Anniesland College

Annual Audit Report to the Board of Management and Auditor General for Scotland

Audit for the year ended 31 July 2010

CONTENTS

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EXECUTIVE SUMMARY

Financial Highlights

The College achieved a surplus of £91k (2009 £128k) on its income and expenditure account for the year prior to FRS17 adjustments for the Strathclyde Pension Scheme (SPF) of £(45)k (2009 £13k). On 22 June 2010 the Chancellor announced a change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI). The effect of this change has been taken through the Statement of Total Recognised Gains and Losses as a negative past service cost of £458k. The net effect of the FRS17 adjustments in total is a debit of £45k (2009 credit of £13k) to income and expenditure account and credit through the Statement of Total Recognised Gains and Losses of £604k (2009: debit of £1,149k). The financial statements disclose total reserves of £19,012k (2009 £18,362k). The 2010/11 financial forecast return anticipates a surplus of £10k, including adjustments in relation to FRS 17 of £13k (credit). There are various FRS17 adjustments in the FFR – these net off to a credit of £13k (included in various headings in the Income and Expenditure account) – once these are excluded the forecast is for a deficit of 3k.

Corporate Governance

From our review of Corporate Governance arrangements within Anniesland College (“the College”), we believe the Corporate Governance statement to be neither misleading nor inconsistent with other information made available to us during the course of the audit process. The Corporate Governance statement does not disclose any significant weaknesses in the systems of internal control. The internal auditors (Baker Tilly) concluded that “Anniesland College has adequate and effective risk management, control and governance processes to manage the achievement of the College’s objectives.”

The Operating and Financial Review provides a comprehensive account of the College’s activities and, in general, meets the requirements of the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (“SORP 2007”).

A management letter point has been raised regarding Corporate Governance arrangements - see the relevant section for details.

Financial Statement Audit

We have completed our audit work in respect of the financial statements of the College and are satisfied that they present a true and fair view of its financial position for the year ended 31 July 2010. Following approval of the financial statements by the Board of Management on 16 December 2010 our audit report will express unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2010 and (ii) regularity.

In preparing the Financial Statements on a going concern basis, the Board of Management is satisfied that the SFC will provide sufficient funding to enable the College to operate for at least 12 months from the date of signing the Financial Statements.

Management did not provide draft financial statements and supporting working papers in line with the agreed timetable. The draft financial statements were first provided to the auditors on 01/12/2010, albeit, once provided, they were complete and of a reasonable standard.

The 2009/10 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

OVERVIEW, SCOPE AND INDEPENDENCE

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Overview

- The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of Anniesland College ('the College') for the year ended 31st July 2010.
- This report covers those matters we believe to be material in the context of our work. It was prepared from general information obtained during the audit process, including management accounting information and discussion with management and staff of the College. It has been prepared solely for the use of the College and the Auditor General for Scotland and should not be shown to any other person without our express permission in writing. We do not accept responsibility for this report to any other person and we hereby disclaim any and all such liability. We do not, in preparing this report, accept or assume responsibility for any other purpose or to any other person to whom it is shown or into whose hands it may come save as expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so at entirely their own risk.
- The corporate governance statement within the College's financial statements states that the College has been fully compliant with guidance on corporate governance for the year ended 31 July 2010. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Significant Accounting and Audit Issues

Detailed on pages 16 to 18 are the key accounting and audit issues identified during our work:

- Component accounting
- SUMs achievement
- Financial outturn
- Income recognition (ESF and Fee waiver)
- FRS 17 – CPI

Unadjusted Audit Differences

We are required by International Standard on Auditing (UK & Ireland) 260 to bring to your attention audit adjustments that we have identified and which the Board of Management is required to consider. A schedule of such adjustments is included in Appendix 1. We have not included items under £1,500 which we consider to be clearly trivial. Total unadjusted audit differences identified by our audit work would have the effect of reducing both the surplus and the net assets by £25k. The Board will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole.

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OVERVIEW, SCOPE AND INDEPENDENCE
Continued...

