# Glasgow College of Nautical Studies

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

## Audit for the year ended 31 July 2010

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# EXECUTIVE SUMMARY

**Financial Highlights**

The College achieved a surplus of £357k for the year ended 31 July 2010 (2008/09 surplus £144k) after the FRS 17 adjustments for the Strathclyde Pension Scheme (SPF). Before these adjustments, the College suffered a loss of £70k (2009: surplus of £340k) on its income and expenditure account for the year. 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). In accordance with the treatment recommended by Hymans Robertson LLP, the effect of this change has been taken through the income and expenditure account as a negative past service cost of £619k. The net effect of the FRS 17 adjustments in total is a credit of £427k (2009: debit of £196k) to the income and expenditure account.

The financial statements disclose total reserves of £19.924m (2009: £16.650m). The 2010/11 financial forecast return anticipates a surplus of £139k, excluding adjustments in relation to FRS 17.

**Corporate Governance**

From our review of Corporate Governance arrangements within 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.

Internal auditors Scott Moncrieff concluded that Glasgow College of Nautical Studies has a framework of controls in place, in the areas reviewed by them, that provides reasonable assurance regarding the effective and efficient achievement of the College's objectives and the management of key risks.

The Operating and Financial Review provides a comprehensive account of the College's activities and meets the requirements of the Statement of Recommended Practice for Further and Higher Education Institutions 2007 ("SORP 2007").

**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 23 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 accounts on a going concern basis, the Board of Management is satisfied that the SFC will provide sufficient funding to enable the College to operate as part of the new merged City of Glasgow College for at least 12 months from the signing of the accounts.

Management did not provide draft financial statements and supporting working papers in line with the agreed timetable. The draft financial statements and supporting documentation when received were of a good 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

GCNS
GLASGOW COLLEGE OF NAUTICAL STUDIES

**Overview**

- The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of Glasgow College of Nautical Studies ('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 below are the key accounting and audit issues identified during our work:

- New Campus Glasgow
- Insurance Claim relating to Flood
- Additional Fee Waiver - Non-Recognition of Debtor
- Unfunded Pension Provision
- FRS 17 – CPI
- Events after the balance sheet date
- **Note:** There were no management letter points raised

**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 but we are not proposing to adjust and which the Board of Management is required to consider. There were no unadjusted audit differences identified during our audit work.

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# OVERVIEW, SCOPE AND INDEPENDENCE
## Continued...

| Key areas | Summary |
| --- | --- |
| Scope | The accounting rules and regulations applied 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.<br><br>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.<br><br>The audit of Glasgow College of Nautical Studies 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". This term refers to the Board of Management in our view and we confirmed our independence to them in a letter dated 14 April 2010.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail. |

# AUDIT FRAMEWORK

## Audit Framework

**Audit Framework**

BDO LLP was appointed by Audit Scotland as external auditor to Glasgow College of Nautical Studies for 5 years covering the financial years 2006/07 to 2010/11. This year was the fourth of the five-year appointment by the Auditor General for Scotland as external auditors of Glasgow College of Nautical Studies ("the College"). This report to the College Board of Management and Audit 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 for Scotland in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.

**College Responsibilities**

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

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

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

### Guidance on Audit

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 a surplus of £357k, 2.1% of total income in respect of the year-ended 31 July 2010 (2008/09: £144k and 0.9%, Forecast: deficit of £276k and -1.7%). This increase represents a £213k increase on the prior year and a £633k increase on forecast. One of the main reasons for the improvement compared to forecast relates to the incorporation of the FRS 17 adjustments for the Strathclyde Pension Scheme which resulted in a credit to the Income and Expenditure account of £427k. This variance is explained in more detail below.<br><br>• **Balance Sheet:** The financial statements report net assets at 31 July 2010 of £24.721m, which have risen by almost £5m. The increase is mainly attributable to an increase in deferred capital grants of £1.651m as at 31 July 2010, an increase in the re-valuation reserve of £1.448m, a reduction in the pension deficit of £1.488m and the surplus for the year of £0.357m. The balance on the Revaluation Reserve carried forward as at 31 July 2010 is a surplus of £13.985m (2009: £12.537m). |
| **Cash Flow** | During 2009/10, the College experienced a net inflow of cash of £1,085k (2008/09: outflow of £177k). |
| **Financial Forecast** | The initial 2009/10 financial plan forecasted a deficit of £276k. The difference between that which was forecast and achieved can principally be explained by the following factors:<br><br>• Funding council grants were £699k higher than forecast. The increase is spread across several categories of SFC grant but principally estates funding and release of deferred capital grant.<br><br>• Income from tuition fees and education contracts was slightly higher than anticipated (Actual: 5,580k; Forecast: £5,400k).<br><br>• After adjusting for the FRS 17 credit to staff costs of £571k, staff costs were £490k higher than forecast.<br><br>• The depreciation and impairment charge was greater than forecast (Actual: £946k; Forecast: £683k).<br><br>• There was no “Interest payable” in the forecast but there are pension finance costs of £144k in the financial statements. |

