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Edinburgh's Telford College

Annual Audit report for 2009/10 to the Board of Management and The Auditor General for Scotland

External Audit Report No: 2010/02

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This report has been prepared in accordance with our responsibilities under International Standards on Auditing (ISAs) and those set out within Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

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

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Corporate Governance

- The Group has shown a surplus for the year of £2.155 million (2008/09 - £1.418 million deficit), against an original budgeted surplus of £0.001 million set out in the 2009 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC) in June 2009. The income and expenditure account balance at 31 July 2010 was a surplus of £27.344 million (31/07/09 - £25.525 million). The surplus for the year includes an exceptional Financial Reporting Standard (FRS) 17 pensions past service gain of £1.844 million.

- The College's internal auditors, in their annual report, concluded that 'In our opinion Edinburgh's Telford College has a framework of controls in place, in the areas which we have reviewed, that provides reasonable assurance regarding the effective and efficient achievement of the College's objectives and management of key risks, except in those relating to fee income and to certain aspects of project management. Further work is required to improve arrangements in relation to fee income and project management and, in our opinion, current controls provide limited assurance regarding the management of risk in these areas'.

- The College's governance project continued in 2009/10 with the publication of a Governance Framework based on the Combined Code on Corporate Governance. The College's Committee structure was reviewed in 2009/10 and amendments made to the number and mix of these committees from 1 August 2010.

- The Edinburgh Colleges collaboration project decided in the year against a merger of the three colleges involved in the project (Edinburgh's Telford College, Stevenson College Edinburgh and Jewel and Esk College) but agreed to progress work in the areas of governance arrangements (identifying the structures to underpin collaboration activity), curriculum vision for 2015, and reviewing corporate services.

- The College's Corporate Governance Statement confirms that the College has been fully compliant with the principles of the 2008 Combined Code on Corporate Governance during 2009/10.

- With the exception of the weaknesses relating to the fee income generation process we identified no material control weaknesses during our audit. Some issues remain to be fully addressed following the implementation of the new student records system (SRS), and the internal financial monitoring processes were not as robust as they could have been during 2009/10 due to vacancies within the Finance team and further restructuring including budget holders' posts. Otherwise, the College's key systems of internal control appear to be adequate, well designed and operating effectively. Manual checks were put in place to mitigate the control weaknesses in the fee income system and substantive audit testing provided reasonable assurance that the figures in the financial statements are not materially misstated. There were some losses to the College due to incorrect fees being input into the SRS however College management decided against following up any shortfall due to the cost and time of doing this and the low values involved.

- The College has an on-going process for identifying, evaluating and managing its significant risks.

Performance

- The College's Strategic Plan 2009-2012 sets out the key strategic aims and objectives. World Class key performance indicators (KPIs) have been set linked to the agreed objectives. A new Strategic Plan for 2010-2013 has been drafted and the general content approved by the Board of Management, but it was agreed that the new Principal and Chief Executive should redraft the format of the Plan and this is in progress.

- A Corporate Risk Register has been drawn up which links into the College's objectives through the four balanced scorecard categories. Management has recognised the need to conduct a full review of the Register to ensure that it reflects the College's updated structure and processes and plans to do this in 2010/11.

- Regular performance reports including benchmarking information were submitted to the Board and Committees during the year and action plans are produced following each meeting to address any points arising from discussions. These are followed-up at the next meeting.

- In October 2009 the SFC issued guidance on developing a sustainability framework. The College set up a short life working group to benchmark the College against the requirements of the circular and it was concluded that it was well placed in regards of having established a framework that will allow it to achieve institutional sustainability. A test of the underpinning theory of the College's sustainability framework and its approach to financial sustainability was undertaken by College management teams

- A zero-based budgeting model was once again used for budgeting purposes.

- There is an ongoing material risk to the FE sector in relation to how the global economy will perform which could affect the College's commercial and international income. In addition, the Government's Strategic Spending Review highlighted significant public spending cuts which will impact on the College's future grant income and is likely to affect consultancy and training income, as some of this is provided to public sector bodies. The Director of Finance has prepared a Finance Strategy paper and plans to move scenario planning forward once more is known about the Scottish Government's budget cuts.

Financial Statements

- On 14 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial settlements of the College for the year ended 31 July 2010 and on the regularity of the financial transactions reflected in those financial statements.

