

**PROMOTING ACCOUNTABILITY AND THE
BEST USE OF PUBLIC MONEY**

The Northern Ireland Audit Office's Mission is to provide objective information, advice and assurance on the use of public funds; and to encourage:

- beneficial change in the provision of public services
- the highest standards in financial management and reporting; and
- good governance and propriety in the conduct of public business.

The Comptroller and Auditor General, Mr Kieran Donnelly, is an Officer of the Northern Ireland Assembly. He is the Head of the Northern Ireland Audit Office, which employs some 150 staff. He, and the Northern Ireland Audit Office, are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Northern Ireland Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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South West College

Year ended 31 July 2010

**Report to those charged
with Governance**

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Date of Issue – 9 December 2010

1. Executive summary

Our audit is now complete and resulted in the Comptroller and Auditor General (C&AG) providing a clean audit opinion on 30

November 2010. No report on the account was required. Our full recommendations are contained within the body of this report.

We confirm that the audit management team has reviewed all of the audit work and that all of the critical audit areas and reports have been reviewed by the audit director and/or partner.

Financial Opinion

The C&AG has given an unqualified opinion on the truth and fairness of the financial statements. Audit differences are detailed in section 6.

Regularity Opinion

The C&AG has also given an unqualified opinion on the regularity of the financial transactions.

Internal Control

We have reviewed the Accounting Officers' Statement on Internal Control and confirm that there are no inconsistencies between that statement and our audit work. Our detailed comments on internal control are dealt with in sections 4 and 5.

Subsequent Events

We have performed a subsequent events review as at 29 November 2010 and confirm that there is nothing requiring amendment or disclosure in the accounts.

Data Protection

In accordance with our undertaking in our Audit Strategy, we have now completed our processing of personal data for audit purposes. This data will be retained on our audit files which are held in our secure storage facility in accordance with the requirements of International Auditing Standards for a period of seven years.

There were no critical matters which we would like to draw to the attention of the Audit Committee as a result of our audit.

2. Introduction

The purpose of this report is to provide those charged with governance, both management and non-executives, with the results of our audit work on the South West College Account for 2009-10 and our recommendations for action. The report sets out:

- ◆ our audit conclusion;
- ◆ the outcome of our response to the key risks set out in the previously provided Audit Strategy;
- ◆ management's response to our recommendations;
- ◆ our ISA 260 Report; and
- ◆ specific lesser audit findings that we have shared with the College Director and Head of Corporate Services (See Annex A).

This document is purely for the use of South West College and our prior consent should be sought before any distribution either in full or in part is made. The Northern Ireland Audit Office does not accept responsibility to any third party for losses arising from reliance being placed upon this document.

We would like to take this opportunity to thank the management and staff at South West College who provided assistance during the course of our audit.

3. Audit Conclusion

Our audit is now complete and resulted in the C&AG providing a clean audit opinion on 30 November 2010. No report on the accounts was required.

4. Key risks identified in Audit Strategy

In our Audit Strategy which we issued on 20 May 2010, we identified a number of risks that related to South West College as an organisation and in addition to these risks others that related to individual account areas. In the Strategy we also outlined how we were going to consider further how South West College have addressed these risks. The following section includes details of the previously identified risks relating to South West College as an organisation and to individual account areas, and our audit response as previously provided in the Strategy. In addition we now provide the outcome of our testing, with any resulting recommendations. Each recommendation has an assigned priority rating as follows:

1. Significant weaknesses which should be addressed immediately
2. Weaknesses which are not fundamental but should be addressed as soon as possible
3. Improvements that represent best practice

Where we believe that the risk remains outstanding, we have made a recommendation which we believe that management should adopt and we have provided an opportunity for management to respond.

Key Risk 1 – Provisions (unfair dismissal)

It is anticipated that the College will have a number of ongoing outstanding legal claims against the organisation including in relation to the dismissal of the former Finance Director of Fermanagh College, a decision subsequently overturned by the Labour Relations Agency. It is important that where the expected rate of failure is likely to be greater than 50% that the total probable cost is provided in full. There is a risk that these will not be provided for or disclosed as appropriate in the accounts.

