SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Dumfries & Galloway College

Annual Report to the members of the Board of Management and the Auditor General for Scotland 2005/06

4 December 2006

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1 Summary and Conclusion

Financial statements ***Section 3***	▪ Our audit opinion on the truth and fairness of the accounts and on the regularity of transactions is unqualified. ▪ The annual accounts of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice on Accounting for Further and Higher Education. ▪ We are grateful to the Head of Finance, the Finance Manager and Finance Department staff for submitting draft annual accounts, by the agreed date, and for their assistance during the audit.
Corporate governance ***Section 4***	▪ The College has prepared a Corporate Governance Statement confirming full compliance with the principles of the Combined Code on Corporate Governance during 2005/06. ▪ We identified no major errors or system weaknesses during our audit. In general, we found the College's systems of internal control to be adequate, well designed and operating effectively. ▪ The internal audit service provided to the College was operating in compliance with the SFC Code of Audit Practice. ▪ We identified no issues of concern in relation to fraud and irregularity or standards of conduct, integrity and openness. ▪ We identified no issues of concern in relation to the College's financial position.
Action plans ***Section 5***	▪ An action plan covering all issues identified during 2005/06 is included in section 5. The action plan includes agreed recommendations, responsible officers and implementation dates.
Conclusion	This report concludes the 2005/06 audit of Dumfries and Galloway College, which we have performed in accordance with the Code of Audit Practice and Statement of Responsibilities issued by Audit Scotland. This report has been discussed and agreed with the Finance Manager and the Head of Finance and has been prepared for the sole use of the College, the Auditor General for Scotland and Audit Scotland. We would like to thank all members of College management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff

4 December 2006

2 Introduction

2.1 Audit framework

The Auditor General for Scotland is the Scottish Parliament's watchdog for ensuring propriety and value for money in the use of public funds. The Auditor General is therefore responsible for appointing auditors to Further Education colleges and for setting the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The purpose of this report is to summarise the results of our audit work for 2005/06. The report describes the ways in which both the College and ourselves have met the requirements of the Statement of Responsibilities and the Code of Audit Practice.

2.2 Responsibilities of the College

The College is accountable to the public for the conduct of public business and the stewardship of funds under its control.

The College is therefore responsible for:

- establishing proper corporate governance arrangements;
- maintaining proper accounting records;
- preparing the financial statements;
- safeguarding assets;
- taking reasonable steps for the prevention and detection of fraud and other irregularities;
- managing its affairs to secure the economic, efficient and effective use of resources.

2.3 Responsibilities of auditors

Our responsibilities, which are significantly greater than those of auditors in the private sector, are derived from statute and from the Code of Audit Practice.

Our role is to carry out an independent and objective appraisal of the discharge by management of its stewardship responsibilities and in particular:-

- to provide an opinion on the financial statements and regularity of transactions;
- to review and report on the corporate governance arrangements relating to the prevention and detection of fraud and corruption;
- to review and report on the corporate governance arrangements relating to standards of conduct, accountability and openness;
- to review and report on the corporate governance arrangements relating to the organisation's financial position;
- to review and report on the corporate governance arrangements relating to the organisation's review of its systems of internal control;
- to review and report on the organisation's arrangements for managing its performance economically, efficiently and effectively.

3 Financial Statements

STATEMENT OF RESPONSIBILITIES

It is the responsibility of the audited body and its management to:

- act within the law and ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records;
- prepare financial statements timeously which give a true and fair view of the financial position of the body and its expenditure and income.

The auditor is required to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland) and to give an opinion on:

- whether they give a true and fair view or present fairly the financial position of the audited body and its expenditure and income for the period;

whether they have been prepared in accordance with relevant legislation and applicable accounting standards;

- the regularity of expenditure and receipts

3.1 Accounts Direction

The College was required, in preparing its annual accounts, to comply with directions given by the Scottish Funding Council (SFC). We are pleased to confirm that the College's annual accounts for 2005/06 comply fully with the Accounts Direction issued by SFC.

3.2 Statement of Recommended Practice (SORP)

The purpose of the SORP on Accounting for Further and Higher Education is to ensure that the financial statements of institutions are prepared on a comparable and consistent basis.