# 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 42,345 and the College delivered 44,634 (2009: 47,320). As a result, the College will not be liable to repay any recurrent grant to the Scottish Funding Council in 2010/11.
- 51% of College income comes from the Scottish Funding Council. The College's FE recurrent grant decreased by £22k to £7,217k being 43% of total income. In addition, there was a significant increase in Estates Funding (2010: £469k; 2009: £218k).
- The College's income from SFC as a percentage of its total income is substantially lower than other colleges' as a result of its high level of tuition fees. Total SFC Grant income is normally in the region of 76% of total income, based on SFC 2007/08 statistics for colleges delivering over 45,000 WSUMs.
- Tuition fee and education contract income increased by £470k to £5.58m. The main reason for this increase is the increase in full time overseas students.
- Other income decreased by £164k to £2.56m. The main reasons for this decrease are reduced ESF funding and less Glasgow City Council funding to run adult numeracy and literacy classes.
- Investment income has decreased by £242k to £72k. This is a result of lower interest rates being received on bank deposits.

| Income and Expenditure Account | 31 July 2010 £'000 | 31 July 2009 £'000 | Variance £'000 |
|---|---|---|---|
| Scottish Funding Council Grants | 8,607 | 8,192 | 415 |
| Tuition Fees and Education Contracts | 5,580 | 5,110 | 470 |
| Other Income | 2,557 | 2,721 | (164) |
| Investment Income | 72 | 314 | (242) |
| **Total Income** | **16,816** | **16,337** | **479** |
| **Expenditure (see analysis on next page)** | **16,459** | **16,193** | **266** |
| **Surplus** | **357** | **144** | **213** |

# FINANCIAL HIGHLIGHTS
## Income and Expenditure Account continued…

**Expenditure**

Total expenditure increased by £266k (1.6%), in comparison to 2008/09, to £16.459m. This increase in expenditure is, in the main, due to an increase in other operating expenses with the most significant movements detailed as follows. The table below summarises the main categories of expenditure for 2009/10 and 2008/09:

- Staff costs fell by £135k to £11.5m. This was mainly due to the FRS 17 pension credit of £571k offset by a 4% salary increase across the board.
- Other operating expenses increased by £208k to £3.9m. This was mainly due to additional grant-related funding being spent on various repairs and replacements.
- The increase in depreciation and impairment is principally due to the impairment charge on the Marine Skills Centre.
- Other expenditure is comparable year on year.

| Expenditure Analysis | 31 July 2010 £'000 | 31 July 2009 £'000 | Variance £'000 |
|---|---|---|---|
| Staff costs | 11,452 | 11,587 | (135) |
| Other operating expenses | 3,917 | 3,709 | 208 |
| Depreciation and impairment | 946 | 775 | 171 |
| Interest payable | 144 | 122 | 22 |
| **Total Expenditure** | **16,459** | **16,193** | **266** |

# FINANCIAL HIGHLIGHTS
## Balance Sheet

**The balance sheet shows an increase of £4.925m in net assets as at 31 July 2010 compared to the previous year end. Significant movements include:**