- The financial statements of the College comply with the Accounts Direction issued by the SFC and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- Five audit adjustments were made to the unaudited financial statements which affected both the income and expenditure statement and the balance sheet. The net impact of these on the reported surplus for the year was an increase of £0.051 million. Further adjustments were made to disclosures in the notes to the financial statements.

- The College exceeded its WSUMs target for 2009/10 by 699 WSUMs (0.6%), (2008/09 – 1,006 WSUMs excess, 0.8%).

Background

1. 2009/10 was the fourth year of our five year appointment as external auditors of Edinburgh's Telford College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance.

2. The framework under which we operate under appointment by Audit Scotland is as outlined in our Strategic Planning Memorandum and 2009/10 Annual Audit Plan issued on 11 May 2010 and considered and approved by the Audit Committee on 24 May 2010. The scope of the audit was to:

   - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;

   - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and

   - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include:

   - compliance with legislation and financial regulations;

   - estates capital expenditure and the appropriateness of the accounting entries, including consideration of issues surrounding the snagging on the new campus development and the unpaid retention;

   - recoverability of debtors;

   - achievement of the SUMs target and the impact of the current economic climate on the achievement of the College's forecast result;

   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;

   - issues with the new student records system including the completeness and accuracy of student fee invoicing;

   - compliance with FRS 17 Retirement Benefits; disclosure of the material impact of moving from the Retail Price Index (RPI) to the Consumer Price Index (CPI) for future pension increases; and calculation of the provision for pension liabilities for early retirals; and

   - compliance with the SORP on Accounting for Further and Higher Education.

Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

5. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

Acknowledgement

6. Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.

Financial Position

7. SFC circular SFC/31/2009, issued on 16 October 2009, defines a sustainable college as one which 'continually develops the quality of its learning activities to meet the changing needs of its customers, society and the economy, controls its costs, and year on year secures sufficient income to resource its planned activities and enable a level of current and future investment necessary to maintain its assets.'

8. Table 1 provides a summary of the College's planned and actual financial results, based on the formal FFRs submitted by the College to the Funding Council.

Table 1: Comparison of planned and actual financial results

	2008/09 Actual £000	2009/10 Planned £000	2009/10 Actual £000	2010/11 Planned £000
Financial outturn (Deficit)/Surplus	(1,418)	1	2,155	782
Income and expenditure reserves	25,525	30,448	27,344	26,702
Cash balances	7,205	6,266	9,619	9,883

Source: Audited accounts and 2009 and 2010 FFRs

9. Overall, College income in 2009/10 has increased by £0.696 million (2.2%) over 2008/09 to £32.267 million. The main reason for this is a significant increase of £0.589 million (88.4%) in other income. This is partly due to the College's Zero One training restaurant and Hub canteen, which were run by contractors in 2008/09, but were brought in-house during 2009/10. As the College now has to pay for the food used this has contributed £0.315 million towards increasing other operating expenses. The other major reason for the increase is higher nursery income due to more nursery places being made available.

10. Tuition fees and education contracts income has increased by £0.367 million (7.4%) over 2008/09 to £5.319 million largely due to increased international and higher education student numbers. Training and consultancy income has improved after poor uptake in 2008/09 but there was lower income from education contracts due to renegotiated contracts and lower participant numbers.

11. Funding Council grants have increased by £0.051 million (0.2%) over 2008/09 to £24.939 million. This includes an increase in recurrent grant of £0.601 million (2.7%), which was largely offset by reductions in other grants, including a £0.285 million decrease in the amount of financial security grants released to the Income and Expenditure Account to set against voluntary severance costs.

12. Investment income has reduced by £0.303 million over 2008/09 to £0.157 million due largely to a one-off, £0.328 million, receipt in 2008/09 for backdated interest from HM Revenue and Customs (HMRC) in relation to the VAT settlement on the new campus.

Financial Position (Cont'd)

13. Expenditure in 2009/10 has decreased by £2.877 million (8.7%) over 2008/09 to £30.112 million, primarily due to:
    - an exceptional FRS17 non-cash adjustment relating to the Government's decision to link future pension increases to CPI rather than RPI which gave rise to a past service gain of £1.844 million;
    - a reduction in voluntary severance costs of £0.790 million; and
    - a reduction in staff costs of £1.314 million due mainly to the effects of the College's voluntary severance programme combined with no pay rise being awarded during the year.

