INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Langside College

Annual audit report to Board of Management and the Auditor General for Scotland

Audit: Year ended 31 July 2010

20 December 2010

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of the Board of Management of Langside College and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

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

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

Financial statements

We issued an audit report expressing an unqualified opinion on the financial statements of Langside College for the year ended 31 July 2010. The College's decision during the year to change its accounting policy to account for its participation in the Strathclyde Pension Fund on a defined benefit basis increased the 2009-10 surplus by £607,000 and decreased net assets at 31 July 2010 by £1,490,000.

Management provided draft financial statements and supporting documentation, which were of a satisfactory standard, on the first day of our audit fieldwork with related narrative statements provided at the end of the first week of the audit. Changes to the financial statements to reflect the College's participation in the defined benefit pension scheme were required, as discussed with management prior to the commencement of audit fieldwork.

Use of resources

The College has continued to utilise Scottish Funding Council (SFC) grants during 2009-10 in order to progress with the latter phases of the campus redevelopment programme. Fixed assets of £11,851,000 were capitalised in the year in relation to phase two of the new campus, with £18,430,000 transferred in the year from assets under construction following completion of phase one.

Within the revised budget for 2009-10, the College was forecasting the outturn for 2009-10 to be a deficit of £338,000 against an actual surplus of £613,000 (£6,000 prior to adjustments to reflect the change in pensions accounting policy). This significant turn around is the result of additional funding being received from the SFC in light of the economic downturn, combined with an increase in overseas fees received and staff costs recoveries plus the implementation of a range financial stringency measures.

Corporate governance

The statement provides details of the College's processes and controls. Management highlight that the organisation is committed to exhibiting best practice in all areas of corporate governance. The College has applied the principles set out in the revised Combined Code on Corporate Governance, in so far as they apply to the further education sector, issued by the Financial Reporting Council.

The statement is collated using the results of the internal consideration of the arrangements in place. Management continue to review and implement policies and procedures in line with good practice to maintain a robust corporate governance framework and operating culture.

Internal audit concluded that the College had *"a framework of controls in place that provide reasonable assurance regarding the effective and efficient achievement of the College's objectives and management of key risks"*.

Scope

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.

Audit framework

This year was the fourth of our five-year appointment by the Auditor General for Scotland as external auditors of the Board of Management of Langside College College ("the College"). This report provides our opinion and conclusions and highlights significant issues arising from our work. We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with the audit committee earlier in the year.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions;
- our review of the College's **corporate governance arrangements** as they relate to its review of systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and its financial position; and
- aspects of the College's arrangements to manage its **performance** as they relate to economy, efficiency and effectiveness in the use of resources.

Responsibilities of the principal and board members and its auditors

External auditors do not act as a substitute for the board of management's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the accountable officer, to make arrangements to secure Best Value.

Acknowledgement

Our work continues to bring us into contact with a range of College staff and we wish to record our appreciation of the continued co-operation and assistance extended to us by College staff during our work.

Service overview; financial position

Introduction

The financial statements report a surplus for the year of £613,000, an increase of £1,573,000 compared to the previous year and £607,000 higher than the projected outturn projected in the management accounts during the year. As at 31 July 2010, there are general reserves of £3,056,000 which includes net pension liabilities of £1,624,000.

Income

Total income has risen by £1,281,000 (8%) against 2008-09 levels. Of this increase, £918,000 consisted of the increased release of deferred capital grants relating to the completed elements of the new campus.

Other grant income has increased by £629,000 year on year due solely to European Structural Funds (ESF) revenue generated in 2009-10. The presence of significant ESF income in the current year is due to a focus being placed on this area by the College's business development unit.

Investment income has fallen by £354,000 compared to the prior year due to the drop in interest rates available on cash balances and deposits as a result of the ongoing economic climate.

Expenditure

Overall expenditure has fallen by £292,000 (2%) in comparison with 2008-09.

Staff costs have fallen by £512,000 due to the £723,000 past service credit arising from the change in measuring assumed future pension increases from RPI to CPI, offset to an extent by the 1.8% annual pay rise.

Other operating expenses have risen due to ESF-related expenditure of £299,000, consistent with the increase in ESF activity described above.

Due to increased demand during the year, there was additional pressure on funding for student support funds, which resulted in the College meeting a shortfall in funding of £145,000.