- An increase in tangible fixed assets of £3,060k. This is mainly due to the revaluation of land and buildings (which resulted in an upwards revaluation of £1,856k) and the completion of the Marine Skills Centre (additional expenditure of £1,246k).
- A decrease in debtors of £460k. This is mainly the result of the decrease in the insurance debtor in relation to the claim for flood damage (2010: £176k; 2009: £550k).
- An increase in cash of £1,085k which has essentially come from operating activities as shown in the note to the cash flow statement at note 21 to the financial statements.
- An increase in the provision for liabilities of £333k. This provision is in respect of future liabilities arising from early retirals, and the increase mainly relates to the provision made in respect of the principal's early retiral.
- A decrease in the pension liability of £1,488k as calculated by Hymans Robertson LLP.

| Balance Sheet Category | 31 July 2010 £'000 | 31 July 2009 £'000 | Variance £'000 |
|---|---|---|---|
| Fixed Assets | 19,965 | 16,905 | 3,060 |
| Debtors | 1,216 | 1,676 | (460) |
| Cash | 8,024 | 6,939 | 1,085 |
| Creditors: Amounts falling due within 1 year | (2,124) | (2,209) | 85 |
| Provisions for Liabilities and Charges | (1,719) | (1,386) | (333) |
| Pension Liability | (641) | (2,129) | 1,488 |
| **Net Assets** | **24,721** | **19,796** | **4,925** |

# FINANCIAL HIGHLIGHTS
## Financial Forecasts

### Financial Forecasting

- The initial 2009/10 financial plan forecasted a deficit of £276k. The table below (bottom left) 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 are as follows:

•Funding council grants were £699k higher than forecast. The increase is spread across several categories of SFC grant but principally estates funding and release of deferred capital grant.

• Income from tuition fees and education contracts was slightly higher than anticipated (Actual: 5,580k; Forecast: £5,400k).

• After adjusting for the FRS 17 credit to staff costs of £571k, staff costs were £490k higher than forecast.

• The depreciation and impairment charge was greater than forecast (Actual: £946k; Forecast: £683k).

• There was no "Interest payable" in the forecast but there are pension finance costs of £144k in the financial statements.

| Forecast vs. Actual | 31 July 2010 £'000 | 31 July 2009 £'000 |
|---|---|---|
| **Forecast outturn per budget** | **(276)** | **211** |
| Increase / (decrease) in SFC grant income | 699 | (1,287) |
| Increase in other income | 224 | 964 |
| Decrease / (increase) in payroll costs | 81 | (240) |
| (Increase) / decrease in other expenditure | (371) | 496 |
| **Actual outturn at year end** | **357** | **144** |

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

### New Campus Glasgow

- Glasgow College of Nautical Studies, along with two other colleges has an interest in New Campus Glasgow Limited a company limited by guarantee which was set up to deliver a new campus for Glasgow's three merging city centre Colleges.
- Glasgow College of Nautical Studies owns 1/3 of the land and buildings with the remainder being owned by the other two Colleges involved in the New Campus Glasgow project. Capital expenditure on the Jetty and Marine Skills Centre in the year has been split equally amongst the three colleges and accounted for as a fixed asset addition in each college's financial statements with the related grant element being treated as a deferred capital grant. The accounting treatment by the three colleges is, we believe, consistent.
- The three Colleges merged on 1 September 2010 with additional building works which were due to commence in 2012 currently put on hold. These plans could indicate the need for impairment in the carrying value of the Glasgow College of Nautical Studies existing land and buildings. However, as the funding for the project and the impact of the plans on the College's existing land and buildings are still subject to a degree of uncertainty, no impairment provision has been made against these land and buildings at 31 July 2010.

### BDO Conclusion

- The New Campus Glasgow capital expenditure and the related capital grants have been correctly accounted for by Glasgow College of Nautical Studies in the year.

### Events after the balance sheet date

- Following Ministerial approval, Glasgow College of Nautical Studies, Central College Glasgow and Glasgow Metropolitan College merged on 1 September 2010 to create the City of Glasgow College, the largest college in Scotland.

### BDO Conclusion

- This post balance sheet event has been correctly reflected in the financial statements of Glasgow College of Nautical Studies.

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

### Insurance Claim relating to Flood

- There is a debtor for £176k relating to the insurance claim following the flood (additional damp was discovered during the year, leading to an additional claim). The £176k claim has been accepted in principle by the insurers who have requested further specific evidential details. These have been supplied by the College and are now being reviewed by the insurers.