Key areas	Summary
Scope	The accounting rules and regulations applying to Further Education Colleges are specifically laid out in various documents as discussed on page 8 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents. We can confirm that in preparing the financial statements the College has complied with the Accounts Direction for Scotland's Colleges and Universities issued under Circular SFC/35/2008. The audit of Anniesland College was performed in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. This report has been issued to College management and will be considered by the Audit Committee.
Independence	Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to "those charged with governance". In our view this term refers to the Board of Management and we confirmed our independence to them in a letter on 20 April 2010. Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our Conduct of Professional Services Manual. In addition, we have issued supplementary written guidance and embedded the requirements of the Standards in our internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We confirm that the firm complies with the APB Ethical Standards and, in our professional judgment, is independent and objective within the meaning of those Standards. In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

AUDIT FRAMEWORK

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Audit Framework

Audit Framework	BDO LLP was appointed by Audit Scotland as external auditor to the College for 5 years covering the financial years 2006/07 to 2010/11. This year was the fourth of the five-year appointment. This report to the College Board of Management and Auditor General for Scotland provides our opinion and highlights issues arising from our work in relation to our audit work for 2009/10 and details how the requirements of the "Statement of Responsibilities and the Code of Audit Practice" have been met by the College and by BDO LLP .
Audit Bodies	• The Auditor General, a royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish public spending bodies to account for the proper, efficient and effective use of public money. • Audit Scotland is an independent statutory body which was set up in April 2000 to provide assistance and support to the Accounts Commission and to the Auditor General in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.
College Responsibilities	The College is publicly accountable for the conduct of business and the stewardship of funds under its control. The College's Board of Management is therefore responsible for: • establishing adequate corporate governance procedures; • ensuring funds from the SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which the SFC may from time to time prescribe; • ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources; • safeguarding the assets of the College and taking reasonable steps to prevent and detect fraud and other irregularities; • securing the economic, efficient and effective management of the College's resources and expenditure; • maintaining proper accounting records and preparing financial statements which give a true and fair view of the financial position of the College at the year-end and its income and expenditure for the year.

AUDIT FRAMEWORK (Continued…)

Audit Framework

Auditor's Responsibilities and Approach

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

- provide an opinion, to the extent required by the relevant authorities, on the financial statements of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board.
- review and report on the requirements of Audit Scotland's Code of Audit Practice (March 2007), regarding the College's corporate governance arrangements relating to:
    - the College's review of its systems of internal control
    - the prevention and detection of fraud and irregularity
    - standards of conduct, and prevention and detection of corruption
    - its financial position.
- obtain an understanding of the accounting and internal control systems in place in the College sufficient to allow the audit to be planned and an effective audit approach developed.

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

AUDIT FRAMEWORK (Continued…)

Audit Framework

College Guidance

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

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

Financial Memorandum

This memorandum sets out the terms and conditions under which the Scottish Funding Council will make payments to the Board of Management of Colleges of Further Education out of funds made available by the First Minister of Scotland. Our audit procedures identified no factors that would lead us to believe that the college does not comply with the terms and conditions of the Financial Memorandum.

Accounts Direction

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

Guidance on Audit

In carrying out our audit work we are also required to comply with International Standards on Auditing (UK and Ireland) and to take cognisance of any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board. We also comply with relevant ethical standards and guidance issued or adopted by the relevant professional accountancy bodies and any supplementary guidance issued by Audit Scotland.

Statement of Recommended Practice (SORP)

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

FINANCIAL HIGHLIGHTS

Key areas	Summary
Financial Highlights	• **Income and Expenditure Account:** The College achieved an operating surplus of £46k, 0.30% of total income in respect of the year-ended 31 July 2010 (2008/09: £141k and 0.9%, Forecast: £106k and 0.73%). This surplus represented a £95k decrease on the prior year and this relates primarily to the £110k reduction in the gain on sale of assets. • **Balance Sheet:** The financial statements report net assets at 31 July 2010 of £64.2m, reflecting an increase of £14.0m over 2009. The increase is attributable to the £46k surplus, an increase in fixed assets of £13.8m, increase in net current assets of £0.4m , an increase in long term creditors of £0.8m and a reduction in the pension liability of £0.6m.
Cash Flow	During 2009/10, the College experienced a net inflow of cash of £1,008k (2008/09: inflow of £1,250k).
Financial Forecast	The initial 2009/10 financial plan forecasted a surplus of £106k compared to the actual surplus of £46k. This difference relates to the fact that total income is higher than forecast by £840k and total expenditure higher than forecast by £900k (i.e. net cost increase of £60k). The net increase in SFC grant income and release by £663k explains the majority of the overall income increase and the increase in depreciation by £714k explains the majority of the overall cost increase. The forecast of income, expenditure and cash balances for the College for 2010/11 shows that income is expected to fall and expenditure expected to rise in 2010/11, resulting in a surplus of £10k. Once adjustments for FRS 17 are excluded there is an expected deficit of £3k.

