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North Glasgow College

Annual audit report to the Board of Management of

North Glasgow College

and the Auditor General for Scotland

Year ended 31 July 2011

20 December 2011

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Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

This report summarises our work for the year ended 31 July 2011, the final year of our five-year appointment as the College's auditors. It also provides information required by ISA (UK and Ireland) 260: *Communication with those charged with governance*.

We wish to record our appreciation of the continued co-operation and assistance extended to us by North Glasgow College staff during the course of our work.

Financial statements and accounting	
Management prepared draft financial statements and supporting work papers which were complete, of a high standard, and provided in line with the agreed timetable. The operating and financial review was provided after the agreed timetable and required significant adjustments.	5 to 6
We have issued unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in them.	-
Three audit misstatements were identified during the course of our audit work, as well as a number of presentational adjustments. There are no unadjusted audit differences.	5
Accounting policies are appropriate for the underlying operations.	4 to 5
Use of resources	
The College recorded a deficit of £288,000 against a budgeted surplus of £52,000.	6 to 7
We assessed management's response to Audit Scotland's national reports; in the majority of areas, management has discussed, in detail, these reports at board level and taken reasonable action to mitigate risks and improve processes at a local level.	-
The annual college plan for 2011-13 covers the financial plans for the College.	-
Governance	
There have been no significant changes and the statement of the responsibilities of the board of management and corporate governance statement continues to confirm the existence of a comprehensive framework of internal control.	9
Arrangements to protect and detect fraud are embedded in the internal controls.	9
There were no significant recommendations made by internal audit during 2010-11.	9
The operating and financial review provides a very comprehensive account of the College's activities.	-

Service overview

WSUMs have increased from 2009-10, despite of a cut in SFC funding.

The College continue to provide as many courses as possible to the local community, even in the current economic climate.

The College are currently considering their position in respect to a pre-legislative paper by the Scottish Government and proposed funding cuts.

- **Student numbers / Weight Student Units of Measurement (WSUMs)**
  Despite a reduction in SFC funding in 2010-11 the College has only had a slight decrease of in WSUMs to 50,426, down from 50,469 in 2009-10. The College has therefore exceeded its WSUMs target. Full time learner numbers at the College have increased in 2010-11 to 1,876 (2009-10, 1,786), while part time student numbers have decreased significantly to 4,584 (2009-10, 5,794).

- **Course provision**
  The economic downturn has resulted in higher unemployment, particularly in school leavers, and particularly in areas of existing economic hardship, such as the local area surrounding the College. As a result, management expect continued increase in demand for courses in future periods.

  The College has continued to provide as many courses as possible to the local community and management restructuring during 2010-11 has allowed the College to continue with a broadly similar level of activity across its portfolio of courses as in previous years. However, in 2010-11 some courses experienced oversubscription, and, in anticipation of further funding cuts in the coming financial years, management are anticipating a requirement to removing significant sections of their academic portfolio.

- **Future plans**
  In September 2011, the Scottish Government released a pre-legislative paper; 'Government's Post-16 Education plans and a sector response to the Spending Review'. This paper considers the regionalisation of the college sector and reforming of funding within Scotland, with an emphasis on the Scottish Government not being able to afford a system of individual institutions serving overlapping areas. This paper is currently being considered by the College along with the Scottish Government's 'Scottish Spending Review 2011 and Draft Budget 2012-13'. This sets out fiscal plans for the next three years, stating that further education would have reduced funding in the future with the SFC receiving a 6% reduction in funding in 2012-13.

The board of management has considered all future funding issues and it is anticipated that all potential significant savings have already been made in 2010-11 through the restructuring of the academic departments from five to three and through the voluntary severance programme.

It is anticipated that any future savings will be required to be made through significant reductions in the College's teaching portfolio, or through non-voluntary severance schemes. The board has considered the estimated reduction in funding against lecturer FTE numbers and has established the following estimated reduction which may be required:

Year	Forecast reduction in SFC revenue grant funding £'000	Estimated lecturer FTE reduction required
2011-12	827	-
2012-13	580	13
2013-14	188	4
2014-15	368	9

Accounting policies, financial statements preparation and audit process

There have been no changes to the College's accounting policies.

The audit plan anticipated significant risks around accounting for financial performance, economic climate, corporate governance, pension liabilities, compliance with tax authorities and voluntary severance.

Audit adjustments are summarised in appendix one and matters were generally concluded in a timely manner.

Accounting policies

There have been no changes in accounting policies from 2009-10 to 2010-11.