**BDO Conclusion**

The insurance claim debtor of £176k appears to be recoverable and has been correctly accounted for by the College.

### Additional Fee Waiver - Non-Recognition of Debtor

- With respect to fee waiver the college is not in a clawback position with regard to 2009/10, but 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 due to funding constraints. The potential additional fee waiver income has not been recognised as income in the financial statements.

**BDO Conclusion**

We agree with management’s policy with regard to the non-recognition of the additional fee waiver grant due to the doubt over whether the grant would be recoverable as SFC have indicated that they cannot guarantee payment.

### Unfunded Pension Provision

- The college has continued to quantify its future pension liabilities arising from early retirements using the actuarial tables supplied by SFC. We noted that the resultant creditor was £316k higher than the present value of the unfunded liability as calculated by Hymans Robertson LLP

**BDO Conclusion**

The College has accounted for the unfunded liability using an acceptable method on a consistent and prudent basis.

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

### 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 College share of the Strathclyde Pension Fund (SPF) comes through as a negative past service cost of £619k. 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 Accounting Standards Board 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 £619k should be taken to income and expenditure account in accordance with actuarial advice from Hymans Robertson LLP.

### 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 £619k can be supported by reference to the draft UITF guidance and the advice given by Hymans Robertson LLP.

The consultation period for comments on the UITF draft abstract expired on 10 November 2010 and a final UITF document will be issued in due course and will hopefully provide clarity on the issue. If the final document requires that such credits be taken to the statement of total recognised gains and losses rather than the income and expenditure account, then the College accounting treatment will need to be adjusted next year by restating the comparative figures on the income and expenditure account. The balance sheet figures are unaffected.

# CORPORATE GOVERNANCE

| 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.<br><br>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:<br>• the College's reviews of its systems of internal control, including reporting arrangements;<br>• the prevention and detection of fraud and irregularity;<br>• standards of conduct and arrangements for the prevention and detection of corruption; and<br>• its financial position. |
| The Board of Management is required to report on their 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 seven formally constituted committees which have specific terms of reference and act with delegated authority from the Board (including the Selection Committee, Resources Committee, Audit Committee, Finance Committee, Equalities and HR Committee, Remuneration Committee, and the Learning, Quality and Marketing Committee).<br>• ***Composition:*** the Board is comprised of 16 members as at 31 July 2010 which is the recommended maximum number of members. The skills of the members of the Board included those with relevant skills and expertise in finance, accountancy, the law, education, and management consultancy. The College representatives include the Principal (now retired), a member of the teaching staff, a member of the support staff and a member of the student's union. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor students of the College). The College secretary and clerk to the Board of Management is Tom Braidwood which does not accord with best practice as he is not independent of College management. The recommended maximum period of office for board members of 12 years has been adhered to.<br>• ***Timing:*** exceeded the recommendation for meeting not less than 4 times during the year, with 7 meetings throughout 2009/10. Therefore, the Board met at sufficiently regular intervals during the course of the year in order to 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 are aware of the importance of ensuring that the new Board members have a timely induction and appropriate development programme. The Board has previously reviewed its effectiveness and undertaken a formal and rigorous evaluation of its own effectiveness and that of its committees at regular intervals; although this has not been undertaken during 2009/10 due to the impending merger.

**Audit Committee:** is comprised of 4 members as at 31 July 2010. The committee, with 3 non-executives, meets the recommendation that there be at least 2 independent non-executive members. In addition, with one 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 the Chair of the Board of Management was not also a member of the Audit Committee. We noted that one member of the Audit Committee was also a member of the Finance Committee which contravenes best practice.

**Remuneration Committee:** is comprised of 3 members as at 31 July 2010. It is recommended that the Chair of the Board of Management may be a member of the Remuneration Committee but that they 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 Scott-Moncrieff. 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 made of the work of internal audit in the following areas during 2009/10:

- Business Continuity Planning
- Corporate Planning and Governance
- Financial Systems Overview
- Annual Report
- SUMs Audit Report

In October 2010, Scott-Moncrieff issued the internal audit report for the year ended 31 July 2010. This concluded that, the College has an adequate framework of control, based on the systems examined.