FINANCIAL HIGHLIGHTS
Income and Expenditure Account

Income

- The table below summarises the main sources of income for 2009/10 and 2008/09.
- The College's WSUMs target for 2009/10 was 48,579 and the College delivered 53,261. As a result, the College will not be liable to repay any recurrent grant to the Scottish Funding Council in 2010/11.
- A significant proportion of income is received from the Scottish Funding Council, the proportion of income from this source was 78.7% for 2009/10 and 76.9% for 2008/09.
- Total SFC Grant income is normally in the region of 73% of total income (2007/08: 72%), based on the 2008/09 statistics for colleges in this category.
- An increase in SFC grant income of £76k. This is a result of an additional £121k of core grant and an additional £310k of deferred capital grant release netted off by a reduction of £207k in other SFC grants (made up of EMA and various other SFC grants e.g. property infrastructure etc) and a £148k reduction in Childcare funds.
- A decrease in investment income of £160k as surplus funds have earned lower returns due to depressed interest rates.

Income and Expenditure Account	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Scottish Funding Council Grants	12,117	12,041	(76)
Tuition Fees and Education Contracts	1,526	1,432	94
Other Income	1,694	1,982	(288)
Investment Income	53	213	(160)
Gain on disposal of assets	0	110	(110)
Total Income	**15,390**	**15,778**	**(388)**
Expenditure (see analysis on next page)	**(15,344)**	**(15,637)**	**(293)**
Surplus	**46**	**141**	**(95)**

FINANCIAL HIGHLIGHTS
Income and Expenditure Account (continued…)

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Expenditure

Total expenditure decreased by £293k (1.9%), in comparison to 2008/09, to £15.344m. The table below summarises the main categories of expenditure for 2009/10 and 2008/09. The most significant movements are as follows:

- a decrease in staff costs of £88k. The decrease of £88k on last year reflects a reduction in the average number of employees by 11 which is partly offset by the pay rise of 1.5% for academic and support staff; and
- a reduction in overheads of £260k which is primarily the result of £782k reduction in infrastructure repairs - down to £253k, offset by smaller increases and by a £221k increase in depreciation. The infrastructure repairs increase is the result of the fact that the majority of the non-capitalised expenditure for new furniture, fittings and computing equipment for the new build was incurred in the prior year and the increase in depreciation is due there being a full year's worth charged for phase I of the new build; and
- an increase in interest payable due to the £67k finance cost associated with the defined benefit pension scheme (compared to £12k in the prior year).

Expenditure Analysis	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Staff Costs	10,659	10,747	(88)
Other Operating Expenditure	3,673	4154	(481)
Depreciation	945	724	221
Interest Payable	67	12	55
Total Expenditure	**15,344**	**15,637**	**(293)**

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FINANCIAL HIGHLIGHTS
Balance Sheet

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The balance sheets shows an increase of £14.03m in net assets as at 31 July 2010 compared to the previous year end. Significant movements include:

- A increase in tangible fixed assets of £13.76m as a result of various factors: there were fixed asset additions of £14.7m, less the depreciation charge for the year of £945k. Note that phase II of the new build was completed at the end of May meaning that there was a transfer of £27.9m worth of assets from assets in the course of construction to land and buildings (£26.8m) and equipment (£1,087k).
- A decrease in debtors of £1.8m. This is a result of a decrease of £488k in trade debtors, a decrease in of £71k in the VAT debtor and a decrease of £1.27m in prepayments and accrued income. The reduction in trade debtors is due to the absence of the £529k debtor which existed in the prior year relating to the sale of modular buildings to Banff and Buchan partly netted off by the increase in various smaller debtor balances and the decrease in the provision by £21k. The VAT debtor purely relates to the Lennartz debtor which has decreased because of the reduction in the amount of purchases in the quarter to 31st July 2010 compared to the quarter to the end of 31st July 2009. The decrease in prepayments and accrued income is principally due to the absence of a new build debtor which amounted to £1.18m in the prior year.
- An increase in cash of £1m primarily as a result of the £1m received in the year as part of the Lennartz arrangement with HMRC.
- A decrease in creditors due within one year of £1.311m. In 2010 there is a £482k Lennartz VAT creditor while in the prior year none of the Lennartz creditor was due within 1 year as repayment had not been triggered as the new build process had not been finalised. This increase is more than offset by the £375k decrease in trade creditors, the £20k decrease in the other taxation and social security creditor and £1.4m reduction in accruals and deferred income. The trade creditors movement relates to the decrease in the BAM construction creditor by £639k down to £97k (due to the new build project coming to an end) partly offset by increases in various other balances, including the £131k increase in the Scottish Qualifications Authority balance which is purely due to timing. The reduction in Accruals and Deferred Income primarily reflects grant income, received but unspent at July 2009, being utilised in 2010 and consequently transferred to Deferred Capital Grants.
- A decrease in the pension liability of £559k, which has been brought about by actuarial gains and past service gains resulting from using CPI in FRS 17 calculations.

FINANCIAL HIGHLIGHTS
Balance Sheet (continued…)

Balance Sheet Category	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Fixed Assets	63,812	50,057	13,755
Debtors	2,141	3,970	(1,829)
Cash	7,097	6,089	1,008
Creditors: Amounts falling due within 1 year	(4,109)	(5,420)	1,311
Creditors: Amounts falling due after more than 1 year	(3,473)	(2,702)	(771)
Pension Liability	(1,277)	(1,836)	559
Net Assets	**64,191**	**50,158**	**14,033**

FINANCIAL HIGHLIGHTS Financial Forecasts

Financial Forecasting

- The initial 2009/10 financial plan forecasted a surplus of £106k. The table below shows the reconciliation between the forecast outturn and the actual amount generated during the course of the year. The main reasons for the movement from the forecast to the actual outturn were as follows:
  - increase in SFC grant income partly related to the unbudgeted economic downturn grant being received during the course of the year.
  - higher number of students than originally budgeted which in turn generated higher levels of fees.
  - higher payroll costs due to compensation costs.
  - substantially higher depreciation that expected due to the difficulty in forecasting the depreciation cost for the component accounting assets.
  - FRS 17 adjustments impacting on the income and expenditure account.

Forecast vs. Actual	31 July 2010 £'000	31 July 2009 £'000
Forecast outturn per budget	**106**	**(1252)**
Increase/(decrease) in SFC grant income	663	726
Increase /(decrease) in other income	177	440
Decrease / (increase) in payroll costs	(242)	(95)
Decrease /(Increase) in other operating expenditure	(613)	309
Actual outturn at year end (excluding FRS 17 adjustments)	**91**	**128**
FRS 17 adjustments	(45)	13
Actual outturn at year end (including FRS 17 adjustments)	**46**	**141**

FINANCIAL HIGHLIGHTS
Financial Forecasts (continued…)

Financial Forecasting

- The table below summarises the forecast income, expenditure and cash balances for the College for 2010/11.
- Looking forward to 2010/2011 income is expected to fall whilst expenditure is expected to rise (before FRS 17 adjustments), resulting in a reduced forecasted surplus. The reduction in income will be due to the sector-wide cut in SFC grant funding in addition to a fall in tuition fee income. College expenditure will have to be closely monitored, in particular staff costs, in order to achieve the forecasted surplus.

Forecast Income, Expenditure and Cash Balances for 2010/11	£'000
Income	15,069
Expenditure	(15,059)
Forecast surplus for the year ending 31 July 2011	**10**
Cash balance at 31 July 2010	7,097
Forecast movement in cash during 2010/11	(2,547)
Resulting cash balance at 31 July 2011	**4,550**

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters

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Component Accounting

- The College commenced an estates redevelopment programme during 2006/07 which is now almost complete (phase 1 and phase 2 are complete). As part of this FRS15 requires that where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. The requirements of FRS15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the assets are charged to the income and expenditure account over the periods in which they are consumed. In order to comply with the requirements of FRS15 College management obtained a detailed breakdown of the Phases 1 and 2 costs from the new build consultants. This listing was found to be very comprehensive and detailed the estimated economical life of each component of the build costs. An invoice tracker report produced by the property consultants has been used to categorise all new build expenditure incurred.