Areas of HIGH audit risk

Area	Value (£'000) 2011	Value (£'000) 2010	KPMG comment
Financial performance	-	-	The College has not met the management accounts budget for 2010-11; reporting a £288,000 deficit in the year ended 31 July 2011 compared to a budgeted surplus of £52,000. This is mainly due to the non-recurring costs surrounding the voluntary severance scheme in place for staff in the year. The College has budgeted effectively to match its income and expenditure to result in a small deficit in 2011-12. The College has exceeded its prior year performance in relation to WSUMs and are committed to deliver as much activity as possible, to address the needs of the local community.
Economic climate	-	-	The College prepares management accounts and budget forecasts updated on a monthly basis and is currently forecasting a £59,000 surplus for 2011-12. The budget anticipates a significant reduction (£649,000) in SFC grant income in line with previously identified funding cuts. The budget also anticipates a reduction in tuition income due to a required decrease in activity as a result of funding cuts. The College does not have a large commercial income stream and is not significantly exposed to commercial and international business risk, due to the current economic climate this means that there is not an anticipated significant change in this income stream. The College has had one off voluntary severance costs of £569,000 during 2010-11 to achieve annual recurring savings of around £1 million and has restructured both its academic and management structures, resulting in a change from five academic departments to three in order to achieve additional savings.
Corporate governance	-	-	We have considered the Accounts Direction in relation to the UK Corporate Governance Code, and the disclosure of the corporate governance statement provided by the board. The pilot of the sector specific CIPFA code of corporate governance has not been actioned any further, due to a decision by Scotland's Colleges not to use the draft due to the guidance meriting an updated ASC Guide for Boards. Our controls testing found no weaknesses in the system of internal controls and our review of the risk register confirmed our understanding of the risk management process at the College.

Accounting policies, financial statements preparation and audit process…

Areas of HIGH audit risk

Area	Value (£'000) 2011	Value (£'000) 2010	KPMG comment
Pension liabilities	526	1,420	Our actuarial colleagues have considered the underlying assumptions of the key drivers of the FRS17 valuations. We have substantively tested the pension liability and the other pension disclosures in the financial statements. In previous years, the College has calculated a provision in respect of unfunded liabilities in respect of members of the Scottish Teachers' Superannuation Scheme ("STSS"). In preparing their actuarial report for the year ended 31 July 2011, the College's actuaries excluded their annual valuation of unfunded liabilities in respect of member of the Local Government Pension Scheme ("LGPS"). Management have considered the presentation of unfunded pension liabilities arising in respect of the Strathclyde Pension Fund and considered that these should be shown within provisions for liabilities and charges and not within the pension reserve. Accordingly a re-categorisation of £279,000 has been made within these lines, as shown in notes 15 and 17. There was no impact on net assets previously reported as a result of this re-categorisation.
Compliance with tax authorities	-	-	The College does not undertake any significant non-business activities that give rise to a specific tax risk. We have liaised with our tax advisory colleagues and it has been confirmed that there are no issues relevant to the audit which have not been appropriately reflected.

Preparation of financial information

- Draft financial statements and supporting documentation were provided on 17 October 2011, in line with the agreed timetable. The operating and financial review was provided on 7 November 2011.
- Finance staff responded to our questions quickly and provided high quality information to support the financial statements.
- Overall, management adopts an efficient approach to preparing the financial statements.

Audit conclusions

- A number of presentational and numerical audit differences were amended by management. There were no unadjusted differences arising from the audit.
- There are no matters to be brought to your attention regarding our independence or non-audit fees.
- We have issued unqualified opinions on the financial statements and the regularity of transactions reflected therein.

Financial position

Financial planning arrangements are robust and mechanisms exist to plan and monitor financial position and forecast outturn.

The financial statements report a deficit for 2010-11 of £288,000 compared to a £736,000 surplus recorded in 2009-10. The main reason for the deficit is the one-off costs associated with the College's voluntary severance programme. Audit adjustments associated with accounting for pension liabilities increased the deficit by £163,000.

The College's income and expenditure account is summarised opposite, with the key movements in relation to the previous year being:

Income

- A reduction in Scottish Fund Council ("SFC") grants of £249,000; a decrease of 2% compared to 2009-10 as a result of budgetary constraints. There was also a £231,000 reduction in capital grant income received during the year.
- The reduction in SFC grant income is offset by minor increases in tuition fee income, other grant income and operating income.

Expenditure

- An increase in staff costs of £1,109,000 (12%) compared to 2009-10. There are two main reasons for this increase; one-off staff costs were incurred in 2010-11 relating to voluntary severance payments made to staff totalling £569,000 and 2009-10 pensions costs were lower than normal due to a £623,000 gain on pensions as a result of the change in accounting from RPI to CPI.
- Other operating expenses have declined by £141,000 (5%) compared to 2009-10. This reduction is mainly due to a £70,000 reduction in teaching department costs and a £71,000 reduction in administration and central services costs, due to non-staff costs savings resulting from a staff restructuring in 2010-11.