14. Set against the above were increases of:
    - £0.400 million in other operating expenses, due largely to increased food costs (see paragraph 9 above);
    - £0.469 million in depreciation, due to the charge for 2008/09 including a credit for a reduction to prior year's depreciation of £0.358 million following confirmation of VAT Zero rating on the construction costs of the new campus; and the fact that during 2009/10 the new Forthside building was in use for the full year; and
    - £0.249 million in interest payable, mainly due to higher interest on the FRS17 pension liabilities.

15. The main reasons for the variance between the actual financial outturn for 2009/10 of £2.155 million and the budget of £0.001 million was the exceptional FRS17 pension adjustment of £1.844 million and the receipt of £0.298 million of economic downturn funding from the SFC, which had not been included in the budget.

16. The SFC requires external auditors to check that any severance payments to senior staff, classified as those earning more than £0.050 million per annum, meet the requirements set out in SFC guidance. The severance payments made to five members of staff fell into this category and audit testing confirmed that these payments conformed with the guidance.

17. The College's cash balance at 31 July 2010 was £9.619 million, an increase of £2.414 million on the previous year. This was largely as a result of the operating surplus along with increases in creditors. The Board of Management considered proposals for the best use of cash reserves during the year and further consideration will be given to this together with consideration of the College's Finance Strategy once the future funding position is clearer. The College has loans outstanding at 31 July 2010 of £7.324 million down from £8.360 million at 31 July 2009. The balance outstanding on a loan from City of Edinburgh Council (£0.680 million) was repaid during the year utilising some of the cash reserves.

2009/10 SUMs outturn

18. The College's outturn against its 2009/10 SUMs offer is shown in table 2.

Table 2: 2009/10 SUMs outturn

	2006/07	2007/08	2008/09	2009/10
SUMs target	117,784	119,197	119,197	120,771
SUMs actual	113,126	117,673	120,203	121,470
(Shortfall) / Excess	(4,658)	(1,524)	1,006	699

Source: Audited SUMs returns.

19. College management has regularly monitored the level of SUMs throughout 2009/10 to ensure that the SUMs target would be achieved or was at least within the 2% leeway for under-provision against target allowed by SFC.

Financial Position (Cont'd)

20. The College's internal auditors carried out the audit of the SUMs return for 2009/10. They concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

FRS 17 Retirement Benefits

21. The College accounted for its participation in the local government pension scheme as a defined benefit scheme and accordingly this has resulted in the College's share of the net pension liabilities within the Lothian Pension Fund (LPF) being provided for in the balance sheet. This is consistent with the accounting treatment adopted in 2008/09.

22. Note 26 to the financial statements highlights the College's net pension liability position of £4.576 million within the LPF. This has moved significantly in the year from a net pension liability of £6.025 million at 31 July 2009. This change in financial position results mainly from the Government's announcement in June 2010 that future pension rate increases will be based on CPI rather than RPI, leading to decreased liabilities. The Accounting Standards Board's Urgent Issues Task Force issued an Information Sheet on 13 October 2010 providing draft guidance on the accounting implications of the Government's decision. Based on this guidance we consider that there has been a change in the obligation to the members, giving rise to a benefit change which should be accounted for as a past service cost. We also consider that this should be recognised in the accounting period to 31 July 2010 as the scheme members' expectations had already been modified at that date. This is in line with the treatment by the scheme's actuaries.

23. Further changes in the assumptions affecting the actuarially determined liability balance are shown in table 3 below. The amount recognised in the income and expenditure account in relation to the LPF includes a net interest expense on pension assets and liabilities of £0.196 million (2008/09 – £0.014 million interest expense).

Table 3: LPF financial assumptions

	31 Jul 10 % p.a.	31 Jul 09 % p.a.
Pension increase rate	2.9	3.7
Salary increase rate	4.9	5.2
Expected return on assets	6.7	6.9
Discount rate	5.4	6.0

Source: LPF actuarial valuation for FRS 17 purposes at 31 July 2009 and 31 July 2010

24. With the exception of liabilities arising from early retirement provision costs, the College is unable to separately identify its share of assets and liabilities in the Scottish Teachers' Superannuation Scheme as the scheme is notionally funded. The College has applied the concession allowed by FRS 17 and has accounted for the scheme as a defined contribution scheme.

Financial Position (Cont'd)

Capital Income and Expenditure

25. The College's new campus was completed in May 2006 with the College moving its operations to it in July 2006. A number of construction snagging issues affecting the new campus remain to be fully addressed. The College held £0.801 million as a retention at 31 July 2010 for these unresolved issues. Negotiations are ongoing with the contractor in relation to reaching a settlement for both the Final Account and the defects / retention issues.

