective and efficient achievement of the College's objectives.*"

Internal audit undertook a specific audit of the asset management arrangements in place at the College. Their findings classified the College's control arrangements as weak. This is consistent with our grade one recommendation in respect of completion of an asset physical verification exercise from our 2007-08 annual audit report, which has not been implemented by management during the year. In addition, internal audit reported that the design and operating effectiveness of the College's ICT control arrangements was also weak.

College management need to address these weaknesses as a matter of priority during 2009-10.

Governance and risk management (continued)

Internal controls

In accordance with our audit plan, we undertook detailed testing in relation to both entity level and key financial controls. We have relied on the work carried out on internal audit around other income, tuition fees and debtors and considered their work carried out on asset management.

Governance arrangements around the new build project

In 2007-08 we considered the governance arrangements established by the College in respect of the new build project and the risks to the College associated with the undertaking. The sign-off of the 2007-08 financial statements was delayed until completion of the property transaction involving the sale of the old College building and the full migration into the new building. This transaction completed in adherence with the clauses of the sale agreement and all sales proceeds were obtained as arranged. We previously highlighted that the College new build project was over budget. The final cost represented an overspend of £1.2 million, which was met through application of the College's own funds as well as additional grant funding of £200,000 from the Scottish Funding Council. The Funding Council subsequently wrote to the College asking for an explanation of the governance arrangements established in respect of the project, and the reasons for the overspend. The College responded to this request, we understand to the satisfaction of the Funding Council.

Additional migration costs

We highlighted earlier the significant overspend against forecast outturn which the College has reported. Purchases for the new College continued to be made throughout the year, even after migration to the new building, resulting in the budget (both original and revised) being significantly breached.

Discussions with management allowed us to assess the reasons for specific overspend. These were identified as:

- expenditure which could not be accurately budgeted for, for example items which were not identified as a necessity until the new building was in operational use, or running costs which could not be estimated with accuracy until the building was complete;
- expenditure which was not absolutely necessary, but was desired to further enhance the image of the new building; and
- expenditure on items which were purchased without a purchase order, and where the purchase invoices were to be retrospectively authorised by the Principal.

While it is acknowledged that the first case would lead to uncontrollable additional expenditure, the second and third types of expenditure have been highlighted through the significant overspends which occurred against the revised May 2009 budget and forecast outturn. This demonstrates both weaknesses in the purchase approval process, as well as in the robustness of the budget forecasting and budgetary control arrangements in the College.

Recommendations one and three

We further highlight that a significant element of the final 2008-09 overspend was as a result of additional spending in the last two to three months of the year, following the submission of the revised budget to the Board and finance committee in May 2009. It is our understanding that the additional extent of overspend against this forecast outturn has not been reported to the Board of Management, through the finance committee, by the time of the audit fieldwork in October 2009. It is essential that management are proactive in reporting significant deviations from budget, notably adverse movements, when these occur.

Recommendation four

Governance and risk management (continued)

Follow-up on prior year audit recommendations

Management are responsible for ensuring the timely implementation of recommendations identified by both internal and external audit. The internal auditors follow-up report has highlighted a number of audit recommendations which remain to be fully implemented. In respect of our previous audit recommendations, in addition to those in respect of fixed assets and asset management, we have identified that, while the College has implemented some recommendations in respect of the IT control environment, a number of residual points remain outstanding:

- forced password changes on the desktop should be implemented for students and teachers on a regular basis;
- complexity parameters for passwords should be implemented to enhance the strength of the password; and
- procedures should be put in place for IT to be informed by HR of leaving staff so that they can be removed from the system. As this is not being done in a timely manner there is a risk that unauthorised personnel may gain access to College information.

It is therefore advised that the College review recommendations presented in prior year annual audit reports and ensure that these have been implemented for the year 2009-10.

Recommendation five

Prevention and detection of fraud and irregularity

The College has a fraud policy and procedures available for staff to view on the intranet. The policy is planned to be reviewed every two years, although the most recent review took place in March 2007. Further review is planned for 2009-10. The College also has an unethical behaviour and whistle blowing policy which was reviewed in July 2007. Significant frauds would be reported to the audit committee. Management has not reported any material instances of fraud of irregularity in 2008-09.

Standards of conduct

Members of the Board of Management and staff are require to operate in accordance with the College's internal code of conduct setting out the required minimal ethical and behavioural expectations. This is planned to be reviewed every two years, although the most recent review was in March 2007. Further review is planned for 2009-10. There are comprehensive human resource policies and procedures providing additional guidance to staff which are readily accessible to staff on the intranet. There is also a formal register of interests for recording members of the Board of Management and senior managers' interests.

Best Value / value for money

The 2008-09 planning guidance for further education colleges issued by Audit Scotland indicated that there was no requirement for auditors to undertake performance audit or other Best Value studies during the year.

Governance and risk management (continued)

Scottish Funding Council enquiry

On 9 June 2009 the Scottish Funding Council issued an enquiry letter to all further education colleges in Scotland as a result of findings by the Scottish Funding Council's internal auditors. These asked Colleges to ensure that:

- all non-trivial contracts entered into by institutions are committed to writing;
- statutory child protection requirements in relation to Enhanced Disclosure checks are adhered to;
- Boards of Management avoids the prospect of any actual perceived conflicts of interest for board members at all times; and
- colleges are aware of and adhere to guidance issued in relation to provision provided in collaboration with other organisations.