## 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 every quarter 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…

### 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 an over-arching fraud prevention policy, in addition to a whistle-blowing policy. The fraud prevention 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. Glasgow College of Nautical Studies has not included this level of detail in its OFR.

# PREPARATION OF THE FINANCIAL STATEMENTS

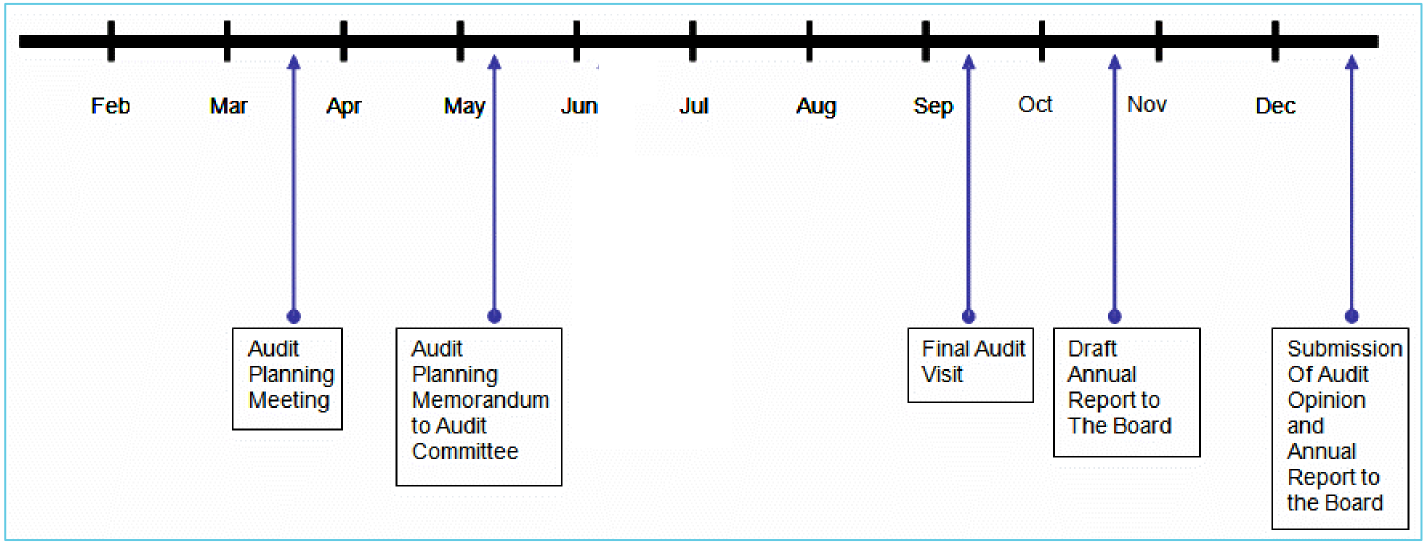
**Preparation of the Financial Statements**

Our Audit Planning Memorandum 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 23 September 2010, the 4th day of audit fieldwork. The draft accounts were incomplete with significant adjustments outstanding in respect of FRS 17, the fixed asset revaluation and the compensation for loss of office of the former Principal. After several intermediate drafts, we received a final set of draft financial statements on 13th December which were complete and of a good quality.

**Quality of Supporting Documentation:** Prior to the beginning of our audit fieldwork, we issued an "Information to be Prepared by Client" request setting out the required supporting documentation to be in place for the beginning of audit field work. The supporting documentation that was received was mostly of an adequate standard. Requests for additional information required were attended to by College staff.

**Response to Audit Queries:** Management provided adequate responses to all of the audit queries that were posed to them, as in prior years.



# 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.

There were no unadjusted audit differences identified during our audit work.

| | | Income & Expenditure Account | | Balance Sheet | |
|---|---|---|---|---|---|
| **Unadjusted Audit Differences** | | **DR £’000** | **CR £’000** | **DR £’000** | **CR £’000** |
| Surplus for the Year before Audit Adjustments | 357 | | | | |
| No unadjusted audit differences were noted | | | | | |
| **Total Adjustments** | **0** | | | | |
| **Surplus for the Year after Audit Adjustments** | **357** | | | | |

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.



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