Audit Response

We shall obtain the litigation paper prepared by the Director of Corporate Services. We shall also review board minutes of the Governing Body. We shall review the solicitors confirmation letter. Based on the review of our review, we shall assess likelihood of litigation claims succeeding and assess the requirement for provision/disclosure as appropriate.

Outcome

Provisions in the final accounts relate to insurance claims, an action taken by a former employee of Fermanagh College in respect of unfair dismissal, a provision in relation to costs which the College will need to incur in respect of the reinstatement of leased premises and a small provision in relation to travel expense claims that have been issued against the College in the year. These provisions which are detailed in the paper and workings prepared by the Director of Corporate Services and have been agreed to supporting documentation, including in respect of the claim for unfair dismissal, Counsel's Opinion, and appear reasonable based on the information currently available to the College.

Key Risk 2- Income Recognition

Funding is based on a plan led approach. There is a risk that funding may be clawed back if conditions for receipt are not met.

Audit Response

We shall perform detailed transaction testing in relation to Funded Learning Units (FLU) funding.

We shall assess the management information systems in place as a basis for providing information to DEL.

Outcome

Our testing did not identify any significant errors in the QLS and TMS systems.

We noted two minor issues in respect of the use of electronic registers and the student withdrawal policy which are noted in Annex A.

The College has had a total of £886,650 deducted from its 2009/10 DEL block grant as a result of the College holding reserves above 10% of income, as specified in the Financial Memorandum. This was due to DFP's objective of ensuring colleges utilise reserves which are in excess of the 10% permitted limit.

Key Risk 3-Manipulation of financial results to achieve breakeven

There is a risk that financial results may be manipulated to achieve a breakeven position. For example, year end accruals may be understated, income may be recognised when conditions for receipt are not met and expenses may be capitalised inappropriately.

Audit Response

We shall perform detailed testing of post year end payments, accruals calculations and income journals/receipts. We shall also perform detailed testing on significant fixed assets.

Outcome

A post year end payments report was run during the week commencing 18 October 2010 and additional accruals of £70k were identified for inclusion in the accounts. The appropriate adjustment has been included in the final accounts. Our review also indicated that the College's policy in relation to the capitalisation of fixed assets was appropriately applied during the year.

Key Risk 4-Investment plan including STEM

The College has developed an investment plan to utilise some of its retained reserves. The objectives of the plan are to invest, over the short term, to enhance the quality and diversity of the College's long term educational offering, thereby reducing its reliance on core DEL funding.

Audit Response

We shall review each of the projects undertaken during the year and ensure correct classification of expenditure between revenue and capital, and that the expenditure is recorded in the correct period.

Outcome

A sample of fixed asset additions were selected for testing and agreed to supporting documentation. All items were correctly capitalised.

We reviewed a number of nominal codes in order to identify any capital items that were incorrectly expensed. A sample of items greater than £3k were selected and agreed to supporting invoices. No exceptions were noted.

Our review of purchase invoices and accruals did not identify any instances of expenditure being recorded in the incorrect period.

The College has monitored its progress against its investment plan throughout the year.

Key Risk 5-Training for Success and Steps to Work

There has been significant uptake in these programs. In the current economic climate there is a risk controls are inadequate or have been circumvented or weakened due to the requirement to facilitate unprecedented and unforeseen activity levels.

Audit Response

We shall review documentation surrounding the recording of income in relation to these funding streams, and payments made to training partners.

Outcome

Our testing did not identify any significant control weaknesses around the QLS and TMS systems and our sample testing did not identify any significant errors in the recording of income on Agresso.

Our testing of student enrolments on the TMS system included agreeing expenses provided to Training for Success students and the claim documentation submitted to DEL. No issues were identified.

5. Significant observations identified during audit work and recommendations to management

We reviewed the accounting systems and management controls operated by South West College only to the extent we considered necessary for the effective performance of our audit.

We have not provided a comprehensive statement of all weaknesses which may exist in internal control or all improvements which may have been made but have addressed only those matters which have come to our attention as a result of the audit procedures performed. As a result our review may not have detected all weaknesses that exist or all improvements that could be made.