The SORP takes account of best accounting practice, the requirements of the Funding Councils, the accounting provisions of the Companies Act and other relevant legislation. We are pleased to report that the 2005/06 annual accounts of the College comply with the SORP in all material respects.

3.3 Auditors' report – unqualified opinion

We are required to give an opinion as to whether the accounts present a true and fair view of the financial position of the College at 31 July 2006 and of its income and expenditure for the financial year.

We are also required to include a regularity assertion in our audit report stating that expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with SFC.

We are pleased to confirm that our audit opinion on the truth and fairness of the accounts and on the regularity of transactions is unqualified. Our audit report is included within the annual accounts.

3.4 Annual accounts and audit timetable

We are grateful to the Head of Finance and the Finance Manager for preparing draft accounts by the agreed date and for their assistance and support during the course of the audit.

The deadline for the submission to SFC of FE college audited annual accounts is 31 December. We are pleased to report that the accounts will be approved by the Board of Management in December 2006 and will be submitted to SFC and the Auditor General prior to the 31 December deadline.

3.5 Review of accounting systems

One of the objectives of our audit was to review the accounting systems and internal controls operating at the College to ensure they formed an adequate basis for the preparation of the financial statements.

We identified no major control weaknesses during our audit of accounting systems. In general, the College's systems of internal control appear to be adequate, well designed and operating effectively.

The action plan in section 5 of this report contains a small number of medium priority recommendations arising from our audit. Actions to address the recommendations have been agreed with the Head of Finance.

It should be noted that the issues identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements that may exist.

3.6 FRS 17 – Retirement Benefits

Financial Reporting Standard 17 – Retirement Benefits (FRS 17) has been implemented in preparation of the financial statements for the year ended 31 July 2006. The implementation of this standard has required a prior period adjustment to the 2005 figures to incorporate the pension liability and pension reserve.

Note 27 to the accounts illustrates the necessary disclosure required to comply with FRS 17, whilst note 35 illustrates the effect of the prior year adjustment upon reserves.

3.7 New campus project

During 2005/06, the College has appointed a design team, the preferred contractor, and has submitted a final planning application which is currently before the Dumfries and Galloway Council for approval. Subject to planning approval, the new build construction is scheduled to start in March 2007 with an anticipated completion date of June 2008.

The College's preferred option will involve the whole College, with the exception of the Stranraer and Newton Stewart sites, moving to a new campus situated adjacent to the Crichton site occupied by Paisley University, Glasgow University and Bell College.

The estimated total cost of the project is £37.1m. Funding of £26.1m is required from the Funding Council, with a further £3m from ERDF grant. Net proceeds from property disposals are estimated at a further £4m. The remainder of the funding will require to be met by the College. From 1 August 2005, all expenditure has been capitalised.

The College's plans for building a new campus at Crichton triggered the need to consider whether the value of certain existing land and buildings within the campus had become impaired.

The finance team performed an impairment review and as a result of this exercise the net book value of the Heathhall, Moat Hall, and George Street campuses were written down to reflect the likely disposal value the College can expect to receive. The value of the Newton Stewart Campus has also become impaired in the year and an adjustment was required to incorporate this within the financial statements.

4 Corporate Governance

STATEMENT OF RESPONSIBILITES

The audited body has a responsibility to:

- Develop and implement systems of internal control and at least annually to conduct a review of the effectiveness of the internal control systems.
- Establish arrangements to prevent and detect fraud and irregularity.
- Ensure its affairs are managed in accordance with proper standards of conduct.
- Conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

The auditor reviews and reports on the audited body's corporate governance arrangements.

4.1 Corporate governance framework

The Board of Management has established the following committees, which contribute to the culture of risk management and internal control at the College:
Finance & General Purposes Committee,
Audit Committee,
Nominations Committee,
Quality & Curriculum Committee,
Staffing Committee,
Remuneration Committee,
Project Board

The work of these committees is described in the Corporate Governance Statement within the annual accounts.