BDO Conclusion

- The College cost allocation agrees to the breakdown on the invoice tracker report in that costs have been capitalised or expensed correctly and capitalised costs have been categorised correctly.
- Included as part of College expenditure in the year is £253k comprising the costs of new furniture, fittings and computer equipment for the new building. This expenditure was grant funded. Individually, the items making up this expenditure are deemed by College management to meet the accounting policy which states that “Equipment costing less than £5,000 per individual item……are written off to the income and expenditure account”. This treatment is therefore acceptable.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

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Income Recognition- ESF

- The College recognises a significant amount of European Social Fund (ESF) income in the financial statements. There are a number of rules and regulations surrounding ESF claims which require to be met in order for this income to be recognised. The College was previously prudent in recognising only 80% of income, but this was changed to 100% in 2008/2009. This was seen as reasonable given that changes to the application process have resulted in this income being much more certain with the level of funding being capped at the outset of the project.

BDO Conclusion

• The decision to recognise 100% of income is reasonable based on the changes to the application process.

• The amount of income recognised is reasonable based on the projected cost levels for the projects tested and the project audit reports (audited by ESEP) which were obtained indicate that submitted claims are materially correct.

Income Recognition- Fee Waiver

- With respect to fee waiver the College is not in a claw-back position with regards to 2009/10, and due to the high level of demand amongst students the College is in a position to receive an additional fee waiver grant. However, due to the economic downturn and the resultant increase in the number of students with fee waiver needs across the college sector, the SFC may not be able to meet the demand from all colleges for additional fee waiver grant due to funding constraints. Therefore the College has taken the view that it is prudent to not recognise additional fee waiver income in the financial statements.

BDO Conclusion

• We agree with management's prudent treatment of non-recognition of the additional fee waiver grant due to the doubt over whether the grant is recoverable as the SFC have indicated that they cannot guarantee payment.

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KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

Annieslan College
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FRS 17 - CPI

- On 22 June 2010 the Chancellor announced a change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI) which was previously used. The effect of this change on the Anniesland College share of the Strathclyde Pension Fund (SPF) comes through as a negative past service cost of £458k. The key question is whether this credit should be taken through income and expenditure account or taken to the statement of total recognised gains and losses. The Financial Reporting Council issued Urgent Issues Task Force information sheet number 90 entitled 'Accounting implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits' on 13 October 2010. The issue is whether the change gives rise to a different benefit (a change in benefit) or whether a different assumption is being applied to an unchanged benefit (a change in assumption). FRS 17 'Retirement Benefits' requires that a change in scheme liabilities arising from a change in benefit be recognised in the income and expenditure account. In contrast, it requires that a change in the scheme liabilities arising from a change in an assumption is part of actuarial gains and losses which should be recognised in the statement of total recognised gains and losses.
- The College has taken the view that the credit of £458k should be taken to the statement of total recognised gains and losses.

BDO Conclusion

•In this case the draft guidance is capable of interpretation either way and the accounting treatment hinges in part on whether there is a constructive obligation to pay pension increases linked to RPI in the SPF. We are satisfied that the College's accounting treatment of the past service cost credit of £458k can be supported by reference to the draft UITF guidance.

• A final UITF document has now been issued with no substantive changes to the draft.

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KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters (Continued…)

Impairment

- The College has continued to market the Balshagray land and buildings for sale in the period. These are carried at £4,985k in the accounts and College management confirm that they believe there is no indication of impairment.

BDO Conclusion

•There is no indication of impairment therefore the College is correct to not make any adjustment in the accounts for this.

SUMs Achievement

- SFC require the College to achieve total SUMs within 2% of its target for the year to avoid being in a clawback position.

BDO Conclusion

•The College agreed with the SFC that their final WSUMs total for the year to 31 July 2010 was 53,261 whereas the College's WSUMs target for 2009/10 was 48,579 (excluding the economic downturn element). The figure delivered is in excess of its target for the year and accordingly there should be no clawback of SFC grant for non achievement of SUMs target.