26. During 2009/10 £0.923 million (2008/09 - £1.514 million) of capital expenditure was incurred, including £0.273 million spent on a lease premium for sports pitches at Marine Drive and £0.376 on ICT equipment. Of the capital expenditure £0.883 million was funded by Capital Grants.

Provisions

27. The College has a provision of £3.005 million at 31 July 2010 (31/07/09 - £2.702 million) for early retirement pension costs. The provision relates to unfunded liabilities as a result of early retirements approved by management in previous years. The provision has been calculated using SFC approved calculation tables at a real discount rate of 2.0% (31/07/09 - 2.5%) and has largely increased as a result of the reduced discount rate.

Contingent liability

28. The financial statements disclose that the College has a contingent liability regarding a dispute with a third party about a guarantee made on student residences used by the College.

Systems of Internal Control

Control environment

29. With the exception of weaknesses relating to the fee income generation process we identified no material control weaknesses in the accounting and internal control systems during the 2009/10 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Manual checks were put in place to mitigate the control weaknesses in the fee income system and substantive audit testing provided reasonable assurance that the figures in the financial statements are not materially misstated. Areas for highlighting are noted below:

    - As noted in our Annual Report last year, a new student records system (SRS) was implemented during 2008/09 which encountered start-up problems and this has resulted in some fees being incorrectly invoiced and a delay in raising fee invoices (although the main area where fee invoices require to be raised is in relation to overseas students and the majority of this income is received up-front). Manual checks were put in place to ensure that fees were fully extracted from the SRS into the main accounting system for invoicing and to check that the fees were accurate. Due to errors in input into the SRS standing data fee matrix some students were invoiced for less than they should have been. However, as these students had been invoiced and most had paid a decision was made by management not to invoice these students for the small additional amount owing.

Systems of Internal Control (Cont'd)

- As a result of the problems with the SRS there were approximately 1,150 credit balances in the debtors' ledger at 31 July 2010 (31/07/09 - 450). Significant work was undertaken during the year by College Finance staff to ensure that all credit balances were valid. If a credit balance was found to relate to a prepaid course this was kept within the debtors' ledger, but if the credit was due to someone paying their fees but not having been invoiced then fee invoices were raised or accrued. Testing of the credit balances as part of our audit found them to be appropriately accounted for in the financial statements.

- Discussions with staff highlighted that there was no formal control over the updating of the SRS student fee matrix. In addition, there were no formal minutes of meetings held to discuss the updating of student fees. We recommend that appropriate controls are put in place, including retaining documentation evidencing that there have been checks to ensure that fees have been correctly input into the SRS and that a sample of fees for different courses have been checked to ensure that they are correctly calculated and interface with the main accounting system.

- As noted in last year's Annual Report, the SRS implementation also gave rise to issues with the completeness and accuracy of attendance registers. This gave rise to the potential for significant overpayments in terms of the national guidance for bursary / Educational Maintenance Allowance (EMA) awards. Although testing during our EMA audit for 2009/10 showed that significant improvements had been made to the system some issues remained to be addressed and resolution of these should be given a high priority.

- A follow-up review has been undertaken by the College's internal auditors, reported in August 2010, to identify the lessons that could be learned from the implementation of the SRS with a view to informing future College projects. The report highlighted the need for the College to use a formal project management methodology and the College has agreed to implement this.

- A number of members of the Finance team left the College in 2009/10, including the Director of Finance and Governance and Head of Finance, and their posts were vacant for a period. In addition, there was also further restructuring of posts College-wide, including budget holders. As a result the financial monitoring processes whereby budget holders meet with Finance staff and discuss variances with them did not always happen during the year and variance analysis was not as robust as it might have been. Throughout this period there remained sufficient overview focussing on the major variances. A new Director of Finance has been in post since October 2010, with a new Financial Controller appointed in November 2010.

- A small number of other less significant weaknesses were identified during the audit process and these have been discussed with management and included in a separate action plan.

Internal Audit

30. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Scott-Moncrieff provided internal audit services to the College in 2009/10. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate.