As a result of our audit work we have not identified any significant matters to be addressed.

6. International Standards on Auditing (ISA 260)

We are obliged under ISA 260 to bring to the attention of those charged with governance errors found during the course of our audit. The auditors must report material errors that are adjusted in the financial statements, if their occurrence has implications for the entity's control environment. They must also report all immaterial errors found during the audit that are not adjusted unless they are "clearly trifling". For South West College we have determined that "clearly trifling" is less than £3,000.

6.1 Adjusted Differences

A paper was presented by management to the Audit Committee on 24 November 2010 on the draft accounts and the annual report. The first draft accounts submitted to NIAO on 20th September 2010 were subsequently adjusted for the following items. The final version of the accounts was signed by the Accounting Officer on 24 November 2010.

Description of adjustment	Account Area	Balance Sheet £'000		OCS £'000	
		DR	CR	DR	CR
To correct error in posting PFI journal.	PFI debtor	40			
	PFI expenditure				40
To correct the depreciation on the revaluation of the Burn Road building.	Revaluation reserve	3			
	Fixed assets		3		
To include period one depreciation on newly capitalised assets.	Computer equipment <£3k			3	
	Fixed assets		3		
To reallocate excess legal provision in relation to Clanrye.	Maintenance works			10	
	Legal costs				10
To include a provision in respect of travel expense claims against the College.	Staff costs			9	
	Accruals		9		
To include an accrual in respect of July holiday pay.	Staff costs			4	
	Accruals		4		
Additional accruals identified from late post year end payments.	Various expenditure			70	
	Accruals		70		
		43	89	96	50
	Overall Net		46	46	

6.2 Unadjusted audit differences

Our schedule of the unadjusted audit differences is provided below. The overall net adjustment is not considered material to the accounts. There are no matters arising from these audit differences that we wish to particularly draw to the Audit Committee's attention.

We include in the table below a summary of the more significant unadjusted differences.

Description of adjustment	Account Area	Balance Sheet £'000		OCS £'000	
		DR	CR	DR	CR
Being debtors balances on the creditors listing	Debtors	9			
	Creditors		9		
Being credit notes raised post year end	Sales			17	
	Debtors		17		
Being incorrect calculation of rates prepayment for the Enniskillen campus	Prepayments	6			
	Expenditure				6
		15	26	17	6
	Overall Net		11	11	

7. Conclusion

The Comptroller and Auditor General provided a clean audit opinion on 30 November 2010 for the South West College Account.

We noted a number of weaknesses during our audit, which are referred to in this report and should also be addressed.

We recommend that South West College considers the points included in this report alongside any subsequent management reviews so that positive actions can be taken to enhance the processes in the critical areas of South West College's operations.

8. Complaints Procedures

NIAO seeks to ensure that, when carrying out its audit work, it complies with the principles developed by the Public Audit Forum in its paper "What Public Sector Bodies can expect from their Auditors".

NIAO also wishes to gauge public sector bodies' perceptions of its audit processes in order to promote continuous improvement. In particular, it undertakes to act quickly on any complaint and ensure that the underlying causes of problems are addressed to prevent them recurring. In the first instance, complaints can be addressed to the member of the Directorate responsible for the audit within which the concern has been raised.

Failing resolution of the problem to the satisfaction of the complainant, the Accounting Officer of the audited body can then write directly to the Comptroller and Auditor General. He will ensure that a further review of the case will be undertaken.

Annex A: Minor priority 3 points for the attention of management

Note: NIAO do not recommend that these points need to be considered by the Audit Committee. They are provided for completeness and to give a general perspective on the control environment.