	2010-11 £'000	2009-2010 £'000
Income		
Scottish Funding Council grants	11,564	11,813
Tuition fees and education contracts	2,375	2,250
Other grant income	314	287
Other operating income	200	172
Endowment and investment income	39	26
	14,492	**14,548**
Expenditure		
Staff costs	10,236	9,127
Other operating expenses	2,838	2,979
Depreciation	1,706	1,706
	14,780	**13,812**
(Deficit) / surplus	**(288)**	**736**

The outturn for the year is largely consistent with the budget approved by the board of management at the beginning of the year and the monitoring returns made to SFC. The original budget forecast a £56,000 surplus.

Financial position (continued)

	2011 £'000	2010 £'000
Tangible fixed assets	39,229	40,603
Stocks	3	3
Debtors	661	485
Cash at bank and in hand	6,179	6,897
Creditors: amounts falling due within one year	(1,108)	(1,078)
Creditors: amounts falling due after more than one year	(2,752)	(3,228)
Provisions	(2,085)	(2,102)
Net pension liabilities	(526)	(1,141)
Net assets	**39,601**	**40,439**
Deferred capital grants	33,980	35,262
General reserve	5,621	5,177
Total	**39,601**	**40,439**

The significant movements in the balance arise through:

- A decrease in fixed assets of £1,374,000. This is due to the annual depreciation charge of fixed assets in 2010-11, with no significant additions to fixed assets due to a reduction in capital grant funding.
- A decrease in cash at bank in 2010-11 of £718,000. This is mainly due to an increase in trade debtors of £199,000 and the payment of £476,000 in relation to the 2010-11 scheduled repayment to HM Revenue and Customs in respect of the Lennartz funding received by the College.
- A decrease in creditors due after more than one year due to the repayment of the latest Lennartz repayment to HM Revenue and Customs.
- A decrease in the net pension liability of £615,000 due to actuarial gains and the re-categorisation of unfunded liabilities of £279,000 to provisions.
- A decrease in deferred capital grants following the scheduled release to match depreciation.

Financial position (continued)

The College forecast a surplus of £59,000 for 2011-12 to be achieved through savings associated with the voluntary severance program offsetting reduced grant funding.

Financial forecasts

The College has prepared its college plan for 2011-14, setting out the financial and operational context for the strategic objectives and priorities of the College for the financial years 2011-12 to 2013-14.

SFC grant income is the main source of funding received by the College, and they are heavily reliant on this funding. Due to the recent issue of the pre-legislative paper; 'Government's Post-16 Education plans and a sector response to the Spending Review', and the Scottish Government 'Scottish Spending Review 2011 and Draft Budget 2012-13' there is significant uncertainty over income provision within the further education sector.

2011-12 financial forecast

The 2011-12 financial forecast is for the College to achieve a surplus of £59,000, compared with the 2010-11 deficit of £288,000. The forecast surplus is due to the recurring savings achieved through the 2010-11 voluntary severance scheme offsetting the 2011-12 reduction in grant income funding.

The College uses a zero based budgeting approach based on a number of key assumptions and contextual issues. The table below provides a breakdown of forecast income and expenditure for 2011-12 financial year. College management are aware that they will have to make significant savings in 2011-12 and beyond in the every changing environment and are currently considering how to achieve these savings.

2011-12	Budget £'000
Income	13,315
Expenditure	(13,256)
Forecast surplus	59

Corporate governance framework and supporting arrangements

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

Corporate governance framework	The College applies the principles set out in the UK Corporate Governance Code. This allows the College to maintain an integrated governance framework to provide an appropriate structure for maintaining decision making, accountability, control and behaviour. During 2010-11, a number of board members came to the end of their terms and stepped down. They were replaced by new board members in accordance with board policy. There is a risk that the College loses knowledge and experience of existing board members and a robust training and induction process should be followed to ensure new board members training needs are adequately considered.
Statement of the responsibilities of the Board of Management	The statement on the responsibilities of the board of management provides details of the purpose of the framework of internal control, along with an analysis of the major components of this system.
Internal controls	Our testing, combined with that of internal audit, of the design, implementation and operation of financial controls over significant risk points confirms that controls are designed, implemented and operating effectively.
Internal audit	Internal audit had submitted all of their audit reports for the year including the annual audit report. These reports found controls at the College were strong and highlighted some recommendations to enhance them. The annual internal audit report concluded that "in our opinion North Glasgow College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work".
Fraud and irregularity	The College have a sound system of considering all correspondence relevant to its strategic role from SFC and other regulatory or advisory bodies. The College has a board approved fraud policy and unethical behaviour and whistle blowing policy. Management did not identify any significant instances of fraud or irregularity during the year. During our audit of the financial statements we did not identify any known or suspected instances of fraud or irregularity.

We have read the board of management's operating and financial review; we did not identify any material inconsistencies with the financial statements or underlying documentation.

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