Systems of Internal Control (Cont'd)

31. In their annual internal audit report Scott-Moncrieff concluded that: 'In our opinion Edinburgh's Telford College has a framework of controls in place, in the areas which we have reviewed, that provides reasonable assurance regarding the effective and efficient achievement of the College's objectives and management of key risks, except in those relating to fee income and to certain aspects of project management. Further work is required to improve arrangements in relation to fee income and project management and, in our opinion, current controls provide limited assurance regarding the management of risk in these areas'.

Corporate Governance Arrangements

32. The College has established corporate governance arrangements, with committees operating within a culture of risk management. Regular meetings of the Board of Management and its committees are held during the year at which strategic and operational matters are addressed. The College's corporate governance arrangements are described in its Corporate Governance Statement contained with the financial statements and discussed below.

33. A governance project was started in 2007/08 looking at how the College could improve governance and ensure that there is appropriate information available to support Board members in carrying out their roles, both individually and collectively. The project was undertaken by a post-graduate student at Edinburgh University as part of their thesis and the final report was published in early 2010. A governance framework based on the Combined Code on Corporate Governance was drawn up and was approved by the Board of Management on 16 March 2010 subject to the outcome of the review of committee remits, financial delegation limits and Board specific policies scheduled.

34. The College Principal and Chief Executive resigned on 30 June 2009 with the former Depute Principal acting in his place until the new Principal and Chief Executive joined the College in April 2010. The new Principal and Chief Executive recommended reducing the number of Board committees and this was endorsed by the Board. From 2010/11 the College's committee structure has been amended with a Shadow Governance Council being formed and certain Committees being disbanded.

35. The Edinburgh Colleges collaboration project decided in the year against a merger of the three colleges involved in the project (Edinburgh's Telford College, Stevenson College Edinburgh and Jewel and Esk College) but agreed to progress work in the areas of governance arrangements (identifying the structures to underpin collaboration activity), curriculum vision for 2015 and reviewing corporate services.

36. On 30 September 2010 Audit Scotland published a report on The Role of Boards, which looks at the role boards play in overseeing the performance of different types of public bodies and will be of interest to College Board members. In due course Audit Scotland will be asking auditors to follow-up the report and summarise what action public bodies have taken in response and if they have implemented the report's recommendations.

37. Other sector-wide developments include the working group convened by Scotland's Colleges, the SFC and the Chartered Institute of Public Finance and Accountancy to support the development of a bespoke framework of governance for the College sector. In May 2010 the working group produced a consultation draft of a document entitled Delivering Good Governance in Scotland's Colleges: A Framework. The framework is based on The Good Governance Standard for Public Services and incorporates the elements of the Financial Reporting Council (FRC) Combined Code on Corporate Governance that are relevant to the sector. It is envisaged that the framework will replace the Guide for College Board Members published by the Association of Scotland's Colleges in 2006.

Corporate Governance Statement

38. Colleges are required to include a statement on their corporate governance arrangements within their annual accounts. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

39. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal control.

40. The College's corporate governance statement for 2009/10 states that the College complies with all the provisions of the June 2008 Combined Code on Corporate Governance in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2010.

41. Our audit opinion on the statement is covered by our auditors' report and is unqualified in this respect.

42. In May 2010 the FRC issued a new edition of the Code, renamed the UK Corporate Governance Code, which will apply to financial years beginning on or after 29 June 2010.

Fraud and irregularity, standards and conduct, and prevention and detection of corruption

43. During 2009/10 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

44. The College has a fraud policy, Standing Orders, Financial Regulations, a Procurement Policy and a Whistle-blowing Policy. These together with internal controls and internal audit help ensure that the College has adequate arrangements in place for the prevention and detection of fraud and corruption. The College has a project underway to update policies and publish these on the Intranet.

Introduction

45. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

46. No performance audit studies were identified by Audit Scotland for the College during 2009/10.

Strategic Plan

47. The College has a three-year Strategic Plan which is updated every year with the last approved Plan covering the period from 2009 to 2012. In setting out its mission, vision and values the Strategic Plan goes on to identify its curriculum, strategic priorities and main partners. 12 World Class KPIs covering 2009/10 to 2011/12 have been established with a focus on customers, business systems, finance and learning and growth.

48. A draft Strategic Plan 2010-2013 was taken to the Board of Management on 4 May 2010 where an exemplar for a different format for the draft Strategic Plan was tabled. The Board indicated its support for the new format and the Principal and Chief Executive is in the process of re-writing the Strategic Plan to fit with the exemplar format.