4.2 Corporate governance statement

Requirement for a corporate governance statement

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

The College's corporate governance statement for 2005/06

The Accounts Direction issued by SFC on 26 May 2006 contains guidance on the corporate governance statement. A revised Combined Code on Corporate Governance was issued in July 2003, which supersedes the Code issued in 1998. Following consultation with Further Education and Higher

Education sector groups, colleges and universities, it was agreed that the 2003 Combined Code will be effective for the 2006/07 financial statements. Colleges have however been encouraged to prepare a Turnbull compliant statement in 2005/06.

The college's corporate governance statement for 2005/06 illustrates that the College was fully compliant with the 1998 code throughout the period.

Unqualified audit opinion

We have reviewed the corporate governance statement included within the annual accounts. Our audit opinion on this statement is covered by our auditors' report and is unqualified in this respect.

4.3 Internal Audit

Internal audit providers

Manson & Partners are the providers of the internal audit service.

Liaison with internal audit

To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit findings and conclusions in the following areas:

- Purchasing/Procurement and consumable stores
- Fixed assets
- Treasury and bank
- Cash income & expenses

We have found the internal audit reports to be clear and comprehensive.

4.4 Fraud, irregularity and corruption

College's responsibilities

To ensure the integrity of public funds, the College is responsible for establishing arrangements to prevent and detect fraud and other irregularities.

Auditors' responsibilities

We consider the arrangements made by management in the following ways;

- Our systems based audit is planned so as to provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity.
- We focus on specific areas of high risk for potential fraud and irregularity and review the arrangements in place in these areas.
- We review the Technical Bulletins produced by Audit Scotland with regard to fraud reports and ensure that the College has arrangements in place to prevent similar frauds occurring.
- We review the extent and adequacy of the Internal Audit function within the College.
- We examine the financial instructions issued by the College to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control.

Conclusion

We are pleased to report that our audit identified no issues of concern in relation to fraud, irregularity and corruption.

4.5 Standards of conduct, integrity and openness

Propriety requires that public business be conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers' of interest and schemes of delegation and complying with national and local Codes of Conduct.

Conclusion

We are pleased to report that our audit identified no material issues of concern in relation to standards of conduct, integrity and openness.

4.6 Financial standing

It is the responsibility of the College to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the College's financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the College's operations and use of resources.

Financial position

The College is reporting a deficit on continuing operations for the year of £7,000. This is after recognition of an impairment loss of £33,000 in respect of the Newton Stewart Campus. This asset had not previously been revalued, hence why the loss required to be recognised through the income and expenditure account. A further impairment of £3,273,000 in respect of the Heathhall, Moat Hall and George Street campuses has been reported through the Statement of Total Recognised Gains and Losses, as these buildings had previously been re-valued. This treatment is in line with the guidance contained within Financial Reporting Standard 11 – Impairment of fixed assets and goodwill (FRS 11). Retained income and expenditure reserves remain in surplus, at £1,861,000 (2004/05 – surplus of £1,508,000).

The financial statements for year ended 31 July 2005 required to be re-stated as a result of the implementation of Financial Reporting Standard 17 – Retirement Benefits (FRS 17). This has resulted in the disclosure of a pension liability and pension reserve of £2,292,000 at 31 July 2006 (2005 - £2,864,000).

Financial planning, budgetary control and financial reporting

The College's budgetary control arrangements are well established. Monthly budget reports continued to be produced by the Finance Department and discussed with budget holders. Variances from budget were investigated and explained within the reports submitted to the Finance and General Purposes Committee and Board members. These reports compared actual expenditure with both the original and revised budgets, and also included a forecast to the year-end.

Conclusion

In our opinion the College has established adequate arrangements for financial planning, budgetary control and financial reporting.

5 Action Plan

5.1 Summary

Our action plan summarises all of the control weaknesses and opportunities for improvement that we have identified during our 2005/06 audit. These are the issues that we consider should be brought to the attention of the Board of Management and the Audit Committee.

We have made no priority one recommendations in 2005/06 or in 2004/05.

It should be noted that the weaknesses identified in this report are only those which have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

5.2 Priority rating

The priority rating is intended to assist the College in assessing the significance of the issues raised and prioritising the action required to address them. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action;
Priority 2	Medium risk, significant observations requiring reasonably urgent action;
Priority 3	Low risk, minor observations which require to be brought to the attention of management.