Observation	Implication	Recommendation	Management Response
<p>It was noted from our testing of fixed assets and review of the fixed asset register that the fixed asset register does not contain asset serial numbers or tags to enable physical assets to be agreed to the register.</p> <p>It was also noted that the purchase date of assets is not included on the register and some of the assets included did not have a description or campus location detailed.</p>	<p>The checking of fixed assets between the fixed asset register and the asset's physical location is administratively difficult because all of the relevant information is not stored in one location i.e. on the fixed asset register.</p>	<p>College should consider revising the layout of the fixed asset register to include asset serial numbers and purchase date.</p>	<p>Comment – the fixed asset register format is set within the Agresso module. Purchase date information is available in underlying information. College has limited scope to amend this layout but will highlight this for system development.</p>
<p>We noted from our QLS (student enrolment) system testing that one out of six student enrolment forms tested in Dungannon could not be traced to completed electronic registers. Also, our discussions with staff highlighted that teaching staff are not consistently using the electronic registers.</p>	<p>If student attendance is not correctly logged and monitored, income may continue to be received for students that have withdrawn from the College.</p>	<p>We note the College Director has taken steps to monitor the frequency of unmarked electronic registers on a weekly basis. We recommend that these steps continue to be implemented.</p>	<p>This information is supplemented in the College by inventory listings maintained on spreadsheet/database internally.</p> <p>Comment – the electronic registers system was implemented in 2009/10 with some issues arising. Management are satisfied that registers (electronic/manual) do exist for each programme in 2009/10. The implementation programme continues and is being regularly monitored.</p>

<p>We noted while testing student withdrawals that the College's Withdrawals Policy does not accurately reflect the current actual withdrawal process in operation in the College.</p>	<p>A written Withdrawals Policy which does not reflect current practice may give rise to confusion or inconsistent approaches being adopted across the College.</p>	<p>We recommend that the Withdrawals Policy is updated to accurately reflect the process in operation within the College and the updated policy is provided to all College teaching staff.</p>	<p>Accepted – the College has liaised with DEL in respect of withdrawal arrangements and is seeking to introduce an approved leave aspect to the withdrawals policy (to cover sickness or particular personal circumstances.) This policy will be updated by January 2011 and implemented across the College.</p>
<p>It was noted that there is limited segregation of duties in the cash offices at Omagh and Dungannon.</p>	<p>Absence of segregation of duties increases the risk of misappropriation of cash.</p>	<p>We recommend that one staff member is responsible for receipting and preparing the lodgement and that another staff member is responsible for checking the lodgement prior to banking.</p>	<p>Comment – current staffing resources do not allow for segregation of duties as suggested and supervisory checks are used to control risk of misappropriation.</p>
<p>Observation</p>		<p>Recommendation</p>	
<p>Observation</p>		<p>Management Response</p>	
<p>The following minor exceptions were noted during our detailed expenditure testing:</p> <ul style="list-style-type: none"> a) in 10 out of 30 payments the time taken to pay the supplier was greater than 30 days; and b) 4 out of 30 payments did not have a purchase order/requisition raised. 	<p>The College is not meeting its obligations in relation to the prompt payment of suppliers.</p> <p>The College may not in certain cases be able to provide a complete audit trail in relation to the instigation of a procurement action.</p>	<p>We recommend that staff are made aware of the requirement to raise purchase orders/requisitions.</p> <p>We recommend that the College continues to monitor its prompt payment statistics.</p>	<p>Comment – the College continues to monitor payment performance and has established targets in this area.</p> <p>Approval and satisfactory receipting processes are prioritised over payment processes.</p> <p>In some instances, recurring payments (e.g. services, utilities and certain direct support items) cannot be purchased in advance and are normally processed as a supplier invoice for payment.</p>