Risk Management

49. The College has a Risk Management Policy which sets out the College's underlying approach to risk management and the roles and responsibilities of the Board of Management, College Principal and Chief Executive, the College's Risk Management Team and other key parties. The main reporting procedures are also identified.

50. The system of internal control is designed to incorporate risk management, which together with other elements, facilitates the efficient and effective operation of the College and enables it to react to a variety of operational, financial and commercial risks.

51. A Corporate Risk Register has been drawn up which links into the College's objectives through the four balanced scorecard categories. Risk ratings are provided, risks are ranked and mitigating controls are described. The College's Risk Register is mapped to the World Class KPIs.

52. The College Business Continuity Plan (BCP) was finalised during 2009/10. This was reviewed by internal audit and the BCP was found to be satisfactory however it needed to be communicated, embedded and tested. A workshop held in December 2009 highlighted the need for further development of the BCP however the staff member responsible for taking the BCP forward left the College in 2009/10. A follow-up review by internal audit identified that there are still a number of outstanding actions and timeframes have been set for their completion. The College is also aware that its IT disaster recovery plan does not include a backup server and is currently exploring potential long-term and short-term options regarding this.

Performance management

53. In developing their operational plans each department has agreed KPIs. Templates have been created by the Planning Team for each department to use in reporting progress and each department is responsible for reviewing progress against targets during the year.

54. The Board of Management receives regular reports and feedback from the Planning Team on the College's performance in implementing its strategic aims and objectives.

55. Finance KPIs were reported to the Senior Management Team on a monthly basis when it met, quarterly to the Finance, Property and Business Committee and twice a year to the Board of Management.

56. In October 2009 the SFC issued guidance on developing a sustainability framework under cover of SFC/31/2009. The sustainability framework is a statement endorsed by the Board of Management to explain how and why they consider the College to be sustainable. It should incorporate performance measures presented in the form of a balanced scorecard using the listing of the core performance indicators provided at Annex D of SFC/31/2009, which should also be included within the College's Operating and Financial Review (OFR). The framework requires to be produced as a supplement to the main Strategic Plan. SFC/31/2009 also required colleges to confirm that they have conducted appropriate scenario planning in light of possible reductions in public funding and the wider implications of changing economic conditions.

57. The College set up a short life working group of the Senior Management Team to benchmark the College against the requirements of the circular. The working group concluded that the College was well placed in regards of having established a framework that will allow it to achieve institutional sustainability. The conclusion was based on the following:

- Scenario Planning is well established and integrated in to the budgeting processes.
- Using a balanced score card approach for developing College strategy has been in use for a number of years.
- 12 World Class Performance Indicators are used to gauge College performance.
- 10 Operational Strategies have been established and are underpinned by a series of key themes and performance indicators.
- A strategy responsibility map has been developed and is used to set managers' objectives and responsibilities.

58. Some areas for action were identified and a test of the underpinning theory of the College's sustainability framework and its approach to financial sustainability was undertaken by College management teams. Following on from this guidance was issued to Heads of Department about considering overhead and running costs.

Financial management

59. Monthly management accounts are prepared and reviewed by the Finance team with quarterly reporting to the College's Finance, Property and Business Committee. The College's arrangements in relation to its key financial risks include the regular review of the Risk Register and performance against agreed KPIs. Reporting and tracking of the SUMs position is carried out on a weekly basis.

60. In line with the principles set out to establish the 2009/10 budget, the Senior Management Team continued to use a Zero-Based Budget approach for setting the budget for 2010/11.

61. The 2010/11 budget proposal was considered by the Finance, Property and Business Committee at its meeting on 8 June 2010 and recommended to the Board for approval, which was given, at its meeting on 15 June 2010. The 2010 FFR to the SFC shows a surplus for 2010/11 to 2012/13.

62. There is an ongoing material risk to the FE sector in relation to how the global economy will perform which could affect the College's commercial and international income. In addition, the Government's Strategic Spending Review, released on 13 October 2010, highlighted significant public spending cuts which will impact on the College's future grant income from the SFC and is likely to affect consultancy and training income, as some of this is provided to public sector bodies or to organisations who receive significant funding from the public sector.

63. The Director of Finance prepared a Finance Strategy paper in October 2010 and plans to move scenario planning forward once more is known about the Scottish Government's budget cuts.