	2009-10 £'000	2008-09 £'000
Income		
Scottish Funding Council grants	12,548	11,503
Tuition fees and education contracts	2,356	2,424
Other grant income	674	45
Other operating income	1,042	1,013
Endowment and investment income	71	425
Total income	**16,691**	15,410
Expenditure		
Staff costs	10,723	11,235
Staff costs – restructuring costs	28	242
Other operating expenses	3,639	3,313
College subsidy for student support funds	145	-
Depreciation	1,464	1,580
Interest payable	79	-
Total expenditure	**16,078**	16,370
Surplus/(deficit) for the year retained within general reserves	**613**	(960)

Service overview; financial position (continued)

Overall net assets increased by £10,889,000 (41%) on the prior year.

Fixed assets have risen by £10,132,000 year on year due to the capitalisation of the latest phase of the campus redevelopment programme, offset to an extent by the annual depreciation charge.

Debtors have increased by £1,301,000 on 2009 due to accrued ESF income of £492,000 arising from delays in the funding body, ESEP Limited, making payments to the College. A further £827,000 rise in other debtors has occurred due to outstanding funding in relation to the campus redevelopment.

Creditors have increased by £2,844,000 due to the inclusion of £2,289,000 within trade creditors and £499,000 within accruals relating to Balfour Beatty, the main contractor involved in the new campus construction.

The net pension liability has fallen by £703,000 compared to the restated comparative figure, mainly due to the past service credit, as detailed below, together with changes in actuarial assumptions year on year.

	2010 £'000	2009 £'000
Tangible fixed assets	36,328	26,196
Debtors	2,257	956
Investments	2,773	2,363
Cash at bank and in hand	5,038	3,877
Creditors: amounts falling due within one year	(5,990)	(3,146)
Creditors: amounts falling due after more than one year	(47)	-
Provisions for liabilities and charges	(1,341)	(1,414)
Net pension liability	(1,624)	(2,327)
Net assets	**37,394**	26,505

Accounting for pensions

During the year, the board of management changed the College's pensions accounting policy to account for the College's participation in the Strathclyde Pension Fund on a defined benefit basis. In accordance with FRS 3 'reporting financial performance', the financial statements reflect a prior year adjustment, and restatement of the 2008-09 income and expenditure account and balance sheet. The net impact of the prior year adjustment was a reduction in reserves at 1 August 2009 of £2,190,000 (2008: £172,000 increase), consisting of the pension liability of £2,327,000 (2008: £47,000 asset) and reversal of an element of the unfunded provision previously recognised on the balance sheet of £137,000 (2008: £125,000). The net impact on the income and expenditure account of recognising the net return on pension assets and liabilities and the difference between pension contributions paid and the service cost was £607,000 (2008-09: £15,000 reduction in deficit).

Following the UK Government's budget, it was announced that future pension increases will be linked to the Consumer Prices Index ("CPI") rather than the Retail Prices Index ("RPI"); CPI has historically been lower than RPI by 0.5% to 0.7% and this results in a significant (£723,000) pension credit in 2009-10. There is currently some debate in the accounting profession as to how the effect of this should be reflected through financial statements; either through the income and expenditure account or the statement of total recognised gains and losses. Management has reflected this in the income and expenditure account in the financial statements. This is in line with our experience in the rest of the sector, but may require to be adjusted next year once accounting guidance on the issue is finalised.

Financial forecasts

Financial forecasts

Within the revised budget for 2009-10, the College was forecasting the outturn for 2009-10 to be a deficit of £338,000 against an actual surplus of £613,000 (£6,000 prior to adjustments to reflect the change in pensions accounting policy). This significant turn around is the result of additional funding being received from the SFC in light of the economic downturn, combined with an increase in overseas fees received and staff costs recoveries plus the implementation of a range financial stringency measures.

The College has prepared a corporate plan for 2010-13, which sets the financial and operational context for the strategic objectives and priorities of the College for the financial years 2010-11 to 2012-13. The strategic plan includes financial objectives such as maintaining a surplus on the College's continuing operations, generating cost efficiencies above that of the sector average and to continue to improve lecturer efficiency. There is currently uncertainty over the level of Scottish Funding Council (SFC) grant income that will be available to colleges over the coming financial years.

2010-11 financial forecast	£'000
Income	16,428
Expenditure	16,328
Forecast surplus for the year ending 31 July 2011	**100**

The College is forecasting a surplus of £100,000 for 2010-11 For the 2010-11 financial year, SFC grants allocated to the College have increased by 1.5%, which includes an increased release of deferred capital grant funding, but total income is forecast to fall by £265,000 (1.5%) overall against 2009-10. This is due to an anticipated fall in both education contracts and ESF income.