CORPORATE GOVERNANCE

Anniesland College Supporting You

Corporate Governance

We reviewed the College's corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.

The corporate governance arrangements of an organisation are the means by which strategy is set and monitored, managers are held to account, risks are managed, stewardship responsibilities are discharged and institutional sustainability is ensured. The Code of Audit Practice requires that auditors 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.

The Board of Management is required to report on its compliance with the ***"Combined Code on Corporate Governance (June 2008)"***. Looking forward we would draw your attention to the revised Corporate Governance Code published in June 2010 called ***"The UK Corporate Governance Code"*** and also to the Consultation Draft issued by CIPFA in May 2010 called **"Delivering Good Governance in Scotland's Colleges: A Framework"**.

Board of Management: has six formally constituted committees which have specific terms of reference and act with delegated authority from the Board (including the Audit Committee, Nominations Committee, Finance & Property Committee, Human Resources Committee, Remuneration Committee, Learning & Teaching Committee).

- ***Composition:*** the Board is comprised of 15 members as at 31 July 2010; hence, the Board has no more than the recommended maximum of 16 members. The skills of the members of the Board include relevant expertise in education, management consultancy, human resources, finance and accountancy. The College representatives include the Principal, a member of the teaching staff, a member of the support staff and a member of the students' body. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor student of the College). The College Clerk to the Board of Management is D. Gilmour who is also Finance Director and therefore not independent **of** College management which is not in line with best practice. The recommended maximum period of office for board members of 12 years has been adhered to for all independent board members.
- ***Timing:*** met the recommendation for meeting not less than 4 times during the year, with 4 meetings throughout 2009/10. Therefore, the Board met at sufficiently regular intervals during the course of the year in order discharge its duties effectively.

CORPORATE GOVERNANCE
(Continued…)

Corporate Governance (continued…)

Board of Management (continued…)

- ***Responsibilities:*** It was noted that no one individual has unfettered powers of decision-making. Arrangements are in place to enable the Chairman to hold meetings with the other non-executive governing body members without executives present when deemed appropriate. Protocols are in place to ensure that the impact of senior staff undertaking positions on external governing bodies is fully considered.

- ***Development and Evaluation:*** Management is aware of the importance of ensuring that new Board members are provided with a timely induction and appropriate development programme. The Board reviews its effectiveness and undertakes a formal and rigorous evaluation of its own effectiveness and of its committees at regular intervals.

Audit Committee: is comprised of 4 members as at 31 July 2010. The committee, with all members being non-executives, meets the recommendation that there be at least 2 independent non-executive members. In addition, with one member being a qualified accountant, the Board has satisfied itself that it has met the recommendation that at least one member of the committee has recent and relevant financial expertise. It was noted that two members of the Audit Committee were also members of the Finance & Property Committee. This is not in line with best practice.

Remuneration Committee: is comprised of 5 members as at 31 July 2010. It is recommended that if the Chair of the Board of Management is a member of the Remuneration Committee he or she should not chair the committee – the College does not follow this recommendation.

From our review of Corporate Governance arrangements within the College we do not believe the Corporate Governance statement to be misleading or inconsistent with other information made available to us during the audit process.

System of Internal Control

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

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

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

CORPORATE GOVERNANCE
(Continued…)

Review of Internal Audit

Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality. Internal audit services are provided by Baker Tilly. An assessment was made of the adequacy of the internal audit output and it was concluded that we as external auditors were able to use the work of internal audit in planning our own procedures. Accordingly cognisance was taken of the work of internal audit in the following areas during 2009/10:

- Payroll procedures
- Management accounts and budgeting
- Corporate Governance
- SUMs Audit

Risk Management

The Board has responsibility for the identification and management of risks facing the College. A risk assessment matrix of the exposure to risk, and the extent to which these risks are controlled, including implementation of actions to mitigate risk, is updated and presented to the Board of Management annually to review the College's response to identified risks. This identifies, prioritises and assesses risks to the College according to the likelihood and the impact of each risk.