Efficient Government Initiative (EGI)

64. The College submitted updated EGI information schedules to the SFC in January 2010. This included a forecast for the period 2009/10 to 2010/11 showing total projected savings of £4.280 million, of which £4.000 million relates to staff cost savings generated from the College's voluntary severance scheme for managers and support staff and £0.280 million relates to savings on major overhead items generated by renegotiating contracts as and when they are due for roll over or renewal. These savings are being re-invested in learning and teaching services. The EGI return also set out the quantification of actual savings for 2008/09 as £0.375 million. At the date of this report the quantification of actual savings for 2009/10 was not available. This information will be included on the return to the SFC due to be submitted in January 2011.

Value for Money (VFM)

65. While the VFM Policy has not been updated since 2002, the strategic and operational plans together with the establishment and monitoring of KPIs ensures that the College has a culture of seeking improvement in its activities and operations that lead to the achievement of VFM. The Director of Finance is planning to create a VFM Strategy in the near future.

66. The College carries out annual benchmarking using information provided by the SFC. The Director of Finance has prepared a paper for presentation to the Shadow Governance Council on how the College benchmarks against the SFC information.

67. The College's internal auditors did not undertake any specific value for money reviews during 2009/10 however value for money aspects are built into each of their reviews.

68. The College is expecting to implement the ordering module of PECOS in the near future. This software is used by the Scottish Government and has been rolled out to public sector bodies throughout Scotland in order to obtain greater VFM in purchasing.

Audit Opinion

69. On 14 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2010 and on the regularity of the financial transactions reflected in those financial statements.

Audit Completion

70. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 4 the three key elements of the audit process that we require the College to engage with.

Table 4: Key elements of the audit process

Completeness of draft financial statements
A set of draft financial statements was received on 1 October 2010, three days in advance of the final audit visit, with only a small number of financial disclosures still to be finalised although the Board of Management's OFR and Corporate Governance statement had still to be drafted. Overall, these financial statements were of a high standard and required minimal presentational changes as part of the audit process. An updated draft of the financial statements incorporating the agreed audit adjustments and the OFR / Corporate Governance statement was not received until 25 November 2010. We recognise this as a one-off due to the vacancies in senior Finance posts and no recommendation has been made in this regard.

Quality of supporting working papers
In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. A largely complete set of supporting working papers were provided in line with this list at the outset of the audit with the remaining working papers provided during the fieldwork. Most of these were of a high standard although a small number of these could have been improved.

Response to audit queries
We are pleased to note that all audit queries were dealt with in a timely manner during our audit fieldwork however pressure of work and vacancies in Finance posts meant that there was a delay in receiving answers to our final outstanding points. Again, we recognise this as a one-off.

Audit Adjustments and Confirmation

71. A number of potential adjustments were identified during the course of the audit. These were discussed with the Director of Finance and the Business Support Accountant on 13 October 2010 and it was agreed to adjust the financial statements for non-trifling amounts and in table 4 we draw your attention to these agreed audit adjustments. None of these adjustments were material in value.

Table 4: Audit adjustments

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
Land & buildings – cost			23	
Minor works costs		23		
SFC capital grant income	23			
Deferred capital grants				23
Trade debtors			175	
Accrued income				175
Interest Income		84		
Accrued Income			84	
Tuition fee income	15			
Trade debtors				15
Maintenance costs	18			
Accruals				18
	56	107	282	231

72. In addition, a number of disclosure and clarification adjustments were made to the accounts to ensure SORP and Accounts Direction compliance and improve the overall presentation of the accounts.

Confirmations and Representations

73. We confirm that as at 14 December 2010, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

74. In accordance with auditing standards, we obtained representations from the College on material issues.

Para Ref.	Recommendation	Grade	Comments	Agreed	Responsible Officer	Agreed Completion Date
29	**Systems of Internal Control** Appropriate controls should be put in place over the updating of the SRS student fee matrix. These should include retaining documentation evidencing that there have been checks to ensure that fees have been correctly input into the SRS and that a sample of fees for different courses have been checked to ensure that they are correctly calculated and interface with the main accounting system.	B		Yes	Head of Financial Services	31 March 2011
29	Resolution of the issues with the completeness and accuracy of attendance registers should be given a high priority.	B	Management have implemented a monitoring system and established an electronic dashboard highlighting non-attendance / non-completion. This has resulted in a 90% completion rate.	Yes	Head of Quality & Information Systems	Completed and subject to weekly review

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

A Issues which require the consideration of the Board of Management or one of its committees;

B Significant matters which the Director of Finance or other senior managers can resolve;

C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.