5.3 Key Issues from the 2005/06 Final Audit

Title	Issues identified	Risk and recommendation	Management comments
5.3.1 **Annual accounts preparation** ***Priority 2***	We received draft accounts on 23rd October 2006, the first day of audit fieldwork, but did not receive the fully prepared draft financial statements until 15th November 2006. The last day of audit fieldwork at the College was Thursday 2nd November. Scott-Moncrieff did accept that these initial draft accounts would require to be amended at a later date for certain adjustments required from the application of FRS 17 and FRS 11, once further discussions on these issues had taken place between Scott-Moncrieff and the finance team. However, further adjustments were noted from audit fieldwork which had not been anticipated, some of which have been highlighted below within this action plan. The issues detected have led to additional time being spent on the audit over and above that anticipated at the fee negotiation stage. This resulted in us incurring costs which were then passed onto the College.	Failure to produce financial statements including all disclosure notes in advance of audit fieldwork commencing results in: • The College potentially missing its sign-off deadline, and • Additional audit fees To ensure that the College experiences a smooth audit process in future years, we recommend that: 1. the College produces an accounts preparation timetable with responsibilities clearly allocated, and 2. the draft financial statements and working papers are reviewed by the Head of Finance prior to the commencement of the audit.	**Responsible officer:** Head of Finance **Implementation date:** 31 July 2007

5.3.2 **Sales ledger reconciliations** **Priority 2**	The SITS ledger list of balances at the year-end does not agree to the "SAM" account balance within the Resource system's sales ledger.	This is a control weakness, indicating that perhaps certain postings have been made to the SAM sales ledger account which have not been recorded through the SITS system. This difference of £399.01 should be investigated and corrected. A reconciliation between the two ledgers should be performed, at least, on a quarterly basis to ensure that any anomalies are investigated on a timely basis. These reconciliations should be reviewed and signed by the Finance Manager as confirmation that this control has been checked.	**Responsible Individual:** Finance manager **Implementation Date:** 31 December 2006
5.3.3 **Reconciliation of grant claims submitted to grants received** **Priority 2**	During audit fieldwork it was noted that a year-end grant claim in respect of the new build project was not reconciled against the eventual grant receipt.	We recognise that these reconciliations are routinely performed. However, to ensure that this reconciliation process is performed in relation to **all** claims submitted, we would suggest that each reconciliation performed should be signed as reviewed by the Head of Finance. Any variances between monies received and the claim form submitted should be clearly identified on the schedule and explained, and adjustments made to the nominal ledger where necessary.	**Responsible Individual:** Finance manager **Implementation Date:** 31 December 2006

5.3.4 **Post year-end income receipts** **Priority 2**	During the audit fieldwork, a review of post year-end income received identified a number of capital grant income items totalling £240,300 which had not been accrued as part of the preparation for the year-end audit.	We recognise that a post year end review of income receipts was conducted, but a more robust review requires to be performed to identify relevant accrued income. The accrued income should then be incorporated into the year end financial statements, and a schedule with relevant backup should be prepared.	**Responsible Individual:** Finance manager **Implementation Date:** To be considered as part of the year-end procedures
5.3.5 **Post year-end invoice review** **Priority 2**	Audit fieldwork detected a number of invoices for both capital and expenditure items which had not been accrued as part of the preparation for the year-end audit (capital invoices totalling £92,613 and revenue accruals of £7,030).	As above, we recognise that this review had been conducted, but we recommend that a **full** and **thorough** review of post year end invoices be performed for both capital and revenue expenditure that relates to the current financial year. A schedule should then be prepared and the relevant back up presented for audit. The year end accruals should then be incorporated into the financial statements.	**Responsible Individual:** Finance manager **Implementation Date:** To be considered as part of the year-end procedures
5.3.6 **Review of deferred income** **Priority 2**	During the audit, it was noted that there were a number of items totalling £80,193 included within the year-end deferred income figure which should have been released to the income and expenditure account.	A robust review of the deferred income figure per the nominal ledger should be performed on a quarterly basis and the Finance Manager should ensure that income is released to the income and expenditure account in the appropriate period to which it relates.	**Responsible Individual:** Finance manager **Implementation Date:** To be considered on a quarterly basis

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