There is currently some uncertainty on the level of grant funding that will be available to colleges in the last four months of the 2010-11 academic year.

Future financial planning

The College, in line with much of the wider public sector, is facing significant uncertainty over future funding levels and the impact and scope of public sector cuts. The College has a strong cash balance and has placed the majority of these funds on short term deposits with strongly rated banks in order to minimise investment risk. Given the significant risk and uncertainty over the future financial and other resources available to the College, management have undertaken a number of activities including:

- the continuation of a stringency policy in relation to cost control introduced during 2008-09;
- consistent with other colleges in the sector, maintaining dialogue with College representatives and individuals over the implications of potential funding cuts;
- holding discussions with union representatives in order discuss flat-lining future pay awards and other potential impacts of funding cuts; and
- working with other colleges where appropriate and diversifying income streams.

The newly appointed director of corporate services, who is due to take up post in January 2011, is anticipated to have a key role in future strategy and forecasting.

Governance and risk management

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through the College principal, the board of management is responsible for establishing arrangements for ensuring the proper conduct of College affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- the Board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Framework

The board of management consists of a mix of full members and co-opted members, including those with relevant skills and expertise in accountancy, human resources and education to oversee the College's strategic plans. The board has five standing committees covering audit, finance, development, property and estates and staffing. Each committee is formally constituted and has its own formal terms of reference. The comprehensive governance structure includes non-executive, professional and academic representation. The committee structure provides the board of management with the mechanisms to ensure appropriate oversight and monitoring of financial and academic activities.

Risk management

A formal risk management policy has been approved by the board of management. A risk register has been established, which is reviewed and updated on a regular basis. The risk assessment information is presented for consideration by the board of management, which includes details of the identified risk, its potential impact, the control and/or action implemented to mitigate the risk and the person or committee responsible for managing the risk.

The financial statements include information on the processes in place to manage the principal risks and uncertainties as well as detailing the specific key risks currently facing the College.

Regularity

The board of management considers all incoming correspondence relevant to its strategic management role from the SFC and other regulatory or advisory bodies, including organisations such as Scotland's Colleges and Audit Scotland. Relevant communication is also considered by the audit committee. The College therefore considers all incoming guidance received from these bodies, and can demonstrate that they take appropriate action when required.

Governance and risk management (continued)

Prevention and detection of fraud and irregularity

The College has a fraud policy and procedure which define responsibilities for action and reporting lines in the event of a suspected fraud or irregularity. The fraud policy was updated in November 2008 and is due to be reviewed in December 2010. The policy is available to all employees on the internet. Any suspicion of fraud should be reported to a member of senior management and/or the internal audit team as appropriate.

There is also a whistle blowing policy in place, which is available on the intranet as required by The Public Interest Disclosure Act 1998.

Internal controls

The testing performed by internal audit on the financial controls did not identify any high priority recommendations.

In line with our audit plan, we have performed testing around entity level controls and financial controls where relevant as part of our approach to certain account captions within the financial statements. We have not identified any significant issues or concerns in these areas. We believe the control environment at the College is appropriate to the size and nature of the organisation.

Internal audit

During 2009-10, Scott Moncrieff took over from BDO Stoy Hayward as internal auditors of the College and the approved internal audit programme for 2009-10 has been completed. A review of the internal auditor's reports indicated a substantial control environment with minimal recommendations. Management has continued to report action taken in response to internal audit recommendations to the audit committee.

An internal audit review covering risk management was performed by Scott Moncrieff in the year, the results of which found no major control weaknesses. A further review into budgetary control and monitoring raised a number of recommendations to improve the arrangements in place. The College responded to these in-year and, as a result, has revised its timetable for budget monitoring with monthly, instead of quarterly, budget monitoring reports now prepared.

The annual internal audit report for 2009-10 concludes that the College had *"a framework of controls in place that provide reasonable assurance regarding the effective and efficient achievement of the College's objectives and management of key risks".*

Best Value / value for money

Internal audit undertook value for money review of the College's student experience and concluded that the overall arrangements for measuring and responding to student satisfaction information are generally reasonable and appropriate. Internal audit is scheduled to review the College's sustainable curriculum model and staff utilisation during 2010-11 and 2011-12, respectively. Management continues to consider the achievement of value for money across all areas within the College's key strategies.