Following a review of activities and systems, the College replied to this enquiry on 2 October 2009 with positive affirmations that it already complies with best practice in these areas.

Key findings

- We issued an audit report expressing an unqualified opinion on the financial statements of the College for 2008-09.
- Management provided draft financial statement and supporting working papers, which were complete and of a very high standard, in line with the agreed timetable.
- During 2008-09, the College has changed its accounting policy in respect of its participation in the Strathclyde Pension Fund, to account on a defined benefit basis in accordance with FRS 17 *Retirement Benefits.* The comparative figures have been restated accordingly in light of the change in accounting policy.

Audit opinion

On 8 December 2009 we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 July 2009 and on the regularity of transactions reflected therein.

Financial statements – compilation arrangements

Management provided draft financial statements, which were complete and of a high standard, to us in advance of the audit fieldwork. The standard of documentation prepared by the finance staff to support the financial statements was of a high standard and available to the audit team on the first day of the fieldwork. Our findings in respect of these matters were discussed at the audit committee meeting on 24 November 2009 where we presented our "report to those charged with governance" which is required under International Auditing Standard 260.

Depreciation

During 2008-09, the new College building was transferred from assets under construction to operational land and buildings category. Depreciation has been charged on the whole building at a rate of 2%. This is not in compliance with the statement of recommended practice ("SORP") for further education bodies as this requires management to identify components making up the total building which have different useful economic lives, and to charge depreciation according to these different lives. While the impact of this is not considered material in respect of 2008-09 (when release of deferred capital grant funding is taken into account), it is recommended that management implement component accounting as required by the SORP during 2009-10.

Recommendation six

FRS 17 *Retirement benefits*

During 2008-09, the College has changed its accounting policy in respect of its participation in the Strathclyde Pension Fund, to account on a defined benefit basis in accordance with FRS 17 *Retirement Benefits.* We have worked with management to ensure that the comparative figures have been restated accordingly in light of the change in accounting policy.

Due to the economic climate, the College's net liability arising from its share of its assets and liabilities in the Strathclyde Pension Fund, has increased to £2.2 million at 31 July 2009. Actuarial losses of £1.7 million have been recognised through the statement of total recognised gains and losses.

Action plan

Priority rating for recommendations		
Grade one: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	**Grade two**: Issues that have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.	**Grade three**: Issues that would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.

No.	Issue and recommendation	Management response	Officer and due date
1	The College deficit for the year has arisen as a result of weaknesses in the budget forecasting and budgetary control exercised by management during the year. With a small surplus budgeted for in 2009-10, it is recommended that management undertake a review of the robustness and accuracy of the budget setting, forecasting and control arrangements. This will ensure that the College is able to achieve its targeted surplus for 2009-10, and eliminates the risk of overspends arising through potentially controllable circumstances. *(Grade one)*	Agreed	Executive Team January 2010
2	A number of procedural documents (for example the fraud policy; staff and board members' code of conduct; unethical and whistle blowing policy; capability policy; staff recruitment and selection policy, induction policy; dismissal and disciplinary policy; and risk assessment procedures) have not been updated for over two years, which is outwith the timeframe set for review. It is recommended that management ensure that these policies are reviewed, and updated if appropriate as soon as possible during 2009-10. *(Grade two)*	Agreed	Appropriate officer Early January 2010
3	Weaknesses in the purchasing process were identified whereby purchases can be made without an initial purchase order and where the purchase invoices are retrospectively authorised by the Principal. It is recommended that the purchase system should be reviewed with strict authorisation procedures in place. *(Grade one)*	Agreed	Director of Finance January 2010
4	The overspend against the revised May 2009 budget forecast had not been reported to the Board, through the finance committee at the time of the audit fieldwork in October 2009. It is essential that management are proactive in reporting significant deviations from budget, notably adverse movements, when these occur. *(Grade one)*	Monthly meetings with the Convenor of the Finance Committee are now standard at which a predicted outturn will be discussed.	Finance Manager From January 2010

Action plan (continued)

No.	Issue and recommendation	Management response	Officer and due date
5	A number of recommendations given in prior years' internal and external audit reports have not yet been implemented by management, including one grade one recommendation in respect of asset management. It is recommended that prior year audit recommendations are recorded, tracked and monitored by management to ensure their implementation as soon as possible. *(Grade one)*	Prior years recommendations not yet implemented will be considered.	Principal Early 2010
6	During 2008-09, the new College building was transferred from assets under construction to operational land and buildings category. Depreciation has been charged on the whole building at a rate of 2%. This is not in compliance with the statement of recommended practice ("SORP") for further education bodies as this requires management to identify components making up the total building which have different useful economic lives, and to charge depreciation according to these different lives. It is recommended that management implement component accounting as required by the SORP during 2009-10. *(Grade one)*	Information which will enable us to comply with component accounting with effect from 2009/2010 will be obtained.	Finance Manager 2009-10