<p>Our review of the Governing Body register of interests and associated declarations of interest noted the following issues:</p> <ul style="list-style-type: none"> a) 1 out of 16 Governing Body members on the register did not sign their declaration; b) 1 out of 16 Governing Body members on the register did not date the signature on their declaration; c) 1 out of 16 Governing Body members on the register did not sign or date their declaration; and d) 1 out of 16 Governing Body members amended their 2008/09 declaration but did not date their amendment as evidence of when this change was made. 	<p>All interests held by Governing Body members are not identified and appropriately dealt with.</p>	<p>We recommend that Governing Body members are reminded of the importance of signing and dating their declarations in respect of bodies in which an interest is held.</p>	<p>Accepted – the Secretary to the Governing Body has undertaken to remind all Governing Body members of the importance of signing and dating declarations. Conflicts of interest are dealt with at all meetings.</p>
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Observation	Implication	Recommendation	Management Response
<p>We noted while there were a range of adequate controls in place over the process of payroll we noted the following minor housekeeping issues:</p> <ul style="list-style-type: none"> a) in one out of the two months tested in the Omagh, Dungannon and Enniskillen campus there was no evidence of review of payslips; b) two out of four part-time staff tested did not have a signed employment contract held by the College; c) the part-time lecturers report relating to the four part time staff tested had not been dated to evidence when the report had been checked against the payslips received from CJS (outsourced payroll company); and d) in one out of two months tested in relation to Dungannon support staff the payroll summary report had not been signed and dated to evidence review. <p>We noted that the timetable in respect of provision of key audit schedules in respect of fixed assets and deferred capital grants was not adhered to.</p>	<p>Errors may be made in payroll processing which are not identified on a timely basis.</p>	<p>We recommend that payroll staff should be reminded of the importance of evidencing their work by way of a signature and date.</p> <p>We also recommend that signed employment contracts for all part-time staff should be retained by the College.</p>	<p>Accepted – Payroll controls have been developed and are operational in the College. Staff will be reminded of the importance of evidencing this work by way of signature and date.</p> <p>Accepted - to date in 2010/11 297 part time contracts have been issued and managers have been advised that payment will only be issued to staff in connection with a valid employment contract.</p>
<p>We noted that the timetable in respect of provision of key audit schedules in respect of fixed assets and deferred capital grants was not adhered to.</p>	<p>Audit fieldwork could be delayed resulting in the signing of the College's Financial Statements being delayed.</p>	<p>We recommend that the College ensure that all key audit schedules are completed in advance of next year's audit fieldwork or that those schedules which will not be available at the commencement of the audit are separately identified, and agreed, in advance.</p>	<p>Accepted – College completed technical aspects of PFI accounting in-house. This was complicated by the triennial interim revaluation of property. Although these schedules were not available on day 1 of the audit fieldwork, they were completed within the audit timeframe.</p>

Annex B: Certificate of the Comptroller and Auditor General

South West College

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the South West College for the year ended 31st July 2010 under the Further Education (Northern Ireland) Order 1997 as amended by the Audit and Accountability Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Historical Surpluses and Deficits, Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Governing Body and auditor

As explained more fully in the Statement of Responsibilities of the Governing Body, the Governing Body is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the South West College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the South West College; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the South West

College's affairs as at 31st July 2010, and of its deficit, cash flows and total recognised gains and losses for the year then ended; and

- the financial statements have been properly prepared in accordance with the Further Education (Northern Ireland) Order 1997 as amended by the Audit and Accountability Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008 and Department for Employment and Learning directions issued thereunder.

Emphasis of matter

I draw attention to Notes 8 and 24 to the financial statements which detail the pension costs incurred by the College during the year. In its June 2010 budget the Government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Prices Index (RPI). This change has resulted in a credit of £1.113m to the Income and Expenditure account. The College has considered the NILGOSC scheme rules and associated members' literature and has concluded that this is a change in benefits and so has recognised the resulting credit of £1.113m in the Income and Expenditure account. At the date of certifying these financial statements, the Urgent Issues Task Force (UITF) is in the process of consulting widely on the accounting treatment for this change and is expected to issue an Abstract towards the end of 2010. Should the Abstract call for a different accounting treatment it may be necessary to reflect any change as a prior period adjustment in the financial statements. Such a change would result in the deficit for the year increasing from the reported figure of (£2.73m) to (£3.843m). My opinion is not qualified in respect of this matter.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Department for Employment and Learning directions issued under by the Further Education (Northern Ireland) Order 1997 as amended by the Audit and Accountability Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008; and
- the information given in the Operating and Financial Review and the unaudited part of the Remuneration Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit.
- the Statement on Internal Control does not reflect compliance with Department of Finance and Personnel's guidance.

Report

I have no observations to make on these financial statements.

*KJ Donnelly
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30 November 2010