CORPORATE GOVERNANCE
(Continued…)

Annieslan College
Supporting You

Prevention and Detection of Fraud and Corruption

The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment showed the arrangements to be operating satisfactorily. The College has in place a comprehensive fraud prevention policy, in addition to a more specific whistle-blowing policy. The College plans to ensure that both of the policies are readily available to staff on the College's intranet and are also published on the College's website. The fraud prevention policy also includes a plan on the response to any frauds identified. No frauds were identified by the College in 2009/10. In addition to the aforementioned policies, the College has also implemented tendering and procurement procedures to mitigate the risk of financial irregularity.

Operating and Financial Review (OFR)

Additional guidance on the content of the operating and financial review (OFR), the inclusion of which is recommended within the 2007 SORP, was issued by the Scottish Funding Council on 2 October 2009. This guidance states that it would be helpful if a core set of performance indicators could be incorporated within the OFR to meet best practice and facilitate comparisons between the performances of different colleges. Two colleges have been identified as providing examples of good practice. Anniesland College has included detail of key performance indicators in its OFR.

MANAGEMENT LETTER POINTS

Key Areas	Issue and impact	Recommendations
Review of bank reconciliations	During audit testing it was noted that there were some bank reconciliations which had not been signed as reviewed. Lack of review may mean that accounting errors might not be picked up timeously (if at all).	One person should perform the bank reconciliations with another reviewing them (and signing to indicate this) – this segregation of duties ensures that errors are detected and corrected. The College should also ensure that this review is performed timeously.
Draft accounts	The first set of draft accounts were only provided to the audit team on the 1st of December. This was well after the completion of the main audit field work and very close to the end of the audit process. Delay in the provision of accounts restricts the time that the audit team have to work on them and give relevant feedback to the College.	The College should ensure that there is a draft set of accounts ready for the first day of the audit visit (and if not possible then near the start of the audit).
Committee membership	It was noted that two members of the Audit Committee are also members of the Finance & Property Committee and that the Chair of the Board also chairs the Remuneration Committee. In addition the post of Clerk to the Board is held by the College's Finance Director. These appointments are not in line with best practice.	The College should take cognisance of best practice guidance in its appointments to committees and the post of Clerk to the Board.

MANAGEMENT LETTER POINTS

Key Areas	Issue and impact	Recommendations
Completion of VAT returns	It was noted from the 31/07/2010 VAT return that output VAT was understated by £3.5k. The incorrect completion of VAT returns could results in interest payments and or penalties.	The college should ensure that the figures on the VAT return correctly flow from the nominal ledger. We acknowledge that the College, acting on guidance from their VAT specialists, have decided not to declare this error, but merely amend the 31/10/2010 VAT return for it.
Older assets	The College has large amounts of fully-depreciated fixed assets that have been built up since 1993 (e.g. computers, equipment etc). These assets may have been disposed of but not extracted from the accounts due to there being no proceeds. The move to the new College building offers Management an opportunity to review the College's fixed assets fully. We recommend that the College Management review their fixed asset listing and remove those assets that they are unable to ascertain as to whether they are still owned/used by the College.	The move to the new building offers the ideal opportunity for management to review their fixed asset listing and we would recommend that such a review is completed at the earliest convenience to ensure that assets which are no longer being used or that have been scrapped are removed from the fixed asset listing.

MANAGEMENT LETTER POINTS

Key Areas	Issue and impact	Recommendations
ESF project tracker spreadsheets	During our main audit visit it was noted that several ESF project tracker spreadsheets had not been regularly updated to reflect qualifying costs incurred. As a result it may be difficult to keep a track of whether the College is on track to meet projected expenditure and can also result in delayed submission of ESF claims. The latter can be detrimental to cashflow.	ESF project tracker spreadsheets should be updated for costs incurred on a regular basis. Claims should then be submitted promptly.

PREPARATION OF THE FINANCIAL STATEMENTS

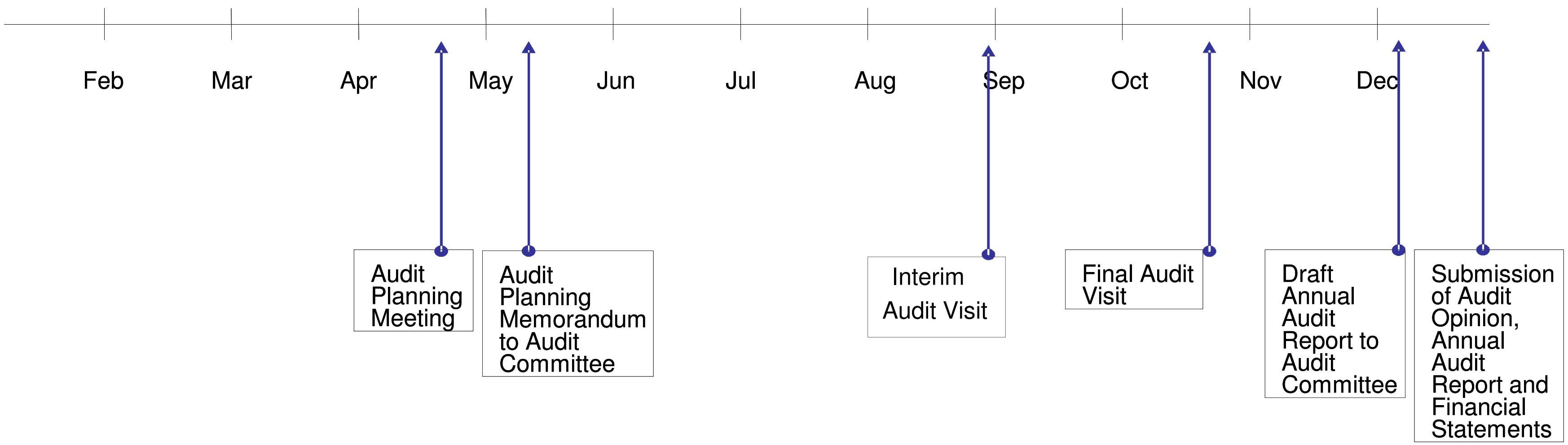
Preparation of the Financial Statements

Our Audit Planning Memorandum, issued to the College in April 2010, outlined the various stages of the audit process, as set out in the timetable below. In relation to the key factors of the production of the financial statements, our assessment was as follows:

Completeness of Draft Financial Statements: We received a set of draft financial statements on 1st December 2010, well after the end of audit fieldwork. The draft financial statements were of reasonable quality. There were several issues left unresolved until early December and a revised draft was received in mid December. Any outstanding matters were satisfactorily resolved prior to receipt of the final Financial Statements and audit sign off.

Quality of Supporting Documentation: The supporting documentation that was received was of a reasonable standard - occasionally additional information had to be obtained from College staff.

Response to Audit Queries: In contrast to prior years there were some delays in receiving responses from management with regard to some audit queries that were raised with them, however, we realise that there were extenuating circumstances in some cases.



APPENDIX 1
Unadjusted Audit Differences

Unadjusted Audit Differences

We are required by International Standards on Auditing 260 "Communication of matters to those charged with governance" to communicate all uncorrected audit differences, other than those we clearly believe to be trivial.

Total unadjusted audit differences identified by our audit work would decrease both the reported surplus of £46k and the reported net assets of £64.2m by £25k. The Board of Management will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole. These are set in the table below:

		Income & Expenditure Account		Balance Sheet	
Unadjusted Audit Differences	**£'000**	**DR £'000**	**CR £'000**	**DR £'000**	**CR £'000**
Surplus for the Year before Audit Adjustments	46				
Recording of various late accruals for premises expenses	(11)	11			11
Reallocating interest received from accrued income to cash and bank				21	21
Correction for under accrual of ESF104 partner costs	(2)	2			2
Correction for under accrual of ESF110 partner costs	(9)	9			9
Correction of depreciation for fixtures and fittings	(8)	8			8
Capitalisation of professional fees associated with new build	60		60	60	
Correction of release of deferred capital grant re professional fees	(54)	54			54
Depreciation associated with capitalisation of professional fees (see above)	(2)	2			2
Deferred capital grant release associated with capitalisation of professional fees	2		2	2	
Correction of adjustment for ESF income/ tuition fee income		50	50		
Reallocation of fees from HE tuition fees (advanced (FT)) to EU fees		14	14		
Correction of depreciation for Phase 2	(7)	7			7
Correction of release of deferred capital grant for Phase 2	6		6	6	
Total Adjustments	**(25)**	**157**	**132**	**89**	**114**
Surplus for the Year after Audit Adjustments	21				

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